

# Retirement Savings Plans for Radiologists, Part 2: A Comparison of Academic and Private Practice Retirement Benefits

Jeffrey J. Brown, MD, MBA<sup>a</sup>, Jason R. Kerr, MD<sup>a</sup>, Brian S. Johnston, MD<sup>b</sup>

A survey on retirement benefits was conducted involving 42 academic radiology departments and 42 private practice radiology groups. In this article, we present and discuss the survey results and provide recommendations for improving the retirement benefits for radiologists in both private practice and academic settings. A previous article, in last month's issue, provides details of how the various retirement plans mentioned in this article operate.

**Key Words:** Retirement savings plans, retirement benefits, financial planning, investing

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## INTRODUCTION

The topic of retirement benefits is not well understood by many radiologists because of the time constraints of busy work schedules and the complexity of the tax code that defines the various retirement plan options. Last month, in part 1 of this two-part series, we reviewed and summarized the features of the various employer-sponsored retirement plans offered to radiologists. In part 2, we examine and compare the retirement benefits of a sampling of academic institutions and private practice groups across the United States. On the basis of this information, we offer some suggestions for improving the retirement savings plans of radiologists in both private and academic settings.

## RETIREMENT PLAN SURVEY

We conducted a survey on retirement plans and benefits involving 42 academic radiology departments and 42 private practice radiology groups. The academic radiology survey participants were randomly selected from the American Medical Association's Radiology Residency Database using random number generation analysis. The human resources department and/or the benefits office of each academic institution was contacted by letter, e-mail, or telephone, and all 42 participants responded to our inquiries and freely shared the information that we requested. The private practice radiology participants were randomly selected from the 2001 *Membership Directory* of the Radiological Society of North America. Sur-

veys were conducted with the business managers of private practice radiology groups. In cases in which the business manager was unavailable, another group was selected. Business managers who agreed to participate in the survey freely answered all the survey questions. The following questions were posed regarding the retirement benefits extended to both full-time academic and private practice staff radiologists:

1. What specific types of retirement plans are offered?
2. What is the maximum yearly contribution allowed for each retirement account?
3. Does the employer make any contributions to the retirement plans, and if so, how much?
4. What is the maximum limit on contributions (both employee deferred and employer matched) that can be made to an employee's retirement accounts, collectively?
5. How long must a radiologist be employed before he or she is eligible to participate in the retirement plans?
6. How long must a radiologist be employed before he or she is fully vested in the retirement account?
7. Are the retirement investments self-directed or restricted?

Demographic data on the survey participants are presented in Table 1. Survey results are presented below and in Tables 2 to 6.

## Academic Institutions

The annual contribution into an academic radiologist's retirement plan is determined by his or her base salary. To provide a fair comparison of the benefits received, a base salary of \$200,000 per year was assumed for each academic radiologist. This was the maximum salary that could be used to calculate employer and employee contributions at the time the survey was conducted. Comparison was also made between radiologists in the initial years of their careers and those nearing retirement. Analyses were based on the assumption that eligi-

<sup>a</sup>Mallinckrodt Institute of Radiology, Washington University School of Medicine, St. Louis, Missouri.

<sup>b</sup>Malcolm Grow Medical Center, Andrews Air Force Base, Maryland.

Corresponding author and reprints: Jeffrey J. Brown, MD, MBA, Mallinckrodt Institute of Radiology, Washington University School of Medicine, 510 S. Kingshighway Blvd., St. Louis, MO 63110; e-mail: jbrown@wustl.edu.

**Table 1. Demographic Information on Survey Participants**

Demographics of Survey Participants		
Academic Institutions		
Geographic Location	Northeast Region	13
	Southeast Region	11
	Midwest Region	9
	Southwest Region	3
	West Region	6
Type of Institution	Public University	21
	Private University	21
Number of Staff Radiologists		
	1-25	7
	26-50	19
	51-75	7
	>75	9
Private Practice Groups		
Geographic Location	Northeast Region	9
	Southeast Region	12
	Midwest Region	10
	Southwest Region	4
	West Region	7
Type of Legal Structure	Professional Corporation	21
	Professional Association	10
	Corporation	9
	Limited Partnership	1
	Limited Liability Company	1
Number of Radiologists		
	1-10	18
	11-20	11
	21-30	8
	>30	5

ble radiologists took full advantage of their retirement benefits by making the maximum annual contributions allowed within each plan.

An important benchmark for evaluating retirement savings plans is the annual maximum contribution into a participating employee's retirement account. This figure, which was \$40,000 at the time of the survey [1,2], and which was recently increased to \$41,000, is known as the "annual additions limit." This limit includes all employer and employee contributions made into a primary 401(a) or 403(b) defined contribution plan.

