For some, it happens when looking at a particularly brutal call schedule. For others, it may be after seeing yet another declining reimbursement check. Many physicians can remember where they were when they made the decision to stop practicing—the “I’m outta here” moment.

If and when you arrive at that moment, you’ll want to have a financial plan in place that will keep you and your spouse comfortable for many years to come. Until now, your investment strategy appropriately focused on accumulation and long-term growth. Now that you’ve decided to retire, you must make financial adjustments for the “decumulation” phase of your life, when your paycheck is replaced by cash flows from your portfolio. Some physicians assume that their portfolio should immediately move to the safety of principal investments.
such as money-market funds, certificates of deposit, annuities, and bonds. In all likelihood, however, you will need to reallocate only a small percentage of your portfolio.

**ROLE OF THE FINANCIAL PLAN**

Your financial plan is where you—with the help of a qualified financial planner—model, project, and stress-test your expected living expenses, future capital outlays (such as a new car), income taxes, Social Security benefits, required individual retirement account (IRA) distributions, pension benefits, and investment returns. The plan will show the amount and timing of cash flows needed from the portfolio. With these essential data in hand, you can begin the process of reallocating your portfolio.

How much will you need from your portfolio during the next 12 months? This is the timeframe where you need to protect your principal investments by taking minimal risks. Money-market funds, short-term certificates of deposit (CDs), and some corporate money-market look-alike accounts (demand notes) can play a role here. Use Web sites such as www.bankrate.com to search for the highest yields.

Some large companies offer demand notes that have money-market account features, such as easy transfers and check-writing. These are not Federal Deposit Insurance Corp.-insured, but typically they offer higher yields than other alternatives. Some examples are Ford Interest Advantage and GE Interest Plus.

Expected cash flows in years 2 through 5 can comprise the next “short-term bucket.” Here you need not be as concerned about daily or even monthly fluctuations in value but still should not risk a meaningful loss. The optimal choices depend on the size of your portfolio and your projected tax bracket but could include tax-free bonds or laddered CDs (a strategy that involves purchasing multiple CDs, each with different maturity dates). Three good mutual fund choices are Vanguard Short-Term Tax-Exempt Admiral, PIMCO Low Duration, and FPA New Income.

The remainder of your investment assets is considered your core, long-term portfolio and should be invested in a diversified manner, because some of the portfolio will be cashed out within 10 years, but much of it won’t be needed for at least 20 years. This part of your portfolio should require few changes from its accumulation-phase allocation.

As time goes on, you will need to replenish your liquidity bucket. At least once a year, rebalance the portfolio back to your stated—preferably written—asset allocation. Review the cash-flow projections, and make sure the appropriate amount is allocated in each bucket. One purpose of the short-term bucket is to give you some flexibility and the cushion with which to wait out a serious market downturn—such as the 2008 meltdown—for at least 1 or 2 years.

**MAXIMIZE YOUR TAX AND SOCIAL SECURITY BENEFITS**

In addition to portfolio changes, the transition away from being a working physician generally means your
“Switching from accumulation to decumulation mode involves a closer examination of cash flow, investments, taxes, and Social Security.”

The tax situation will be in flux. Income tax projections are an integral part of a financial plan. Generally, physicians who elect to retire will see a final high income year, then several low income years, followed by higher income levels once again when required minimum distributions from IRAs begin at age 70½. Your portfolio might need to be adjusted to accommodate this potential change in marginal income tax rates, the interplay with the alternative minimum tax, and Social Security benefit taxation.

ACCELERATE YOUR TAX DEDUCTIONS

During your final high-income year, think about ways to accelerate deductions if you expect your marginal tax rate to drop in subsequent years. Obviously, a tax deduction is more valuable when your rate is higher. For example, consider setting up a donor-advised fund, which allows you to make several years’ worth of charitable contributions and receive the related tax deduction in the year the contribution is made. Donor-advised funds are available through mutual fund companies and many local community foundations. National independent donor-advised funds include the National Christian Foundation or the American Endowment Foundation.

From a portfolio perspective, your final high-income year might be an opportune time to add direct-participation energy investments. These feature initial deductions for drilling costs and equipment purchase, often approaching 98% of the amount invested. In future years, payments of oil and natural gas net revenue are partly sheltered by natural resource depletion tax deductions. Use extreme caution; this area is rife with overpriced, poorly structured programs and shady promoters. Proper due diligence is essential to make sure you’re working with a reputable and experienced operator.

Before you begin taking required minimum distributions from your IRA, you might see a drop in taxable income and marginal tax rates as you replace employment income with proceeds from selling investment assets, producing non-taxed recovery of principal and lightly taxed long-term capital gains. The resulting window offers an opportunity to accelerate taxable income into a year in which it will be taxed at a lower marginal rate than it will be in future years.

You can accomplish this objective by realizing long-term capital gains, Roth IRA conversions, and even variable annuity or IRA withdrawals. Being in a low tax bracket may mean that tax-free investments no longer make sense, and you can obtain higher after-tax yields in taxable investments.

SOCIAL SECURITY BENEFITS

Your portfolio also will be affected by another important decision you’ll be making: when to take your Social Security benefits. Taking Social Security benefits earlier results in a lower amount per month but reduces the initial cash outflows from your portfolio. Delaying benefits means more portfolio withdrawals initially but substantially higher Social Security payments later.

Often it can be advantageous for the higher-earning spouse to defer taking his or her individual benefit until age 70. The lower-earning spouse can begin receiving a Social Security spousal benefit at that time. Deciding which benefit scenario works best for you requires a careful analysis based on individual Social Security records, cash flow needs, and longevity assumptions.

CALL IN THE EXPERTS

As you can see, the process of switching from accumulation to decumulation mode is multifaceted, involving cash flow, investment, tax, and Social Security planning. Although some physicians prefer to handle their own financial affairs—and are adept at doing so—professional advisers can help you navigate the complex terrain of decumulation planning.

Before you withdraw from your practice, consider having an attorney look over the employment agreement you probably haven’t read in years. If your accountant only prepares your tax returns and offers no proactive advice, it may be time for a change. If your
financial adviser seems focused only on your investments or your insurance and doesn’t provide any significant planning services, that too is reason to consider a change. The best financial planners or wealth managers address these issues in a coordinated fashion in the context of your personal financial plan.

Ultimately, however, the final evaluation is up to you. Begin the process now—so you’ll be prepared if you are struck by the “I’m outta here” moment.

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