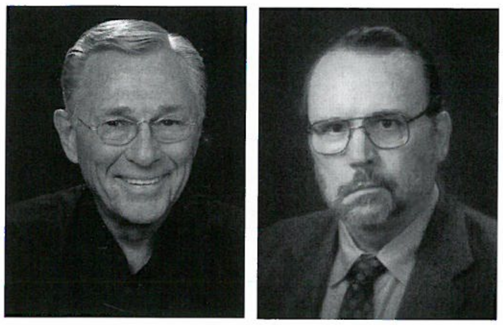
Economic Independence: Having your money work as hard for you as you worked for it!



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Introduction

Abraham Lincoln once said: *"How long should a person's legs be? They should be long enough to reach the stirrups."* Certainly, this is akin to the current subject of economic independence and how much money is needed so that it—your money—works as hard for you as you did for it. Economic independence is also the point at which you do not have to continue working all the days of your life.

Without having an appropriate plan in place for what needs to be done in order to achieve financial objectives, the dentist may feel a sense of hopelessness that affects how he or she treats team and patients alike.

The goal of achieving economic independence is the ignored driving force for many dentists and, therefore, the reason behind decisions made in the practice. However, without having an appropriate plan in place for what needs to be done in order to achieve financial objectives, the dentist may feel a sense of hopelessness that affects how he or she treats team and patients alike. Decisions within the practice may be made randomly and, hence, ineffectively in terms of tracking production, goal setting, and monitoring production/collection and relating it to the dentist's personal finances.

The two are connected, and setting objectives for personal economic independence helps to establish what needs to be done in the practice so that the dentist can best determine his or her "net tracking" goals. It also helps to establish clear expectations for all members of the dental team and create a more positive environment for team and patients. The question that must be asked and answered is: "How much money is enough?" Setting objectives without knowing the answer to this question is risky. Dentists risk being simultaneously old and poor or, worse yet, passing the station (retirement years) and not knowing why you are still on the train (working).

Lifestyle

In This Section:

Start With A Plan

Going back to work when you run out of money is no fun, either. The strange thing is that without a plan, most of us spend what we have and run out of means at some point. Studies by the American Dental Association have shown that 5% of dentists are independent at age 65; 95% of dentists must continue their labors, but not by choice.

Keep in mind, however, that having a plan is no guarantee of success, especially if you say: "Whew, got that done," and put the plan away. In such instances the plan will become like so many good patient charts: Forgotten.

However, working toward the perfect, end-all, be-all plan is prohibitive, but the most ideal and comprehensive plan may be sacrificed in the name of brevity and getting something done. A poor plan is better than no plan at all. Therefore, if you do not have a plan, be advised that you need one. The book *What Got You Here Won't Get You There* is a good starting reference for developing your own plan.

Know What You Need to Net

When will your independence day be? How much is enough? As explained earlier, economic independence occurs when you have enough money working for you as hard as you worked for it, so that you need not continue working at all. In other words, independence day is when you have a "battery" that is "charged" enough for you to live comfortably without working for the rest of your days.

The task is to know what you must *net* per unit time and for how long in order to pay taxes, live comfortably, eliminate debt, and charge that battery. Once the objectives of how much is needed and by when are chosen, *net tracking* is the way to achieve the objectives.

> *Setting objectives for personal economic independence helps to establish what needs to be done in the practice.*

Within the context of the dental practice environment, changing your practice overhead habit may matter, but it is not the primary focus of this article or planning model. Appropriately reducing, monitoring, and analyzing practice overhead is the responsibility of the dentist and his or her practice management coach or consultant. The results or objectives of overhead containment can or may reduce some of the anxiety regarding the dentist's retirement years, but it will not eliminate it.

The Net Tracking Model

Keep in mind that this is an initial model that may be sufficient planning for some individuals. You may finish this initial model and note that you are on track and on time enough to postpone formal and more detailed planning. Although this is not likely, it is a possibility.

Additionally, while having a plan is no guarantee for success, it is also important to note that this model does not account for individual differences in character and behavior, personal choices within the practice, goal funding for family education or care, or desired pre- and post-"retirement" acquisitions and expenses—all of which are important, relevant, and necessary but that are *not* addressed in these examples. It is likely that after completing a simple model like this, more detailed planning will be necessary. If you work with a coach or financial management company, more efficient decisions can be made based on your initial information and the current inventoried net position.

If you feel overwhelmed by this concept, seek assistance.

Understanding The Variables That Affect The Model

In order to objectively calculate what you must net, some exact figures must be selected, and this information must be used for these calculations. While some variables exist (e.g., whether you live to be 80 or 90 years old), concrete information such as how old you are now, whether you will work until you are 60 (e.g., 15 years from now), and an estimated date of when you will "shuffle off this mortal coil" (e.g., age of 95) must be selected. This will enable the model to calculate a specific calendared target date for economic independence.

