

PHYSICIANS' SAVINGS BEHAVIORS AND RETIREMENT READINESS

INTRODUCTION

Physicians are critical to the delivery and success of health care services in America, and yet they may need assistance managing their own financial health. In fact, according to a new Fidelity analysis, many physicians are in danger of not saving enough income to fund a financially comfortable retirement.

This latest *Defining Excellence* report provides a comprehensive assessment of retirement readiness based on current savings behaviors of over 5,000 physicians and offers suggestions for improving their retirement readiness.

KEY FINDINGS

- Because of IRS contribution limits, many physicians do not have adequate savings opportunities in their defined contribution plans
- Physicians need access to additional savings opportunities, such as non-qualified plans
- Many pre-retiree physicians have overly aggressive asset allocation
- Because of unique career circumstances, physicians require guidance throughout their careers
- Pre-retiree physicians are on track to replace 56% of their ending income, falling short of the suggested income replacement goal of 71%

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PHYSICIANS SHOULD COMPLETE
A FINANCIAL PLAN TO DETERMINE
THEIR SAVINGS GOALS.

PHYSICIANS' SAVING BEHAVIORS

Like most in the workforce today, physicians know they need to save for retirement. However, it's likely many don't realize how much they need to save to be on a path to retirement readiness.

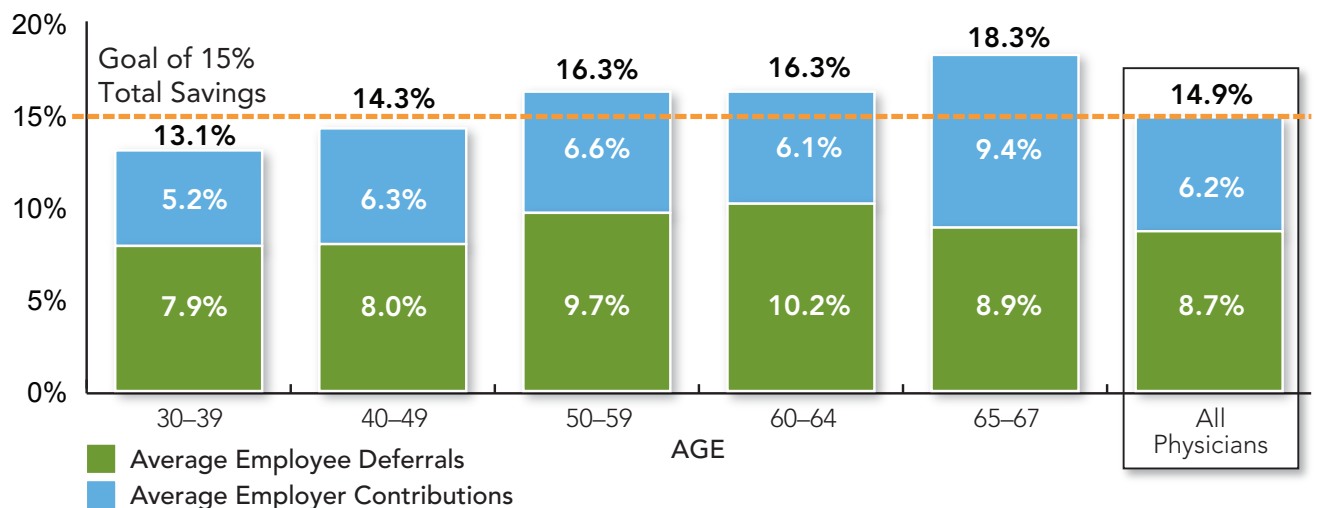
Fidelity's general recommendation for retirement plan participants is to save 10%–15% or more of their salaries (through a combination of employee and employer contributions) annually. However, participants with higher salaries, such as physicians, are likely to have higher retirement savings needs—15% or more—because Social Security benefits cover less of their ending salaries.

Health care employees with average salaries, for example, may generally be able to accrue Social Security benefits that could replace up to 30%–40% of their pre-retirement salary. However, highly compensated employees may only accrue benefits capable of replacing 10%–20% of their ending salaries, necessitating a higher annual savings rate to offset the lower Social Security coverage rate.

