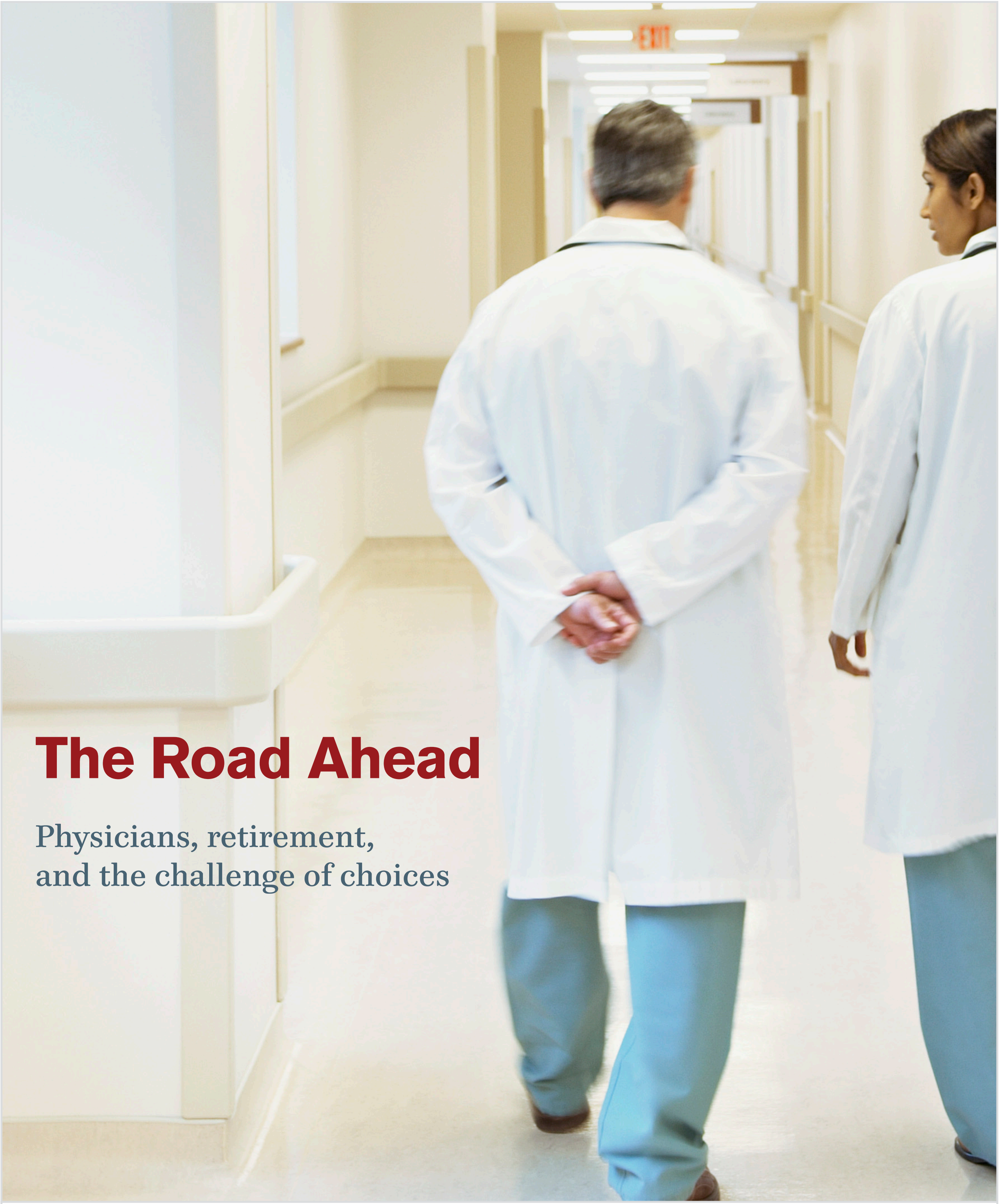

The Road Ahead

Physicians, retirement, and the challenge of choices

Texas Medical Association
Insurance Trust

As any physician knows, it's a long road to an established medical career.

Many physicians don't earn a high salary until after seven years—often more—of taking out loans and getting by on a minimal salary or stipend as they complete their education, residency, and specialized training.

That may be why most working physicians are often ahead of the average American when it comes to accumulating funds for retirement and seeking professional advice.

