financial

# Retirement Plans for Dentists

BY J. HADEN WERHAN, CPA/PFS

As practice owners, dentists should carefully consider the advantages of establishing an employer-sponsored retirement plan. Generally, you're allowed a deduction for contributions you make to a retirement plan. In return, however, you're required to include your employees in the plan, and to give a portion of the contributions you make to those employees who are eligible. Even so, a retirement plan can provide you with a tax-advantaged method to save for your own retirement while providing your employees with a powerful and appreciated benefit, especially in today's competitive employment market.

## TYPES OF PLANS

There are several types of retirement plans to choose from, and each type of plan has advantages and disadvantages. This article covers the most widely used plans in dental practices. The law may permit you to have more than one retirement plan, and with sophisticated planning, a combination of plans might best suit the needs of your practice.

### PROFIT-SHARING PLANS

Profit-sharing plans are among the most popular employer-sponsored retirement plans. These straightforward plans allow you, as an employer, to make a contribution that is spread among the plan participants. Profit sharing contributions are "discretionary" meaning you are not required to make an annual contribution in any given year.

With a profit-sharing plan, contributions are allocated to each participant based on the plan's formula (this formula can be amended from time to time). As with all retirement plans, the contributions must be prudently invested. A prudently invested portfolio will contain globally diversified, low cost mutual funds, and be allocated between stocks and high quality bonds, CD's, cash or cash equivalents, to take into account the appropriate degree of risk for the plan participants. A retirement plan is a "Trust" and puts the doctor in the position of "Fiduciary" as it relates to the administration of the plan and the investments it holds. Who says so? The Prudent Investor Act of 1994 is the guiding principle and covered under ERISA (Employee Retirement Income Security Act) laws and DOL (Department of Labor) regulations. The U.S. Supreme Court has weighed in and, as time has passed, most states have adopted the Prudent Investor Rule and the federal government has closely scrutinized the design of retirement plans and the investment advisor industry in recent years.

For 2018, no individual is allowed to receive contributions that exceed the lesser of 100% of earnings for that year or $55,000 ($54,000 in 2017). The total

**Overview of Retirement Plans – 2018**

| Plan Type | Eligibility | Vesting | Contributions | Other |
|---|---|---|---|---|
| **PROFIT SHARING** | Age 21, 1 year, 1,000 hrs.<br>**or**<br>Age 21, 2 years, 1,000 hrs. | 0% - 100% six- year with 1 year eligibility<br><br>100% immediate with 2 year eligibility | Discretionary, 0% - 25% of salary up to $275,000 | Overall contribution limit of $55,000 per participant; can integrate with SS<br><br>Can include age-weighting or new comparability |
| **MONEY PURCHASE PENSION** | Age 21, 1 year, 1,000 hrs.<br>**or**<br>Age 21, 2 years, 1,000 hrs. | 0% - 100% six- year with 1 year eligibility<br><br>100% immediate with 2 year eligibility | Mandatory of as much as 25% of salary up to $275,000 | Overall contribution limit of $55,000 per participant; can integrate with SS<br><br>Can include age-weighting or new comparability |
| **PROFIT SHARING WITH 401-K** | Age 21, 1 year, 1,000 hrs. | 0% - 100% six- year with 1 year eligibility<br><br>immediate 100% for deferrals | Discretionary, 0% - 25% of salary<br><br>Deferral from employee's salary up to $18,500 (age 50 or older $24,500); subject to FICA | Overall contribution limit of $55,000 per participant; can integrate with SS<br><br>Employer can match<br><br>Can include age-weighting or new comparability |
| **DEFINED BENEFIT** | Age 21, 1 year, 1,000 hrs.<br>**or**<br>Age 21, 2 years, 1,000 hrs. | 0% - 100% six- year with 1 year eligibility<br><br>100% immediate with 2 year eligibility | Mandatory based on salary, age, plan funds. | Maximum annual benefit to fund = $220,000 |
| **SEP**<br>**(Simplified Employee Pension)** | Age 21, compensation of at least $600 in 3 of last 5 years | Immediate 100% | Discretionary, 0% - 25% of salary up to $275,000 | Overall contribution limit of $55,000 per participant; can integrate with SS; funds available for withdrawal by employee. |
| **SIMPLE**<br>**(Savings Incentive Match Plan for Employees)** | At least $5,000 compensation in current and prior two years | Immediate 100% | Deferral from employee's salary up to $12,500 (age 50 or older $15,500); subject to FICA<br><br>Employer match of 3% of participant compensation or 2% of all compensation | Can be set up with IRA-type accounts or 401(k)<br><br>Funds available for withdrawal by employee |

