SEASON 2, EPISODE 9

USING CASH BALANCE PLANS TO REDUCE TAXES & BUILD WEALTH WITH SCOTT MCHENRY, FCA, MAAA, MSEA

David Mandell:

Hello, I'm David Mandell, host of the podcast. Welcome to today's episode. I am excited about the episode really for two reasons, Scott McHenry is great and I like chatting with him and he has really good insights on the topic we're going to talk about. And this is a really important time to be talking about it because people are very focused on tax savings, as we all are in the fourth quarter typically of the year when we get to get a sense of what our income is. But I think also not just for 2021, but also for the near future. As you know, we're getting a ton of questions from clients watching news and saying what's going to pass and our tax rates going to go up. And none of us have a crystal ball, but I think we can say that if anything does pass now or shortly taxes are going to go up to some degree in some ways.

So having something that reduces taxes is going to be helpful. And one of the tools we're going to talk about, Scott is an expert on, helps in that regard, so stay tuned. And let me give you a Scott's bio. Of course, we'll link to it in the show notes.

So Scott McHenry, FCA, MAAA, MSEA, (and I'm going to ask him about those acronyms in a minute), is an enrolled agent, a fellow in the Conference of Consulting Actuaries, a member of the American Society of Pension Actuaries, a member of the American Academy of Actuaries and a graduate of Miami University of Ohio. Scott founded McHenry Advisers in 2006, at the same year end of six that we formed OJM so it's interesting, and has grown it into one of the largest retirement actuarial firms in the country, currently serving over 1200 cash balance and defined benefit pension plans. And we're going to talk all about what those terms mean.

McHenry Advisers is recognized as a national leader and provider of innovative, qualified plan designs and retirement tax mitigation strategies. Scott has consulted with over 3,500 qualified retirement plans of all sizes over the past 25 years, including 401ks, profit sharing plans, ESOPs, a topic for another time and defined benefit and cash balance plans. So with all that, Scott, welcome to the program.

Scott McHenry:

Thanks, David. I appreciate the opportunity to speak with you.

David Mandell:

Excellent. So before we get into speaking about you, as listeners will know, that's where we always start, tell us about those acronyms, FCA, MAAA and MSEA, most of our listeners including me aren't familiar with those. So tell us what those mean.

Scott McHenry:

Those are all actuarial designations. So FCA, Fellow of the Conference of Consulting Actuaries, MAAA, Member of the American Academy of Actuaries and MSEA, a Member of the Society of Enrolled Actuaries-

David Mandell:

Got it.

Scott McHenry:

They're all related to actuarial work, that last one specific to qualified retirement plan actuarial work.

David Mandell:

That makes sense, given your bio, no surprises there. Now people can add those professional designations to things that they know if it ever comes up on jeopardy or in other circles.

So now let's talk about you, tell us about where you're from, where'd you grow up, what got you interested in a financial field in general?

Scott McHenry:

Sure. So I was born in Indianapolis, ended up moving to Cleveland on beautiful Lake Erie when I was in high school and then went to Miami University, Oxford, Ohio for undergraduate college and majored in accounting.

David Mandell:

Okay.

Scott McHenry:

So actually went through college with an accounting major. But math was always my strong suits and realized towards the end of college that maybe there's some opportunities that are more math related but still financial related and a good place to pair the two things together.

David Mandell:

That's not surprising when I think of actuaries as a lot of people probably do, it's people who are very good in math. And for some of us who did pretty well in math but kind of topped out in calculus or some of those once things get to be a little more advanced give a lot of respect to folks who can understand that language as it gets more in depth. So before forming McHenry Advisers, what was your career path? So you came out, realized, "Hey, if I can do something in math that's related to

finance, that'd be great." How'd you go from there coming out of Miami to eventually forming your own firm?

