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THE RETIRING DENTIST

You are in the home stretch of a rewarding and fulfilling dental career. Finally, it's time to relax and enjoy a carefree life, right? Surprisingly, the thought of retirement creates more stress for dentists than even the busiest clinical day. Here's why:

- For the first time in their long career, dentists will be without a steady cash flow. This is frightening for many who are not used to thinking about a budget or a cash plan.
- Unlike government employees, union members or corporate workers, dentists do not enjoy the security of a retirement pension. Thirty years of retirement will have to be funded by what they have saved and invested.
- Many dentists really do not know how much they need to fund their retirement. There are some “rules of thumb” that can generate an average number — but are they relevant to the individual dentist? In the low interest environment that we are

living in, are these guidelines misleading?

- There are a number of variables at play that the dentist cannot control — and dentists like to be in control. How much will they spend from year to year? Will their investment savings grow and, if so, by how much? Will they stay healthy? Will they outlive their money?
- Especially for general dentists, a large portion of their retirement wealth is locked into their practice. As such, they can only estimate their savings pool.
- Most dentists have only given cursory thoughts to what they will do to fill their retirement days. “Golfing more” doesn't necessarily constitute a life plan.

If you are one of many who is experiencing retirement angst, here are some steps to help defuse the stress:

Start Early

Most successful transitions start at least five years before retirement. Setting out a logical retirement plan will prioritize

the steps to be taken to maximize your nest egg. Like a clinical treatment plan, a retirement plan lays out defined actions to be taken and the timing of each action. This way, unexpected and costly surprises can be minimized. Most dentists leave retirement planning until they are ready to retire. Unfortunately, tax planning and practice efficiencies that will maximize retirement savings do take time to implement. Ideally, stick to the five-year rule.

Get a Practice Valuation

For dentists who are practice owners, the first step is to have a proper practice valuation done. Look for a reputable practice broker specifically serving the dental community. They can give you a reliable estimate of your practice worth so that you can begin planning your finances. Equally important, most brokers will provide a comparison of your practice's strengths and weaknesses in relation to other offices. An early valuation gives you time to improve areas of concern in order to maximize your sale value. Some dentists are hesitant to have a valuation done since they will have to pay for another assessment just prior to sale. Not to worry, many brokers will perform the initial valuation for a set fee and offer annual updates for a reduced amount.

Know Your Expenses

Going through a cash flow analysis with your financial advisor should give you a sense of how much you will spend, at least for the first part of retirement. This process looks at your future lifestyle and assigns monetary costs to these activities. Best estimates of how these expenses will change over time as well as factors such as investment rates, inflation and income tax will give you a much clearer picture of your retirement need.

Don't Forget Taxes

"I am spending a year dead for tax reasons" — Douglas Adams.

Your savings is not a true indicator of the amount of cash you will have in retirement. It is only your *after tax income* that matters. With that in mind, your accountant will play a vital role in your retirement planning. An experienced tax

accountant will do two things at this stage. Firstly, they will structure the sale of your practice to maximize your take home value. They will also give you a full estimate of the amount and the timing of taxes owing after your sale. Secondly, they can work with your financial planner/advisor to minimize ongoing taxes during your retirement. It is important that you feel comfortable with your accountant since they will quarterback your transition and communicate the transition plan with your team of professionals.

Plan a Withdrawal Strategy

Most dentists will have different "buckets" of savings to draw from in retirement. This will include registered plans (RRSPs, TFSAs, IPPs), corporate savings, non-registered cash accounts, life insurance cash values, government support (CPP and OAS) and hard assets such as income properties. Depending on the age of retirement and the size of the buckets, there are strategies to time your withdrawals from the different sources in order to minimize income tax and maximize government benefits. Your financial advisor, in collaboration with your accountant, should initiate this withdrawal plan. At this stage, there should also be a plan to ensure a steady income stream regardless of the short-term volatility of your investments. Some

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retired dentists will depend on stocks that pay a predictable dividend; some will draw income from a ladder of maturing bonds; others will rely on guaranteed products such as an annuity or cash value from insurance. Regardless of products, there should be a defined process in place at the time of retirement.

Start an Investment Policy Statement (IPS)

With finite resources in retirement, you should work with your financial advisor

to draw up an Investment Policy Statement. This is a written guideline that describes how your money is to be invested. Given your tolerance for risk, the investment returns you expect, and your ongoing cash requirements, an IPS will dictate the following:

- Your asset allocation, which is the percentage of cash, fixed income and equities that should be held. Also, the range of these weightings that are acceptable depending on different market conditions.
- Your risk tolerance as expressed in the percentage of high, medium or low risk investments that your portfolio will hold.
- The portion of your portfolio that you can access easily and quickly. This deals with the liquidity of the portfolio.
- The goal of your portfolio — whether it is to preserve the savings you have, to maximize the growth of your savings, or to provide a steady income.

By setting down these rules, it gives your investment advisor guidance on how to invest and it promotes discipline by sticking to a predetermined guideline. It definitely helps to curb the urge to jump into the next “can’t miss,” speculative stock.

Write Down Goals

Retirement requires not just financial planning, but life planning as well. There are many dentists who struggle to define themselves after retirement and end up wishing for their days as a busy practitioner. Before committing to retired life, give some thought to how to fill your days and write down specific goals to be accomplished. What is never written is often never done, so the act of putting goals on paper is important. Here are some suggestions:

- If you are selling your practice, discuss transitioning out of the office over a set number of years. This way, you help to build goodwill for the new owner and you get to practice in a familiar environment. It also gives you time to get used to retirement. Make sure the contract is flexible enough for you to leave with notice if the situation is not ideal.
- Many dentists will take on locums

in order keep their hand in dentistry. This allows you to pick and choose when and how long you’d like to work and it can provide a healthy balance between feeling productive and feeling relaxed. Keeping your dental license for at least the short term gives you this opportunity.

- This is a perfect time to join a club; volunteer for a cause or start a project that you’ve been dreaming about but never had the time to start. Lay the foundation before retirement or as soon as you retire. People tend to lose momentum if they wait too long.
- Giving yourself a set schedule of things to do helps to regiment your retirement. Initially, a daily to do list brings purpose to your day.
- Retiring dentists have a lot of knowledge and experience to offer. A volunteer position with organized dentistry or helping out at the dental faculty can keep you connected and help the profession at the same time.

Get Healthy

The one wild card that can derail your retirement dreams is an illness or disability. To mitigate this risk requires a two-pronged approach. Firstly, maintaining or starting an exercise program in retirement will help keep you active and decrease health related costs. A disciplined work out or activity schedule is even more important after you retire since the extra hours can give the illusion that you can delay exercise for another time. Secondly, you may want to consider critical illness or long term care insurance. There is a cost/benefit to these products and should be considered only as part of a complete financial review. For some, it can help to protect you from depleting your resources in the face of an unexpected event. However, this has to be balanced against your individual risks and savings.

A retired dentist recently commented — “Don’t fool yourself — retirement is hard work, but I am enjoying every minute of it.” With active planning and proper advice, you can also enjoy your retirement years after a long, fulfilling career.

Dr. Wilson Chen, BSc., DDS, CFP, FMA received his DDS from the University of Western Ontario in 1992 and over the past 22 years, has built a patient-centred, family practice in Hamilton, Ontario. In 2014, he sold his practice to take a more active financial management and business advisory role for his dental clients and their families. Wilson is the only practicing dentist in Ontario to hold the Certified Financial Planner (CFP) and Financial Management Advisor (FMA) designations.