

## **Choosing a Retirement Plan That Works For You, Your Medical Practice and Your Employees**

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Most of us look forward to enjoying the freedom of a financially secure retirement. Of course, how well you live tomorrow is largely determined by how well you plan – and save – today. It used to be that most workers could rely on Social Security payments as a major source of retirement income. But that's no longer the case. Social Security was not designed for the America of today. Americans are living longer and could spend 30 years or more in retirement.

The secret to retiring successfully can be summed up in one word – planning. Essentially, that means planning early, planning sensibly and planning knowledgeably. There are a number of effective ways for business owners, professionals and their employees to save for the future – with many retirement plan alternatives from which to choose.

A retirement plan can offer important advantages to business owners:

- tax-deductible contributions to the plan reduce your current tax bill,
- a valuable recruiting tool, which may be positioned as part of your business' total benefits package, and
- can help you retain valued employees.

Whether you are considering adopting a retirement plan for the first time or evaluating an existing one, it's important that you understand your options.

### **What Are Your Options?**

In general, there are two types of retirement plans – defined benefit and defined contribution plans.

With a defined benefit plan, each participant's retirement benefit is determined by the formula set forth in the plan. Employer contributions vary to meet benefit requirements, and the plan sponsor takes on the investment risk. Since annual contributions are based on the amount required to provide the promised benefit, the closer your employees are to retirement, the larger the permitted tax-deductible contribution will tend to be. Therefore, you may be able to contribute more to a defined benefit plan than to a defined contribution plan, which has specific contribution limits.

With a defined contribution plan, benefits depend upon the level of contributions made and investment performance. Employees' benefits are based on the amount of assets in their individual accounts at retirement. The plan may be structured so that each plan participant takes on the investment risk of his/her own account. Some of the plans available include simplified employee pension plans (SEPs), profit sharing plans, 401(k) plans, and savings incentive match plans for employees (SIMPLEs). Let's take a look at each of these plans.

A SEP is for business owners seeking a flexible, low-cost retirement plan that is easy to establish and maintain. With the SEP, each eligible employee sets up an individual retirement account (IRA) into which the employer makes contributions. Since the employees each have their own individual accounts, they bear the investment risk. This plan may be especially suitable for new

businesses or companies with cyclical profit histories since the employer can vary the amount to be contributed from year-to-year – or even choose not to contribute at all in less profitable years.

A profit sharing plan is for business owners seeking more flexibility in plan design than is available in a SEP. Although both plans can be structured to allow contributions to vary each year, a profit sharing plan can have additional features such as a vesting schedule to reward longer-term employees and a loan provision.

For employers who want their employees to share in the funding of their retirement plan, a 401(k) plan may be a viable choice. A 401(k) is a form of profit sharing plan that allows employees to contribute pre-tax dollars through a salary reduction agreement. In addition, the employer may choose to make matching and/or discretionary contributions on a tax-deductible basis. Before adopting a 401(k) plan, the employer should first consider the administrative requirements and any additional administrative costs that may be incurred with this type of plan.

A SIMPLE is for businesses that have 100 or fewer employees and do not currently contribute to a retirement plan. It enables a business owner to establish a 401(k)-type savings plan without the typical costs and complexities associated with a traditional 401(k). A SIMPLE plan can be established either as an IRA or as a 401(k) plan. Employees can elect to contribute pre-tax dollars through a salary reduction agreement. In addition, the employer is required to make contributions each year under one of two formulas.

**Where To Get Help**

Providing sufficient retirement income for you and your employees at a reasonable cost to your business requires careful planning and investing. Whether you want to establish a retirement plan for the first time or have your existing plan evaluated, a financial advisor can consult with you to help you identify investment alternatives best suited to your needs and those of your plan and your employees. The following is an example of tax deferred savings in a 401k plan and the results of a disciplined savings plan:

<b>Annual Saving Amount</b>	<b>14,000</b>	<b>Annual Saving Amount</b>	<b>14,000</b>
<b>Rate of Return</b>	<b>6.0%</b>	<b>Rate of Return</b>	<b>12.0%</b>
<b><u>Years of Savings</u></b>	<b><u>Value of Investments</u></b>	<b><u>Years of Savings</u></b>	<b><u>Value of Investments</u></b>
5	81,287	5	94,276
10	190,067	10	260,423
15	335,639	15	553,231
20	530,448	20	1,069,258
25	791,146	25	1,978,675

As the above table shows, retirement planning for you and your employees is far too important to put off. Take the time now to understand your choices and identify your goals. Remember that professional advice can be crucial in creating a plan that is appropriate for you and your business.