# Pick the Best Retirement Plan for Your Practice

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Do you have Keogh or corporate retirement plans covering your practice? They are the best available tax shelters after the Tax Reform Act of 1986 and are an opportunity to save on taxes while setting aside money for the future.

Retirement-plan law is a combination of tax law and labor law. Money is set aside each year so an income stream is available upon retirement.

Contributions are tax deductible by the employer when made. Although money goes into the plan for a particular employee, the employee is not taxed on the funds until they are withdrawn, usually upon retirement or termination of employment. Similar to an IRA, the funds grow on a tax-deferred basis and can "snowball" quite rapidly. Although it is possible to set aside funds each year outside of a qualified plan, many of us are not disciplined enough to do this, and a plan acts as "forced" savings.

When considering what type of plan to adopt, you must first determine how much money you wish to contribute each year. For most practices, a combination of a money-purchase pension plan and profit-sharing plan is most appropriate. Although this requires a contribution each year, it often permits the maximum contribution deductible under tax laws. The practice may predetermine a fixed percentage of the net income or W-2 compensation that will go into a pension plan each year. Practices not willing to commit to a fixed contribution might adopt only a profit-sharing plan, which permits flexible contributions each year, while not requiring any contributions.

### Who will participate?

To determine the cost of maintaining a plan, it is important to first ascertain how many of your employees will participate and the desired level of contributions. In designing a plan, you should try to achieve maximum benefits, allowing for the determination of the contribution each year, how the funds are invested, plan-withdrawal availability, and distribution alternatives. Plans can be tailored to your practice's particular situation.

All full-time employees must be permitted to participate after a waiting period. It is most advantageous to require a 2-year wait for participation. Since doctors often have significant staff turnover, many employees will never become eligible for participation. Employees working under 1,000 hours a year may be kept out of your retirement plan indefinitely. Many practices hire part-timers to keep some employees out of their plans.

In most plans, contributions are based on W-2 compensation or "net income" for self-employed individuals. Obviously, contributions made for doctors are larger, since contributions are a percentage of compensation per employee. By integrating a plan with Social Security retirement benefits, your staff costs can be further reduced, while keeping your own contributions quite significant. The law permits you to contribute the lesser of 25% of compensation or $30,000 per year per employee.

### Keep track of accounts

Both Keogh and corporate plans may now be self-trusted. Self-trusteeship is generally preferable in order to avoid large trustee fees and, often, poor investment results from "professionally" managed funds, as well as to ensure that the participants know how their funds are being invested.

Participants have their "own" account in most plans. It may permit participants to decide on their investments, similar to a self-directed IRA. Participants may determine their "risk factor" and make the appropriate decisions. This feature, although not mandatory, allows maximum flexibility and avoids conflict.

The plan should clearly provide that the employer, not the plan, may pay for administrative costs incurred in operating the plan and trust. Such expenditures are, of course, tax deductible to the practice, yet they do not count as allowable plan contributions. This allows maximum plan contributions to grow and compound without diminishing plan assets through administrative costs.

The latest a participant may start to receive benefits is April 1 following the year in which he or she reaches age 70 1/2. If the participant is not living, the account will generally have to be paid out within 5 years of death. However, there are several exceptions to this rule, permitting a payout to one's spouse over a longer period of time. If you fail to withdraw the proper amount as required by law, there is a 50% penalty on any required amount that wasn't distributed.

The retirement plan you choose should be designed to contain those choices that best suit your practice and its members. It should be designed to give the group maximum flexibility as time passes. It pays to read the fine print and to be sure that plan advisors have considered all available options. □

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### Distribution Alternatives For Your Retirement Plans

Many distribution alternatives exist for retirement plans. Your plan should allow for lump-sum distributions, equal periodic payments, graded periodic payments, annuities, and any other "permissible" forms of distribution, with no choice compelled by the plan to permit participants to receive distributions most tax-favorable to them. Special tax treatment is available if you take your benefit as a lump sum. Five-year averaging lets you treat the distribution as though you received one fifth each year for 5 years and assumes no other income. This can result in an overall tax reduction.

Similar to IRAs, unless participants are disabled or deceased, distribution of plan benefits before age 59 1/2 can subject them to a 10% penalty for "early distribution." However, the Tax Reform Act of 1986 now permits an exception for plans that have an early retirement age of 55. If you "separate from service" at that age or thereafter and receive a distribution from a corporate plan, you avoid the 10% penalty (although this exception may not apply if you have a Keogh plan).

To prevent you from "overutilizing" your retirement plans and building up excessive funds, the new law provides for a 15% excise tax if you distribute in excess of $150,000 in any given year. (This will be adjusted upward in future years.) If you receive a lump sum distribution, the amount cannot exceed $750,000 in order to avoid the excise tax. The purpose of the law is to prevent you from building up too much, require that you start taking distributions early, and help assure that the funds will provide income during retirement.