Life Expectancy

When determining your life expectancy, consider adding two years to the plan if you have a significant other who is two years younger than you are. You can use the age of 95 just for planning, since the current life expectancy is not that high for either gender. Naturally, you can plan for any terminal age, but keep a few things in mind:

1. Life expectancy was once much lower than it is now, and advances in medicine and science most likely will continue.
2. It is better to have and not need than to need and not have.
3. Since 1963, when this model was first introduced to dentistry, it has been our observation that it is seldom that the objectives

The Effects of Inflation at 3.50%					
Age	**Year**	**Budget $**	**Age**	**Year**	**Budget $**
50	2008	100,000.00	70	2028	201,170.20
51	2009	103,556.70	71	2029	208,325.21
52	2010	107,239.89	72	2030	215,734.71
53	2011	111,054.09	73	2031	223,407.73
54	2012	115,003.94	74	2032	231,353.67
55	2013	119,094.28	75	2033	239,582.21
56	2014	123,330.10	76	2034	248,103.42
57	2015	127,716.58	77	2035	256,927.70
58	2016	132,259.07	78	2036	266,065.84
59	2017	136,963.12	79	2037	275,528.99
60	2018	141,834.48	80	2038	285,328.72
61	2019	146,879.10	81	2039	295,476.99
62	2020	152,103.14	82	2040	305,986.21
63	2021	157,512.99	83	2041	316,869.20
64	2022	163,115.25	84	2042	328,139.27
65	2023	168,916.76	85	2043	339,810.19
66	2024	174,924.61	86	2044	351,896.20
67	2025	181,146.15	87	2045	364,412.08
68	2026	187,588.97	88	2046	377,373.10
69	2027	194,260.93	89	2047	390,795.12

Table 1: The effects of inflation at 3.50% on a $100,000 budget.

we set have not been hit by the calculator. Therein lies the fix.

4. Your life looks better if you die with money as opposed to penniless.

Current Savings

A much more detailed evaluation of your assets and their individual growth rate can be prepared by a financial planner. Several years and/or dollars can be knocked off by doing this, and it is highly recommended. For this initial model, assume that all assets currently in place and all those to be sold to create economic independence are lumped in as one, and this may include the current value of the practice.

Inflation

Many theories exist but the current ones could be used. Since 1900, the average inflation rate has been about 3.5%.

Interest

A good planner would at least list the assets, their individual growth rate, and establish a weighted average growth rate. If you already have a personal financial plan, that rate can be used. If not, make a conservative assumption.

Taxes

These could go up or down based upon who is elected, whether you live tax-wisely, and how you report. Here again, this is an initial model and an assumption or past averages will do.

Life Budget

Now comes the tough part. A guess, plus a couple thousand dollars, might do for some. Accuracy is better, since it forces you to think about the way you live. A suggested minimum of expense categories to sum up includes the following:

The Effects of Inflation at 3.50%					
Age	Year	Budget $	Age	Year	Budget $
50	2008	500,000.00	70	2028	1,005,851.02
51	2009	517,783.48	71	2029	1,041,626.07
52	2010	536,199.46	72	2030	1,078,673.54
53	2011	555,270.44	73	2031	1,117,038.67
54	2012	575,019.72	74	2032	1,156,768.33
55	2013	595,471.41	75	2033	1,197,911.06
56	2014	616,650.52	76	2034	1,240,517.10
57	2015	638,582.90	77	2035	1,284,638.52
58	2016	661,295.35	78	2036	1,330,329.19
59	2017	684,815.61	79	2037	1,377,644.95
60	2018	709,172.41	80	2038	1,426,643.58
61	2019	734,395.51	81	2039	1,477,384.95
62	2020	760,515.72	82	2040	1,529,931.03
63	2021	787,564.95	83	2041	1,584,346.01
64	2022	815,576.24	84	2042	1,640,696.37
65	2023	844,583.80	85	2043	1,699,050.94
66	2024	874,623.07	86	2044	1,759,481.01
67	2025	905,730.75	87	2045	1,822,060.39
68	2026	937,944.83	88	2046	1,886,865.52
69	2027	971,304.67	89	2047	1,953,975.58

