Fidelity Physician Retirement Study Useful, but Imperfect

From time to time the big mutual fund/brokerage houses come out with a study using the data they obtain from their 401(k), IRA, and/or brokerage data. The conclusion of the study, unsurprisingly, is usually that people need to save and invest more, preferably with their firm. While that is probably true, there always seems to be a bit of a conflict of interest there.

Fidelity recently did a similar study, but they just looked at their physician clients. The conclusion, as expected, is that doctors need to save more and get more financial advice. But the really interesting stuff in the study comes when you dig a little deeper. I applaud the Fidelity analysts and authors for doing this study. After speaking with David Martin and MeeJin Annan-Brady of Fidelity recently, I think they probably did about the best they could within the limitations of available data. I disagree with a few of their methods (and conclusions), but overall I think this study makes a valuable contribution to what is known about physician personal finance and investing habits and I applaud their efforts.

Fidelity, as one of the largest mutual fund companies, 401(k) and IRA provider, and brokerage, has access to a lot of physician-specific financial data. They included data from over 5,000 physicians in this study, although a significant downside of their data set is that almost all of it comes from large non-profit health systems, both academic and non-academic. The really nice thing about their dataset is that for certain portions of the study, they only looked at doctors who had been with that particular employer for a significant amount of time, and included not only 401(k) data, but also
IRA and brokerage data. For the first time, we’ve actually got a decent look at what physicians are doing with their retirement savings. In some ways, the data is concerning, but in others, I find it quite reassuring!

**Savings Rates**

The first figure in the study, which I found quite reassuring, was the calculated savings rates for these physicians. On average, docs save 13.1% of their income in their 30s, 14.3% in their 40s, 16.3% in their 50s and early 60s, and 18.3% in their late 60s. On average, the figure is 14.9%. It isn’t quite the 20% I recommend, but it’s a heck of a lot higher than the 5-10% I expected it to be, and I found that reassuring.

**Maxing Out The 401(k)**

The second figure in the study shows that only 40% of doctors under 50 hit the “402(g) limit” ($17.5K into a 401(k) or 403(b).) That number rises to 70% for doctors over 50. Personally, I think that’s terrible. The average doctor in this study makes $299,000 per year. $17.5K is less than 6%. If they’re saving 13.1%, where is the other 7% going if not into the 401(k)? For someone over 50, the limit is $23,000, or less than 8%. Where is the other 8% going if not into the 401(k)? Max out your 401(k) people. Seriously. I know it can be kind of tough when you have a $52K limit, but not hitting the $17.5K limit? That’s pathetic.

**Higher Income Docs More Likely to Use 457(b)s**

The third figure shows that doctors who make more than $500K are 12 times as likely to use a non-qualified plan (like a 457(b)) than a doc making less than $150K. I don’t think anyone finds that surprising. What blows my mind, however, is that there are 26% of doctors making over $500K who aren’t maxing out these non-qualified plans. Again, that’s pathetic.
Don’t complain about your tax bill being high if you’re aren’t willing to save 7% of your income toward retirement (7% = ($17.5K 401(k) + $17.5K (457))/500K). Fidelity’s conclusion from this data is that more employers should offer 457s. I guess that would be nice, but my reading of the data is that docs either don’t want them or don’t know about them, for better or for worse.

**Doctors Taking On Too Much Risk As They Approach Retirement**

The fourth figure in the study is the one getting all the attention. This shows that physician asset allocations (and again, according to David Martin, this data reflects only qualified plans and brokerage accounts, not IRAs due to technical issues with obtaining the data) actually get MORE aggressive the closer they get to 60. On average, only 6% of docs in their 30s have an “aggressive” asset allocation but 42% of doctors in their early 60s have an aggressive asset allocation. This suggests that physicians are trying to “hit a home run” at the end of their accumulation phase, possibly due to lack of adequate savings early on and possibly due to inadequate financial advice/planning. Mr. Martin suggested the effect would be even worse if IRA data were included as their studies show that IRAs on average are more heavily invested in stocks than 401(k)s.

However, it is important to realize what they are really showing here. The “aggressive” category is an asset allocation that has more stocks in it than the Fidelity Freedom fund for their age. The 2020 fund, for a doctor who wants to retire in about 6 years, would be the corresponding fund for a doctor in his early 60s. It has an asset allocation of 61% stock. If you have 71% or more, you’re aggressive according to the study. That seems reasonable.

But what about the younger docs. If you’re 35, you presumably should have an asset allocation corresponding to the 2045 fund. That fund says you should have a 90% stock portfolio.
To beat that by 10% or more means you have a 100% stock portfolio. Is Fidelity really suggesting that more docs in their 30s should be MORE aggressive than that? Likewise, if you only have 80% stock (a very aggressive portfolio according to most experts) you’re in the “conservative” category according to Fidelity. Now you can see that the chart really doesn’t mean much at all, and should probably be ignored. It would have been a lot more interesting to just see what the asset allocation was for each age group, rather than having it compared to a Freedom fund. It would have been even more interesting to compare the asset allocation for a group of doctors in 2009 vs 2014. Maybe in their next publication.

