Know-How
Expanding knowledge for the practice administrator

Don't be shy about retiring

Every practice needs to address benefits plans for its members

By Todd Barrow

Retirement plans for health-related organizations are often fragmented into defined contribution [both 403(b) and 401(k)] nonqualified deferred compensation plans and defined benefit plans. Core retirement plan(s) must be made available to both physicians and staff. Every medical organization, no matter what size, should create an investment committee to design and monitor its retirement plans.

A small practice's investment committee may comprise a physician or two and the practice manager. Larger clinics' committees generally comprise some or all of the following: CEO, CFO, human resources director, human resources benefits representative, key physicians and a few other employees. The Department of Labor provides an overview of the function and fiduciary responsibilities required of this group at www.dol.gov/ebsa/pdf/fiduciaryresponsibility.pdf.

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I know I want to get there, but where's here?

How can participants reach their retirement goals? The nuances of plan structures, investment options and risk limitations may get lost in complexity if a medical group has a mish-mash of plans. For example, an organization may have an outdated defined benefit plan, a 401(k) plan and a nonqualified deferred compensation plan for those who have reached the contribution limit in the 401(k).

Look for an investment company that is competitive across the entire retirement plan spectrum. Try to integrate all plans on one platform, then provide an adequate number of quality investment choices. Ensure that participants can track their investments daily.

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about the author

Todd Barrow, president, Barrow & Powers Financial Services, Lakeland, Fla., todd.barrow@raymondjames.com

Overview of retirement plan options

401(k) — A salary-reduction defined contribution plan whereby an employee may elect, as an alternative to receiving taxable cash as compensation or a bonus, to contribute pretax dollars to a qualified tax-deferred retirement plan. Available to for-profit and nonprofit organizations. Contributions are usually made by both the employer and employee.

403(b) — Similar to a 401(k) plan, but only for nonprofit organizations. Contributions can be made by both the employer and employee.

Nonqualified deferred compensation plan (DCA) — A nonqualified DCA is a contractual agreement in which an employee (or independent contractor) agrees to be paid in a future year for services rendered. Deferred compensation payments generally commence upon termination of employment (e.g., retirement) or preretirement death or disability. Although the employer's contractual obligation to pay the DCA benefit is typically unsecured, the obligation still constitutes a contractual promise. The plan's main purpose is to allow additional savings by those who have reached the contribution limit in other traditional retirement plans, like a 401(k).

Defined benefit pension plan — Plan that promises to pay a specified amount to each person who retires after a set number of years of service. Such plans pay no taxes on their investments. In most cases, the employer makes all contributions.

Source: Dictionary of Finance and Investment Terms, third ed. 1991, Barrons Educational Series Inc.

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Building and monitoring

Consider the investment selection when designing or redesigning a retirement plan. You don't want to shortchange your employees, but you don't want to overwhelm them with choices, either.

Regularly compare each investment option in the plan to its respective index, available from your investment services company. For example, a large-capitalization growth fund should compare well to the S&P Barra 500 growth index. A small-cap value fund may relate closely to the Russell 2000 Value Index. A well-thought-out retirement plan should have 10 to 12 asset classes from conservative to aggressive.

Benchmarking

Benchmarking is popular in the medical industry to find that competitive edge. You can use a benchmarking service to compare your practice's retirement plan to hundreds of others, analyzing broad characteristics such as participation, investment categories, asset allocation, expense and plan design. Benchmarking is generally cost-effective and will give you a good snapshot of how your plan stacks up to competitors.

Education, education, education

The importance of education in a retirement plan cannot be understated. Teach participants early and often. The annual investment meeting emphasizes saving. Make your presentation compelling, simple and creative to get listeners involved. Even though your practice's investment committee may not give employees specific investment advice, it can provide tools for them to make good decisions. Think of the committee's role as that of a car manufacturer and a driving school combined: Build a Ferrari of a plan, integrated across multiple platforms, making it easier for employees to understand their current location. Then teach them how to look, think and act like a Formula One driver — all the way to retirement.