Scott McHenry:

Sure. I started at a firm in Cleveland right out of college that was a lot of different things. It was an old actuarial firm going back to the 1930s, also was an investment advisory firm and a retirement plan third party planning administration firm. So starting there in 1996, and there were some law changes that happened very shortly after that opened up great opportunities for physicians, business owners to start adopting defined benefit and cash balance plans again. There were some law changes that increased what someone can contribute and adopt as a retirement plan contribution. So at that point working for that program, I started taking actuary exams, have a great relationship, they've been a client of mine since 2006 when I moved out of Cleveland, came down to Columbus and started McHenry Advisers.

David Mandell:

So you were there at this old substantial firm coming out till you left and spun out on your own. Is that right?

Scott McHenry:

Right. Yeah. Right. So one job, one firm for 10 years after college and then started McHenry Advisers.

David Mandell:

That's great. And you mentioned their clients, they obviously respected your expertise and you said, I want to do this on my own but I can provide some services to you, back officing it or for your clients or some kind of synergistic relationship. Is that right?

Scott McHenry:

Sure. Yeah. So over the years that firm it kind of morphed from actuarial and third party administration firm focused into more investment advisory, more broker dealer. And so it was opportunity for me to continue to work as an actuary for them, provide those services that aren't as core to their business, but also gave me the ability to continue to start to work with plan sponsors, other financial firms across the country that need more assistance in the actuarial space.

David Mandell:

Got it. So you could do your expertise, be independent and have them as client but also obviously as you have over the last 15 years build a client base all over the country. And that's one of the things that I know, in addition to you being an expert

in knowing what you do, that is attractive for OJM, and as all listeners know, our clients all over the country. So you're working on a number of clients of ours that are not in Columbus, not in Ohio, not in the Midwest, right? So they're all over the place. And that's the nature of OJM as I sit here in Fort Lauderdale when we do this call.

So now let's get into the substance, what I think a lot of people are tuning in for which is there's this terrific tool that might make sense for some clients, and they're called cash balance plans. And so cash balance plans is one type of qualified retirement plan. Why don't we start with what are they and how do they differ from a 401k, a profit sharing plan, or even a defined benefit plan that some of the docs listening may be more familiar with?

Scott McHenry:

Sure. A cash balance plan is a defined benefit plan. So it's exactly the same as a defined benefit pension plan in terms of what someone can fund into the plan, what they ultimately can take as a distribution and roll over to an IRA out of the plan. So they have the same limits, a lot of the same calculations, what is different is just the way we go about defining what the benefit is. Instead of some pension amount payable for life and retirement, we can just define it in terms of real dollars today going in as a contribution to the plan.

So, for business owners, if they have employees, it's easier for their employees to understand their benefits. Beyond that it can be age neutral. So it's a little bit better than a traditional defined benefit plan for a business that has a non-owner, non-shareholder employees. I can provide, set up a plan and have the same contribution level for those employees. And there are ways that we can build in higher levels of flexibility. So traditional defined benefit plans, at times we're a little bit inflexible than with cash balance plans. There's ways we can make them extremely flexible if that level of flexibility is desired.

David Mandell:

That's some good points and I'm actually taking some notes that I want to bring up as responses to that. So one is just to step back for our listeners, as Scott was saying, the cash balance plans is one subset of the defined benefit plan, right? It's a one that may be even more flexible, maybe not as age restricted, that can get a lot of bang for your buck in a crude way of saying but it's still within the framework of a defined benefit plan. And so for those of you listening, that's different. And this is in our books and articles and a lot of other podcasts that we've done, then a defined contribution plan, right? And that's what a 401k and a profit sharing plan is where the government defines the contribution amount, right? You have a certain amount of 19,500, whatever it is.

I don't know exactly what the number is, but they say, this is how much you can put in a 401k, whatever you grow it to you grow it, right? There's this much you can put in a profit sharing plan. And you can do less of course, but this is the maximum you

can put in and whatever you grow to you grow to. You don't need an actuary for that. You might be a third party administrator to administer and make sure all the things you are doing and OJM brings a lot of value to those plans in addition to managing the assets but making sure that the defined line up makes sense for the receptionist as well as the surgeon and everything in between. But these defined benefit plans are the ones that need that actuarial calculation obviously to figure out what can you put it, right?

