

The 1% Difference

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An additional savings of 1% per year can make a HUGE difference in the amount you have available for important future goals such as retirement, college or financial independence. It may also help you to go part-time or retire earlier. If the savings is in the form of a retirement plan contribution the impact can be far greater over time.

Why did we choose this topic? A few years back, we found the following statistics when working with physicians from a local health system:

- 29% of the physicians were not maxing out their 403b contributions
- 12% were not deferring enough (5%) to receive the entire 4% employer match
- Only 25% of physicians were deferring into the 457b plan



As a reminder, you may defer up to \$18,500 into your 403b plan - \$24,500 if you are 50 and older in 2018. Most health systems make a matching contribution equal to a percentage of your pay. A common matching formula is 3% for the first 3% of your pay that you contribute and then ½% for the next 2%. Thus, you would receive the entire 4% match if you contribute 5% of your pay. If you work for a non-profit health system, you commonly may also contribute up to \$18,500 pre-tax into a 457b plan.

While conventional wisdom states that it is an ABOSOLUTE MUST to defer enough to hit your entire match, we believe it is equally critical to max out your 403b contributions and at least defer some of your pay, if not max out, into a 457b plan, if offered. Doing so may make the difference between approaching retirement some day with flexibility and confidence vs. feelings of worry and concern.

So how much of a difference can 1% make? Consider the results on the following table in which the magical power of compounding is quite clear. For example, a physician earning \$300,000 would save an additional \$300,000 over thirty years by investing an additional 1% of income annually and earning 7%.

Salary	1% Addtl Savings	7% avg. annual return		
		10 yrs	20 yrs	30 yrs
\$200,000	\$2,000	\$28,910	\$87,074	\$204,090
\$300,000	\$3,000	\$43,365	\$130,611	\$306,135
\$400,000	\$4,000	\$57,821	\$174,147	\$408,180
\$500,000	\$5,000	\$72,276	\$217,684	\$510,226
\$600,000	\$6,000	\$86,731	\$261,221	\$612,271

Can you find a way to invest another 1% starting today? If you are already maxing out your 403b, then I encourage you to open or make a greater commitment to deferring into the 457b plan. If you are already maxing out your 457b than great work! You may want to open an additional investment account to help you down the road on your journey to Retirement Freedom.

Does your current savings plan have you on track to meet your goals? Would you like to decrease your taxable income? Contact us for a complimentary planning review.

About the Author Eric Coffman MBA, CFP®, AIF®

Eric is a managing partner of the independent wealth management practice, Wealth Impact Advisors, LLC. He has provided financial guidance to medical professionals, business owners and families for over two decades. He is proud to serve clients in a fiduciary capacity as a CERTIFIED FINANCIAL PLANNER™ practitioner and an Accredited Investment Fiduciary®.

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