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Physician Retirement Planning: Unique Opportunities and Challenges

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When it comes to retirement planning, physicians have opportunities and challenges that are unique to their career paths. Compared to similarly compensated professionals, they generally have a higher level of job security and predictability of income as well as low unemployment rates. According to the Bureau of Labor Statistics, market demand for physicians and surgeons is projected to grow 18 percent over the next decade, well above the national average of 11 percent. Therefore, very few physicians face any substantial period of unemployment or loss of income once they begin working.

Physicians often get a late start on retirement savings due to extensive graduate studies and residency training. Moreover, most physicians have substantial student debt that must be addressed as soon as they begin working. The average debt among 2013 medical school graduates was $169,900 according to the AAMC. This burden reallocates money that might otherwise be put aside for retirement savings.

Physicians have demanding jobs that make it difficult to work up to and beyond a traditional retirement age. Long hours, call requirements, and heavy patient loads can lead to mental and physical fatigue. In many similarly compensated professions, professionals can assume a larger managerial role as their career matures. As physicians remain “producers”, they cannot scale back their direct service work without losing income. The late start and demanding nature of the work translate into a narrower window of peak earning period than most professionals.

The primary source of retirement income for most physicians is savings. Most physicians are not able to sell their practice or receive a significant lump sum buyout at retirement. Social Security cannot be expected to provide a meaningful contribution toward retirement income. The maximum benefit will only provide for a portion of income replacement in retirement. Therefore, qualified retirement savings likely represent the main income source during retirement.

With many professions, longevity is associated with higher income. For most physicians, earnings potential isn't driven by experience. If younger physicians aren't saving enough for retirement, they will have to adjust their lifestyle and reduce expenses rather than rely on a higher future income stream as a source of increased savings. For physicians that are behind on retirement saving, the most appropriate options are working longer, saving more, or earning more on the money saved. If increasing savings or working longer are not viable options, taking on more investment risk with the objective of increasing portfolio return may be the most appropriate path.

Selecting the appropriate investment allocation requires a comprehensive financial review. Key considerations include:

- Accumulation time horizon
- Desired retirement spending
- Life expectancy
- Risk preference
- Estate and gifting objectives
- Future income sources (inheritance, life insurance, etc.)

Clearly, strong job security and a predictable income does not necessitate taking on incremental portfolio risk. However, a good understanding of the unique issues physicians face may provide clarity when determining an appropriate portfolio allocation. We recommend that physicians consider all risks and get a detailed financial plan and retirement need analysis to establish return objectives and drive portfolio allocation.

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