

Rescuing Retirement

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April/May 2010

If you are like many physicians, you are lamenting the losses to your retirement plan after the financial meltdown. You might have lost a substantial amount, and you might wonder how you can quickly regain the losses.

If you have a 401(k) account, you can contribute up to \$22,000 for 2010 if you are 50 years of age or older and \$16,500 if you are under 50. With a profit-sharing plan, you can contribute another \$32,500. Once you have reached the annual maximum contribution of \$54,500 (if 50 or over) or \$49,500 (if under 50), then no further contributions can be made on a pretax basis. Depending on prior losses and how long an individual has been contributing to a retirement account, this amount is hardly enough to fund a retirement, these days.

Since the 2006 Pension Protection Act increased the contribution limits, cash-balance plans have become the solution that physicians have been seeking to accelerate retirement funding. In a cash-balance plan, contributions can be as high as \$224,000 per year, depending on the participant's age, with the added benefit of deferred-tax savings.

By combining contributions to a 401(k) account, a profit-sharing plan, and cash-balance plan, a physician (at the optimal age) can put \$278,000 into a retirement plan, on a pretax basis, per year. There

are more than 6,000 cash-balance plans in the United States, and medical groups own 20% of them.

A cash-balance plan is an ideal retirement vehicle. Not only can physicians accelerate savings, but the plan's contributions and interest also are not taxed until distributions are made. Contributions, which can be a percentage of salary or a flat dollar amount, are stipulated in the plan document. That document also details the interest involved, which is a guaranteed amount and not dependent on the plan's investment performance. The rate of return changes each year, and for many plans, is equal to the yield on 30-year Treasury bonds, which recently paid 4.8%.

The Mechanics

A cash-balance plan has relatively simple characteristics. Each participant has an individual account that resembles the accounts in 401(k)/profit-sharing plans. The plan actuary, who generates annual participant statements, maintains these accounts. Employers can designate different contribution amounts for various participants. Once participants terminate employment, they are eligible to receive the vested portions of their account balances, which are determined by the plan's vesting schedule.

Medical groups that exhibit one or both of the following qualities might be good candidates for a cash-balance plan: having 401(k) plans that have experienced recent significant losses (and wishing to make up those losses quickly), or electing to invest in the practice (rather than retirement) and therefore having relatively low retirement savings.

Profitable medical groups that require tax deductions might find the cash-balance plan extremely attractive. Because the contribution is not discretionary,

groups should demonstrate consistent profit patterns. It is possible, however, to reduce the contribution or freeze the plan using a plan amendment.

Another reason to opt for a cash-balance plan applies to medical groups that already have plans in place to contribute 3% or more of salaries to employees' accounts. Although cash-balance plans are often established for the benefit of owners and highly compensated employees, other employees also benefit. Usually, plans provide a minimum contribution of 5% to 7% of pay for the group's staff, which might be advantageous, given the alternative of paying taxes on that money.

The types of businesses that are typically good candidates for cash-balance plans include professional-service businesses, such as medical groups; accounting and law firms; and family or closely held businesses in which there are a number of owners who are at their 401(k) and profit-sharing contribution limits.

Practices with high levels of concern about the effect of the financial markets on 401(k) and/or profit-sharing plans are advised to consider a cash-balance plan, which provides a significant opportunity to boost contributions to a qualified retirement plan and, at the same time, defer taxable income.

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