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retirement plans redefined

The "Perfect" Retirement Plan for Dental Practices

By Robert Mand, Esq. & Kenneth Marblestone, Esq.

A tax qualified retirement plan is one of the most valuable opportunities for dental practice owners to defer paying a significant portion of their income tax for many years. Because qualified retirement plan contributions are tax deducible, and investments grow untaxed while in the plan, there are extremely powerful tax and financial incentives to establishing such a plan. However, not all retirement plans are created equal, and the selection of a poorly-designed plan can result in an inefficient use of retirement plan contributions. This article discusses retirement plan design and not retirement plan investments. For purposes of this article, plan design is defined as: ***How much of the pre-tax contributions go to each employee, while staying compliant with government requirements.***

Here are some common challenges to dental practice owners that must be overcome to develop the ideal retirement plan:

(i) How to target contributions to owners and family members

(ii) How to adapt to employee changes

(iii) How to accommodate the entry of a new partner into the practice

<u>What is the Solution</u> **- The most effective solution to these challenges is the *OCPP*® ("One Category per Participant") plan design, developed by the MandMarblestone Group, which has received IRS approval and is directly responsive to the needs of a dental practice.**

<u>Maximizing Owner Contributions</u> - An ***OCPP***® 401(k) profit sharing plan design permits different profit sharing contribution rates for every plan participant. The contribution rates are not defined in the plan document; rather, the contribution is declared each year by the practice and does not need to be contributed until the due date (including extensions) of the practice's income tax return. By enabling the owners of a dental practice to obtain the maximum permissible benefit at the minimum contribution expense for non-owner plan participants in virtually every situation, the ***OCPP***® plan design is unique, and as close to "perfect" as a retirement plan design can be.

Although the contribution made on behalf of each participant is subject to IRS discrimination testing, the ***OCPP***® plan design document does not unnecessarily limit the discrimination testing method that must be used to satisfy legal requirements. As a result, based upon the particular circumstances in a given year (e.g., employee demographics, compensation level of practice owners, cash flow, etc.), the **discrimination testing method is selected that will best meet the owners' objective for that year.** Because the contribution allocation formula is not stated in the plan document, **the practice has maximum flexibility in determining the amounts to be contributed on behalf of each participant**, subject only to satisfying the legal requirements for the specific discrimination testing method being used for that year. Furthermore, **the contribution pattern in any particular year does not have to be repeated in a subsequent year, thereby allowing even more flexibility.**

Family Members in Business - A dentist's spouse and/or children frequently work in the practice in a non-professional capacity. Because family attribution rules treat the spouse and children as highly compensated employees (regardless of actual compensation or lack of documented ownership), family members' ages and compensation levels create challenges to achieving dentist's contribution objectives. An ***OCPP***® plan design document allows family members to be included in the plan with the largest permissible contribution.

Employee Changes - Assume that because a practice has several younger employees, the documented plan design has allowed maximum contribution for the owner(s) at an acceptable employee contribution expense to the practice. If such younger employees terminate employment and are not replaced in the plan by similarly-aged employees, the contribution allocation formula that has been "hard-wired" into the plan document will result in a substantially increased employee contribution expense, which may be so large that the practice's only viable option is to eliminate the entire profit sharing contribution for the year in question. The ***OCPP***® plan design document solves that problem by allowing contributions to be declared at different rates for select, favored employees, and also by permitting the use of any discrimination testing method to be used that will satisfy IRS regulations.

Younger Partner Enters Practice - Certain plan designs take the age of participants into account when computing the annual retirement plan contribution. With those plan designs, the most favorable results occur when all owners are older than most of their employees. When a younger, highly compensated employee is factored into the discrimination testing, the contribution results will often be extremely unfavorable to the owners, requiring significantly higher contributions to the non-owner employees. An ***OCPP***® plan design allows alternative discrimination testing methods to be used to meet the practice's contribution objectives, allowing all owners (including young ones) to achieve maximum contribution levels, while maintaining the employee contribution cost at a minimal level.

Tax qualified retirement plans are among the most powerful financial and tax planning techniques available to owners of professional practices. A well-designed, IRS-approved plan document, combined with proactive consulting, will meet the owners' objective in several respects: the ability to provide larger benefits for owners and family members, controlling the practice's contribution expense for non- owner employees, flexibility in the amount of the annual contribution and its ability to respond to changing circumstances.

The ***OCPP***® plan design, offered through select financial consultants and *the* MandMarblestone *Group, llc* is the best approach currently available to satisfy these objectives.

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