It's the benefit is defined then you work backwards to figure out what you can contribute and that's what I want people to listen to and understand, right? And we'll talk about an addition, you might be able to have both, right? So we'll talk about that in another question, but I wanted to set the stage that this is the kind of special sauce here are smart math people like Scott, who are actuaries who can figure out within the rules what type of defined benefit plan makes sense is the cash balance and how is that built so that you can get your goals of increased contributions, potentially flexibility, it fits within your employee profile, that's where the art and science is. And those are all within the defined benefits umbrella. Did I say that right in terms of an overview?

Scott McHenry:

Yeah, you did. There're two separate types of plans, defined contribution plans, 401k profit sharing, defined benefit plans, which may be traditional pension plans or cash balance. The limits are different. There's a limit on what someone can contribute to a defined contribution plan between employee 401k deferrals and company contributions. 58,000 is the limit if somebody is over age 50 they can contribute a little bit more than that. Defined benefit and cash balance plans have a limit ultimately what the plan can pay out. For example, $3 million after somebody has been in a plan for 10 years.

So what that means is there is a ceiling, but what we can have someone fund into a defined benefit or cash balance plan is a lot more in a lot shorter period of time than is possible with the 401k plan. So you can have both, we can do both, but for individual business owners positions that really want to maximize their current tax deductible contributions, defined benefit and cash balance plans always provide a much higher level of contributions, then it's possible in a 401k profit share plan.

David Mandell:

That makes sense. And that leads me to my next question. Why would a physician want a cash balance plan? And obviously one answer is larger contributions, right? Larger deductions, are there other benefits that are in there that might not be as obvious?

Scott McHenry:

Well, it's tax driven, right? So 401k plans are great as an employee benefit plan. Cash balance plans are great for physicians, highly compensated employees, individuals that really want to maximize their tax deductible retirement contributions, where 401k does doesn't do that enough for them. So it's all tax driven, the ability to make current contributions deductible for federal and state income tax purposes, allow that to grow tax defer, ultimately roll it over to an IRA. Those are all options inside of a cash balance plan. But the reason someone would do it is to reduce their income taxes now pretty dramatically by being able to make large contributions.

David Mandell:

Yeah, totally makes sense. So who's a good fit. What kind of practice? We've got a lot of docs here, obviously we have some who are employed for big institution and they're not going to be able to get that Cleveland Clinic or Ohio State, you're probably talking to them to do something, and maybe collectively they can, and in some of these outfits do to that, but for all of our docs who are in smaller practices, partners, et cetera how do they figure out if they're a good fit to even talk to us or you about this?

Scott McHenry:

Sure. Well, so we're coming from certainly the larger institutions may have already have to find benefit or cash balance, but from a private practice physician perspective or a physician that may have side source of income.

David Mandell:

That's right. I just want to jump in and make that point. Even if you're employed or you're a part of a large group, what we've been doing in working with Scott is if you've got an outside income, whether that's industry income that you're making, active income on or you're speaking or you've got another business totally unrelated to medicine, oftentimes we can focus on putting that, a plan like this in that business and to that income stream and reducing taxes that way.

So keep your mind open if you're listening, even if you're part of a group you say, "Oh, they'll never do anything." But they still have this individual income that they're making for their side hustle, whatever that is. We can do that. And I know you've been doing that for clients, so I wanted to make that point. But in terms of the practice let's say, if they don't have that side hustle, what things do you look for or what's kind of a threshold in terms of this might work for you?

Scott McHenry:

Yeah. It's always-- do the individuals, this shareholder, private practice physicians have the cashflow and desire to fund more 58,000 a year towards retirement? If they do, then I think it's worth investigating a cash balance plan. And whether it makes sense for the practice is always going to come down to, all right if we do the

supplemental cash balance plan, we're looking at it for the positions, how much can they contribute? How much do they want to contribute? And then how much more do we have to give to rank and file W2 employees in order to satisfy IRS rules?

