

Alberta Doctors' Digest

Sponsored article: Setting up your finances for early retirement

While many physicians plan to practice medicine until at least age 65, a growing number are looking to retire early. Indeed, physician burnout is real – whether due to the pandemic or the general over-burdened state of health care in Canada.

If you're considering early retirement, it's important to take stock of your finances to make sure you're adequately prepared for a post-retirement life without your physician income.

The challenge of early retirement

Physicians are well compensated in Canada, but what's often lost is that they tend to start their careers later and deeper in debt than the average Canadian. Add to that the fact that for most physicians there is no company pension.

Retiring early – say at 55 instead of the more traditional age of 65 – then leaves a shorter runway to save and invest for retirement. Physicians who own a home may also still be paying down a mortgage.

Retiring early also means fewer years to contribute to the Canada Pension Plan (CPP), which will lead to reduced benefits in retirement. Taking CPP early – at age 60 (the earliest allowed) instead of 65 – will reduce your benefits by a further 36%.

Finally, there are psychological struggles with leaving your practice behind to retire while your colleagues and friends may still be practicing. Many people, not just physicians, tie their identity and sense of purpose to their occupation, and it can be difficult to let that go and successfully transition to a new life chapter.



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With planning and diligence, it can be done

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Consider a physician – let's call her Dr. Lee – who contributed the maximum allowable amount to RRSPs and TFSAs throughout her career, while investing any excess dollars inside her medical corporation. If she retires at 55, she can begin withdrawing a mix of dividends from the corporation and withdrawals from her RRSP, enough to meet her desired spending needs from age 55 to 65.

If Dr. Lee's RRSP and corporate investments are substantial enough, this approach could even sustain her to age 70. That way, she could delay taking her CPP and OAS until age 70 and thus take advantage of the age-deferral credits (getting 42% more CPP and 36% more OAS than if these benefits were taken at 65).

She preserves the TFSA (and may even continue her contributions) as a tax-free savings bucket to draw upon later in retirement.

The point is, with enough savings and a spending plan that's reasonable but meets your needs, retiring early can maximize your life enjoyment and allow you to minimize lifetime taxes over a long retirement.

Retiring at 55 versus 65+

The tax advantages of early retirement are clear. Because of Canada's progressive tax system, high-income earners may pay a marginal tax rate of more than 50% on their top dollars of income earned.

If you are thinking about retiring early, the question is whether you have enough resources to sustain your lifestyle for longer – especially in the “early retirement” phase (age 55 to 65), before CPP and OAS kick in. If you plan to delay those government benefits until age 70, your resources have to last even longer. Psychologically, it can be difficult to deplete your savings and investments while you wait for government benefits.

Retiring at 65 or later, on the other hand, will most certainly allow you to shore up your finances with another decade of saving and investing (or at least not withdrawing from your savings and investments).

The downside? Your sizable nest egg can have tax and other financial consequences when you do finally retire.

In brief, the trade-offs

Early retirement is a great way to maximize your life enjoyment while you still have your health. It allows you to minimize lifetime taxes through strategic RRSP and corporate withdrawals.

The downsides include a potential loss of identity at a time when many of your peers are still in the prime of their careers. Plus retiring early results in a reduced CPP benefit (fewer years of contributions) and a temptation to take CPP early, which further reduces the benefit.

An MD Advisor can review your financial plan – or work with you to create one – and recommend ways to help you achieve your retirement goals. If you'd like to talk, contact us at VIP@md.ca.

*MD Advisor refers to an MD Management Limited Financial Consultant or Investment Advisor (in Quebec), or an MD Private Investment Counsel Portfolio Manager.

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