DEFINING YOUR NEEDS

A look at the pros and cons of saving in a defined-benefit retirement plan in your practice

Defined-benefit "Keogh" or qualified plans may allow some private practice professionals to defer taxes on more income and save more for retirement than in defined-contribution plans, such as 401(k)s or SEP-IRAs. But they're also more complex and come with potential drawbacks.

Before you establish such a plan at your business, it's important to understand how they work and the rules you will be required to follow. Here's a look at some of the potential pros and cons:

UPSIDES

HIGHER CONTRIBUTIONS ALLOWED

Defined-benefit plans allow private practice owners to make contributions based on the benefit that will someday be produced. Especially for high earners in their 50s or 60s, that can mean annual tax-deferred savings of far more than the limits imposed on SEP-IRAs or solo 401(k)s. How high can contributions go? In 2014, contributions are capped at the lesser of the amount needed to produce pension benefits of $210,000 a year in retirement or 100% of average compensation for the three highest earning years. That means a lawyer, doctor or other small practice owner may be able to save more than $100,000 annually in a Keogh — or at least $50,000 more annually than what could be saved in other types of plans.

TAX ADVANTAGES

Higher contributions to defined-benefit plans mean practice professionals can defer taxes on more income during their working years and then pay the taxes during retirement, when their tax rates may be lower.

INVESTMENT FLEXIBILITY

Defined-benefit plans can include the same types of investments as other plans, including various types of mutual funds or exchange-traded funds.

CONSIDERATIONS

EMPLOYER CONTRIBUTION RULES

Employers must make plan contributions for all eligible employees, and that can get expensive depending on employee demographics such as their ages and salaries. However, employers can use a vesting schedule that allows employees to fully receive their contributions over several years instead of immediately. Generally, defined-benefit plans are best-suited for very small practices with fewer than 10 employees or even solo business owners.

STRICTER RULES

Once your practice starts funding a defined-benefit plan, it must continue to make annual contributions for all eligible employees or face a 10% excise tax on delinquent contributions. In addition, you and employees in the plan are not allowed to make a withdrawal because of a financial hardship.

MORE ADMINISTRATION

Defined-benefit plans can involve considerable paperwork and oversight. Yearly contribution amounts must be calculated by an actuary. ▲

YOUR WEALTH ADVISOR CAN CUSTOMIZE A TEAM OF EXPERTS TO HELP YOU REVIEW YOUR PRACTICE'S RETIREMENT PLAN, MANAGE IT EFFECTIVELY AND IDENTIFY INVESTMENTS THAT SUIT YOUR BUSINESS NEEDS.