Retirement Income Replacement- Friday Q&A Series

This Friday's Q&A comes from a thread on Sermo, a physician-only forum.

Question:

I just read an article called [Secrets of the 401K Millionaires]() that says the median 401K balance is $60,000 and only 0.2% of all contributors have topped the $1m mark (2% of age over 55).

The article says the goal for retirement should be to replace 75-80% of one's salary, which means even if I reach the $1 Million mark my income will be no more than $50,000 a year (5% per year withdrawal) plus perhaps $30,000 in Social Security, giving me a total of $80,000 at age 66.

Man, this is depressing. I do not ever see my 401K ever getting to a point of replacing even 40% of my present income the way things are going. Are other physicians comfortable with the rate of growth of their retirement funds in respect to being able to replace 75-80% of present income?

Answer:

I’m comfortable with the rate of growth of my 401K investments. My plan calls for 5% growth after inflation, and I’m just shy of that over the last 8-9 years since I got out of medical school and started investing.

The reason most docs have tiny 401Ks isn’t that they’ve had rotten returns (although that is part of it for many), but rather that they don’t contribute enough to it. $17K a year toward retirement isn’t going to cut it for most docs. You need to be saving ~20% of your income every year from residency graduation to retirement. 15% at the least.

However, you may be pleased to realize you won’t need nearly as much as you think you will. I ran the numbers once and figured I would need something around 30% of my pre-retirement income, not the 70-80% rule of thumb many advisors throw out there. Take away mortgage payments, taxes, child-related expenses, health/disability/life insurance premiums and retirement savings (especially if you save a lot like I do) and you may be surprised how little you actually need to retire on.

You should also keep in mind when reading these surveys, that they take the data from a 401K provider such as Fidelity, and don’t take into account other assets that people have, such as old 401Ks, IRAs, taxable accounts, real estate investments, pensions etc. You get to take your retirement income from all that, not just your current 401K. So the data, while bad, isn’t as bad as it appears at first.