"Many physicians are self-made," says Diane Texin, who has 16 years of experience working with physicians and individuals on their retirement financial needs. "They want to ensure that a lifestyle that took years to establish continues after retirement. Others are part of physician families and saving is a habit that's handed down. Savings attitudes vary by individual and even by specialization. But most [physicians] do save, and they have specific goals in mind for leisure, philanthropy, children, or grandchildren."

An array of choices and changes

So if physicians are ahead of the game when it comes to retirement, are there any pitfalls they might not be aware of?

"For physicians, the issue is rarely about funding or having enough savings," says Gabe Ward, another retirement consultant with eight years of industry experience as a senior retirement counselor. "It's more of a choices challenge—how to use those funds effectively. For example, many physicians don't always consider the implications of taxes or how well certain retirement-income sources will work with their later goals."

Making the right choices with those hard-earned savings can come down to a few key steps.

Starting with the right questions

According to Scott Taylor, who works with Texin and Ward on retirement solutions for physicians and individuals, and has 11 years of experience, any choices about retirement savings should start with what he calls "the five questions."

What kind of lifestyle do I want?

Consider whether you will continue to work or how you will spend your time when you're no longer working full-time. How do travel—or a new vocation and education—figure into your plan? Will you be helping out family members with college tuition? When you've answered these questions, estimate costs along with other basic living expenses to arrive at your estimated annual costs per year.

What will my health care expenses be?

As you may already know, Medicare pays only 55 percent of health care costs for people age 65 and older.[1] Health care may eat up nearly 25 percent of a retiree's income.[2] When planning what your annual costs may be, and how to allocate savings among different retirement products, consider the gap in covering health care costs. Talk to your financial advisor about how to estimate for future health needs and costs, including insurance premiums, office visits, and Medicare.

Where will my income come from?

Evaluate all of your current or potential income sources to arrive at a grand total of what income you'll have available at retirement. Start with "guaranteed" income, like pensions, annuity payments, and Social Security benefits (estimates available at www.ssa.gov). Also include income from typical sources of potential retirement income, such as stocks/bonds, savings/CDs, real estate, and tax-deferred sources like 401(k) plans, traditional and Roth IRAs, cash-value life insurance, and municipal bonds.

Can I save even more?

Consider whether you're contributing the maximum allowable for employer-sponsored retirement plans—amounts were increased to $15,500 annually as of 2007. If you're age 50 and older, you may be able to save even more. Consider how much more you can save each month, and whether your spouse is taking advantage of all retirement saving opportunities.

How will I manage my retirement income?

Be sure to balance earnings from savings and investments (those outside of a tax-sheltered plan) against what you hope to withdraw from your assets each year. A good goal would be to invest neither too conservatively nor too aggressively (so that earnings remain on target), while not withdrawing too much too fast. Some experts suggest no more than a 4 percent withdrawal rate. Professional retirement, tax, and financial advisors can help you navigate the best path and recommend additional strategies, such as laddering fixed-income securities or holding dividend-paying stocks, for managing retirement income.

Letting tax implications guide choices

When it comes to income, what you receive is less important than what you keep. So it's a good idea to understand the tax treatment for each of your retirement strategies and know whether and how distributions are taxed. And while you're reviewing your choices, consider whether your retirement funds are going to the right places. If you're still working, it may be best to put more assets into accounts that enable you to defer income and capital gains on their assets until actual retirement.

"Lots of things affect taxes—how long you work, the income base you choose in retirement, any legacy accounts you might want to set up, and more," says Ward. "Not considering all of the tax implications may hurt the ability to maximize returns, set up income streams, and keep up with inflation."

[1] U.S. Government Accountability Office, Federal Trustees of the Medical Program, 2006, as reported by Prudential Financial. www.prudential.com.

[2] International Longevity Center, NYC, AARP, 2005, as reported by Prudential Financial. www.prudential.com.

And if you're nearing retirement or already retired, consider which sources of retirement income to keep in taxable accounts and which should be in tax-sheltered accounts. For example, *The New York Times* reported a comparison by the Vanguard Mutual Fund Company in which one investor split $1 million evenly between taxable bonds in sheltered accounts and index equity funds in taxable accounts over 10 years. That investor earned $1,694,671. However, an investor who might have done the exact opposite would have earned $1,531,413—or 9.6 percent less.[3]

If you continue working past retirement age, it may help to keep in mind that Social Security benefits may be reduced or taxable. You may also want to think about the next steps for your account with your employer's retirement plan.

"If you're leaving an employer, don't assume that you have to take an action step with that organization's retirement plan," says Texin. "Many physicians have the misconception that they have to cash out or roll their funds over to an IRA or to their next employer's retirement plan. Depending on your employer, you may be able to continue those plans through your existing provider."

