



The Law Offices of

R. David Danziger

TAX-ADVANTAGED RETIREMENT PLAN DESIGN & CONSULTING

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CASE STUDY: MEDICAL PRACTICE LOOKS TO ENSURE THE MOST FOR ITS OWNERS

Situation:

BonePros is an office of orthopedic physicians based in Shoulderblade, Kentucky. The nine doctors who form the backbone of this successful practice wanted to save more money for retirement, so they charged Harris F. Salter, the firm's office manager, with the task of performing a much-needed retirement plan replacement surgery. He engaged The Law Offices of R. David Danziger to help investigate possible retirement plan options that would cost-effectively enable the partners to sock away more money for retirement, while keeping overall plan costs manageable.

Of the firm's 75 employees, ten are considered Highly Compensated Employees (HCE's) for income tax purposes. This includes the nine docs, as well as Mr. Salter himself.

BonePros currently utilizes a Simple IRA plan...the downside is that the plan is rigid in terms of how much can be contributed

Options:

Current Plan: Simple IRA

BonePros currently utilizes a Simple IRA plan, a structure currently used by a number of small businesses. The benefits of a Simple IRA plan include straightforward recordkeeping, minimal government regulation, and ease of use. In addition, of the \$175,000 the company is able to set aside into this tax-deferred plan, \$144,000, or 82% of the funds, are targeted toward the HCE's.



A nationally known author and speaker, R. David Danziger Esq. has been quoted in the Wall Street Journal, & Lawyers Weekly

The downside is that the plan is rigid in terms of how much can be contributed: with a standard contribution of 2% of pay for all staff, the physicians obtain a 2% contribution and the opportunity to make salary deferral elections of \$10,000 each (plus a \$2,000 catch-up for those who've attained age 50).

In addition, the maximum annual contribution for even a 50 year old physician is \$16,200, and the

successful doctors of BonePros would like the ability to save more money for retirement and shelter more current income from taxes. Since the 2% company contributions for staff is fixed by law, there is no ability to provide incremental retirement savings for valued employees. For a low out-of-pocket expense solution, the business turns to in-house administration and winds up sacrificing flexibility and the opportunity to save substantial tax dollars.

First Option: Integrated 401(k) Profit Sharing Plan

An integrated plan is an off the shelf design that allows for some skewing of contributions to owners.

In such a plan, HCE's can get an extra contribution of up to 5.7% of their pay over and above the social security wage base.

In BonePros' case, the goal is to enable the top docs to defer the most money possible. To maximize them at this level, Danziger performed a regression analysis to determine the contribution that would be needed for rank and file

(Continued from page 1)

employees. The result: non HCE's would need a whopping 7%+ contribution, or over \$156,000 to enable the docs to save \$390,000 for themselves. Clearly, not the best solution.

While the physicians' pretax savings have increased substantially, the cost for staff makes this plan cost prohibitive. As a result, the practice must question whether the additional cost justifies the benefit.

Next Option: New Comparability Plan

A New Comparability plan design is more powerful in its ability to skew contributions in favor of Highly Compensated Employees. This is true, particularly, when the Highly Compensated Employees are older than the rank and file. The problem for BonePros: two of the docs are under age 40, making it a more expensive plan.

While the New Comparability design offers the opportunity for additional retirement savings, the cost for staff still represents 26% of the total contribution, or \$137,000, which is still a hefty price tag for the firm's partners to pay for their incremental retirement savings. Compared to the cost under the Simple IRA, the partners question whether the cost justifies the benefit.

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Mr. Danziger suggested that the problem could be circumvented by giving less to younger physicians, but the practice is eager to treat all

partners alike. Also, management is concerned that the staff contribution cost could rise significantly if, due to turnover by young employees, the average age of the employees increases. New Comparability fits many of the practice's needs, but the doctors are still looking for something better.

For BonePros, a One Category Per Participant design enables docs to defer \$383,000 – nearly triple that of the original simple plan .

Best Option: One Category Per Participant

Thanks to his 25 years of experience in working exclusively on qualified plans for closely held businesses, Danziger was able to demonstrate how a One Category Per Participant, or OCPP design would allow the owners to maximize their contributions, while substantially reducing staff cost, *and* adding the flexibility of allowing the practice to declare individual profit sharing bonus contributions for highly valued staff.