Figure 1 displays physicians' total (employee + employer) savings rates by age. The average savings rate among all physicians is 14.9%; however, those in the youngest age groups are saving below the guideline 15% savings rate.

FIGURE 1. PHYSICIANS' TOTAL SAVINGS RATES

(Employee Deferral + Employer Contribution) From Qualified and Non-Qualified Defined Contribution Plans, by Age

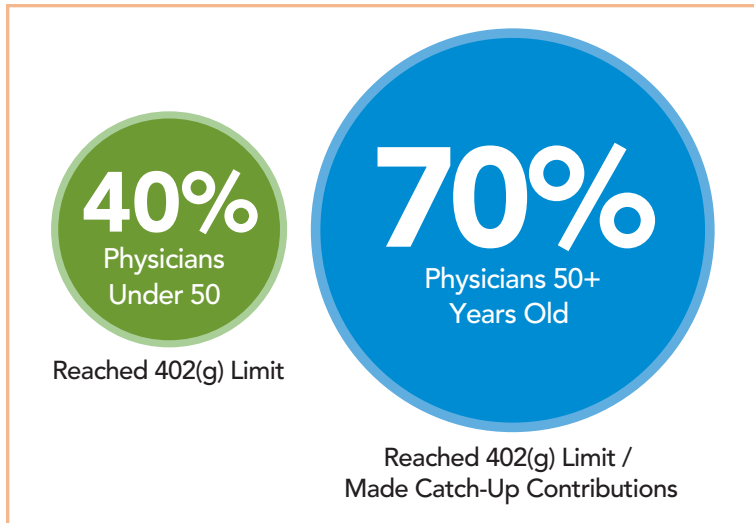


MANY PLAN SPONSORS LOOK
TO PROVIDE ALTERNATIVE
SAVINGS OPPORTUNITIES FOR
THEIR PHYSICIANS.

Fidelity suggests that physicians and other highly compensated employees complete a financial plan to determine their savings goals. In the absence of an individual financial plan, a total savings rate of 15% or more is a good guideline for physicians and highly compensated employees.

Physicians' ability to save 15% or more of their income may be hindered by IRS 402(g) contribution limits, which, for qualified plans, are \$17,500 for those below age 50 and \$23,500¹ for those over 50 making catch-up contributions. For example, a physician specialist earning \$500,000 annually and seeking to reach a 15% savings target of \$75,000 in their defined contribution plan may encounter difficulty because of IRS contribution limits.

FIGURE 2. PERCENTAGE OF PHYSICIANS
WHO REACHED 402(g) LIMITS



While some physicians save up to the IRS limits, Figure 2 shows that only 40% of physicians under 50 did so. This illustrates an opportunity to provide financial guidance to these physicians.

