

Considerations for Designing a Retirement Plan

By Paul Welk, PT, JD

In today's physical therapy marketplace, private practitioners are frequently forced to closely analyze a practice's finances in an effort to maintain and increase their overall compensation levels. One area often overlooked is the potentially significant financial benefit available through an appropriately drafted and qualified retirement plan program.

Many physical therapy practices, especially smaller ones, either have no formal retirement plan or utilize a basic plan without fully understanding the flexibility and benefits that can be achieved through a properly developed retirement program. For example, a practice may provide an equal level of benefits to all employees without realizing that it is not always necessary to provide the same level of contributions for every plan participant. In fact, when establishing a retirement program, it is important to consider the amount that the owner or owners wish to contribute on behalf of certain groups of individuals as compared with the amount to be contributed on behalf of the owner or owners. The practice can then use this information to develop a legally compliant retirement plan program that is best aligned with its goals and objectives.

Many physical therapy practices may benefit from a retirement program that is divided into two separate plans. The first plan is a profit-sharing plan with a 401(k) feature and a "new comparability" or "cross-tested" component. Under

such a plan, the practice is permitted to provide different levels of contributions to different groups of employees. In addition, this type of defined contribution (DC) plan can provide a higher percentage of the practice's contribution to the owner. The practice can add a second type of plan if it desires even higher contribution levels. The second plan is a "cash balance (CB)" defined benefit plan that may allow certain participants to receive the benefit of contributions at or in excess of \$100,000. Under a two-plan program, certain employees in the practice would participate in the cash balance defined benefit plan while others would participate only in the defined contribution plan. By utilizing this dual retirement plan program, a private practice owner (or, depending on how the plan is structured, a physical therapist without an ownership interest) can significantly increase contributions made on his or her behalf while still satisfying all legal requirements. Also, by using this type of arrangement, a higher percentage of employer contributions can usually be made to the practice owner. The number, salaries, and ages of the practice's employees will ultimately determine the amount of contribution that can be made on behalf of each individual.

The potential benefits of implementing such a program are best illustrated through an example. Jane, a 55-year-old physical therapist, is the sole owner of her practice and earned \$225,000 in 2007.¹ The practice also employs Jennifer, a full-time physical therapist who is paid a \$75,000 annual salary²;

Name ³	Age	Compensation	DC Plan	CB Plan	Total Employer Contribution	% of Total Employer Contribution
Jane (PT/owner)	55	\$225,000	\$29,500	\$69,751	\$99,251	89.37%
Jennifer (PT/staff)	36	\$75,000	\$5,362	\$0	\$5,362	4.83%
Part-time PT	52	\$25,274	\$1,372	\$505	\$1,887	1.69%
Part-time PTA	30	\$20,271	\$1,101	\$405	\$1,506	1.36%
Office staff	30	\$21,980	\$1,194	\$440	\$1,634	1.47%
Office staff	32	\$19,193	\$1,042	\$384	\$1,426	1.28%

a part-time physical therapist; a part-time physical therapist assistant; and two part-time office staff. Jane desired to put as much money away as allowed by law on a pretax basis for her retirement in 2007. By adopting the appropriate profit sharing plan with a 401(k) and new comparability feature as well as a cash balance plan, Jane was able to structure the retirement program so that 89.37 percent of the practice's total contribution was made on her behalf.

If Jane had elected to use a standard profit sharing plan with a 401(k) feature, even if she put as much money as allowed by law on a pretax basis into the retirement plan for 2007, the practice would have had to make a total employer contribution of approximately \$55,000 for Jane to receive \$29,500—approximately 50 percent of the total employer contribution.

When considering ways to improve a practice's total compensation to employees, whether for employee recruitment, retention, or retirement planning, it is important to not overlook the potential benefits of a properly prepared retirement plan program. The income and demographics of the practice will impact the ultimate financial benefit that may be available, but most practices can improve their retirement benefit program through effective planning.

If a practice is considering exploring the benefits of such a retirement program, (1) a qualified actuary must review the practice's employee data to perform an analysis similar to the above example, (2) an attorney should be retained to draft and review the retirement plan to assure compliance with the law, and (3) an investment advisor should be selected to invest the assets of the plan. While there is certainly an expense associated with establishing such a retirement plan program, the financial benefit to the practice can be substantial. ■

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¹ Survey data collected by the Private Practice Section indicate that \$225,000 is on the upper end of the gross salary/gross income range for Private Practice Section members for calendar year 2007. However, this figure was utilized because it represents the maximum compensation that retirement plans could take into account when determining a plan participant's benefit for 2007.

² See American Physical Therapy Association, 2007 Median Income of Physical Therapists Summary Report.

³ This example is based on actuarial data provided by Molly Balkey of Dunbar, Bender & Zapf, Inc.