With an OCPP design, each employee of the practice is categorized separately, and the firm can annually select the IRS discrimination test that has the most favorable result. The upshot is that the company has maximum flexibility to target retirement contributions to selected employees, or even scale back contributions in a down year.

For BonePros, a One Category Per Participant design enables docs to defer \$383,000 – nearly triple that of the original simple plan – while maintaining a modest contribution for rank and file staff of just under \$90,000. The doctors are able to keep 81% of the total retirement

plan dollars – roughly comparable to the percentage in the simple plan.

By adopting an OCPP design, the practice is able to achieve its objective of large tax sheltered contributions for owners, while holding staff costs to a level commensurate with a Simple IRA. The end result, Highly Compensated Employees maximize their retirement savings; staff cost is controlled; and management now has flexibility in deciding how their contribution is spread out, allowing them to give an added "profit sharing bonus" to valued employees.

To learn more about our OCPP plan designs or retirement planning in general, Please contact us at:

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-For a comparison of plan options, see chart on page 3-



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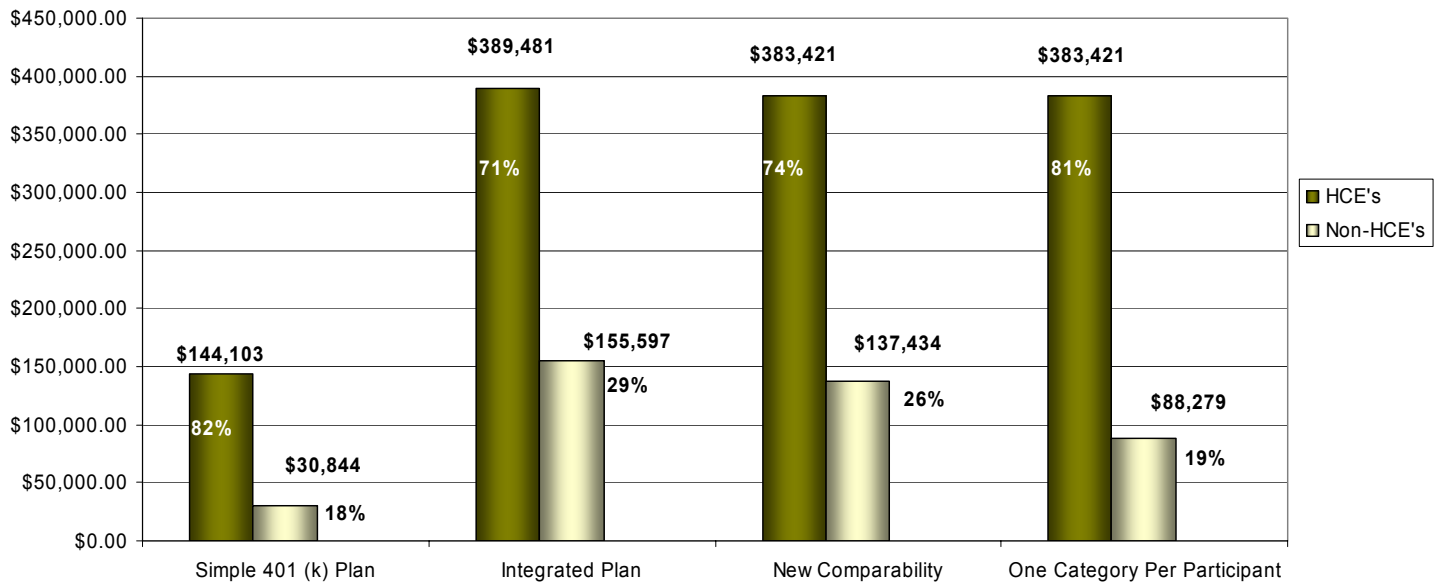
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BonePros Plan Design Comparison



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For a low out-of-pocket expense solution, the business turns to in-house administration and winds up sacrificing valuable tax shelter opportunity and retirement income adequacy.

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The staff's contribution has risen from 2% of pay to 10.08%. The owners' percent of the overall total has actually decreased. As a result, the practice must question whether the additional cost justifies the benefit.

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New Comparability fits many of the practice's needs, but the doctors are still looking for something better.

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By adopting an OCPP design, the practice is able to achieve its objective of large tax sheltered contributions for owners, while holding staff costs to a level commensurate with a Simple IRA.