So a lot of times it comes down to the just the demographics of the practice, right? If it's a practice with a lot of high-income shareholder physicians and not too many W2 employees or physician that wants this fate in the cash balance plan, then it makes sense. But if it's such a practice that they have such a large number of full-time W2 employees that the positions aren't getting 80, 90% of the additional dollars going into the plan once it's added on top of the 401k plan, then sometimes maybe it doesn't fit.

David Mandell:

Now that was definitely my very cursory uninformed kind of opinion before we really started working with you and gotten into it. But I've seen some clients that you've worked on. And actually Jason, I think put some slides together based on those real world examples where even dermatologist or plastic surgeon, orthopedics, whatever, where there are a fair amount of rank and file employees that 90, 92%, I see 95% of the benefit or the contribution can go to the owners. I've changed my mind on that in terms of the, as docs will say a patient presenting for this solution, meaning somebody might've heard what you said and you're a conservative guy and understand that, it's all numbers, right?

But speak to that. We've seen clients where it was, I don't know the exact number, 10 to one or five to one, but there are a lot more employees than there were for the owners, but yet at the end of the day, the numbers really sung for them, even though they had a lot of employees. And the nice thing is they're given an additional benefit to those employees, are not taking anything away, but they're getting so much more of the benefit, 90, 95%, 97%, that it's kind of a slam dunk. So speak to that in terms of what that ratio... I guess I'm not going to box you in on a number, but the applicability in terms of I think more clients are a good fit for this than they may think.

Scott McHenry:

Right. Yeah. Historically I get asked that about, well, what's the mix? And I always try to back up and just say, let's start with, do you want to contribute more than when you came to your 401k plan?

David Mandell:

Because if you don't then there's no sense talking about it, right? It's a great tool, but if you don't have the cashflow, and I want to make this point, or you don't... That's really it, if you don't have the cashflow you say this, "I'd love to save a lot of taxes, but I bring everything home because I've got this big house we're doing, or the kids are in private school." We can't do a tax saving cash balance plan and then you have

go spend the money in your pocket, right? This has got to go into the plan. So that is for sure. And then I guess you gather the information like the what's called the census and start to do an analysis, say, okay, can this really work for you?

Scott McHenry:

Right. So I would always, if you answer yes to that first question, then I think it's worth investigating. And a lot of times I think people are surprised and I wouldn't, not investigate it because I think I have too many employees.

David Mandell:

Right.

Scott McHenry:

Because there's oftentimes where we're like, "It's okay, you have a lot of employees, but we can still get you 95% of the dollars going in." And what you're providing to your employees is an additional benefit for them. And you can get some mileage off of that but it's very, very small compared to the tax benefits that are accruing to the physicians. Wait, rule of thumb, in 30 employees or fewer, per one person I want to maximize. I think that's definitely worth looking at. And so for example, if you have five shareholders, right? And you have fewer than 150 employees, I think that still could look really good-

David Mandell:

Great. That's amazing. Yeah. It's amazing to me of what I used to think. I used to think, okay, well, if you're a doc, an older doc and you have four employees, then this thing's going to be home run, but it's actually much wider than that. And that's why we're doing a lot of business with you and that's why I want to bring this to our podcast because it is more applicable, especially in the environment we're in where a lot of other tools have gone by the wayside, and other things I've done in 25 years for clients as an attorney and as a consultant have been phased out. And that leads, it's not even a question we talked about, but one of the things I wanted to ask and then I want to ask about, the risk of rules changing. Let's just talk about that in a second.

But you mentioned you're giving a benefit to the staff. And again, I can't go a day without reading a business or finance article with... Everybody knows this, staffing shortages everywhere, healthcare in particular, people are getting burned out. So if you can do something, if you're listening as the CEO for your staff, that once that you value or attract somebody with a plan that another practice doesn't have, but yet still get 90, 95% of the benefit, it's a tax win. So it's a win for you as an owner, but it's also a win for you as the CEO of your practice, right? Because now you're giving something that maybe competitors don't have that they didn't have before, right? I speak to CEO groups, EO, YPO, et cetera. And a lot of times they're more interested

in these kinds of golden handcuff tools or other things because they realize that the people make their organization.