Of the 42 academic institutions contacted, only 6 (14.3%) offered 401(a) and/or 403(b) plans that allowed their junior faculty members to reach the maximum combined contribution amount of \$40,000. The average employer contribution to an employee's retirement plan was \$16,470 (range, \$0 to \$28,400). The average employee contribution was \$14,620 (range, \$11,000 to \$26,000), and the average combined employer and employee annual contributions totaled \$31,090 (range, \$15,000 to \$40,000).

Analysis of the benefits extended to senior staff radiologists showed that only 12 of 42 institutions (28.6%) offered 401(a) and/or 403(b) plans that allowed radiologists to reach the \$40,000 limit. The average employer contribution to a senior radiologist's retirement account was \$19,420 (range, \$0 to \$35,800). The average employee contribution was \$15,320 (range, \$5,000 to \$27,000), and the average combined employer and employee annual contribution totaled \$34,740 (range, \$16,000 to \$41,000).

Total retirement contribution levels were significantly increased for some institutions if optional 457(b) deferred compensation plans were considered in addition to 401(a) or 403(b) defined contribution plans and supplemental 403(b)

**Table 2. Average Combined Contributions for Academic Retirement Benefits Packages**

Academic Retirement Packages				
	403(b) DCP and 403(b) supp plan	401(a) DCP and 403(b) supp plan	401(a) DCP, 403(b) supp, and 457 plans	403(b) DCP, 403(b) supp, and 457(b) plans
Institutions that Offer Retirement Package	23.8% (10 of 42)	9.5% (4 of 42)	21.4% (9 of 42)	45.2% (19 of 42)
Average Combined Contribution for Junior Radiologists	\$30.0K (range \$27K-\$35K)	\$32.1K (range \$17K-\$40K)	\$49.0K (range \$43K-\$51K)	\$39.2K (range \$26K-\$47K)
Number of Retirement Packages that Allow Junior Radiologists to Reach \$40,000 Limit	0% (0 of 10)	50.0% (2 of 4)	100% (9 of 9)	57.9% (11 of 19)
Average Combined Contribution for Senior Radiologists	\$35.9K (range \$28K-\$41K)	\$33.1K (range \$18K-\$41K)	\$51.0K (range \$45K-\$53K)	\$44.4K (range \$28K-\$53K)
Number of Retirement Packages that Allow Senior Radiologists to Reach \$40,000 Limit	42.9% (3 of 10)	50.0% (2 of 4)	100% (9 of 9)	89.5% (17 of 19)

DCP = Defined contribution plan; supp = supplemental

**Table 3.** Summary of Academic Retirement Plans

	Academic Retirement Plans				
	401(a) DCP	403(b) Primary DCP	403(b) Supplemental TDA	457(b)	DBP
Institutions that offer the plan	33% (14 of 42)	67% (28 of 42)	100% (42 of 42)	67% (28 of 42)	29% (12 of 42)
Plans that require a minimum employee contribution	71% (10 of 14)	46% (13 of 28)	12% (5 of 42)	11% (3 of 28)	42% (5 of 12)
Plans that offer automatic employer contributions	29% (4 of 14)	54% (15 of 28)	0% (0 of 42)	0% (0 of 28)	58% (7 of 12)
Plans that offer matched employer contributions	64% (9 of 14)	46% (13 of 28)	12% (5 of 42)	4% (1 of 28)	0% (0 of 12)
Plans that base employer contribution on employee's age and/or years of service	14% (2 of 14)	43% (12 of 28)	0% (0 of 5)	0% (0 of 1)	100% (12 of 12)
Plans that require a minimum salary for eligibility	0% (0 of 14)	0% (0 of 28)	0% (0 of 35)	32% (9 of 28)	0% (0 of 12)

DCP = Defined Contribution Plan; TDA = Tax Deferred Annuity; DBF = Defined Benefit Plan

plans. With these 457(b) plans included in the analysis of retirement benefits packages, a total of 22 of 42 institutional plans (52.4%) allowed junior faculty members to reach the \$40,000 limit, compared with the 6 of 42 plans (14.3%) reported above in the evaluation of the defined contribution plans alone. The total average employee contribution increased to \$21,950 (range, \$11,000 to \$37,000), and the total average combined employer and employee annual addition totaled \$38,420 (range, \$17,300 to \$51,000).

