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# M.D. NEWS


Special Feature

## The New Retirement Reality for Physicians

Are You Seeing It Clearly?

# AMA Insurance Agency, Inc.

## The New Retirement Reality for Physicians

By Sarah Safranski

The economy is in shambles — from the major banks to the big three automakers — and it has affected everyone's retirement portfolios, including physicians. To better understand the current climate affecting physicians savings, *M.D. News* turned to Chris Burke, President of AMA Insurance Agency, Inc., a wholly owned subsidiary of the American Medical Association. The AMA Insurance Agency is in tune with physicians. They hear what physicians are talking about directly and have access to timely surveys and studies about insurance and other financial services products.

**M.D. News: In general, how has market volatility affected physicians investment portfolios?**

**Chris Burke:** Market volatility has hit many physicians especially hard. If you look at a typical physician in their mid-40s and 50s, many have not been able to sock away substantial savings needed for retirement. The sheer length of their medical training and the debt load incurred during school works against them as they save for retirement. We term this unique set of circumstances the "physicians' retirement reality." And now with the market downturn, scores of physicians have been hit hard, just as they were beginning to build their retirement savings. These factors have created a savings gap many physicians must now face.

### J. Christopher Burke, FLMI, President, AMA Insurance Agency, Inc.

Chris Burke is President and Vice Chairman of AMA Insurance Agency, Inc., a wholly owned subsidiary of the American Medical Association in Chicago, IL. The AMA Insurance Agency offers a broad portfolio of insurance and related risk mitigation solutions to physicians, medical students and their families; it is one of the largest association-owned agencies in the United States.

Over his 25-year career in the insurance industry, Mr. Burke has had a diverse array of leadership responsibilities, including insurance company operations, divisional finance, product development, strategic marketing, corporate communications and sales and marketing for both insurance and banking organizations.

Mr. Burke holds a bachelor's degree in management from the University of Indianapolis, is a licensed life and health insurance agent in all 50 states, and is a Fellow in the Life Management Institute.

**M.D. News: How should physicians address the volatility of the markets?**

**Burke:** The recurring theme right now in terms of reacting to the economic downturn is that physicians need to save more and find tax-efficient solutions to supplement their retirement portfolios. They also need to make sure their supplemental savings, made in addition to their qualified plans (like 401(k)s), are in investments that are highly liquid, so funds are accessible without penalty in the event of an emergency. In addition, physicians need to find funding platforms that minimize risk, but offer the upside of the market once it recovers. Lastly, if they can, physicians need to look for creditor protection. Doctors are pretty vulnerable to lawsuits, both professionally and personally.

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**M.D. News: How can physicians address their potential savings gap?**

**Burke:** Physicians should consider working with a financial planner to determine the extent of their savings gap and then establish a plan to eliminate it. We've done research on this and roughly half of physicians admit that they do not have a specific plan. They


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don't have a good feeling for how much they need for retirement or how much they need to be saving. People try to do this themselves, but financial planners work with certified public accountants [CPAs] and lawyers and have broader knowledge of current saving vehicles. Plus, having a certified financial planner qualified to address estate planning, financial planning, life insurance planning and tax planning is critical, since all these things should work together when establishing an effective retirement plan.

Life insurance can play an especially important role in addressing depleted savings. In fact, as the market goes down, some physicians are using term life insurance to fill the gap as they save for retirement. For instance, if your portfolio dropped by $1 million, a term life policy purchased for an equivalent amount could help protect loved ones if you were to die before the market recovered.

Having the appropriate amount of disability income insurance can also play a role in addressing a physician's savings gap. If they become disabled, this type of insurance provides an income source that will supplement their day-to-day needs and can eliminate the need to dip into existing savings or retirement accounts. So this, too, is important coverage to consider with any sound financial plan.

**M.D. News: Why aren't traditional retirement planning options enough for physicians?**

**Burke:** Traditional retirement planning options are capped. For example, in a 401(k) plan, you can only put away $16,500 per year, and this is typically not enough for a physician to retire on. Physicians tend to retire on a significant amount of their final income; for most, that means about 75-80% of their current salary.

Physicians are also excluded from other popular savings programs like Roth IRAs, because they exceed income qualification requirements to participate.

The bottom line is that traditional planning options will not do the trick. So, physicians are often required to supplement their savings with other vehicles.

**M.D. News: Will the current economic environment impact physicians taxes?**

**Burke:** While we can't predict the future, two things are certain: 1) our country's debt continues to grow, and 2) tax rates are at, or near, historic lows. So, I think physicians have to ask themselves, "Are my taxes likely to increase?" And, considering they are often in the highest tax bracket right now, if the answer is "yes," it could likely have a significant impact on them in the future.