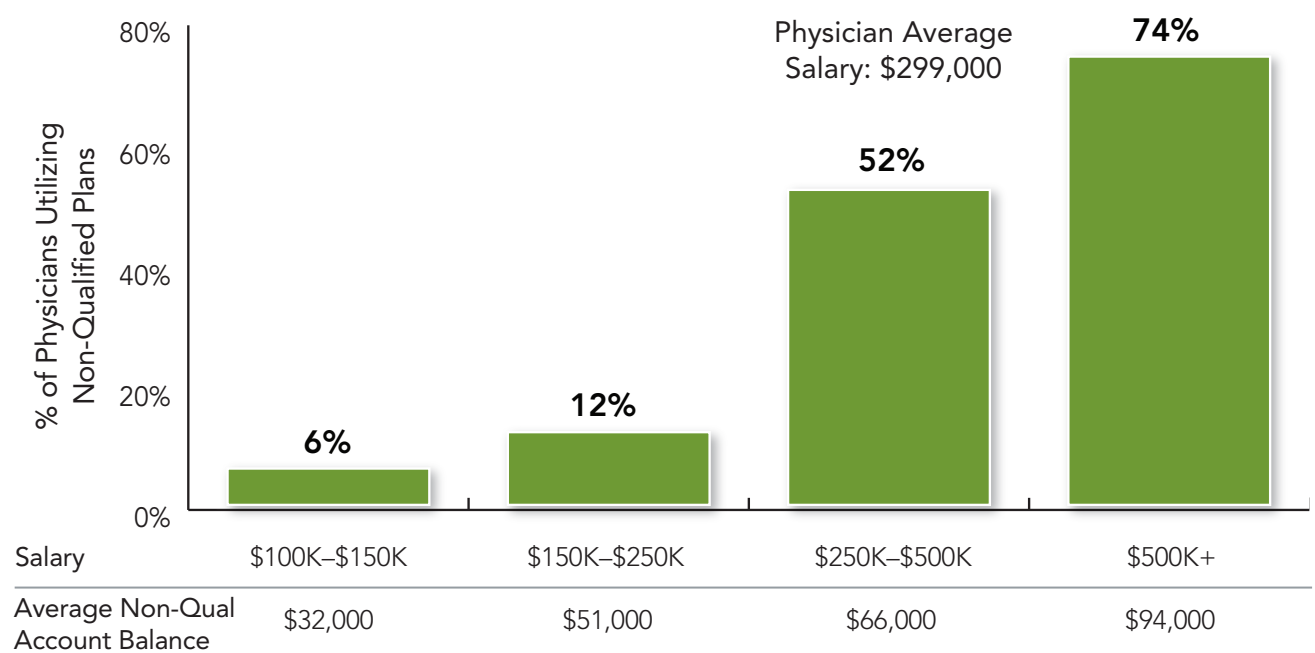
As physicians reach 50, their savings rates increase, and as many more reach contribution limits, they may seek out other opportunities to save.

Many plan sponsors look to provide alternative savings opportunities for their physicians. One such opportunity is the non-qualified plan, which is widely used in the not-for-profit health care sector to provide an additional retirement savings vehicle for physicians and other highly compensated employees.

PHYSICIANS MAY HAVE DIFFICULTY SAVING
ENOUGH SOLELY IN THEIR WORKPLACE
RETIREMENT PLANS TO ACHIEVE
RETIREMENT READINESS.

Figure 3 illustrates how physician utilization of non-qualified plans varies dramatically by salary—rising steadily as salaries rise.

FIGURE 3. PHYSICIAN UTILIZATION OF NON-QUALIFIED PLANS BY SALARY



Physicians and other highly compensated employees without access to non-qualified plans may have difficulty saving enough solely in their workplace retirement plans to achieve retirement readiness.

Fidelity suggests that plan sponsors consider adding one or more non-qualified plans, such as a 457(b) plan, to help physicians and other highly compensated employees save 15% or more of their salaries annually.²

MEDICAL SCHOOL AND RESIDENCIES
MAY EXTEND INTO A PHYSICIAN'S EARLY
THIRTIES, THEREBY DELAYING THE START
OF SAVING FOR RETIREMENT.

PHYSICIANS' ASSET ALLOCATION AND THE NEED FOR GUIDANCE

Many physicians face factors in their careers that confound their ability to save adequately for retirement.

Two such factors are:

- **Shorter savings horizon:** Medical school and residencies may extend into a physician's early thirties, thereby delaying the start of saving for retirement and shortening their overall savings time horizon.
- **Larger debt burden:** Many physicians carry substantial debt from undergraduate and medical school tuitions; home purchases and other acquisitions only add to the burden, impinging on physicians' ability to save for retirement, particularly during the early stages of their careers.

These factors may lead some physicians into a mentality that they need to "hit a home run" with their investing activities, in order to make up for lost time and a larger overall savings goal. This "home run" mentality can lead to overly-aggressive asset allocation for some mid-career and pre-retiree physicians.

Figure 4 shows physicians' age-based asset allocation in their qualified and non-qualified defined contribution plans. To determine whether physicians' plan assets are sufficiently diversified relative to their target retirement date, Fidelity compares age-specific equity holdings with the equity holdings of Fidelity Freedom® Funds with corresponding target retirement dates. Physicians whose equity percentages fall within 10 percentage points (plus or minus) of the Fidelity Freedom Funds' equity allocations are considered to be in alignment with their age and target retirement dates.

