Retirement Plan Options for Dental Practices

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Tim Childers CPA
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• A professional services firm with three distinct business lines
  – Accounting and Consulting
  – Outsourcing
  – 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 in 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 31<sup>st</sup> 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 1st)
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

<table>
<thead>
<tr>
<th>Name</th>
<th>Pay</th>
<th>Age</th>
<th>SIMPLE Deferrals</th>
<th>Catch-Up Deferral</th>
<th>SIMPLE Match</th>
<th>Total Allocation</th>
<th>% of Pay</th>
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</thead>
<tbody>
<tr>
<td>Owner 1</td>
<td>$134,000</td>
<td>62</td>
<td>$12,000</td>
<td>$2,500</td>
<td>$4,020</td>
<td>$18,520</td>
<td>13.82%</td>
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<tr>
<td>Spouse</td>
<td>$134,000</td>
<td>57</td>
<td>$12,000</td>
<td>$2,500</td>
<td>$4,020</td>
<td>$18,520</td>
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<td>$20,140</td>
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<td>$403</td>
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<td>$403</td>
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<td>$371</td>
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<td>$10,160</td>
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<td>$0</td>
<td>$203</td>
<td>$406</td>
<td>4.00%</td>
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<tr>
<td>Employee 4</td>
<td>$18,297</td>
<td>30</td>
<td>$366</td>
<td>$0</td>
<td>$366</td>
<td>$732</td>
<td>4.00%</td>
</tr>
<tr>
<td>Employee 5</td>
<td>$10,456</td>
<td>40</td>
<td>$209</td>
<td>$0</td>
<td>$209</td>
<td>$418</td>
<td>4.00%</td>
</tr>
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</table>

**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

<table>
<thead>
<tr>
<th>Name</th>
<th>Pay</th>
<th>Age</th>
<th>SEP Allocation</th>
<th>Total Allocation</th>
<th>% of Pay</th>
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<tr>
<td>Owner 1</td>
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<td>$33,500</td>
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<td><strong>$67,000</strong></td>
<td><strong>$67,000</strong></td>
<td><strong>77.55%</strong></td>
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<td><strong>All Others</strong></td>
<td>$77,603</td>
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<td><strong>$19,401</strong></td>
<td><strong>$19,401</strong></td>
<td><strong>22.45%</strong></td>
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<td><strong>$86,401</strong></td>
<td><strong>$86,401</strong></td>
<td><strong>100%</strong></td>
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# Sample of 401(k) Plan With Class Allocation

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<tr>
<th>Name</th>
<th>Pay</th>
<th>Age</th>
<th>Deferrals</th>
<th>Catch-Up Deferral</th>
<th>Safe Harbor 3%</th>
<th>Profit Sharing Allocation</th>
<th>Total Allocation</th>
<th>% of Pay</th>
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<tbody>
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<td>62</td>
<td>$17,500</td>
<td>$5,500</td>
<td>$4,020</td>
<td>$29,480</td>
<td>$56,500</td>
<td>42.16%</td>
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<td>57</td>
<td>$17,500</td>
<td>$5,500</td>
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<td>60</td>
<td>$371</td>
<td>$0</td>
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<td>7.00%</td>
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<td>35</td>
<td>$203</td>
<td>$0</td>
<td>$305</td>
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<td>$711</td>
<td>7.00%</td>
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<tr>
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<td>30</td>
<td>$366</td>
<td>$0</td>
<td>$549</td>
<td>$366</td>
<td>$1,281</td>
<td>7.00%</td>
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<td>40</td>
<td>$209</td>
<td>$0</td>
<td>$314</td>
<td>$209</td>
<td>$732</td>
<td>7.00%</td>
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<tr>
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<td></td>
<td>$35,000</td>
<td>$11,000</td>
<td>$8,040</td>
<td>$58,960</td>
<td>$113,000</td>
<td>95.41%</td>
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<td>$1,552</td>
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<td>$5,432</td>
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<td>$10,368</td>
<td>$60,512</td>
<td>$118,432</td>
<td>100%</td>
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## Sample of Cash Balance/401(k) Combo

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<tr>
<th>Name</th>
<th>Pay</th>
<th>Age</th>
<th>Deferrals</th>
<th>Profit Sharing</th>
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<th>Total Allocation</th>
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<td>Owner 1</td>
<td>$134,000</td>
<td>62</td>
<td>$23,000</td>
<td>$6,700</td>
<td>$100,000</td>
<td>$129,700</td>
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<tr>
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<td>$23,000</td>
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<td>$366</td>
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<td>$2,074</td>
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<tr>
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<td>$209</td>
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<td>13.38%</td>
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<tr>
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<td><strong>$200,000</strong></td>
<td><strong>$259,400</strong></td>
<td><strong>96.66%</strong></td>
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<td>All Others</td>
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<td>$1,552</td>
<td>$4,923</td>
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<td>$8,975</td>
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<td><strong>$202,500</strong></td>
<td><strong>$268,375</strong></td>
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</table>
For More Information Contact:

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