As for the senior radiologists, the inclusion of 457(b) plans allowed the \$40,000 limit to be reached in 31 of 42 plans (73.8%) compared with the 12 of 42 plans (28.6%) reported above for defined contribution plans alone. The new average employee contribution subsequently was \$23,320 (range, \$5,200 to \$39,000), and the average combined employer and employee annual addition totaled \$42,740 (range, \$18,300 to \$53,000). Further information on the individual academic

retirement packages offered to junior and senior radiologists is presented in Table 2.

Of note, the range of total employee contributions reported in the first two analyses above exceeded the elective 403(b) employee contribution limit of \$11,000 (\$12,000 if over 50 years of age) that was in place at the time of the survey. However, an institution can require that all of its employees participate in the institutional retirement plan, and in such a case, employees are required to provide a mandatory pretax annual contribution to the retirement plan not only for benefit eligibility but also as a term of employment. Any employee retirement contribution that is required as a term of employment does not count against the elective deferral limit but rather is "picked up" as part of the employer's contribution [3]. Therefore, contributions to supplemental 403(b) plans could still reach the \$11,000 limit in addition to any mandatory employee contributions made to the primary 401(a) or 403(b)

**Table 4.** Eligibility and Vesting Periods for Academic and Private Practice Plans

	Eligibility and Vesting Periods		
		Average Eligibility Period	Average Vesting Period
Academic Plans	401(a) DCP	0.2 years (range 0-2)	1.8 years (range 0-5)
	403(b) DCP	0.4 years (range 0-2)	1.1 years (range 0-5)
	Supplemental 403(b) Plan	0 years	0 years
	457(b) Plan	0 years	0 years
	Defined Benefit Plan	0.2 years (range 0-2)	5.4 years (range 5-10)
	Total Average Employment Requirements	0.12 years	0.97 years
Private Practice Plans	401(k)	0 years	0 years
	Money Purchase Pension Plan	1.3 years (range 1-3)	3.0 years (range 1-6)
	Profit Sharing Plan	1.1 years (range 0-3)	3.7 years (range 0-6)
	Cash Balance Plan	1 year	1 year
	Total Average Employment Requirements	0.84 years	2.51 years

DCP = Defined Contribution Plan

**Table 5.** Summary of Private Practice Retirement Plans

	Private Practice Retirement Plans			
	401(k)	Money Purchase Pension Plan	Profit Sharing Plan	Cash Balance Plan
Private practice groups that offer the plan	43% (18 of 42)	36% (15 of 42)	81% (34 of 42)	5% (2 of 42)
Plans that require a minimum employee contribution	None of the plans require a minimum employee contribution for eligibility			
Plans that limit employee contributions	100% (18 of 18)	None of these plans allow employee contributions		
Plans that offer automatic employer contributions	0% (0 of 18)	100% (15 of 15)	100% (34 of 34)	100% (2 of 2)
Plans that offer matched employer contribution	33% (8 of 18)	All of these plans offer automatic employer contribution		
Plans that require a minimum salary for eligibility	None of the plans require a minimum salary for eligibility			

plans. All of these funds do, however, count toward the annual additions limit (currently \$41,000). Unfortunately, the same allowance is not granted in the setting of a voluntary retirement plan, in which case contributions into a primary 403(b) and supplemental 403(b) were limited to \$11,000, collectively.

Annual employee contribution limits have been increased in 2004 to \$13,000 for employees under the age of 50 and \$16,000 for employees 50 years of age and older. Of note, provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 allow the "catch-up contributions" for older employees to carry the total contributions over the \$40,000 limit [4]. In 2004, these "catch-up contributions" for 401(a) and 403(b) plans, together with the new annual additions limit, will allow total contributions for senior radiologists to reach \$44,000.

With regard to retirement packages that offer a 457(b) plan in addition to 401(a) and/or 403(b) plans, the maximum com-

bined contributions for academic radiologists can exceed the \$41,000 annual additions limit. This is allowed because 457(b) plans are stand-alone entities that are not subject to the Internal Revenue Code (IRC) limits placed on primary defined contribution plans. Moreover the elective employee contribution limits for 457(b) plans have similarly been increased in 2004 to \$13,000 (\$16,000 for employees 50 years and older). Therefore, the maximum possible annual contribution in 2004 for retirement packages that offer 457(b) plans in addition to primary defined contribution plans is \$54,000 for radiologists under the age of 50 and \$60,000 for radiologists 50 years and older.