AS AGE INCREASES, THE PERCENTAGE
OF PHYSICIANS WITH AGE-BASED
ASSET ALLOCATION DROPS.

FIGURE 4. PHYSICIANS' AGE-BASED ASSET ALLOCATION FOR ALL
DEFINED CONTRIBUTION PLANS

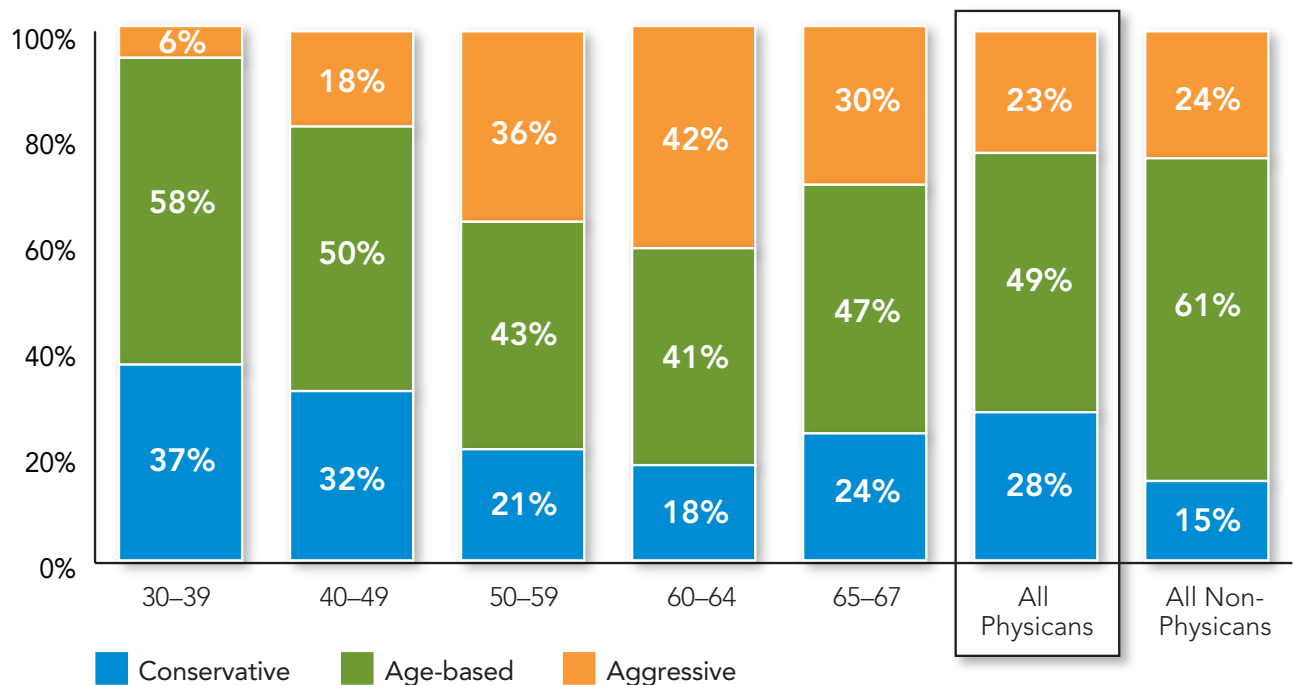


Figure 4 illustrates that as age increases, the percentage of physicians with age-based asset allocation (depicted in green) drops, while the percentage of physicians with more aggressive equity allocation (shown in orange) tends to increase. Physicians who are aggressively allocated could face difficulty recovering from an extended market downturn. Additionally, younger physicians who are too conservatively allocated (shown in blue) may not achieve market-rate long-term returns without sufficient equity exposure.

The data in Figure 4 point to physicians' need for guidance on asset allocation throughout their careers.

Fidelity suggests that plan sponsors work with their retirement service partners to provide physicians with education and guidance that emphasize the need for savings adequacy and appropriate asset allocation throughout their careers.

FIDELITY GATHERED RETIREMENT SAVINGS
DATA ACROSS WORKPLACE, PERSONAL,
AND GOVERNMENTAL SOURCES.

