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THE EDITOR'S CORNER

Retirement and Semiretirement

The JCO Orthodontic Retirement Survey (April 1999) was notable for the large number of orthodontists who say they plan to retire each year, beginning in the year 2000. The question it raises is: Will there be a problem because of an unexpected decline in the number of practicing orthodontists? In the article "By the Numbers" (JCO, May 1999), we concluded that the specialty will be able to treat the expected patient demand, even in a worst-case scenario of a tripling in the number of annual retirees.

It is possible that there will be a gap between what respondents to the retirement survey said they planned to do and what they actually do, and that the numbers of annual retirees will turn out to have been overstated. With such a great disparity between the present annual rate of retirement and the survey projections, however, it can safely be assumed that there will be an increase in retirements and that at some point, when the annual number of retirements and deaths exceeds the number of U.S. orthodontic graduates, the number of practicing orthodontists will decrease. It can also be assumed that the number of potential child patients will increase slightly. The combination of decreasing numbers of orthodontists and increasing numbers of child patients will result in an increase in the case load of the average practice. It does not appear that this will be a management problem. Increased productivity will cover increased demand. But there could be a problem with transitions.

If the future rate of retirement is even close to the plans stated by the respondents to the JCO Retirement Survey, there will be a buyers' market for orthodontic practices. While not all retirees may be looking to sell their practices, a significant number of the 300-400 prospective retirees each year will be looking for buyers among something less than 200 U.S. orthodontic graduates planning to enter private practice. Furthermore, it has been reported that the average orthodontic graduate is burdened by considerable debt, and may be hesitant to contemplate taking on more debt through a purchase agreement that means taking home relatively little. Prospective retirees may have to become more creative to make buyouts more attractive.

Management service organizations can mediate transitions by marrying retirees and graduates, but this approach has proven to be less than successful in many instances. MSOs appear to have been more successful in setting up new practices, which only serves to diminish the number of potential buyers.

Inability to find a suitable buyer may require that some orthodontists continue to practice, if only to fulfill the obligation to current patients. Those who are financially secure, for whom the prospect of retirement may be more attractive than continuing to practice, could forego a sale and phase out of practice, completing treatment for the remaining patients or transferring them to other orthodontists. If one is marking time, still hoping or needing to find a buyer, the practice must be sustained and practice building must continue, or the value of the practice will diminish or even disappear.

It appears from the responses to the Retirement Survey that many orthodontists have greatly benefited from prudent investments. Substantial retirement funds have been built through the unprecedented rise in the stock market. If these investments were to decline, many orthodontists could be prevented from retiring as they wish due to lack of sufficient annual income. At some point, prospective retirees ought to review their retirement portfolios from the point of view of risk. When the point is reached at which the size of a fund is sufficient for retirement, it could be wise to forego any further speculation and settle for a safer haven for the funds.

The average respondent to the Retirement Survey plans to retire at age 62. Actuarial statistics indicate that a person age 63 today has a life expectancy of 85, which means at least a 20-year retirement and, in many cases, 30 or more years in retirement. Calculating retirement needs is fairly simple. For example, if $200,000 of annual pretax income would be sufficient to sustain one's preferred lifestyle, the retirement fund must be large enough to generate that annual withdrawal for the rest of one's life. Since no one knows how long that may be, one cannot retire with only the retirement fund to draw from unless that fund is large enough to sustain the longest conceivable retirement. Financial requirements may not diminish as one ages, especially if medical problems arise. I would suggest that planning for a life expectancy of 100 years is not inappropriate. It could happen to you or your spouse, or both.

A conservative investment today yields around 8%. Assuming retirement today at age 62, to be reasonably sure of not outliving one's money and having an annual income of $200,000, a $2,500,000 retirement fund is needed. Invested conservatively, a combination of its yield plus an annual withdrawal from principal would produce $200,000 per year for close to 40 years. Each individual can do the math with his or her actual numbers.

There are alternatives. One can accept something less than a preferred lifestyle, or one can divide the retirement fund, with one part assuring a minimal comfortable retirement and the rest placed in more speculative investments. Another plan would be to invest one's retirement funds in whatever way seems appropriate and continue to practice on a reduced-time basis, keeping in mind that it will be necessary or desirable to retire at some point.

There is a great deal to be said for a happy retirement, but there is also a great deal to be said for a reduced-time practice and semiretirement. Prospective retirees ought not overlook this alternative. A successful practice can be conducted working two days a week. Actually, with attention to scheduling and to patient selection, it could even be a happier practice. Meanwhile, the retirement fund would continue to build.

If sale of a practice must supply a significant amount of retirement funds and the prospective retiree cannot find a buyer, or if the retirement fund is insufficient, or if investment reversals reduce one's retirement funds too much, semiretirement is far from the end of the world.

ELG