

# Retirement Plan Asset and Tax Strategies for Practicing Psychologists

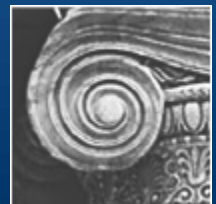
*Presented by*

**The National Employers Retirement Trust  
&  
Thomas F. Barrett, Inc.**

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**4701 Sangamore Road, Suite 205-S, Bethesda, MD 20816  
Ph: 888-271-8035 - Fx: 301-320-6854  
E-Mail: [APAPension@Nert.Com](mailto:APAPension@Nert.Com)**



# Why Use Retirement Plans?

#It is the best way to help you address a long term issue

- < Retirement plans are intended to replace income at a time when you are unable to earn to due to old age

#The IRS gives you multiple tax incentives

- < Current tax rates can be as high as 50%
  - **Solution - Use a retirement plan as a tax shelter!**
- < Ability to make pre-tax contributions to your retirement plan
  - **Benefit - Quicker wealth accumulation!**
- < Investments grow tax-deferred
  - **Benefit - Magnified wealth accumulation!**

#Qualified plans

#Non-qualified plans



# Psychologist Practice Models

## #Independent Contractors

- < Full or Part time
- < S-Corp, LLC or C-Corp
- < Most in control of expenses
- < Earned income reported on IRS Schedule C or as a Professional Corporation

## #Available Plans

- < IRC 408 IRA
  - SIMPLE, SEP, Regular IRA, Roth IRA
- < IRC 401 - ERISA Pension Plans
  - Defined contributions
    - Money Purchase, Profit Sharing, 401(k)
  - Defined Benefit



# Psychologist Practice Models

## #Small Businesses

- < 2 to 5 Employees
- < Need of owners to balance the cost of employees' benefits while still maximizing their own benefit
- < Retirement plans are excellent tools to reward, recognize and retain employees as well as providing protection & benefits to the owners

## #Available Plans

- < IRC 408 IRA
  - SIMPLE, SEP, Regular
- < IRC 401 - ERISA Pension Plans
  - Defined Contribution
    - Money Purchase, Profit Sharing , 401(k)
  - Defined Benefit



# Psychologist Practice Models

## # Large Employer & Government Organizations

- < W-2 employees
- < 100+ Employees

## # Available Plans

- < Non Qualified Deferred Compensation
- < IRC 401 - ERISA Pension Plans
  - Defined contribution
    - Money Purchase, Profit Sharing, 401(k)
  - Defined Benefit



# What are we trying to accomplish?

- # Is our company's plan congruent with our company's corporate goals?
- # Is our plan benefitting groups or individuals who don't have a stake in our company's success?
- # Are we maximizing tax favored compensation for the owners?
- # How can we effectively use the plan to retain & reward key employees?



# Identifiable Goals

- # Retain key employees
- # Maximize benefits to owners
- # Exclude some, include others
- # Allow employees to add to their savings
- # Provide increasing benefits for more years of service
- # Provide minimum safety net for low income employees



# Some Ground Rules

## (The tools we use to stay in the box)

### #IRS 401(a)4 “No employer may discriminate in favor of Highly Compensated Employees”

- < Prior to 1990: Not Defined, Post 1990: Mathematically demonstrable
- < What is a Highly Compensated Employee? - HCE
  - Generally: 5% Owner and Employees > \$100,000/yr

### #IRS 401(k) Limits

- < HCE Max Contribution = Non HCE + 2%
- < Special Safe Harbor exceptions exist

### #IRS 416 Top Heavy limits

- < 60% of benefits to key EE's triggers min. Contribution of 3%

### #IRS 404 Corporate Deduction Limits

- < 25% of comp except Defined Benefit Plans)

### #IRS 415 Individual Benefit limits

- < \$50,000 for Defined Contribution Plans
- < \$180,000 for Defined Benefit Plans





# More Tools for Planning a Design

## #Social Security Integration

- < Provide extra benefits for Employees earning above the Social Security Wage Base

## #Safe Harbors for 401k Plans

- < Eliminates discrimination testing of 401k contributions
- < Choice of 4% Match or 3% profit sharing safe harbor
- < Must be 100% vested

## #Eligibility

- < Exclude by job, individual waiver, group, hire date, etc.
- < Require minimum service

## #Vesting

- < Up to 6 years graded (20%/YR) or 3 years cliff (100%)

## #Cross Testing

- < Test a defined contribution plan as if it were a defined benefit plan

# 2008 Contribution Limits

IRA	\$5,000
SEP	20% of Compensation
SIMPLE	\$10,500 +\$2,500 Age 50 Catchup
401k	\$15,500 +\$5,000 Age 50 Catchup
Profit Sharing (w/401k)	\$46,000 +\$5,000 Age 50 Catchup
Defined Benefit	Up to 100% of Comp



## What exactly is a Defined Benefit Plan anyway?

It is a promise to pay a specified amount (benefit) at retirement.

