A Physician Heals Himself (Financially)

By Kerry Pechter *Thu, Jan 23, 2014*

Baltimore radiologist Dimitri Merine hopes to retire in seven years, at age 63. So he created a do-it-yourself retirement income plan, using systematic withdrawals, dividends, a bond ladder and a deferred income annuity.

Dimitri Merine is a 56-year-old radiologist at a not-for-profit hospital near Baltimore. During the 2008-2009 financial crisis, he had the sobering experience of watching older colleagues wring their hands over their investment losses and their crumbling retirement dreams.

"A couple of my co-workers had to keep working because of the market meltdown. They didn't feel that they'd saved enough, and they felt too old to implement the strategies that I'm using now. Some of these strategies need a long lead time," he told *RIJ* recently. "That forced me to get moving so that I wouldn't find myself in the same situation.

At a time when most financial advisers are still learning how to combine insurance and investment products to maximize both income and safety in retirement, a few ambitious near-retirees like Dr. Merine aren't waiting for the advice profession to discover the merits of guaranteed retirement income.

They're taking matters into their own hands. Indeed, risk-averse do-it-yourselfers like Dr. Merine are proof that at least some high net worth investors want to get more creative about retirement income. Those who can't find advisers to help them are helping themselves.

Goal: $200,000 a year

Dr. Merine and his parents moved to New York City from Haiti when he was eight years old. He grew up in the turbulent Crown Heights and East Flatbush sections of central Brooklyn. He was educated at Columbia University and Washington University Medical School and spent his residency at Johns Hopkins Hospital. A financial autodidact, he reads the *New York Times*, *Wall Street Journal* and *Barron's*.

Today he is a member in good standing of the Sandwich Generation. His father and mother are 77 and 80 years old, respectively. His children are only seven and 10.

"Legacy is a big issue," he said, though he has not set up a trust or created a formal estate plan. He and his wife have a modest Genworth joint long-term care insurance policy (five-years total coverage at $200 a day, with a simple 5% inflation adjustment and a 90-day waiting period) as a buffer against out-of-pocket nursing home expenses. He contributes to the Maryland College Savings Program at T. Rowe Price.

He'd like to retire when he reaches age 63, in about seven years. "When I began to think seriously about retirement several months ago, I wanted to learn about alternative income methods. My goal was to have a retirement income of about $200,000 a year after taxes, and I wanted more than half of it to come from sources other than systematic withdrawal," Dr. Merine said.

While still holding an investment portfolio at Merrill Lynch, he looked at three potential sources of retirement floor income, including income annuities, bond ladders, and Social Security. He started to learn about income annuities. He read *Annuities for Dummies*. Then he made a decision that few people make but which academics almost universally recommend. He bought longevity insurance.

'Fill in the back end'

"The first step was to fill in the back end, and deal with the late-life issues, assuming I live that long," he told *RIJ*. "So, after learning about annuities, I decided to sign up for a deferred income annuity with payments starting at age 80. I had divided my retirement into three periods—65 to 70, 70 to 80, and over—and I wanted to have a specific strategy for each time. From 63 to 65, I'd do systematic withdrawal and dividends, but from 65 to 70 I wanted an additional means of income beyond SWP.

"The DIA appealed to me intellectually. It required a relatively small payment upfront. It allows you to plan for a long life, should that happen, and to spend appropriately before you get to the age of 80. As a first step, I sent my information to my Merrill Lynch adviser. He seemed OK with my decision."

Today's low annuity payout rates didn't deter him. "New York Life allows multiple premiums on its deferred income annuity, so I'm able to dollar-cost average into the annuity and spread out my interest rate exposure. For an income of $48,000 a year at age 80, the total cost was $125,000. To get there, I'll make four purchases of about $31,000 over four years. I didn't necessarily want the death benefit, but for compliance reasons Merrill Lynch won't sell a life-only contract. So I was willing to go along."

"Once I addressed that, the next question was what to do about the years between ages 65 and 80. For that period I wanted more than half of my income to come from somewhere other than systematic withdrawals." Part of the money would come from Social Security, from required minimum distributions from retirement accounts, and from dividends. He wants to keep his SWP rate lower than four percent, because a more conservative initial rate would allow room for increases later, if necessary.

Building a bond ladder

For the rest of his annual income, "I thought about period certain annuities. But I decided instead to do a 15-year bond ladder. I used after-tax money to buy eight zero-coupon municipal bonds, and I bought seven zero-coupon agency bonds in my Roth IRA. The plan is to hold them to maturity, so the only risk is credit risk, not interest rate risk.

"It was hard to find non-cancelable bonds; they're not common. So it took awhile to find the appropriate issues, even with help from the Merrill Lynch adviser. Every day there would be 10 new issues, and one or two would be appropriate. It took a good month to five weeks.

"Initially, the plan was to use all muni bonds, but I switched to agency bonds, such as Tennessee Valley Authority issues. They were higher quality and easier to buy. I filled in the later years first. As you get closer, you have less compounding and you pay more. I never found out exactly what the commission was on each bond, and I didn't do a price comparison with discount brokerages. I don't do a lot of trading, so I pay per transaction."

Without going into great detail, Dr. Merine described the rest of his portfolio as a combination of mutual funds (Vanguard municipal intermediate bond fund was one), ETFs (iShares Select Dividend) and individual stocks (Berkshire Hathaway).

When the financial crisis struck in 2008, Dr. Merine kept his cool. He was still 10-plus years from retirement, so he kept dollar-cost-averaging into the heavily discounted markets. "I held on for dear life. I didn't sell a single thing. Sequence-of-returns risk wasn't an issue. In retrospect, it was the right thing to do."

Asked why he decided to become such an ambitious do-it-yourself retirement income planner, he told *RIJ*, "It's just my outlook on life. I have a personality that likes to plan things and have a certain level of assurance. You have no idea what the future will bring, so you need to be prepared. As for buying the longevity insurance, it just spoke to me on an emotional basis. It's a huge psychological relief not to have to plan for those years after age 80. It just makes sense."