deductible contribution to a profit-sharing plan may not exceed 25% of the total compensation of all the plan participants in a given year. So, if there were four plan participants each earning $50,000, the total deductible contribution to the plan could not exceed $50,000 ($50,000 x 4 = $200,000; $200,000 x 25% = $50,000). Dentists can only count compensation up to $275,000 in 2018 ($270,000 in 2017) when calculating their own contribution.

## 401(K) PLANS

A type of deferred compensation plan, and now the most popular type of plan by far, the 401(k) allows contributions to be funded by the participants themselves. Employees elect to forgo a portion of their salary and have it put in the plan instead. Profit sharing plans can be expensive to administer but, in the long run, 401(k) plans tend to be relatively inexpensive for the doctor. Participants may defer up to $18,500 of their wages into the 401(k) and, for those of us over 50, a catch up amount of $6,000. A 401(k) plan can let employees designate all or part of their elective deferrals as Roth (after-tax), just like Roth IRA contributions.

The requirements for 401(k) plans are complicated and several tests (discrimination testing) must be met for the plan to remain in compliance. For example, the owner dentist's deferral percentage cannot be disproportionate to the other participant's percentage of compensation deferred. You don't have to perform discrimination testing if you adopt a "safe harbor" 401(k) plan. With a safe harbor 401(k) plan, you generally have to either match your employees' contributions (100% of employee deferrals up to 3% of compensation, and 50% of deferrals between 3% and 5% of compensation), or make a fixed contribution of 3% of compensation for all eligible employees, regardless of whether they contribute to the plan. Your contributions must be fully vested immediately. 401(k) plans are generally established as part of a profit-sharing plan.

## DEFINED BENEFIT/CASH BALANCE PLANS

By far the most sophisticated type of retirement plan, defined benefit and cash balance plans sets out a formula that defines how much each participant will receive annually after retirement if he or she works until retirement age. This is generally stated as a percentage of pay, and can be as much as 100% of final average pay at retirement.

An actuary certifies how much will be required each year to fund the projected retirement payments for all employees. The employer then must make the contribution based on the actuarial determination. In 2017, the maximum annual retirement benefit an individual may receive

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The Internal Revenue Service has released 2018 cost-of-living and statutory increases for employer sponsored qualified retirement plans, SIMPLEs, SEPs, IRAs, HSAs and FSAs:

| | 2017 | 2018 |
|---|---|---|
| Maximum 401(k) deferral (under age 50) | $18,000 | $18,500 |
| Maximum 401(k) deferral – *including* catch-up 401(k) contribution (age 50 or older) | 24,000 | 24,500 |
| Profit Sharing 401(k) Plan Contribution Limit – *including* 401(k) deferrals (under age 50) | 54,000 | 55,000 |
| Profit Sharing 401(k) Plan Contribution Limit – *including* 401(k) deferrals (age 50 or older) | 60,000 | 61,000 |
| Profit Sharing Plan Contribution Limit (also applies to Money Purchase and Target Benefit Plans) | 54,000 | 55,000 |
| Maximum compensation for determining contributions | 270,000 | 275,000 |
| Social Security Taxable Wage Base | 127,200 | 128,700 |
| Maximum SIMPLE deferrals (under age 50) | 12,500 | 12,500 |
| Maximum SIMPLE deferrals – *including* catch-up SIMPLE deferrals (age 50 or older) | 15,500 | 15,500 |
| SEP Contribution Limit - lesser of 25% of compensation or | 54,000 | 55,000 |
| Maximum IRA contribution | 5,500 | 5,500 |
| Maximum IRA catch-up contribution (age 50 or older) | 6,500 | 6,500 |
| Maximum HSA contribution for Individual coverage | 3,400 | 3,450 |
| Maximum HSA contribution for Family coverage | 6,750 | 6,900 |
| Additional HSA contribution for those age 55 or older | 1,000 | 1,000 |
| Maximum FSA (Flexible Spending Account and/or Cafeteria Plan Healthcare Reimbursement feature) contribution | 2,600 | 2,650 |

