HERITAGE

Pension Plans For The Medical Community

In today's income-tax environment, individual business owners may stand to pay anywhere from 43% to 55% depending on their states income tax rate, federal tax rate, phase out of exemptions, and FICA/ Medicare taxes. This represents a significant estimated quarterly tax bill due every three months for those self-employed individuals that earn more than $500,000. However, there are solutions to help mitigate that tax liability. An ERISA Sponsored Pension Plan may present an efficient manner in reducing their taxable income while receiving a substantial tax-deduction.

Self-employed doctors wear two hats with their practice- employer and employee. For Pension Plan purposes, the owner side of the hat makes the contribution to the pension plan and receives a 100% federal and state tax deduction. The assets grow in a tax-deferred and creditor protected retirement account. The employee side of the hat receives less reportable income on their 1099/ Net Schedule C or K1 statement, thus lowering their tax bill and estimated quarterly tax payments.

Who are self-employed doctors and who would be an ideal candidate for these plans? Small business owners, including doctor's, are ideal candidates as pension plans will allow the owner to contribute on a tax-deductible basis anywhere from $100,000 to $350,000 annually. Many times in the medical community, a doctor may be an employee of a hospital- but also have an outside consulting practice outside of the hospital. While their hospital income will generally not be eligible for a pension plan (presuming it is W2 income), the outside income that is either 1099 or K1 would be eligible for an individual plan. For example, one of our clients is an Emergency Room doctor employed by the hospital. However, he also owns an MRI machine which he leases to the hospital. The earned income received from the lease is 100% eligible to be contributed into a personal pension plan. The doctor contributes to the hospital's 401(k) plan through his W2 salary and contributes to his pension plan via the side business income. Other common scenarios for doctors include outside consulting, speaking engagements, and board of director's income.

The typical demographics for a doctor looking to contribute to an individual pension plan are: significant tax savings.

- Between the ages of 45 to 65
- Are seeking a tax-deductible contribution of at least $100,000
- Have at a minimum of $250,000 in 1099/ K1 income, but preferably greater than $500,000
- Have a 4 to 10-year funding goal

If you have clients in the medical field that are looking for a manner to mitigate their tax-liability, a qualified pension plan may be the solution. some of the highlights of a Pension Plan include:

- Large, six-figure annual tax deductions
- Creditor protection of a large sum of assets
- Ability to significantly increase retirement savings over a short period of time
- Conservative interest rate assumptions reduce the volatility of the account
- The benefits in the Pension Plan are completely portable, i.e. rollover eligible

References to IRS Codes can be found at: https://www.irs.gov/tax-professionals/tax-code-regulations-and-official-guidance

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