That's a little bit different in a medical practice to some degree because the docs are seeing the patients but they have key people to. So if you're listening to this, yes, I know that it's going to be 98% decided on the tax benefit, but let's not totally ignore the fact that you're doing some good for your employees, because that could come around to help you keep, and because we all know key people, the cost of retraining somebody and bringing them in and recruiting them and all that, that is a huge time and financial hole, that to get back to where you were.

So I just want to emphasize that point, but since I brought it up, I know this wasn't the question, but do you get this question? "Hey, this is a great tool, but how do we know it's not going to get phased out?" Or the rules, how solid are we about this? As opposed to other things that might have a tax benefit that in the past have gotten phased out over time. So give a little bit of the history and what your perspective is on that.

Scott McHenry:

Yes. I think it's pretty protected because it has it benefits individuals that are sometimes on the historical both sides of the political aisle, meaning that the rules, these are risks of federal law plans, they go back over 100 years. The laws are pretty steady. What I've always been concerned about are the limits, right? These limits are cost of living adjusted that maybe they get changed. So what happened last time that they talked about changing the limits was that the firefighters and the police unions who can retire on a full pension in 30 years blocked any lowering of these maximum pension benefit limits. So it has proponents on the left and in the right.

So I think for that reason it's pretty protected. Number one, is it's also a pension plan, right? So there's a retirement concern overall in the population that in this movement from pension plans to defined contribution plans, that we're going to have a problem in the future as the population ages and they haven't saved enough for themselves. So for that instance, when I see things such as maybe make 401k contributions not be a tax deduction but a tax credit that's kept. I never hear any talk about the defined benefit plan or cash balance side, because technically they're pension plans, you all need a plan that provide benefits. We're designing them to really maximize benefits for a certain target, but they're still pension plans. So they're protected from that kind of potential changes.

David Mandell:

That makes a ton of sense. I'm glad we talked about this, as you could see lots of different types of people being concerned about not having enough dollars for people in retirement, right? That sort of goes across everywhere, it ties into social security and the funding of that and our move over the last 50 years from pension is in a lot of major corporations to 401ks. And I think that makes a lot of sense to me.

And I think your point is very well taken. It's not really are they going to get rid of it? It's just would they change the contributions? Even the limits in the worst case.

So you're not getting the grand slam as the Red Rox said earlier in the series, but now this can't seem to hit. But it goes to a three run homer, right? That's the baseball analogy. It's, they're not going to get rid of the whole thing. Even in the worst case, you might just give some shape to often, it sounds like based on this problems, this solves being the pension, is we might even have the other side, which is the increase in benefits over time. So like you said, they are tied to inflation, but it could even be a bump at some point above that.

Scott McHenry:

And I think that the only time that it's ever really been lowered was in the late '80s. And that was just a perspective change, right? So maximum amount on perspective decline, and that lasted about 10 years and then they dramatically increased and has been increasing ever since.

David Mandell:

Excellent. Well, I'm glad we covered that topic. So we talked about the importance of obviously cashflow number one, people want to do it, the value that going through the process and seeing what those deductions could really benefit them as owners. There's also an additional benefit for employees that I think is more important today than maybe ever with the tight labor market. I don't think the risk of legislation sounds very significant. And again, it could be perspective and it could go either way in terms of just limits, but it's not a risk to the plan itself, and getting rid of pensions that's not even a thought. What are other things that our practice should be watching out for? Let's just say they talked to... And I don't want you to bash competitors, but what are some of the red flags or other things that they should understand if they're going to go down this with a realistic point of view?

Scott McHenry:

Yeah. Not so much red flags, I don't see it. Competitors, sometimes I see things and we look at it and we can make it better, right? But that's not necessarily a red flag. But what I think is important is for them to understand if we illustrate a cash balance plan and it looks like a good fit, what are some other things they need to know?

