

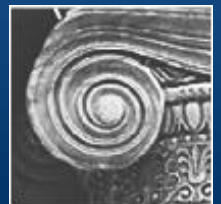
Retirement Plan Design and Funding Strategies for Practicing Psychologists

Presented by

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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

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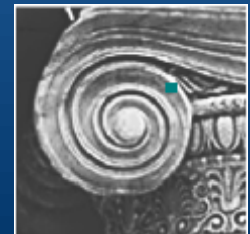
Business Practice Models

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

2012 Contribution Limits

IRA	\$5,500 +\$2,500 Age 50 Catchup
SEP	25% of Compensation
SIMPLE	\$11,500 +\$2,500 Age 50 Catchup
401k	\$17,000 +\$5,500 Age 50 Catchup
Profit Sharing (w/401k)	\$50,000 +\$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

401k	\$42,000
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 \$200,000 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%taxsavings**
- ▶ 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)

Commodities



Investment Management

You have to have a process!

- # Investment Policy and Fund Expense Statements
 - ▶ ERISA requires them...
- # 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** allowing you to concentrate on your practice and not on your retirement plan!

- ▶ **Administrative**

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

- ▶ **Investment**

- 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**