HEALTH CARE WORKERS’ RETIREMENT READINESS

In order to determine whether or not an individual is on track for retirement security, Fidelity provides a general proposal on income replacement rates by income level. For the average investor, whose salary falls between \$50K and \$80K, Fidelity’s suggested target is 85%. For those falling outside of that income range, the following table provides additional guidelines.³

PRE-RETIREMENT INCOME	ESTIMATED REPLACEMENT RATIO
Less than \$50K	95%
\$50K–\$80K	85%
\$80K–\$120K	77%
More than \$120K	71%

To assess the retirement readiness of physicians and non-physicians in the dataset, Fidelity gathered retirement savings data across workplace, personal, and governmental sources and projected them forward to age 67.

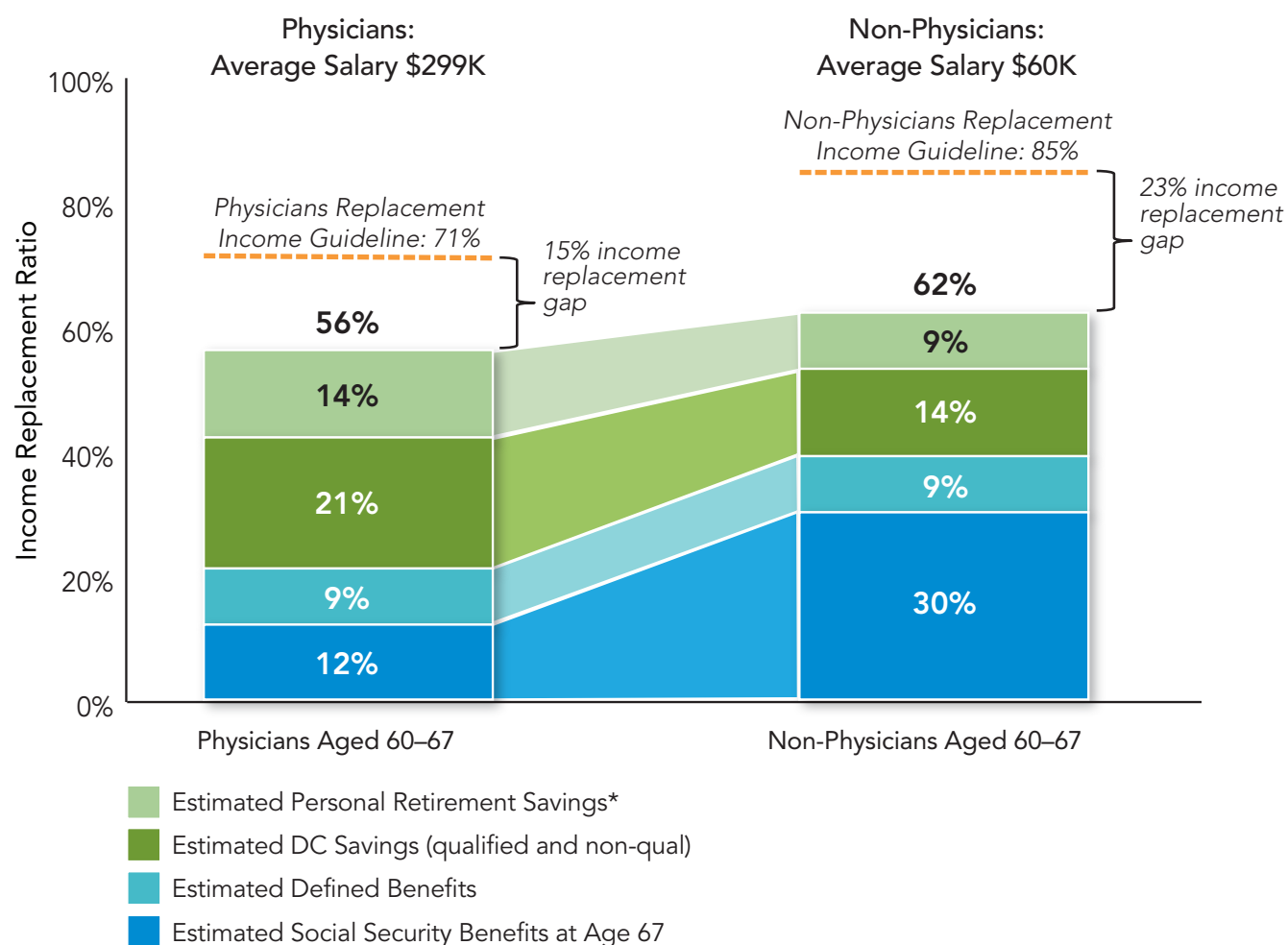
To present a clearer view of pre-retiree retirement readiness, the results include 60–67 year-old physicians and non-physicians who also hold personal savings accounts with Fidelity, such as Individual Retirement Accounts (IRAs), brokerage accounts, and Health Savings Accounts (HSAs).⁴