All 42 of the academic institutions offered defined contribution plans as the primary retirement benefit. Of these plans, 14 of 42 (33%) were qualified 401(a) plans, and 28 of 42 (67%) were nonqualified 403(b) plans (Table 3). Each of these primary defined contribution plans was offered with a supplemental 403(b) plan, most commonly referred to as a tax-deferred annuity into which employees voluntarily contribute additional funds. Of note, 32 of the 42 supplemental 403(b) plans were administered as separate plans, whereas the remaining 10 were merged into a single plan together with the primary defined contribution plan.

A total of 28 of 42 (67%) institutions offered 457(b) deferred compensation plans in addition to the primary defined contribution plans and their associated supplemental 403(b) plans. Only one institution offered a 457(f) plan.

Twelve of 42 (29%) institutions offered defined benefit plans to their faculty members in the form of a traditional pension plan. Ten of these institutions offered the pension plans as alternatives to the primary defined contribution plans. Two institutions reported that their retirement benefits were structured such that the employees could participate in both the defined benefit and defined contribution plans. Additional information on employer contributions, eligibility, and vesting requirements for academic plans is presented in Tables 3 and 4.

Three of the 42 academic institutions (7.1%) allowed complete employee autonomy in the direction of retirement fund investments. The remaining institutions exercised varying de-

**Table 6.** Retirement Packages Offered by Private Practice Groups

Private Practice Retirement Packages	
Profit Sharing Plan alone	33.3% (14 of 42)
401(k) and Profit Sharing Plan combination	26.2% (11 of 42)
Money Purchase Pension Plan alone	11.9% (5 of 42)
Money Purchase Pension Plan and Profit Sharing Plan combination	9.5% (4 of 42)
401(k), Money Purchase Pension Plan, and Profit Sharing Plan combination	9.5% (4 of 42)
401(k) and Money Purchase Pension Plan combination	4.8% (2 of 42)
401(k) and Cash Balance Plan combination	2.4% (1 of 42)
Profit Sharing Plan and Cash Balance Plan combination	2.4% (1 of 42)

degrees of control over how the investment funds were handled. In some cases, the employer retained all decision-making powers over investment selection. However, in most cases, the institution provided a list of investment options offered by a limited number of financial service providers. It was then up to radiologists to select specific funds in which to invest. Only 1 of 42 institutions (2.4%) allowed employees to choose between self-directed and restricted investment plans.

### Private Practice Groups

Of the 42 private practice groups included in the survey, 41 groups (97.6%) reported that their retirement benefits were structured in a manner that allowed contributions of at least \$40,000 annually for every eligible radiologist. In the remaining group, the partners voted to limit contributions to \$30,000 per year to reinvest excess funds into the practice itself. The employer contributions among the 42 groups ranged from \$28,000 to \$70,000 per year. Two of the groups in the survey exceeded the \$40,000 annual limit per radiologist by using supplemental cash balance plans. This was accomplished by establishing two separate employers, such as an imaging center corporation and a radiology partnership, with one employer offering a defined contribution plan and the other providing a cash balance plan. Contributions to the cash balance plan equaled 3% of each employee's annual salary in one group and \$10,000 to \$30,000 per year in the other group depending on the age of the employee.

Every private practice group in our survey offered a defined contribution plan. These included profit-sharing, 401(k), and money pension purchase plans (Table 5). The most common approach was to offer a profit-sharing plan as a stand-alone retirement benefit. Money pension purchase plans and a variety of plan combinations were also used, as shown in Table 6. Employee contributions were only allowed for 401(k) plans. All other contributions were made by the employers.

All employees or partners with 401(k) plans received immediate eligibility and vesting. Employees and partners with money purchase pension plans had to wait an average period of 1.3 years (range, 1 to 3 years) for eligibility and 3.0 years (range, 1 to 6 years) for vesting. The average eligibility delay for the profit-sharing plans was 1.1 years (range, 0 to 3 years), and the average vesting period was 3.7 years (range, 0 to 6 years). The two cash balance plans both offered eligibility and vesting after 1 year of employment.

Twenty-three of 42 private-practice groups (54.8%) allowed individual radiologists to make all decisions pertaining to the investment of their retirement funds. Thirteen of 42 groups (31.0%) providing a restricted list of financial service providers and available investment options. Four of 42 groups (9.5%) allowed radiologists to choose between self-directed and restricted options, and 2 of 42 groups (4.8%) allowed self-directed investments once radiologists became fully vested in the retirement plans.

### DISCUSSION

In recent years, defined contributions plans have been adopted as the favored retirement plan structure across a wide range of industries. The nonqualified 403(b) plan has been almost uni-

versally adopted at academic institutions. Many universities have also introduced supplemental 457(b) plans since the passage of EGTRRA. Private practice radiology groups offer a variety of qualified defined contributions plans, including profit-sharing, 401(k), and money pension purchase plans. Cash balance plans are offered as supplemental retirement accounts at a small percentage of private-practice groups and universities.