David Mandell:

Yeah.

Scott McHenry:

Number one is the contributions can be scalable, right? So we may be able to show a couple hundred thousand a year as a deductible contribution based on someone's

age, but we can always scale it down based on cashflow to any lower amount. If there's multiple partners we can design the plan to provide different levels of funding to different partners based upon your calls. Number two, it can be flexible. So what's important is if we set up a pension plan for the plan sponsor, for the positions, their advisors, to keep an open lines of communication with the enrolled actuary, because the plans can be very, very flexible contribution from year to year if that's important, if they ever need to go down, they can go down. But what's important is for the actuary to know if we design the plan to target a certain amount, just let us know when the desire contribution level changes.

David Mandell:

That makes a ton of sense. And that's the reason that OJM works with you for the benefit of our clients, right? This is a terrific tool and you're an expert, you're a specialist, physicians will get that, but we're acting more as the GP in this analogy to make sure it fits with everything else they're doing and how it's going to affect their overall financial model and the idea of, "Hey, are there changes that need to be in it, how much flexibility do we need? We understand the whole picture." So you can dive into the very specifics of the numbers to make this work for the practice. It's not your job to understand everything else about that client just like the interventionists is going in and doing something and they need someone to understand the whole body, that sort of the analogy.

Scott McHenry:

And the other thing is to know is just that there is a ceiling on what can ultimately be rolled over out of the IRA and it's different based on ages. But if someone has a plan for 10 years, they're age 62, they can roll over 3.1 million to an IRA. So what becomes important as the plan ages is that we focus on this ultimate exit strategy, we don't want the plan assets to go beyond the amount that can ultimately come out of the plan without tax consequences and be rolled over to an IRA.

David Mandell:

Yep. And I know Jason, there's even some design in terms of the investments and using life insurance sometimes. And I think one of the things that Jason really does when working with the clients on this is, and it's a classic kind of important thing to do in a lot of areas of businesses start with the exited mind, meaning life has plan B, not everything works the way we want to but we want to have. That's where flexibility comes in, but we want to ultimately have the idea of what's going to happen on that exit so that we build it that way, right? And that's where life insurance can come in sometimes. But that sort of gets into taking this great tool and bringing back the perspective to say, what do we want to get out of it? What's it going to look like down the road?

And let's design it that way, both from a flexibility point of view but from an exit point of view so that you don't get eight years in a 10 year plan and go, "Oh, well, I didn't really realize that was coming." We get it, we get clients who come to us in that situation. So those are all crucial points. Thank you for that. Another thing I wanted to ask, and some people may be thinking as they're hearing this, we've already got a 401k, does that mean we can't do the cash balance plan? Can they work together? Tell us about that.

Scott McHenry:

Yeah. They work great together. And if there are non-owner employees, you almost always, if you're going to have a cash balance plan, you're also going to have a profit sharing plan that may or may not have 401k component. The reason being is that there's a better cost structure, what you have to contribute for employees to satisfy all IRS rules. If we have both plans [inaudible 00:34:15] just do a cash balance plan only. Where we do cash balance plan only is if it's just owners, just physicians, no other rank and file employees, and if the cash balance plan contribution limits are high enough to meet their goals.

David Mandell:

Got it.

Scott McHenry:

So we do cash balance plan only for physician only plan, sometimes we'll add 401k on top to get the largest contribution possible. If there are rank and file employees we're always going to have both types of plans.

David Mandell:

That makes sense. And again, so I want people to hear you, if you already got a 401k, which many practices do, again, if there's a capacity or an interest of even some of the docs, if they heard, I said that right. If there's a group of 10 docs, they already have a 401k, they have 30 employees, but there's three who are doing most of the call and they're making a ton of money. And they're saying, "Hey, I'd like this for myself but I know my other partners they're just not going to take advantage of it." Is that still doable scenario?

Scott McHenry:

Sure. Yeah. In that instance, you've covered the three shareholder positions that one, they want to participate, maybe some of the rank and file employees in order to satisfy IRS rules, and it's okay for the other shareholders to only do 401k.