Examples:

- 50% of average pay
- Flat \$1000/month
- 2% of pay times years of service

You can receive the benefit as a pension or as a lump sum!

We calculate the cost required to pay benefit.  
401K plans provides no guaranteed benefit, just a contribution (maybe)

Fastest way to accumulate pretax wealth!



# New Planning Ideas

## 401(k) vs. SEP IRA

#401(k) provides for larger allocation to owners than a SEP

< Example: \$100,000 Salary for Sole Proprietor

<b>401k</b>	<b>\$51,000</b>
SEP	\$20,000



# New Planning Ideas

## Class Tested 401K Profit Sharing

### #Split employees into distinct groups

Example:	5% Owner	\$46,000
	Staff > 10 Years	8%
	Office Manager	5%

### #Service Based

Example:	1-3	Years	1%
	4-6	Years	2%
	7-10	Years	4%
	11-14	Years	8%
	15 +	Years	16%



# New Planning Ideas

## Defined Benefit & Defined Contribution Plans

- # Provide maximum benefits for owners in defined benefit plan (up to \$180,000 per year)
- # Provides Top-Heavy minimum (3% of pay) to staff in a Defined Contribution - 401k Plan



# New Planning Idea

## IRA vs. Pension Plan

- #No Loans in IRA
- #Bankruptcy protection in Pension Plans (ERISA)
- #Can delay minimum distributions when Age 70 ½ until employee separates from service
- #Can hold IRA in Pension Plan (Deemed IRA's)



# New Planning Idea

## Estate Planning Considerations

#Can provide systematic payouts over life of spouse and/or children to maximize wealth accumulation





# New Planning Idea

## Tax Favored Sale of Practice

- #Acquiring Psychologist negotiates to establish a 4 year Pension plan to fund for selling Doctor.
- #Buyer funds and deducts up to \$225,000/year to plan for benefit of Seller.
- #Seller transfers approx. \$1,000,000 tax free to Personal IRA



# 100% Tax deduction?

How many of you know that it is possible to deduct 100% of your earned income?

## #Considerations:

- < Do you already have substantial investments?
- < Do you have spousal or a second W - 2 income?
- < Are you maximizing your tax deductions?

## #Case Studies:

- < 50 year old self-employed - \$40,000 income
  - Old Plan - \$8,000 deduction
  - New Plan - \$40,000 deduction - **100% tax savings**
- < 50 year old self-employed - \$100,000 income
  - Old Plan - \$20,000 deduction
  - New Plan - \$90,316 deduction - **Approximately \$47,500 in tax savings**
- < 60 year old self-employed - \$160,000 income
  - Old Plan - \$40,000 deduction
  - New Plan - \$129,233 deduction - **Approximately \$71,000 in tax savings**



# Investment and Portfolio Management

#Diversification is in!

#Managing Risk not Returns

#Life Cycle Portfolios

- < Based on age and years until retirement

#Model Portfolios based on Investor Style

- < Current Income, Equity Oriented, Conservative, etc

#Automatic Rebalancing

- < Resets portfolio to original % allocations on a periodic basis

#Exchange Traded Funds

- < Exchange securities that mimic indexes (S&P500, Dow, etc.) as opposed to index funds (e.g. No Vanguard)

# Investment Diversification

Investment classes that don't behave similarly (or in technical jargon: 'aren't correlated')

#Stocks

#Bonds

#Real Estate (not Reits)

#Natural Resources (e.g. commodities)



# Investment Management

## You have to have a process!

### # Investment Policy Statements

- < ERISA requires them... Most companies don't have one

### # Principles of portfolio risk management

- < Diversification by objective
- < Diversification by large numbers (funds)

### # Rebalancing

### # Periodic reassessment of goals and risk tolerance



## Who are we?

# The National Employers Retirement Trust

- # NERT is the sole **endorsed** pension consultant of the APA Insurance Trust
- # NERT is a **bundled** set of services set up in a **turnkey manner** allowing you to concentrate on your practice and not on your retirement plan!

### < **Administrative Services**

- Record keeping and plan administration
- IRS documentation
- Legal and actuarial

### < **Investment Services**

- Development of risk adjusted model portfolios
- Quarterly reporting

### < **Internet Services**

- Daily valued account tracking through the Internet keeping participants in closer contact with their retirement account
- Access to all administrative forms
- Employee education
- E-mail and Account transfers
- Access 24/7



# Keep It Simple

## LIVE LIFE!

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