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Why a 401(k) Isn't Enough for Physicians

Saving for retirement isn't the most exciting way to use your hard-earned physician salary, but it's one of the most critical. While medicine offers **high earning potential**, physicians face unique financial challenges—**a delayed start to peak earnings, student loan debt, home purchases, and family financial obligations**—that make **intentional retirement planning essential**.

A common **oversight** among physicians is assuming that **maxing out their 401(k) alone is enough** to secure a comfortable retirement. However, due to **contribution limits and high income levels**, most physicians need additional strategies to save adequately for the future.

How Much Should Physicians Save for Retirement?

For most physicians, a **target savings rate of 15-20% of annual income** is a strong starting point. Several factors can influence where in this range you should aim, including:

- How much you have already saved
- How much risk you are comfortable taking with your investments
- Your desired retirement age
- Your target income in retirement
- Your employer's retirement plan match

How Much Will You Need in Retirement?

One of the biggest financial unknowns for early-career physicians is estimating **how much income they'll actually need in retirement**. When you're still adjusting to a **high-earning lifestyle**, it's difficult to predict long-term spending habits—let alone what your financial needs will look like 30+ years from now.

For perspective, if someone had asked you in medical school how much you'd need to live comfortably now, you probably would not have been able to give an accurate answer. The same challenge exists when looking ahead to retirement.

As you get closer to retirement, your **spending patterns will stabilize**, making it easier to forecast future expenses. But when you're early in your career, a **common rule of thumb** is to aim for **70% of your pre-retirement income** to maintain a similar standard of living.

That said, this number isn't one-size-fits-all. Your actual needs will depend on factors like:

- **Debt and major expenses:** Will you still have a mortgage or education costs for children?
- **Healthcare costs:** Medicare may cover some expenses, but physicians often plan for **out-of-pocket medical costs and long-term care**.
- **Desired lifestyle:** Do you see yourself traveling frequently, buying a second home, or maintaining a high-spending lifestyle?
- **Tax considerations:** Will you be drawing from pre-tax accounts (which require taxes on withdrawals) or a mix of tax-free and taxable accounts?

Ultimately, the earlier you start thinking about this, the better prepared you'll be. While **saving aggressively now** gives you flexibility later, your retirement strategy should evolve over time as your spending patterns and financial goals become clearer.

401(k) Contribution Limits: The Key Constraint

In 2025, the maximum employee contribution to a **401(k) is $23,500** for those under age 50.

For a physician earning **$300,000 per year**, even saving at the lower end of the recommended range (**15% of income**), that would require putting away **$45,000 per year** for retirement. Since a 401(k) only allows **$23,500** in contributions, it alone won't be enough to reach this target.

While a **401(k) is an excellent starting point**, offering valuable tax advantages through **pre-tax or Roth contributions**, it's **not sufficient on its own**. Physicians must explore **additional savings vehicles** to build a well-rounded retirement strategy.

Beyond the 401(k): Other Retirement Savings Options

1. 457 Plans: An Additional Tax-Deferred Option

Some employers, particularly hospitals and academic institutions, offer a **457(b) plan**, which provides another tax-advantaged savings opportunity.

- Like a 401(k), it has an **annual contribution limit of $23,500 in 2025**, but **this limit is separate** from the 401(k), allowing you to contribute up to **$47,000** across both plans.
- 457 plans can be **governmental (more flexible) or non-governmental (subject to employer-specific risks and restrictions)**, so it's important to understand the fine print before participating.

2. Health Savings Accounts (HSAs): Triple Tax Benefits

If you're covered by a **high-deductible health plan (HDHP)**, an **HSA** is an incredibly powerful tool:

- **Contributions are tax-deductible**
- **Money grows tax-free**
- **Withdrawals for qualified medical expenses are tax-free**

Physicians can use HSAs as **stealth retirement accounts**, letting funds grow and using them for **healthcare expenses in retirement** or as a supplemental emergency fund.

3. Backdoor Roth IRA: A Strategy for High Earners

Since most physicians earn too much to contribute directly to a Roth IRA, a **Backdoor Roth IRA** allows tax-free retirement savings through a two-step process:

1. Contribute to a **non-deductible Traditional IRA**
2. Convert it to a **Roth IRA**

In 2025, the Roth IRA contribution limit is **$7,000 ($8,000 if age 50 or older)**. While this may seem small compared to other savings tools, Roth accounts provide **tax-free growth and withdrawals in retirement**, making them valuable for diversification.

If you are pursuing Backdoor Roth contributions, it's important to understand **the pro-rata rule**[1] and avoid pre-tax IRA balances that could create **unwanted tax consequences** during the conversion.

4. Taxable Brokerage Accounts

For physicians looking to set money aside beyond tax-advantaged accounts, a **taxable brokerage account** provides flexibility:

- No contribution limits
- No early withdrawal penalties
- Favorable **long-term capital gains tax treatment** for investments held over a year

A brokerage account can be a key source of funds if you plan to **retire before 59½**, when most tax-advantaged accounts impose penalties on withdrawals.

5. Real Estate: An Alternative Path to Retirement Wealth

Some physicians diversify retirement savings through **real estate investments**, which can provide:

- **Passive rental income**
- **Appreciation in property value**
- **Potential tax advantages** (e.g., depreciation deductions)

Real estate requires **active management** and has **illiquidity risks**, but it can be a strong complement to traditional investment accounts.

Final Thoughts

A 401(k) is a great tool, but it's just **one piece of the puzzle**. To truly take control of your financial future, physicians must **think beyond employer-sponsored plans** and utilize a mix of:

- **Employer-sponsored accounts**
- **Tax-advantaged personal savings**
- **Flexible investment vehicles**

Building a **comprehensive retirement strategy** today ensures you have the freedom to **retire when and how you want**, rather than being forced to work longer than planned. The key is **starting early, saving intentionally, and leveraging multiple savings vehicles** to build lasting financial security.

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[1]The pro-rata rule requires that Roth conversions be done proportionally across all of your traditional IRA balances, including pre-tax and non-deductible funds. If you have pre-tax IRA money, a portion of your conversion will be taxable. One way to avoid this is to roll pre-tax IRA funds into an employer-sponsored plan, such as a 401(k), if your plan allows it.