Taking advantage of product innovations

"There's no absolute right answer when it comes to the best retirement product choice or portfolio mix," says Ward. "It varies by an individual's needs and current assets. But as you make choices, stay tuned to recent changes and increased flexibility in retirement vehicles."

For example, as of 2010, the option to convert a traditional IRA or rollover from an employer-retirement plan to a Roth IRA will be open to anyone. (Conversion was previously limited to those with an adjusted gross household income of $100,000 or less.) Unlike a traditional IRA, where your money is taxed-deferred until you withdraw it, the money going into the Roth IRA is not tax-deferred. Instead, it is taxed at your current marginal tax rate. If you expect your future tax rate to be higher than your current rate, this could work in your favor, especially if you're a younger physician with more years before retirement.

> "Not considering all of the tax implications may hurt the ability to maximize returns, set up income streams, and keep up with inflation."

For physicians closer to retirement, a new generation of annuities may offer tax benefits, flexibility, and market protection. An annuity is a contract with an insurance company. Accumulated funds are put into an annuity and a time is selected to start receiving payments, usually at retirement—a set amount is paid every year, for a set number of years.

This used to mean giving up control of the savings once you set the annuity in motion or "annuitized" the contract to start receiving payments. But new features like Guaranteed Lifetime Withdrawal Riders let you receive a guaranteed payment for life—whether you live another 10 years or 40—and still keep control of the assets for other purposes, if you wish. At the same time, the payment doesn't change even if the market is doing poorly and the value of your stock portfolio plummets.

[3] "Every Investment in Its Place," Julie Connelly, *The New York Times*, Aug. 25, 2009, www.nytimes.com.

An annuity story

One benefit of an annuity is income protection against market fluctuations. Even with losses in value, your guaranteed annuity payment amount won't be reduced.

Retirement professional Scott Taylor recalls one client:

"He was uncertain whether to go into an annuity. He had a substantial amount saved and needed to make a choice about where to put it. After understanding his needs and goals, it was determined that he wouldn't need the lump sum immediately at retirement. The individual purchased a guaranteed lifetime withdrawal benefit that was appropriate for his situation. After the 2007-2008 recession's effect on investments, he couldn't believe that his income stream was still protected. He kept saying, 'You mean I'll still get the same amount every year in retirement? I'm still OK?' He was surprised, and you could sense the relief in his voice."

Variable annuities are suitable for longer-term investing and contain fees, exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your licensed financial professional can provide you with costs and complete details.

Putting time and expertise on your side

One good way for physicians to ensure they're making the right choices with their retirement savings is to get help in making them—and an advisor needn't add a lot to your expenses.

"A lot of physicians equate the amount of their retirement savings with what a financial advisor may charge them in fees," says Ward. "But it can be a simple, cost-effective process. Use the same analysis you would as a physician—ask questions, get second opinions, make sure the advisor understands your situation. A little scrutiny goes a long way."

Retirement experts also recommend establishing relationships with estate planners and certified accountants. Physicians can also leverage the expertise of retirement-product providers as well as professional medical associations. It's important to reach out to these professionals early, and often.

"Start reviewing your retirement choices as early as possible—before what we call 'the retirement red zone'—ages 45 to 50," says Texin. "And check in with these advisors a few times a year to be sure that your asset allocation is meeting your goals."

> "There's no absolute right answer when it comes to the best retirement product choice or portfolio mix," says Ward.

With changes in individual needs, tax laws, and products—not to mention a retirement age that's shifting—Ward, Texin, and Taylor suggest looking at retirement decisions as "works in progress" and not as a one-time planning event.

Keeping up with your portfolio and modifying your choices as needed will help ensure that your golden years are filled with well-deserved comfort and fulfillment.

Note that this article is provided by The Texas Medical Association Insurance Trust (TMAIT) and TMAIT Financial Services, Inc. and content is not intended as tax, financial, or legal advice.

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Getting to know TMAIT

The Texas Medical Association Insurance Trust (TMAIT) was created by the Texas Medical Association (TMA) in 1955 as an exclusive benefit to its members. TMAIT's mission is to help Texas physicians get the insurance coverage and financial planning they need.

What TMAIT offers physicians:

Personalized Service
We pair each physician who contacts us with an experienced insurance Advisor.

Convenience
We do the legwork to find quality, competitively priced insurance products that meet the unique needs of physicians.

Experience
We have been serving Texas physicians for more than 50 years.

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