

A CHECKUP FOR PHYSICIANS' RETIREMENT PLANS



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THE GOOD NEWS: Many medical practices that sponsor defined contribution plans will benefit from recent legislation and IRS policies.

THE BAD NEWS: Many physicians' plans are now obsolete, or need at the very least, some attention.

"What in the world is going on with this market?"

The question is being asked daily at every lunch table, on every golf course, on every front-page newspaper. And though the answers to the question vary extensively, the truth is that no one is entirely sure.

Now is not the time to focus on things we cannot control. It critical right now to focus on the fundamentals and on those things we can control.

What we know:

We know that for physicians, qualified retirement plans provide one of the few good tax shelters that remain under today's tax laws.

What we don't know:

We do not know an exact date and time of a huge market rally.

What we can control:

We can control our utilization of new legislation affecting our retirement plans. We can control the extent to which those plans are examined and updated to reflect new legislation, and suitability to the practice.

What we can't control:

The market. While our sights remain fixed on the frustratingly downward balances appearing on quarterly statements, and focus on losses, many benefits have been introduced recently through legislation, which don't seem to be commanding the same attention. For example: it is known that for physicians, whether opening a

practice, running an established solo practice or, a member of a multi-physician group practice, a qualified retirement plan for the practice remains one of the single greatest sources of tax benefits. Changes and improvements in these benefits have arrived.

The changes brought about are a result of the Economic Growth and Tax Relief and Reconciliation Act (EGTRRA). In addition to the increases to individual retirement plan contribution limits, the plan contains provisions involving exciting opportunities to physicians who sponsor retirement plans for their employees. Many see these provisions as having a favorable and significant impact on retirement plan designs and on plan participants.

Part of the new legislation makes 401(k) plans more accessible to small business and professional practices. Many physicians' practices have shied away from offering 401(k) plans because the difficult nondiscrimination requirements.

What this means is, the average deferral percentage of highly compensated employees (those who earn more than \$85,000), cannot be more than

2% greater than the average deferral percentage of the rest of the staff who are non-highly compensated. Congress's reasoning for this has been to deter disproportionately high benefits for high-income earners, and most physicians are considered to be part of this economic group.

Methods are being used by some physician plans, whereby providing a specified non-elective contribution or a specified matching contribution will allow the retirement plan to forego the complex testing normally required of 401(k) plans.

These and other tax and retirement planning strategies combined with the legislation described, and the rising contribution limits significantly expand the offerings for physicians and their employees.

Performing a checkup on the health of this very important part of your own medical practice is critical for its success.

For more information, please visit our website at www.fragassogroup.com or email Nicole Cavoti at nicole_cavoti@fragassogroup.com.



Recent Pertinent Changes* Include:

Rules Applying to:	Previous Limits	2002 Limits
401(k) deferrals applied to each individual for calendar year	\$10,500 indexed in \$500 increments	\$11,000 this year, \$12,000 in '03, \$13,000 in '04, \$14,000 in '05, \$15,000 in '06 and indexed thereafter in \$500 increments.
Annual additions to a participant's retirement account balance. Applied to each participant for the plan year.	\$3,500, indexed in \$5,000 increments.	\$40,000 in 2002 and indexed thereafter in \$1,000 increments.
Annual additions to a participant's retirement account balance. Applied to each participant for the plan year.	25% of compensation	100% of compensation
Deductions for plan sponsor.	15% of compensation, after reducing compensation for 401(k) deferrals, and deductions limit is applied to employee deferrals plus employer contributions	25% of employer compensation
Compensation. Earnings cap for applying previous limits.	\$170,000 indexed in \$10,000 increments	\$200,000 and indexed thereafter in \$5,000 increments

*Source: New Defined Contribution Retirement Plan Designs For Physician Practices Based on New Laws and Regulations, James F. Joyner, CPA, CVA, CFP