Retirement Plan Options for Dental Practices

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- A professional services firm with three distinct business lines
  - Accounting and Consulting
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  - Wealth Advisory
- 3,600 employees
- Offices coast to coast

Speaker Introductions

- **John C. Stiglich CPA, CFP®, PFS, AIF®**
  - Principal, CliftonLarsonAllen Wealth Advisors LLC
  - Manages firm's Employee Benefit Services Group
  - More than 33 years experience of serving privately-held businesses

- **Tim Childers CPA**
  - Principal, CliftonLarsonAllen
  - More than 20 years experience serving health care and dental clients
  - Extensive experience in corporate, partnership and individual taxation, as well as general business consulting

Learning Objectives

- At the end of this session, you will be able to:
  - Understand the impact of recent tax changes on your practice
  - Understand how tax changes may affect how you establish and fund your retirement plans
  - Evaluate which type of retirement plan is best for you and your practice

Agenda

- Understand why retirement planning is more important than ever
- Impact of the Affordable Care Act on your tax obligations
- Retirement selection criteria
- Compare and contrast the various retirement plan options for your practice

Retirement Planning – What Does the Future Hold?

- Only 45% of companies with less than 100 employees offer retirement plans
- Less than 30% of dentists are maximizing their retirement contributions
- Future realities:
  - Increasing life expectancy
  - Rising costs of health care and long term care
  - Decreasing government benefits
  - Steady inflation

3 Myths About Retirement Plans for Dentists

- “ My practice will subsidize my retirement”
- “Can’t afford a plan”
- “Employees want more money in the paychecks not benefits”

Why Your Retirement Planning Is More Important Than Ever?

- Protect your assets from creditors
- Attract and retain top quality staff
- Reward staff loyalty and longevity
- Affordable Care Act: taxes, taxes and more taxes

Affordable Care Act: Tax Planning

- New top marginal tax rate – 39.6
  - Combined Effective Rate of more than 50% in some cases
- Personal exemption phaseout
- Itemized deduction phaseout
- New net investment income tax 3.8%
- New .9% Medicare tax rate on top wage earners
- New capital gains tax rate 20% ++

Which plan is right for your practice?

Dental Practice Retirement Plan Options

- Individual Retirement Accounts (IRA)
- Simplified Employee Pension (SEP Plan)
- SIMPLE IRA Plan
- Profit sharing plan
- 401(k) Plan Safe Harbor and Non-Safe Harbor
- Cash balance plan
- Defined benefit plan

Individual Retirement Accounts (IRA)

- Individual owner sets up themselves
- Do not have to cover any employees
- Contribution limit is $5,500; $6,500 with catch-up
- Can be either deductible, non-deductible or Roth
- Income limits may apply to deductible IRA’s
- Income limits do apply to Roth IRA’s
- Must be established by the due date of individual’s return including extensions
- Nominal start-up cost and annual fee

Simplified Employee Pension Plan (SEP)

- Established by the business entity (Corp, LLC, Sole-prop)
- Must cover all employees that have earned $550
- May require employee to work for up to 3 years
- Contribution limit is 25% of wages or net SE income
- Contribution must be allocated uniformly
- Contribution funded into SEP IRA's
- Must be established by the due date of entity's return including extensions
- Nominal start-up cost and annual fee

SIMPLE Plan

- Established by the business entity (Corp, LLC, Sch. C)
- Must cover all employees that have earned $5,000
- May require employee to work for up to 3 years
- Salary deferrals up to $12,000; $2,500 catch-up
- Required company contribution either 100% match up to 3% of pay or 2% profit sharing contribution
- Contribution funded into SIMPLE IRA’s
- Must be established by Oct. 1st; special notice rules apply and no other plan can be existence
- Nominal start-up cost and annual fee

SIMPLE Plan

- No other plan can be is existence when a SIMPLE Plan is implemented or while the SIMPLE Plan is active.
- No ability to terminate a SIMPLE Plan mid-year.
- November 1st is a critical decision day annually for SIMPLE Plan sponsors.

Profit Sharing Plan

- Established by the business entity (Corp, LLC, Sch. C)
- Must cover all employees age 21 or older
- May require employee to work for up to 2 years
- Company contribution is discretionary each year
- Several allocation options exist for contribution
- Vesting schedule applies to PS balance
- Contribution funded into a separate plan trust
- Must be established by December 31st to be effective for that year
- Initial plan document plus annual admin fees apply

401(k) Profit Sharing Plan

- Established by the business entity (Corp, LLC, Sch. C)
- Must cover all employees age 21 or older
- May require employee to work for up to 1 year
- Employees may defer $17,500; $5,500 catch-up
- Company PS contribution is discretionary each year
- Several allocation options
- Contribution funded into a separate plan trust – participant directed
- Must be established by December 31st to be effective for that year-earlier for deferral purposes

401(k) Profit Sharing Plan – Non Safe Harbor

- Normally offer an employer matching contribution
- Matching contribution can be discretionary
- Vesting schedule will apply to match balance
- Plan must pass Actual Deferral Percentage test (ADP)
- If there is a match, plan must pass Average Contribution Percentage test (ACP)
- Matching contribution can be funded on a per payroll or annual basis
- Initial plan document plus annual admin fees apply

401(k) Profit Sharing Plan – Safe Harbor

- Plan must offer a matching contribution of 100% of deferrals to 3% plus 50% of deferrals on next 2% **or**
- Profit sharing contribution of 3% of pay to all eligible employees
- The Safe Harbor contribution is 100% vested
- Plan deemed to pass Actual Deferral Percentage test (ADP) and Average Contribution test (ACP)
- New 401(k) SH Plans must have a 3 month year
- Existing 401(k) plan can only convert the next year
- Special notice rules apply (Dec 1^{st})

Cash Balance and Defined Benefit Plans

- Plans are established by the business entity
- Plans designed to offer high contributions to owners
- Plan contribution is mandatory in good and bad yrs.
- Plan can be combined with a 401(k) plan
- Plan must be in existence for 5 years, 10 is preferred
- Contributions are funded into a plan trust
- Benefits are actuarially calculated
- Plan must be established by December 31st
- Higher initial set-up, annual administration and termination fees apply

Cash Balance Plans

- Maximum contributions depend on age and compensation. Estimated maximums assuming compensation of $200,000:
  - Age 50 $125,000
  - Age 55 $160,000
  - Age 60 $210,000
  - Age 65 $220,000
- Account is comprised of a cash credit (company contribution) and an interest credit based upon a pre-determined interest rate/index.