**M.D. News: How will taxes impact physicians ability to save money for retirement?**

**Burke:** It comes back to tax efficiency. There are three tax questions a physician might want to consider when building their retirement plan: 1) Can they use "before-tax" dollars to fund their investment? 2) Will the funds grow on a "tax-free" or "tax-deferred" basis? and 3) Can the funds be disbursed "tax free"?

For instance, a qualified retirement savings plan, like a 401(k), allows for before-tax dollars to be invested and provides growth on a tax-deferred basis. The funds are taxed upon distribution, hopefully at a lower tax rate while in retirement. But not all plans work like a 401(k).

That's why it's important physicians understand the impact taxes can have on *every* funding vehicle selected as part of their retirement plan. We also think it's important to work with a qualified financial planner. They can help you understand the various funding vehicles available, the tax consequences of each, and then make recommendations on how to best structure your plan in the most efficient manner.

**M.D. News: How can physicians minimize the impact of taxation?**

**Burke:** I'm not a CPA, but from my point of view, physicians need to understand the estate planning process and contemplate the tax consequences of retirement planning. They need to work with a professional who can model this out and give advice on how to reduce these taxes. It's imperative to get good advice based on your personal circumstances.

Various members of our trusted source network are qualified to provide this type of advice for physicians.

**M.D. News: Why is it critical for physicians to have a tax-advantaged plan?**

**Burke:** It's back to the same theorem. It's not how much you have, but how much you get to keep. When you look at the fact that a lot of doctors need to put away more to retire, you want that money to go as far as it can. It's like having a poor return on the investment. If you aren't thinking about tax consequences, you should be.

**M.D. News: How can physicians reduce other risks?**

**Burke:** Disability income protection is critical for physicians. The likelihood of being hurt or becoming ill and having that affect their ability to earn an income is a real risk for physicians. It is important to have a quality disability income program in place, especially for long-term disability.

Having appropriate life insurance is also important. There is a gap between what they have now in terms of savings and what they will need to operate their household if death occurred. Ask the question, "If I died today and my family needed X amount per month, what amount is required to draw down interest to pay those bills?"

We have an online tool for physicians called Quickconsultations.com. It's sponsored by the AMA Insurance Agency and helps physicians understand how much disability income protection they should have based on their needs. Another tool on the same site can help physicians figure out how much term life insurance they should have based on family circumstance and expense load.

Physicians should also think about creditor protection with their retirement plans. Many may not understand that there are some programs, like life insurance, that provide creditor protection in most states. So, physicians should be aware of what programs offer this feature to help reduce the risk of losing their retirement savings through an unfortunate lawsuit.

**M.D. News: What features should physicians look for when trying to find efficient financial solutions?**

**Burke:** They should look for flexible funding vehicles that provide favorable tax treatment, and, if possible, a product that's highly liquid. A death benefit feature during the accumulation phase of the retirement plan should also be an important consideration, in case they die before the plan's totally funded. They should also consider funding vehicles that provide creditor protection, where available by state law.

Our goal at the agency is to understand physicians' unique needs, and pair solutions to those needs. We can act as a facilitator for that. Our goal is to help physicians cut through the clutter and find a trusted source to discuss these important matters.

As the economy continues to sink into a deeper recession, physicians need to put supplemental retirement savings plans in place now that will adequately provide for them and their families in the future. ■

## Steps to Close Your Savings Gap

**1. Assess the Situation**

Has the recent market volatility impacted your savings? How big a "gap" is there between what you now have and what you need? How might taxes affect your plans — now and in the future?

**2. Minimize Your "Savings Risk"**

Losing your ability to save is what we refer to as your "savings risk." Consider the impact an unexpected death or disability would have on needed savings. You should understand this risk, size it and take appropriate measures to eliminate it — especially while you're making up lost ground due to a down market.

**3. Supplement Your Current Savings**

To maintain current lifestyles, many physicians retire on a substantial amount of final income. But with annual contribution limits on qualified plans, many physicians need additional savings to reach their objective. We recommend consulting with a qualified financial advisor to determine a financially efficient supplemental option to close your savings gap.

*To further discuss these issues with a member of AMA Insurance Agency's Trusted Source Network, please contact Mike Hegwood at (312) 464-5247 or mike.hegwood@amainsure.com.*

## AMA Insurance Agency's Trusted Source Network℠

The Trusted Source Network is comprised of independent agents and financial planners located all around the country. Those listed in the network go through a rigorous vetting process that includes a background check, reference check and a hard look at their business practices. If a physician desires to meet face to face with a financial planner or insurance agent, the AMA Insurance Agency has someone to recommend. Products and services include risk and coverage assessments, life insurance, disability income insurance, annuities, financial planning and more. Look for the authentic Trusted Source Network seal to verify membership of these valued financial professionals.

The network is available to all physicians.

To learn more about the network, visit www.amainsure.com and click on the Trusted Source Network tab or reach out directly to:

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