

Sell Now, Retire Later

Dental Economics July 2000

by Alan Clemens

You have a well-developed practice and you're contemplating retirement. But retirement laws have held back maximum funding of a pension plan that could allow you to live as you might have wanted. Now, however, you can obtain both immediate cash and on-going, non-cash benefits by combining a new defined benefit pension with an early sale of your practice.

The game plan involves starting a new retirement program now, using cash from the sale of your practice to fund a handsome retirement program, and to start living the "good life" earlier. In short, combining the sale of your practice with an employment contract from the buyer may very well produce a better result than continuing to work full time and then trying to sell at a later date.

Recent pension law changes can enable a dentist to obtain the highest price for a practice at the time that the practice is at its peak value. Much of the payment price can be deferred into a retirement plan which will generate tax deductions for the retiring dentist. Actuarial funding levels for defined benefit plans can range from \$30,000 per year to as high as \$100,000 or more per year, all fully tax-deductible and all with the blessing of the IRS. The pension-plan law allows the seller to make the maximum contribution without worrying about previous contributions to a defined contribution plan.

By selling the practice at its peak, the seller can obtain a much better overall price. The price can be negotiated so that part of the sales package includes continuing employment for the number of years needed to adequately fund the retirement benefits under the new pension plan. This is where the services of an experienced practice sales broker will be invaluable. The broker's task is to evaluate the practice, locate the buyer and work out the overall transaction so that all parties benefit.

In the long run, this means less stress and more time off for vacations for the seller. Using an employment arrangement instead of a partnership agreement can also reduce the legal costs and the level of future risk. At the same time, the purchaser will gain from involvement in a mature practice rather than having to work to revive a declining practice.

If necessary, the retiring dentist can live on other assets while he is funding the maximum into the pension plan. If the seller is married, any amounts that the spouse might earn from separate employment can also be used to cover living expenses during this time. Since a substantial amount of the monies paid to the dentist will not be in the form of current taxable income, this will put the dentist in a lower tax bracket — a tax strategy your accountant will love.

Benefits that the seller accumulates in the plan will be rolled over into an individual retirement account, "IRA," when the seller actually retires. The funds can be stretched out over a number of years and even past the death of the retiring dentist with minimal tax consequences.

In summary, the retiring dentist stays on the payroll of the new company. Payments that otherwise would be made to the retiring dentist for the sale of the practice go instead to fund the salary for the seller under the employment contract and funds the new pension plan. Since the retiring dentist is likely to be older than any other employee, the bulk of the pension-plan contributions would be made on behalf of the retiring dentist. The result: Substantial monies go into the pension plan for the retiring dentist and are still fully tax deductible by the practice.

The time to begin planning your retirement is long before you actually retire. Recent changes in the law now allow you to shorten that planning timetable. By taking advantage of these changes, you will be preparing for a better life for yourself and your entire family.

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