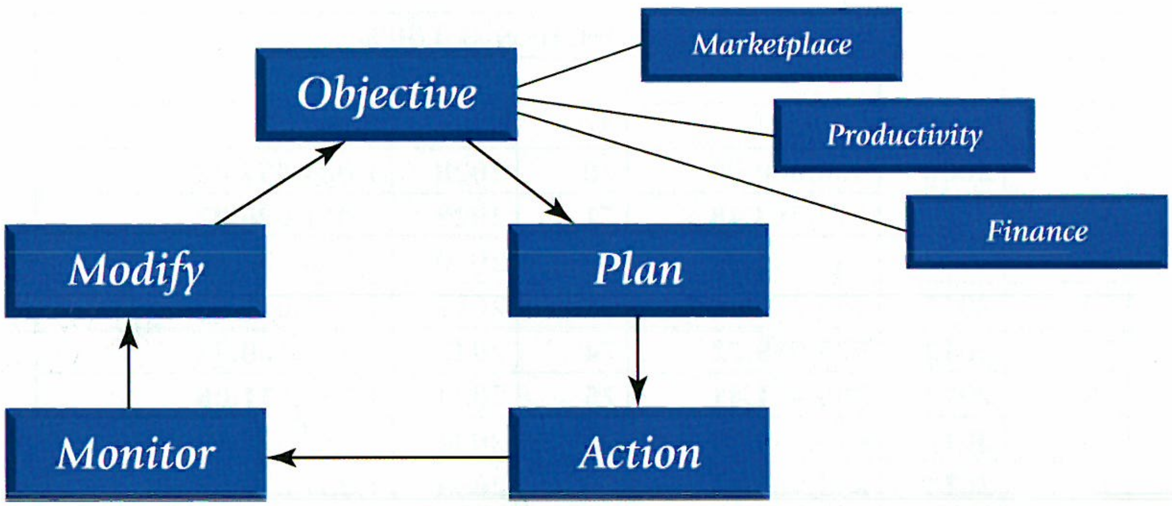
Table 2: The effects of inflation at 3.50% on a $500,000 budget.

- mortgage
- other debt service habits
- electricity, water and waste, and other utilities
- TV/cable, telephone, and computer
- life insurance
- health maintenance and insurance
- home maintenance and insurance
- auto (loan, lease, repair, and insurance)
- child care (or parental care)
- pool
- yard
- groceries
- entertainment (restaurants, etc.)
- vacations
- sundries

What Models Say About Goal Setting

Most people seem to think in terms of a fixed income, but inflation is bound to have an effect, as can be seen in Table 1 and Table 2. A person who is 50 now and has a budget of $100,000 will have a budget or cost of living (and this is without goal funding) of $390,795.12 at age 89. That does not seem so bad.

However, most of you should (remember, I said *should*) have a take-home pay in excess of $500,000 (see Table 2). In this case, the budget goes up to $1,953,975.58. The difference between the two Tables is what needs to be highlighted first, since it illustrates a couple of considerations. First, going back to work at 80 is a drag if you have run out of money. Secondly, earning $500,000 at age 50, which inflates to $1,426,643.58 at age 80, is even worse! It would be best to have a "battery" in place, or at least a plan to charge one.



Diagram

Imagine how much better you will feel when you know that you are on track and on time, or that you are close and know how to make up the difference. Chances are you will not need a study to tell you that the same good feeling is derived from knowing your progress as is realized when you arrive where you want to go. In fact, you have the ability and freedom to recalculate, to push arrival back (at retirement). There are some who so enjoy the journey that they may, in fact, choose not to focus on the arrival.

Knowing Your Financial Status and Getting on Track

The desired effect of knowing your financial position is to create a feeling of being a whole person in this broken world. Current speech scripting and "psychobabble" say that a happier, better-adjusted individual sells better and enjoys better relationships with the dental team and the patients who come for care.

"Fake it 'til you make it" may be one of the tools you use during this "conversion experience" from a probable to a preferred future. Now that you know what you need to net, you can take appropriate actions to achieve your objectives. However, some additional criteria will be required based upon other successful model-building experiences.

First, choose an objective (market place, productivity, and finance). Second, look ahead to your selected date for achieving economic independence and move back in time so that you can assemble your plan. Third, develop a performance criterion for various points in time along the plan and monitor performance against it. Combined, these three factors create an indomitable force for achieving your objectives.

Finally, a fourth discipline is called "plantrolling." This action is controlled by the planner and is a brilliant, simplistic fail-safe. With this information about what you will need ready, always at hand, and in focus, you can grow, change, and learn as you go. You are free to modify the objective, plan, action, and even how you measure or monitor your progress (see Diagram). A suggested reading is *The Power of Impossible Thinking*.

Conclusion

Hopefully this article is sufficient motivation for you to seek more detailed information about financial planning. This simple model, now available to you, can be calculated and used as a map. It may be sufficient for some. However, it is hoped that working through this model stimulates a desire for more detailed examinations of future goals that serve as a wake-up call about what needs to be done to achieve them. You will end up better informed, and that is the point. For more information, go to empathllc.com, Calculator Models, and choose Economic Target – Short Model. Happy journey!