Dynamic Chiropractic

YOUR PRACTICE / BUSINESS

A Plan for All Seasons

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You have all heard me from time to time jump up on my soap box and go on for hours about how important it is to have a "qualified" retirement plan. Well, there is another side to this coin and it is a "non-qualified" plan. I still feel that the "qualified" plan is the best of all worlds, but in some situations, the "non-qualified" plan may work best for you. The basic goal of both is to accumulate dollars for future delivery, or, as I call them in the Greenfield Financial Program, "long-term dollar," usually for retirement, under the best possible tax saving methods. Let's see how these two plans differ on three major points:

1. Tax-deductible contributions.

2. Tax-deferred accumulations.

3. Tax-exempt distributions.

Qualified plans take advantage of the first two points in that the contributions are tax-deductible, and the dollars grow in a tax-deferred environment. The distributions are taxable as they are paid out to you in the form of a retirement income.

Non-qualified plans take advantage of point two as well, but are allowed to use point three since they cannot take advantage of point one. In other words, to enjoy tax-exempt distributions, they cannot have contributions that are deductible. How does this impact on a chiropractor? Let's review two cases:

Crackem High, D.C., established a "qualified" plan and must put away dollars each year for his employees. He takes full advantage of a "vesting" schedule, and the plan is integrated with social security, so that he ends up with about 70 percent of the dollars that go into the plan. Not bad when you consider the fact that most plans will never "net" you that amount. Sounds like he had good advice for his plan design. Keep in mind too that because the contributions are deductible, Uncle Sam is paying for at least 40 cents out of every dollar. At retirement, Crackem will have to pay current taxes on the amount of his retirement income.

Hittem Low, D.C., is Crackem's cousin. He decided that he did not want to have the expense of a qualified plan, so he set up a "non-qualified" plan and put money away only for himself. He has no yearly limits as to the amount that he can put away for his own benefit. He pays no annual fees and does not have to worry about keeping a plan up to date every time Congress wants to play games with the tax code.

Crackem gets all the tax advantages while he is at the highest tax bracket. His contributions to the plan go in "before" taxes, so for every $1,000 he puts into the plan, he saves at least $400 in federal and state income taxes. If he puts aside $10,000, he will save $4,000. His comment to his cousin each year is, "How much did you save in taxes?" While the money is growing, he pays no taxes on the earnings.

Meanwhile, Hittem just sits back and smiles, because he knows that it is costing him more in taxes each and every year, but he does get the growth sheltered from current taxation; and when it's time to retire, he will get all of his retirement income with nothing taken out for taxes. He feels the trade-off is worth it. He does not have to deal with tax laws or his accountant.

Both of these plans have their advantages and disadvantages. The qualified plan does have an expense to set up. (If you paid more than $800 for everything, including the document, you probably didn't have it set up by yours truly. Most plans will probably be even less than that.) The qualified plan does have forms that need to be filed with the IRS every year, and if you pay someone to do that for you there will surely be a fee for services. That should not be more than a few hundred dollars. (You say you pay more? I'll bet you didn't check with me.) One exception to this is the SEP plan. You should not have to pay any fees for set-up or for annual forms, since none are required. SEPs are great to use, but you must make sure they are the best for you in your specific situation.

Non-qualified plans don't need any documents to set them up and require no forms to be filed, so there are no fees to pay. if set up properly, they are not subject to probate either. They are exempt from claims of creditors, and you can have access to your funds without triggering a taxable event.

Are qualified plans good? I think they are great, and I feel that if you don't have one, you are missing the boat. Are non-qualified plans good? In the right situation, they may be better than a qualified plan. Something is better than nothing. If you want your cake and eat it too, can a person have both? Now you're talking. You can use both and enjoy the benefits and dollars of both. That's easier than making a decision. In my newsletter and at my seminars, we explore these plans as well as alternatives in much greater detail to help you better understand which type of plan will work best for you -- not only now, but in years to come.

Who has the best plan, Crackem High or Hittem Low? That depends on what you want your plan to do for you. At least we can say one thing for them, they have a plan. Do you?

Your comments and inquiries may be directed to:

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Please include a self-addressed, stamped envelope. Thank you.

Editor's Note:

Further advice on finances is available through Mr. Greenfield's newsletter, Greenfield Chiropractic Financial News, #J-314-C, on the Preferred Reading and Viewing list, pages xx.

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