Figure 5 illustrates the relative contributions to retirement savings of the four major savings vehicles: Social Security (blue), Defined Benefit plans (turquoise), Defined Contribution plans (dark green), and personal savings (light green). The variable impact of Social Security on retirement income replacement for physicians (average salary of \$299,000) and non-physicians (average salary of \$60,000) is clearly illustrated by the varying sizes of the blue bars in Figure 5.


To offset lower Social Security income replacement, physicians are saving more in their qualified and non-qualified DC plans (dark green), as well as in personal savings accounts (light green).

As a result, the overall income replacement rate in retirement for physicians is projected to be 56% of preretirement income, falling 15% short of their target income replacement rate of 71%. Non-physicians are projected to replace 62% of preretirement income, falling 23% short of their target retirement income replacement rate of 85%.

FIGURE 5. ESTIMATED INCOME REPLACEMENT RATES FOR PRE-RETIREEES HOLDING PERSONAL SAVINGS ACCOUNTS*



*Personal savings accounts include Individual Retirement Accounts (IRAs), brokerage accounts, HSAs, and related personal retirement savings vehicles



FIDELITY RECOMMENDS THAT PHYSICIANS ESTABLISH INDIVIDUALIZED RETIREMENT INCOME PLANS.

The projections in Figure 5 regarding the likelihood of various investment outcomes are simulated to a 90% confidence interval—meaning that 90% of all the Monte Carlo simulations beat the figures shown in the chart, and 10% of the simulations fell below. The projections are hypothetical in nature, do not reflect actual investment results, and are not a guarantee of future results. Results may vary with each modeling projection and confidence interval chosen, and as assumptions and actual results and behaviors change over time.

While it is impossible to determine precisely the income replacement rate every individual will require in retirement without an in-depth guidance interaction, Fidelity's general proposal is to target an income replacement rate of 71%–95% (not inclusive of health and lifestyle considerations), based on income level. Fidelity also suggests that physicians establish individualized retirement income plans and utilize guidance sessions to help them manage and update those plans throughout their careers.

STUDY METHODOLOGY

Findings herein are primarily derived from Fidelity recordkept retirement plan data from leading health systems. The dataset covers more than 100,000 health care workers. Included within the dataset are 5,100 physicians and 95,500 non-physicians.

The study looks broadly across the major sources of retirement savings to quantify the impact of key savings vehicles, including:

- Qualified and non-qualified defined contribution (DC) plans
- Personal savings accounts: i.e., Individual Retirement Accounts (IRAs), brokerage accounts, and Health Savings Accounts (HSAs)
- Defined benefit (DB) plans
- Estimated Social Security benefits (assumed to be accessed at a retirement age of 67)

All DC data shown here were projected to age 67 using 250 Monte Carlo simulations.⁵ Monte Carlo analyses were conservatively conducted using a 90% confidence interval, where 90% of the simulations fell above the estimates shown in Figure 5, and 10% of simulations fell below the estimates.

DB retirement benefits for physicians were projected to age 67 using DB benefit crediting formulas. For non-physicians where individual DB data was not available, plan level estimates were used. Personal savings accounts data were gathered for pre-retirees with personal retirement savings accounts also at Fidelity Investments. All DC and personal savings assets were projected to be withdrawn from throughout retirement using a systematic withdrawal program (SWP). DC and personal savings assets were estimated using Monte Carlo market modeling throughout retirement whereas DB assets were not, because they were assumed to be in payout phase as a percentage of income. Unless otherwise noted, findings and conclusions are based on data for the period ending March 31, 2013.

