A NEW TAX LAW MEANS MORE CHANGES FOR RETIREMENT PLANS

The revised rules on contributions appear to be just one more onerous requirement. But they may work to your advantage.

By David J. Schiller, J.D.

The Revenue Act of 1987 was passed without much fanfare. But now's the time to take a close look at this little-noticed law. It can have a big impact on your tax planning.

One provision of the law affects every practice with a defined-benefit retirement plan. Other types of plans apparently won't be affected, but doctors with money-purchase or profit-sharing plans should consider following the new rules, too.

The law requires making contributions to defined-benefit plans in quarterly installments. You can no longer make your entire contribution at the end of the plan year (or two and a half months after the end of the year, which is when many physicians fund their plans). If your actuary doesn't provide your contribution figure until the end of the year, you'll have to estimate your quarterly payments. Alternatively, you can rely on your previous year's contribution. The law requires your quarterly contributions to total 90 percent of the current year's obligation or 100 percent of the previous year's contribution, whichever is less.

The new rules will be phased in over four years, and you should begin to plan now. Next year, the law requires you to put away at least $6\frac{1}{4}$ percent of the minimum annual contribution each quarter. That will rise to $12\frac{1}{2}$ percent per quarter in 1990 and $18\frac{3}{4}$ percent in 1991. In 1992, you'll need to contribute 25 percent each quarter. You'll be permitted to make any remainder of your contribution after the end of the year. But if you miss a quarterly payment or don't contribute enough, you'll be hit with a penalty.

Try to make one-third to two-thirds of your anticipated 1988 contribution before the end of this year. That way, you won't get stuck in a cash bind next year. If you wait until the beginning of 1989 to make your full 1988 contribution, you'll have to come up with the first 1989 quarterly payment at the same time.

At first glance, the new rules appear to be just one more oner-

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ous and arbitrary requirement. Actually, they may work to your advantage. For one reason, making quarterly payments can reduce future contributions to a defined-benefit plan. The earlier in the year you make a contribution, the greater your investment earnings. Those increased earnings will mean that you'll have to contribute less in the future to reach your plan's goal.

Another advantage of the new payment schedule: It can help you regulate your practice's cash flow. Managing your retirement-plan outlay is far easier if you contribute in quarterly installments rather than in one lump sum after year's end. You might even consider making monthly, bi-weekly, or weekly contributions. (The law requires that contributions be made *at least* quarterly.) You'll find that treating your plan contributions as you do mortgage payments or staff costs will make them much easier to manage.

So the new law simply mandates doing what financial advisers have been recommending for years: Make your contribution as early as you can. Even if your retirement plan isn't the defined-benefit type, consider following the new rules anyway. In a defined-contribution plan, the extra investment income can give you thousands more to retire on. ■