Dynamic Chiropractic

YOUR PRACTICE / BUSINESS

Yield

Stanley Greenfield, RHU

What was the first thought that popped into your brain after you read the title of this article? Did you see a triangular-shaped sign painted yellow, with the word "yield" in the middle? That's not what this article is all about, but aren't words interesting! The yield we are after is the yield on money, or the amount you can earn. It's a totally different kind of yield. What a strange language we have.

I recently received a very interesting letter from a chiropractor asking what amount of money he would need to retire to be able to live with an annual income of $50,000. As with all the letters I receive, I ran some calculations and called him to give him the numbers. Since I didn't know his age, I ran the numbers for ages 30 through 55. With all those numbers, I figured I could pass them on so the rest of you could benefit from his letter.

There are a few assumptions that we will establish first. We start with a need of $50,000 per year at retirement. Next, we subtract a Social Security benefit of $10,000 per year, leaving a net of $40,000. Yes, I know that the benefit is higher than $10,000 per year, but I decided to round off all the numbers. The other assumptions have to do with the title of this article -- "yield." We will assume that during the accumulation period, the doctor receives an average yield of 8%, and at retirement, his funds are still yielding 8%. With that out of the way, let's plunge ahead.

If we need an annual income of $40,000, then at 8% we need funds worth $500,000. For a 30-year old, all it takes is an annual of just $3,000 to yield the $500,000 needed at age 65. That's right -- just a little more than an IRA. This could be done easily with an SEP plan or a profit-sharing plan, so you can include a vesting schedule and exclude part-time employees.

At age 35, it takes $4,100 per year to achieve the goal, or should we say "gold." Even though you pay in for just five years less, it takes a total of $123,000 instead of just $105,000 for the 30-year old. The magic of compound interest in action! Now you can see why I say to start a plan as soon as you can.

At age 40, it jumps to $6,500 per year to get to $500,000. That's a total deposit of $162,500. A SEP or profit-sharing plan would work.

Now we really get into the big numbers. At age 50, it takes $17,200 per year. By waiting just five years to age 55, the amount jumps to $32,000 per year. Age 50 requires a total deposit of $258,000, and age 55 $320,000. See what I mean about compound interest? If you have time, it can work for you, but the less time you have, the more it works against you.

If you are age 55, even the law works against you. Qualified plans only allow you to put in $22,500 assuming your annual income is at least $150,000.

These numbers do not take into consideration the effect that taxes will have on this entire scenario. Another assumption used was that you are smart enough to use a qualified retirement plan so that you can shelter your yield from current taxation. I also assumed that even if Social Security is not around, you would have the sale of a practice to make up that difference. That's a big assumption, but what else is new? Other assets can also be used to offset the total needed at retirement.

By the way, age 65 is not a magic number, but it is the age used to calculate retirement. If you want to see a different year used with different interest rates, just drop me a line and it's yours for the asking -- as long as you enclose a self-addressed stamped envelope.

Let's get back to the basis of this article: what amount is needed to yield an income at age 65. You say that $50,000 is not going to be enough? Well then, it's going to take a larger deposit to achieve your goals. You need to put in more than the maximum allowed? Maybe you need to look at using a 419(A)(f)(6) plan that allows you to put in a lot more and still have the deduction on the deposit without increasing the amount deposited for your employees. What I am trying to say is that there are other options that need to be explored as well.

You don't need to just throw up your arms and say that you will never be able to retire. You also need to do more than just sit there feeling sorry for yourself, singing the "Woe Is Me Blues." Woe is you if you don't follow my advice and seek help to get a plan in place now. The choice is yours. Choose wisely.

Stanley Greenfield, RHU
1551 South First Street, Suite 701
Jacksonville Beach, FL 32250
Tel: (904) 247-9313

JANUARY 1998