

Physician's MONEY DIGEST

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Expanding Employee Offerings Can Benefit Small Practices

By Brett Ellen

Some physicians provide their employees—and themselves—with scant company benefits. Many of these physicians may believe that company benefits beyond the basics—health and disability insurance, IRAs and perhaps a 401(k) plan—may be too expensive, particularly for small practices.

At the same time, many of these physicians spend substantial sums out of their own pockets—rather than out of corporate coffers—for benefits for themselves, including long-term care insurance, life insurance and various tax-deferred investments.

Not only can these practices afford to provide these benefits on a company level, many of them can't afford not to. Instituting expanded company benefits can result in substantial cost and tax savings for physicians over paying for them as individuals. In this sense, physicians who make this transition successfully can be said to bridge the gap between their personal and company finances.

Providing expanded corporate benefits also enables physicians to give their employees greater total compensation value at a savings over giving the same value in wages alone. By doing so, medical practices can increase their economic capacity to attract, retain and motivate valued employees.



Untapped savings may also await practices that already provide a wide array of benefits. The structure of company benefit programs and the quality of their administration—particularly regarding tax planning—can make a substantial difference in their real economic cost.

Practices seeking to get the lowest tax bills for physicians and the greatest value for themselves and for their compensation dollars should consider:

1) Starting a defined benefit plan (often referred to as a pension). These plans promise to pay each participating employee a specified amount upon retirement, contingent on a set number of years of service. Investment in these plans, which comes from employees or the employer, is tax-deferred, lowering participants' annual pre-tax income while assuring savings for retirement.

Though some physicians may have profit-sharing plans and 401(k) plans (known as a defined contribution plans), they may be contributing the maximum allowable amounts into these plans each year. By adding a defined benefit plan, they can reap substantial additional tax-savings and increase their retirement nest eggs. Another benefit: Assets in these plans receive strong legal protection against malpractice plaintiffs and creditors.

2) Long-term care insurance. The ordinary conception is that these plans aren't feasible for small companies. However, if handled correctly, these plans can give small companies like medical practices the same kind of tax benefits that larger companies enjoy. With as few as three people, a company can qualify for a long-term care plan. With only 10, the underwriting of these policies becomes far easier. Many physicians tend to have these plans for themselves as individuals, but not through their practices. By setting these plans up at work, they can incur additional tax savings. Employees may take these plans with them when they leave the practice and continue to pay the same group rate—much as they do with COBRA concerning their health plans. While this is hardly a retention tool, it

encourages employee participation and increases the odds of reaching enrollment minimums.

3) Company life insurance. Not only can medical practices offer life plans, they also have the option of having these plans purchased under their defined benefit plans, which can confer additional tax savings.

4) The need for proactive administration of benefit plans coupled with strategic tax planning, both for physicians' individual returns and their practices'. Commonly, medical practices don't comprehensively manage their benefit plans, so they may be missing opportunities for tax efficiency. The idea is to be proactive rather than reactive. This means running the actuarial numbers throughout the year so as to position overall tax strategy. For physicians' individual returns, this might mean tax-harvesting losses on stocks or creating trusts. Waiting until the end of the year to develop a strategy, by contrast, is reactive. By then, it's too late to make strategic changes to effect the most advantageous tax position.

5) The need for advisory specialists. Like many busy professionals, physicians may be looking for a one-size-fits-all advisor. After all, this reduces the number of people they deal with. However, this approach doesn't always result in the best service, and thus ultimately doesn't save time when things need to be re-examined and redone. Instead, physicians should consider the benefits of using a network of advisors that can assign specialists where needed. This is best done after an initial evaluation of the needs of individual physicians' personal and professional financial situations.

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