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When does a simple IRA make sense for your practice?

by Steven Podnos Md, Cfp • Nov. 2, 2015 • 1 min read • original

The 401(k) plan is the overwhelmingly popular choice of retirement plan for most medical practices. It allows a salary deferral of $18,000 or $24,000 in 2015. However, in most practices and other businesses, this requires an employer contribution equivalent to 3% of compensation to allow a full deferral. As the ratio of employees to practice owners goes up, the percentage of plan contributions that are for the benefit of the owners keeps dropping. Perhaps recruitment and retention issues are important enough to rationalize the plan costs, but in some cases they are not.

Read more from Steven Podnos here

I work with a few practices that have one provider with more than five employees. In this situation, it becomes an option to consider the SIMPLE IRA as an alternate plan. With the SIMPLE IRA, the owner is allowed a salary deferral of X dollars in 2015 (with a catch up of X dollars if the owner is age 50 or more). The owner opens a SIMPLE IRA account for the funding. Any employees that wish to participate also get their own IRA accounts that they can make the same deferral to. The plan also has a match which in most cases is 3% of compensation (with no limit to how much compensation counts, as exists in other retirement plans). So, if the owner makes $300,000, they can add a $9,000 match to their salary deferral for up to X dollars/year. Often employees choose to defer nothing or very little to their accounts, so the employer match is either nothing or very minimal ($30 per $1,000 deferred per employee).

These SIMPLE IRA plans can be set up at no initial cost, and there is no reporting for the employer to do to the IRS.

The advantages are well laid out above. The disadvantage of the SIMPLE is the limited amount of contributions. With a 401(k), the 51 year old physician making $300,000 could contribute up to X dollars in 2015, albeit with employee costs and significant plan reporting. With the SIMPLE IRA, they would be limited to X dollars. The other problem with the SIMPLE is the fact that employees will perceive little benefit from the plan unless they make large deferrals (unusual).

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If a SIMPLE sounds interesting, discuss it with your financial adviser. As the plans are available at either no or very low cost for the set up and management, it is not so easy to get advice on them. Do be careful with brokerage sponsored SIMPLE IRA plans which often only allow very expensive funds as investment choices. I'd suggest a low cost brokerage house such as Fidelity or a similar firm.

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