Please note, Department of Labor regulations require that any retirement plan deductions from payroll such as 401(k) deferrals, SIMPLE deferrals, SARSEP deferrals, and loan payments *must be deposited into the retirement plan* ***no later than the 7th business day*** *following the day on which such amount would otherwise have been payable to the employee in cash.* Please ensure your deposit procedures comply with all current regulations.

is $215,000 ($210,000 in 2016) or 100% of final average pay at retirement.

Unlike defined contribution plans, there is no limit on the contribution. The doctor's total contribution is based on the projected benefits. Therefore, defined benefit plans potentially offer the largest contribution deduction and the highest retirement benefits to business owners. DB and Cash Balance plans are excellent tools for dentists contemplating the sale of their practice. With planning and guidance from a Dental CPA/Wealth Advisor, a dentist can structure the timing and amount of contributions and save tens of thousands of dollars on the sale of their practice.

## OTHER PLANS

The above plans are the most widely used in dental practices today. Current tax laws give retirement plan administrators new and creative ways to write plan formulas and combine different types of plans in order to maximize contributions and benefits for doctor/owners.

## THE DOCTORS 401(K) SOLUTION?

www.thedoctors401k.com

There are other plans available depending on a dentist's circumstances. For a practice owner that wants to start out slowly, a SIMPLE IRA may be the answer. SIMPLE plans work much like 401(k) plans, but do not have all the testing requirements. The contribution amounts are lower and the services of a pension administrator are not required, making a SIMPLE much less expensive for a practice.

Self-employed dentists, who do not have employees, such as associates being treated as independent contractors or dentists who work in more than one practice might consider an "Individual" or "solo" 401(k) or a SEP IRA. Both will allow significant amounts to be contributed enabling self-employed doctors to save far more than employed dentists can do with traditional IRA's. Dentists can also make profit-sharing contributions but the total allowed for 2018 may not exceed $55,000 (plus the age-50 catch-up contribution of $6,000). SEP IRA's have the same dollar maximum but do not allow for the over-50 catch up.

## FINDING A PLAN THAT'S RIGHT FOR YOU

If you are considering a retirement plan for your business, ask a plan professional to help you determine what works best for you and your practice needs. The rules regarding employer-sponsored retirement plans are very complex and easy to misinterpret. In addition, even after you've decided on a specific type of plan, you will often have a number of options in terms of how the plan is designed and operated. These options can have a significant and direct impact on the number of employees that have to be covered, the amount of contributions that have to be made, and the way those contributions are allocated (for example, the amount that is allocated to you, as an owner).

**Lastly, there are retirement plan providers and there are retirement providers. Be skeptical of any plans promoted as being free – if you use this payroll service or that broker. Transparency is crucial so that doctors may adhere to the fiduciary obligation they have to their employees. Using independent pension plan administrators and financial advisors will allow you to see exactly what fees you are paying for services rendered. Also, having those fees paid by the practice instead of having them sucked out of the retirement plan account provides a tax deductible business expense and optimal growth of the investment portfolio.**


**J. HADEN WERHAN**
CPA/PFS

MEMBER OF THOMAS WIRIG DOLL FIRM


Haden has been a member of the affiliated Thomas Wirig Doll firms since 1998, providing wealth management, accounting and tax services to successful practitioners. Haden came to the firm following a lengthy career managing, consulting and providing accounting services to dental practices ranging from start-ups, to acquisitions to large group settings. He has regularly lectured and provided seminars on tax, financial planning, practice management and practice evaluations at the University of California, San Francisco; the University of the Pacific Dugoni School of Dentistry; and various dental societies. In addition to his CPA/PFS credentials, Haden also is a licensed real estate broker. He holds a bachelor's in Economics, University of San Francisco, accounting and taxation at Golden Gate University.