Our survey results suggest that almost all private practice groups provide retirement plans that maximize the annual contributions for each radiologist within a few years of initial employment. As a whole, these retirement plans offer greater flexibility in investment choices than academic retirement plans. Although this is potentially advantageous, it also increases the risk of mismanagement of retirement fund assets. Radiologists with flexible plans might therefore be well advised to gain sufficient investment knowledge to make reasonable choices on their own or to seek the counsel of qualified investment advisors.

The majority of academic institutions fail to provide retirement packages that allow academic radiologists to maximize their retirement options and reach the annual elective deferral limits (currently \$41,000 per year). Furthermore, most institutions that do allow radiologists to reach this limit do so only during the last 5 to 10 years before retirement, thus significantly limiting overall retirement contributions. There are three specific measures that academic institutions could take that would help address this shortcoming:

1. Increase the base salaries of staff radiologists. The contributions into a radiologist's defined contribution plan are based primarily on his or her annual base salary. EGTRRA boosted investment opportunities by increasing the salary limit from \$170,000 to \$200,000 (and more recently up to \$205,000) from which elective deferrals are calculated, thus facilitating an increase in the overall potential retirement contributions. Contribution limits should be further maximized in the future through on-going increases in the base salary level that keep pace with the periodic inflation-indexed increases in the salary limit allowed for defined contribution calculations.
2. Raise the level of employer contributions, particularly for junior faculty members. The level of employer contributions into a retirement account significantly affects the overall retirement benefits provided by defined contribution plans. Many academic employer contributions depend on an employee's age and/or years of service, resulting in a discrepancy between the contributions that junior radiologists can receive compared with their more senior colleagues. An increase in the level of employer contributions would not only enhance the retirement savings of all participants but would specifically enable more junior radiologists to reach the deferral limit at earlier stages in their careers. This would provide retirement benefits more comparable with those extended to junior radiologists in private practice, who receive the same benefits as their senior partners after relatively short vesting periods.
3. Offer an optional 457(b) plan in addition to the 401(a) and

403(b) plans that serve as the primary and supplementary retirement savings vehicles.

Offering a 457(b) deferred compensation plan allows employees to contribute additional pretax dollars from their salaries into their retirement savings accounts. Moreover, 457(b) plans allow employers to offer additional matched contributions, which further assist employees in reaching the maximum contribution level.

Consultation with a tax and retirement plan expert is advisable before instituting any of these measures. Some tax code provisions may be open to differing interpretations. For example, the eligibility criteria adopted for 457(b) plans vary greatly from one university to the next.

One area in which academic retirement plans have a slight advantage over private practice plans is in the time required for eligibility and vesting. In our survey, the average employment period required for eligibility in the private-practice plans was 0.84 years, compared with 0.12 years for academic institutions. Private-practice groups required an average of 2.51 years of employment before employees became fully vested in their retirement benefits, whereas academic institutions required an average of 0.97 years. Private practice groups could potentially improve the attractiveness of their plans by shortening the required waiting periods for eligibility and vesting.

Private practice groups may also consider the use of cash balance plans to supplement their retirement savings. However, consultation with a qualified retirement plan expert is

recommended to assure that this strategy meets IRC guidelines.

Offering a competitive retirement savings plan requires periodic reevaluation of the current plan to make sure that it has kept pace with the ever changing tax laws. The survey data presented in this paper were collected during the latter part of 2002 and early 2003. This coincided with a period of reassessment and restructuring of retirement benefits for a number of institutions and private practice groups due to the enactment of EGTRRA. Another major tax bill, the Jobs and Growth Tax Relief Reconciliation Act, was passed in May 2003. Although this act did not address tax-deferred retirement plans, it did introduce significant tax relief for individual investors through the reduction of dividend and long-term capital gains taxes. This may influence retirement savings strategies by making taxable accounts more attractive than they have been in the past. Nevertheless, employer-sponsored retirement plans remain the primary vehicle used by radiologists to fund their retirements, and an effort should be made to maximize the effectiveness of these plans under the current tax code.

## REFERENCES

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2. Economic Growth and Tax Relief Reconciliation Act of 2001, § 611(b), amending Internal Revenue Code § 415(c)(1)(A).
3. Internal Revenue Code § 414(h).
4. Economic Growth and Tax Relief Reconciliation Act of 2001, § 631, amending Internal Revenue Code § 414(v).