

Small Business Retirement Plan Example

The Situation: Patients’ Medical has four doctors who each own between 10 and 40% of the practice. One doctor’s husband serves as practice administrator and the senior partner’s son helps with clerical stuff around the office. Each doctor has a nurse and the practice employs two general administrative staff. The doctors would really like to save more for retirement and pay less taxes but the current Patients’ Medical retirement plan doesn’t make it very easy. The current 401(k) profit sharing plan doesn’t include a match so the nurses and administrative staff don’t contribute anything. This means that the doctors don’t get to contribute as much as they would like. To get more into the plan, the practice has to make large contributions to the profit sharing portion of the plan with the percentages being the same for everybody.

The Solution: Patients’ Medical amends its plan to provide a safe-harbor match on the 401(k) portion of the plan. This means that the practice matches dollar-for-dollar up to 3% of employee pay and 50% between 3% and 5%. The practice also recognizes two things about its employee group. First, the average age of the doctors is generally older than the average age of the employees. Second, the practice administrator and doctor’s son are both considered “owners” for purposes of testing the plan. So, Patients’ Medical amends the profit sharing plan to allow different percentage contributions to different classes of employees to take advantage of these two factors.

Name (Age)	Compensation	Current Scenario		New Scenario	
		Employee Contributions	Employer Contributions	Employee Contributions	Employer Contributions
Wife Doctor (46)	\$245,000	\$9,800	\$39,200	\$16,500	\$32,500
Partner Doctor (58)	\$245,000	\$9,800	\$39,200	\$22,000	\$32,500
Junior Doctor (39)	\$175,000	\$7,000	\$28,000	\$16,500	\$21,475
Husband Administrator (51)	\$80,000	\$3,200	\$12,800	\$22,000	\$8,040
Managing Doctor (55)	\$245,000	\$9,800	\$39,200	\$22,000	\$32,500
Nurse One (32)	\$31,000	\$0	\$4,960	\$1,550	\$6,542
Nurse Two (61)	\$45,000	\$0	\$7,200	\$2,250	\$9,496
Doctor’s Kid (22)	\$15,500	\$620	\$2,480	\$15,500	\$1,558
Nurse Three (42)	\$35,000	\$0	\$5,600	\$1,750	\$7,386
Office Staff One (32)	\$26,000	\$0	\$4,160	\$1,300	\$5,486
Office Staff Two (56)	\$37,500	\$0	\$6,000	\$1,875	\$7,913
Nurse Four (52)	\$32,000	\$0	\$5,120	\$1,600	\$6,752
Total	\$1,212,000	\$40,220	\$193,920	\$123,261	\$172,148
Amount to Owners		\$40,220	\$135,680	\$114,500	\$128,573
Amount to Non-Owners		\$0	\$58,240	\$8,767	\$43,575
Total to Owners			\$175,680		\$243,073

The Analysis: The new plan allows the doctors (and their employed family members) to contribute almost \$70,000 more to the plan for themselves while reducing the amounts contributed for employees by almost 25%.

Of course, this is only a sample plan. Deciding which plan to actually implement will need to consider factors such as your company’s available cash flow, specific tax situation, and employee mix. For questions about specific plan options for your family, email us at wayne@waynefirebaugh.com or call 540-366-5800.

