A Tale of Two Doctors

An excerpt from *Pay Yourself First*

Marie and Edward were both anesthesiologists. They met at a medical conference and married in their thirties. They bought a charming home, built in the 1920s but recently remodeled, in an upscale suburb of Philadelphia, within easy commuting distance of the two hospitals where they worked.

Marie was a partner in an independent practice, while Ed was an employee of a large urban hospital. As anesthesiologists, both earned high incomes, though not as high as those of some surgical sub-specialties. From early in their careers, each contributed the maximum allowed to their retirement plans at work. Marie's partnership made the maximum employer contribution to her plan as well, and she saved at least another 10% of her income to after-tax accounts. Both invested primarily in common stocks.

Their two children went to public schools in their highly-rated school district. They bought a cottage on a lake in the mountains. They vacationed mostly at their cottage, though they took an occasional trip to Europe or Disney World.

Marie worked with a financial advisor from the beginning of her career. Ed managed his funds himself until they began to consider early retirement, then began to work with the same advisor.

At age 58, with the younger child in college, Ed went to half-time work. They bought a three-story row house in the historic Society Hill section of Philadelphia, which they gutted and rebuilt, with Ed supervising construction. They installed an elevator, a wine cellar, and enough bookshelves for Marie's thousands of books.

At Marie's age 58, Ed's age 61, with both kids finished college, they walked away, retiring from medical practice, selling their house in the suburbs and moving into the city, near the music and culture they loved. Their net worth was over $8 million. They looked forward to decades of active retirement, without a hint of financial worry.

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John was an orthopedist, and his wife Anne an attorney with her own practice. Based on John's high income, they bought a historically- significant mansion on Philadelphia's Main Line, where they raised three children, all of whom went to exclusive and expensive private schools.

Starting in the 1980s, John saved the maximum pre-tax salary deferral to his 401k, but he and his partners could never agree about whether they wished to cover employees in their retirement plan, and his practice did not make any employer contributions.

They regarded Anne's income as their vacation money, and did not save much of it. Anne did not set up any employer-based retirement plan, though she did make occasional contributions to an Individual Retirement Account. John managed their investments, and he lost significant funds when the tech bubble collapsed in the early 2000s.

In his late 50s, John experienced health problems and had to retire from his orthopedic practice. He transitioned into medical administration, at a much reduced salary. At the same time, Anne's legal practice began to wind down.

When both were age 62, they were referred to our advisory practice by a friend, another physician client. When we met them, their total investment net worth (excluding real estate but including all retirement assets) was less than $400,000.

We did a full financial proposal for them, targeting retirement at age 70 with an income level that would replace John's after-tax salary, an amount in the low six figures. Since all of their kids were grown and out of the house, we recommended they sell their big house and downsize to a condo. The net proceeds from the change of residence would have been over $500,000, to be added to their investment portfolio. We projected the annual savings on upkeep would be in excess of $40,000. Over the eight years until age 70, we hoped to help them build their portfolio to more than $1.5 million.

They never sold the big house, because they wanted plenty of bedrooms for when their grandchildren came to visit. John continued to make the maximum annual contribution to his 401k each year, but Anne began to draw down her IRA to pay for several weddings. Seven years later, their investment net worth had grown to just over $600,000.

John has now retired, and Anne has closed down her legal practice. Their investments will provide retirement cash flow to supplement their Social Security, with total annual income under $100,000. They hope their investment assets will last for at least ten years, at which time they will finally sell their house and downsize.

Their situation is a far cry from poverty. They have more assets, and will spend more income in retirement, than the majority of Americans. But this is surely not what they expected their retirement to look like, back in the 1990s at the peak of John's career, when their annual income was over half a million dollars.

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The pattern of your life will be your own, but you are likely to find echoes of the lifestyle choices made by these two physician families, and of their financial consequences, in your own experience.

One factor in particular is worth noting—it is not your gross level of income that will buy you financial security, it is the decisions you make on how to allocate that income stream—the relative percentages directed toward consumption and toward savings.