

# Are You On Track To Achieve Financial Independence?

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An important success factor towards achieving financial independence is to correctly specify your accumulation goal - the amount of money that needs to be accumulated, based on realistic assumptions, to achieve financial independence. Financial independence is defined as having the means to sustain a comfortable lifestyle, generally around 70% of current lifestyle expenses, for the rest of one's life without *having* to work. Although each individual's accumulation goal needs to be custom tailored to their specific situation, to provide you with an estimation of what it takes to achieve this goal, I have computed various figures based on a set of assumptions that generally reflect today's expectations for a dental professional.

**Table 1** lists the assumptions used to compute the figures in Tables 2 and 3.

Table 1: Assumptions	
Monthly net income goal	\$10,000
Age of mortality	95
Average tax rate	20%
Annual rate of return prior to financial independence	10%
Annual rate of return during financial independence	7%
Annual rate of inflation	4%

**Table 2** defines the lump-sum amounts that would need to be accumulated to reach financial independence at various ages. These are the amounts that would be needed to sustain the monthly income goal of \$10,000 per month, in today's dollars, until age 95. You will notice that the farther out we go into the future, the higher the required amount of money becomes - this is because of inflation. It is important to note that these figures are the actual amounts that would be required - they are not in today's dollars.

Table 2: Lump-Sum Required to Achieve Financial Independence			
Current Age	Age to Begin Financial Independence		
	Age 60	Age 65	Age 70
55	4,028,308	4,464,910	4,819,389
50	4,901,053	5,432,246	5,863,524
45	5,962,880	6,609,158	7,133,873
40	7,254,756	8,041,051	8,679,447
35	8,826,520	9,783,168	10,559,875
30	10,738,811	11,902,720	12,847,702

For those dentists who feel that the proceeds received from the sale of their practice will be high enough to provide a comfortable lifestyle during retirement, it should be apparent from Table 2 that the amount of money it takes to achieve financial independence is significantly more than what most dental professionals could expect to receive from the sale of their practice. For example, if we assume that a dentist has annual net collections of \$750,000, and they maintain their practice overhead at 65%, then this professional could expect to receive around \$500,000 for the sale of their practice (this is a simplified example). If this dentist is currently age 55 and wants to retire at age 60, then the proceeds from the sale of their practice would only account for about 15% of the total required accumulation amount of approximately \$4 million. For a more precise indication as to whether or not you're on track, let's turn our attention to Table 3.

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**Table 3** provides an example of the monthly amounts that would need to be saved to achieve financial independence by age 60. Since it is not feasible to construct a table that encompasses all of the variables needed to reflect everyone’s unique situation, Table 3 is set-up to reflect a case study that assumes a dentist desires to achieve financial independence at age 60, and owns a practice that is currently worth \$500,000. It is further assumed that the value of the practice will increase at the 4% annual rate of inflation and will be sold at age 60. To use this table, locate your current total savings for retirement purposes (savings earmarked for college education, for example, would be excluded) under “Retirement Savings.” Then, find the monthly savings figure for your age that corresponds to your total retirement savings. The result is the estimated monthly amount you would need to save from now until age 60 to achieve financial independence. It is important to note that the estimated practice sales proceeds are taken into consideration in determining the estimated monthly savings amounts.

<b>Table 3: Monthly Savings Amounts Required To Achieve Financial Independence By Age 60</b>						
Retirement Savings	Current Age					
	Age 30	Age 35	Age 40	Age 45	Age 50	Age 55
2,500,000	0	0	0	0	0	0
2,000,000	0	0	0	0	0	1,671
1,500,000	0	0	0	0	490	12,294
1,000,000	0	0	0	1,468	7,098	22,918
750,000	0	0	873	4,155	10,401	28,229
500,000	0	1,104	3,286	6,841	13,705	33,541
250,000	1,839	3,376	5,698	9,528	17,009	38,853
100,000	3,156	4,739	7,146	11,140	18,991	42,040
0	4,033	5,648	8,111	12,214	20,313	44,165

If you’re able to save the monthly amount that you identified from Table 3, and if your situation closely reflects the assumptions used to construct this table, then you could be on track towards achieving financial independence by age 60. In any case, it is critical that you get clear on what your accumulation goal is, and the amount you will need to save on a regular basis to achieve this goal, given a robust set of realistic assumptions that reflect your unique needs.

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