PROVIDE PHYSICIANS WITH ONE-ON-ONE
AND SELF-DIRECTED GUIDANCE.

SUGGESTIONS AND BEST PRACTICES FOR PLAN SPONSORS

- Use plan analytics to assess the retirement readiness of your physician and non-physician populations and adjust retirement program plan design accordingly
- Provide additional savings opportunities for physicians, such as a non-qualified 457(b) plan
- Provide physicians with one-on-one and self-directed guidance that emphasizes savings adequacy and asset allocation

KEY METRICS:

- Percentage of physicians with a total savings rate of at least 15%
- Percentage of physicians with age-based asset allocation
- Income replacement rates of physicians and non-physicians

HAVE YOU CREATED A RETIREMENT INCOME PLAN TO HELP MAKE SURE YOU ARE ON TRACK TOWARD RETIREMENT READINESS?

SUGGESTIONS AND BEST PRACTICES FOR PHYSICIANS

- Maximize qualified plan and HSA (if applicable) savings opportunities and take advantage of other vehicles, such as IRAs, tax-deferred annuities, non-qualified DC savings, and brokerage accounts, to reach a target of 15% or more total (employee + employer contributions) savings rate annually. Refine target savings rates by using online planning tools
- Seek professional guidance on savings rate goals and overall asset allocation

KEY QUESTIONS:

- Are you saving up to the 402(g) limit (\$17,500 in 2014) in your qualified retirement savings plans?
- Are you taking advantage of additional savings opportunities, non-qualified plans, or personal retirement savings accounts that enable you to save 15% or more of your income for retirement?
- Are you adjusting your asset allocation according to your age and risk profile?
- Have you created a retirement income plan with the help of a Planning and Guidance Consultant to help make sure you are on track toward retirement readiness?

For more information about physicians' retirement readiness and best practices in not-for-profit health care retirement plan design, please contact your Fidelity representative.

¹IRS 402(g) contribution limits for 2014. Each year, the limits may be changed by the IRS based on inflation tracking.

²Non-qualified defined contribution plans have additional risks relative to qualified plans that should be reviewed by employees prior to their deciding to utilize one. For more information, please see Fidelity's Viewpoint article on non-qualified plans: <https://www.fidelity.com/viewpoints/personal-finance/nqdc>

³Estimated replacement ratio ranges are not inclusive of health or lifestyle considerations. To learn more about target income replacement rates and how they vary with lifestyle and health considerations, please read the Fidelity Viewpoint *What Will You Spend in Retirement*: <https://www.fidelity.com/viewpoints/personal-finance/what-to-spend-in-retirement>

⁴Including Individual Retirement Accounts (IRAs), brokerage accounts, Health Savings Accounts (HSAs) and related personal savings accounts. All personal retirement savings data as of 8/31/13.

⁵Monte Carlo simulations based on historical index performance were utilized to project asset growth, taking into account contributions, withdrawals, and participant asset allocation as of 3/31/13, rebalanced annually following the Fidelity Freedom Funds' equity rolldown schedule. Contributions were assumed to be made each year until the year of retirement, with withdrawals then commencing for each year through the year of assumed life expectancy.

Guidance provided by Fidelity is educational in nature, is not individualized, and is not intended to serve as the primary or sole basis for your investment or tax planning decisions.

Fidelity Freedom Funds are designed for investors expecting to retire around the year indicated in each fund's name. Except for the Freedom Income Fund, the funds' asset allocation strategy becomes increasingly conservative as it approaches the target date and beyond. Ultimately, they are expected to merge with the Freedom Income Fund. The investment risks of each Fidelity Freedom Fund change over time as the funds' asset allocations change. The funds are subject to the volatility of the financial markets, including equity and fixed income investments in the U.S. and abroad and may be subject to risks associated with investing in high-yield, small-cap, commodity-linked, and foreign securities. Principal invested is not guaranteed at any time, including at or after the target dates.

Asset allocation does not ensure a profit or guarantee against loss.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

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