The conclusion from this data is that doctors need more financial guidance. While that may or may not be true, the data certainly doesn’t prove that. Comparing average asset allocations to Fidelity’s idea of a proper glide path doesn’t really give you sufficient data to draw any kind of conclusion in my opinion.

**Doctors Can Replace 56% of Their Pre-Retirement Income**

The last part of the study was the one I had the biggest problem with. In this section, they took what doctors had in IRAs, brokerage accounts, 401(k)s, defined benefit plans, and Social Security and calculated out that doctors could replace about 56% of their income. They then somehow estimated that doctors needed 71% of their pre-retirement income replaced and concluded that doctors need to save a ton more money, preferably with Fidelity. I saw that 56% figure and said, “Awesome!” *My calculations* show that most doctors can have a very comfortable retirement on just 25-50% of their pre-retirement gross income. Basically, I subtract out all the stuff I won’t have to pay in retirement like retirement contributions (20%), payroll taxes (5%), mortgage (10-20%), disability and life insurance premiums (2%), child-related expenses (5%), work related expenses (2%), college savings
(3%), most of my income taxes (15%) etc. I would have a dramatic increase in spending if my retirement savings replaced 71% of my current income. Now keep in mind the 71% figure Mr. Martin uses includes Social Security, and my 25-50% number does NOT include it. But even once you count that in, there’s still a pretty big gap.

So I asked Mr. Martin about this. He stood behind his number, and pointed out a couple of reasons why he thought his number was right and mine was wrong (although he admitted, as I do, that every investor needs to run their own estimate.) The first reason was that when you look at the averages from studies on spending that the government does, many retirees are still paying mortgages (or even rent). Of course, they weren’t able to actually tease physician-specific data out of these studies, so they generalized that many docs were also still paying mortgages in retirement. (A dumb idea if you want my opinion. I think you ought to have your house paid off within 15 years of finishing residency, long before retirement.) The other reason was that he wasn’t calculating a “bare bones” retirement, but more the type of lifestyle people really wanted. Well, his definition of bare bones is certainly different from mine. 50% of a $299,000 salary is about $12,500 a month. 71% is $17,700 a month. I don’t know what you’re spending every month, but I could donate half of either of those amounts to charity and still do everything I want to do in retirement. I’d love to hear what Mr. Money Mustache would have to say about that kind of spending. Heck, on $17,700 a month I could buy a new car every quarter just with the money I didn’t need to buy everything I want and go everywhere I want to go. The truth is that the amount of money you need in retirement has absolutely nothing to do with your pre-retirement salary and everything to do with your pre-retirement (and post-retirement) spending. If you really do need 71% of your pre-retirement salary in retirement, then you’d better do as the study recommends and start saving a lot more.
Lessons From The Ratios

Another interesting statistic comes from looking at Figure 5. The ratios of personal savings (IRA + taxable accounts) to employer provided defined contribution plan to employer provided defined benefit plan to Social Security were very interesting. A large percentage of physicians in the study apparently still have a defined benefit plan, although many cannot actually contribute to them anymore. I’m not sure this data is generalizable to most physicians as it seems very few of us anymore have a defined benefit plan. But the percentages of retirement income from each source were as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Doctors</th>
<th>Non Doctors</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRA + Taxable</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>DC Plans</td>
<td>38%</td>
<td>23%</td>
</tr>
<tr>
<td>DB Plans</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>SS</td>
<td>21%</td>
<td>48%</td>
</tr>
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You expect the lower earners to have more of their retirement income provided by Social Security. That’s just the progressive nature of the SS program. If you take that out of the picture, you can see that doctors have 48% of their money in their 401(k)s and 403(b)s, 20% in defined benefit plans, and 32% in IRAs and taxable accounts. I find that interesting, but don’t know that it actually means anything, and actually have a hard time reconciling it with the data noted above that a huge percentage of doctors aren’t even maxing out their 401(k)s.

Overall, I think it is great that Fidelity went to the trouble to look at all this data. However, I think significant flaws in the study design prevent the data from being more useful to doctors and advisors than it could have been. My personal conclusion is that doctors aren’t doing nearly as badly as everyone always seems to think they are.
Could they stand to save a little more? Of course, who couldn’t? Could they benefit from a little more financial planning, either on their own or with a good advisor? Almost surely. Should they be maxing out their 401(k)s from the beginning of their careers? Certainly. Are their asset allocations too aggressive? I don’t think we can really tell. But it will be a rare doctor eating Alpo in retirement.

What did you think of this study? Did any of the results surprise you? Comment below!