

# Retirement Plan Asset and Tax Strategies for Practicing Psychologists

*Presented by*

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

*119th Annual APA Conference, Washington DC*

*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 disability and retirement
- 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



# Business Practice Models

## ■ Independent Contractors - Sole Proprietors

- ▶ 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



# Business Practice Models

## ■ Small / Mid Sized Businesses

- ▶ 2 to 100 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



# Business 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**
  - ▶ \$49,000 for Defined Contribution Plans
  - ▶ +\$200,000 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

# 2010 Contribution Limits

IRA	\$5,000 +\$1,000 Age 50 Catchup
SEP	25% of Compensation
SIMPLE	\$11,500 +\$2,500 Age 50 Catchup
401k	\$16,500 +\$5,500 Age 50 Catchup
Profit Sharing (w/401k)	\$49,000 +\$5,500 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)

Yes, these plans can be flexible!



# 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 age 50

<b>401k</b>	<b>\$42,000</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 \$195,000 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 Business Practice

- Acquiring company negotiates to establish a 4 year Pension plan to fund for selling Owner.
- 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)



# 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 endorsed retirement provider for 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



**Let us provide you with a no-cost  
feasibility analysis utilizing the  
concepts we have described here**

**Contact us at 1-888-271-8035 or email to  
[APApension@nert.com](mailto:APApension@nert.com)**