David Mandell:

Got it. They can opt out. Okay. They can opt out of the defined cash balance plan. Excellent. Because I think there's a lot of people who know scenarios too, right? You've got docs of different ages. The older docs may not have enough time or interest to do it. The young docs might be still paying off student loans and what are our first house so they don't have the cashflow interest as we talked about the kind of threshold. And then you've got physicians in the middle who are making great money, want to save taxes, can see the value of 10 years down the road, what this is going to look like as part of their plan. And again, I want people to hear that this may work for you.

So this has really been helpful. I've learned a bunch here and I already knew a fair amount about this. Tell us about how you folks work with physicians and their advisors. Obviously you do a lot of work with OJM and anybody here is listening is probably an OJM client or someone who would come to us, but just what's your day like, and how do you work with docs across the country?

Scott McHenry:

Sure. There's a lot of work that we do upfront designing the best plan, what we can do under the law, what does the physician, what do they want as far as contributions? So upfront, we request employee census information, information on the 401k plan if there already is a 401k plan, and then do an illustration based on the overall demographics, here's what's possible, contributions for the physicians, contributions for the employees, does that make sense? If we can always dial it down to any lower amount after we've figured out what it looks like, then it's implementing a plan, it's working with OJM to set up a plan, an investment account. The plan can start being funded and then from our perspective, we do annual calculations.

So every year we do calculations of what's the range of available contributions that can be made to the plan and be deducted, how do the contribution for the employees look to satisfy IRS rules? And then we certify as actuaries to IRS that the plan meets all of their funding requirements. And so that happens so it's not only, we work with physicians and their advisors upfront designing the plan, but then we're also servicing that plan on an ongoing basis for as long as it's around. And that too really as long as they want to keep continuing to make large tax deductible contributions or until they hit limits, they'll terminate the plan at any point in time for any business reason. And so that's either that it no longer makes sense and we terminate it or they hit the limits. It's done all that they can do and we terminate the plan, roll over to IRS.

David Mandell:

Got it. And there's consolidation. I know some practices being sold, et cetera. That might be another reason practice gets acquired or merged and say, we can't do this plan anymore, you can then terminate it, roll at that point...

Scott McHenry:

Yeah, so I get that question sometimes upfront. Well, maybe there's, we're going to be acquired in a couple years-

David Mandell:

Right.

Scott McHenry:

... and that's a what if but what is tangible today is you can set up a plan and reduce your income tax, right? So in that instance I would say even if you think that's going to happen, what you know is you can set up a plan and fund it and get a tax deduction. So I would not investigate that opportunity just because there may be some of that in the picture.

David Mandell:

Because if that happened, you just rolled that whatever's in there into terminate the plan, roll it into your IRA, then you're in the new practice and maybe they don't have this, maybe they talked to us and put it in, but you haven't really hurt yourself in doing that, right? You've gotten whatever a couple of years of contributions by acting before you got merged or acquired. Is that right?

Scott McHenry:

Yes. Correct. Yep.

David Mandell:

Perfect. Excellent. Well, Scott, this was really helpful. A bunch of questions came up as we were talking that I didn't even write down. So that was good. And again, for the folks out here listening, again, as we talked about it, if you think that you've got the cash flow capacity or your partners do or some of them do or you've got a side business or side activity that generates income that you'd like to reduce taxes on, contact us at OJM and we're working with Scott every day. So we can coordinate and get the benefit of his expertise to put something together and see if it makes sense. That's bottom line, is Scott is an expert in the numbers and ultimately this comes back to the numbers. So Scott, thanks so much for having us, people will be

able to see his bio and link to his site on the show notes. So, Scott, again, thanks for being a part of this.

Scott McHenry:

My pleasure. Thanks for having me, David.

David Mandell:

And to the listeners, thank you for joining us. As always, every couple of weeks, we'll have a new episode. So stay tuned and tell your friends and colleagues about us. Thanks.