Cash Balance Plans

- Account balance can be subject to vesting schedule – maximum is 3 year cliff vesting.
- If appropriate funding level is maintained, distributions from the plan are in the form of a lump sum.

Summary of 2014 Retirement Plan Limits

- IRA - $5,500; $6,500 with catch-up
- SEP – 25% of compensation, $52,000 maximum
- SIMPLE - $12,000 deferral; $2,500 catch-up and either 3% match or 2% profit sharing
- Profit Sharing – 25% of compensation, $52,000 max
- 401(k) - $17,500 deferral, $5,500 catch-up plus match and profit sharing contribution can't bring annual allocation in excess of $52,000/$57,500
- DB/Cash Balance – Required minimum funding amount can range from $0 to $500,000+?

Sample of SIMPLE Plan With Matching Contribution

Name	Pay	Age	SIMPLE Deferrals	Catch -Up Deferral	SIMPLE Match	Total Allocation	% of Pay
Owner 1	$134,000	62	$12,000	$2,500	$4,020	$18,520	13.82%
Spouse	$134,000	57	$12,000	$2,500	$4,020	$18,520	13.82%
Employee 1	$20,140	50	$403	$0	$403	$806	4.00%
Employee 2	$18,550	60	$371	$0	$371	$742	4.00%
Employee 3	$10,160	35	$203	$0	$203	$406	4.00%
Employee 4	$18,297	30	$366	$0	$366	$732	4.00%
Employee 5	$10,456	40	$209	$0	$209	$418	4.00%
Owner Total	$268,000		**$24,000**	**$5,000**	**$8,040**	**$37,040**	**92.27%**
All Others	$77,603		$1,552	$0	$1,552	$3,104	7.73%
Grand Totals	$345,603		$25,552	$5,000	$9,592	$40,144	100%

Sample of SEP Plan With 25% Allocation

Name	Pay	Age	SEP Allocation	Total Allocation	% of Pay
Owner 1	$134,000	62	$33,500	$33,500	25.00%
Spouse	$134,000	57	$33,500	$33,500	25.00%
Employee 1	$20,140	50	$5,035	$5,035	25.00%
Employee 2	$18,550	60	$4,638	$4,638	25.00%
Employee 3	$10,160	35	$2,540	$2,540	25.00%
Employee 4	$18,297	30	$4,574	$4,574	25.00%
Employee 5	$10,456	40	$2,614	$2,614	25.00%
Owner Total	$268,000		**$67,000**	**$67,000**	**77.55%**
All Others	$77,603		$19,401	$19,401	22.45%
Grand Totals	$345,603		$86,401	$86,401	100%

Sample of 401(k) Plan With Class Allocation

Name	Pay	Age	401(k) Deferrals	Catch -Up Deferral	Safe Harbor 3%	Profit Sharing Allocation	Total Allocation	% of Pay
Owner 1	$134,000	62	$17,500	$5,500	$4,020	$29,480	$56,500	42.16%
Spouse	$134,000	57	$17,500	$5,500	$4,020	$29,480	$56,500	42.16%
Employee 1	$20,140	50	$403	$0	$604	$403	$1,410	7.00%
Employee 2	$18,550	60	$371	$0	$556	$371	$1,298	7.00%
Employee 3	$10,160	35	$203	$0	$305	$203	$711	7.00%
Employee 4	$18,297	30	$366	$0	$549	$366	$1,281	7.00%
Employee 5	$10,456	40	$209	$0	$314	$209	$732	7.00%
Owner Total	$268,000		**$35,000**	**$11,000**	**$8,040**	**$58,960**	**$113,000**	**95.41%**
All Others	$77,603		$1,552	$0	$2,328	$1,552	$5,432	4.59%
Grand Totals	$345,603		$36,552	$11,000	$10,368	$60,512	$118,432	100%

Sample of Cash Balance/401(k) Combo

Name	Pay	Age	401(k) Deferrals	Profit Sharing	Cash Balance	Total Allocation	% of Pay
Owner 1	$134,000	62	$23,000	$6,700	$100,000	$129,700	96.79%
Spouse	$134,000	57	$23,000	$6,700	$100,000	$129,700	96.79%
Employee 1	$20,140	48	$403	$1,129	$500	$2,032	10.09%
Employee 2	$18,550	45	$371	$1,225	$500	$2,096	11.30%
Employee 3	$10,160	42	$203	$671	$500	$1,374	13.52%
Employee 4	$18,297	46	$366	$1,208	$500	$2,074	11.34%
Employee 5	$10,456	42	$209	$690	$500	$1,399	13.38%
Owner Total	$268,000		**$46,000**	**$13,400**	**$200,000**	**$259,400**	**96.66%**
All Others	$77,603		$1,552	$4,923	$2,500	$8,975	3.34%
Grand Totals	$345,603		$47,552	$18,323	$202,500	$268,375	100.00%

Questions?

For More Information Contact:

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