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Double Issue: As we prepare for two weeks of seminars in the Caribbean, we are delivering the February 1st and February 15th Newsletters together.

Market Outlook for 2014: Expect volatility to return in a way that was almost totally absent in 2013. It's already happening. Since January 15th, the S&P 500 has fallen from an all-time high of 1,850 to 1,775 (down 4%). The Dow Jones Industrial Average has fallen below 16,000 and continues to fall. We are concerned about the disconnect between high stock values and the absence of real economic and corporate earnings growth. Markets have been going up on the expectation of growth, but robust growth is frustratingly absent. Companies have inventory build-ups due to weak demand, and consumers, though helped by low gas prices, have seen wages stagnate and other costs rise. When stock prices rise and earnings stay flat, P/E ratios expand and stocks become overpriced.

The markets may still have a good year in 2014. Great years tend to be followed by good ones. For that to happen, though many things need to fall into place, including real economic growth in the U.S., China and Europe, and no crises in emerging markets. The current market volatility is due to investors pulling their money out of the riskier asset classes (like emerging market stocks and bonds) that the low interest rate QE programs guided them into.

Another concern is the law of averages. We've been in a surprisingly calm period, and this (and won't) continue forever. On average, the stock market has one 10% correction per year. We've not had one since the summer of 2011! Of the last twenty bull markets, only one has lasted longer without a 10% correction.

As investors, this is not a "woe is us" prognosis. In fact, patient long-term investors view stock market volatility as a friend, not a foe. As we learned in 2008, if you have the intestinal fortitude to wait out a correction or bear market, a calamity becomes a buying opportunity. For those of us who have been sitting with cash to invest, the market may soon start hanging fire sale prices on quality (growing) companies whose prices still remain relatively high.

Cash Balance Plans Will Soon be Eligible for Pre-Approved Status: The IRS has heard enough clamoring from the retirement plan community that it is finally granting pre-approved status to the popular cash balance defined benefit plan. (See IRS Announcement 2014-4). Profit sharing/401(k) plans are already pre-approved documents, meaning there is a master document that plan providers like us use when setting up a new plan for a client. A pre-approved document is easier to draft, because it's the same document for everyone, and the specific attributes of each plan are selected in an attached Adoption Agreement.

If a plan is not pre-approved, it is "individually designed" which means that each plan is drafted from scratch. The IRS user fee for submitting an individually designed cash balance plan for government approval is $2,500. The fee drops to $500 for pre-approved documents.

We will be drafting a new cash balance pre-approved master document over the next year, so that new cash balance clients will go into this pre-approved document. Once we receive approval on this document, current clients will have their next periodic plan update made in the new document.

The last part of this Newsletter describes the benefits of cash balance plans in more detail.

Buying Municipal Bonds: While interest rates remain stubbornly low, there are some good values to be had in municipal bonds, particularly in the 7-12 year maturity range. To be a savvy bond buyer, remember how bonds are bought and sold. There is no market that sets the price as there is for stocks. The bond dealer (bank, broker) is selling you bonds it holds in its inventory. It wants to sell them for the highest price it can get. This lowers your yield to maturity (YTM), which is the "what's in it for you." To get the best prices, it pays to comparison shop. Let the broker know that you are looking for bonds with certain characteristics and that you are calling multiple dealers. When the broker knows it's a competitive bidding situation, you will get lower prices and higher YTMs.

Also check the website www.emma.msrb.org to see the recent trading activity of the bond in question. You'll need the bond's CUSIP number, but you'll then see the prices at which the particular bond recently traded. This is a wonderful new service that makes the bond market much less opaque.

We recently bought an Elyria (Ohio) school district general obligation bond with the following characteristics: 10-year, A-rated, at a price of 112, and a coupon of 5.25%. The YTM is 3.88%, and the yield to call (on June 1, 2017) is 1.54%. We pay 112 now (a 12% premium) and receive back 100 (par) at maturity in 10 years. When that premium is combined with the 5.25% interest payments for the next 10 years, the YTM falls to 3.88%. That is acceptable, because 3.88% is the going yield for a bond with these characteristics.

We are not fans of buying municipal bond mutual funds, except for those who buy in very small amounts. While the mutual funds offer undeniable convenience and diversification, it is at a hefty price. Studies show commissions and annual management expenses of municipal bond mutual funds reduce the rate of return when compared to owning bonds of the same credit quality.

Be Aware of a Bond's Call Feature: It's worth repeating that you don't want to pay a big premium for a bond and find that it is promptly called in at par. In the above example, you lose 12%. This is made up by the receipt of some interest payments along the way, but if the bond is callable soon, there may not be enough interest to cover your losses. Pay attention to the yield to call, and avoid the bond if the YTC is lower than the market rate of return to the call date, and especially if the YTC is negative.

Child Care Tax Credit: As we approach tax season, here is one available benefit that is often overlooked. If the parents of young children both work outside of the home and their combined income is over $45,000, then they are entitled to a tax credit (a dollar for dollar reduction in their taxes paid) to help cover the cost of the child care expenses. The children must be under age 13. Where there is one child, the tax credit is $600. Where there are two or more such children, the maximum credit is $1,200. If your spouse does not work outside of the home, then you should hire your spouse in your practice to satisfy this requirement. If the tax credit might apply to you, be sure to discuss it with your CPA.

Dependent Care Flexible Spending Account: If your spouse is offered this plan at their place of employment, they should definitely take advantage of it. They can contribute $5,000 of their pay into a special account that will be tapped to pay for childcare expenses. This is similar to a 401(k) contribution, but even better in that the contributions are tax deductible and the subsequent distribution of the money to pay or reimburse for the child care expenses is tax-free.

Note that reimbursements from this account reduce the child care tax credit. However, you should get a better tax outcome with a $5,000 deduction than a $600 or even $1,200 tax credit. A $5,000 income exclusion under the flexible spending account saves $1,750 in taxes for a taxpayer in the 35% tax bracket.

When Times Are Tough It Takes Fortitude To Raise Fees: But that is when it's especially needed. Not all doctors have the ability to control their fees, but most do. Many doctors are too timid when considering increases. In most practices, very few patients will leave (or even grumble) over modest periodic raises.

Your dental supply salesperson should be able to prepare a report for you showing where your fees rank within your area. (They have an incentive to have you earn more money so you'll buy more equipment). Use the report as the basis for adjusting your fees to their appropriate level based on the quality of care you are providing in your community. If some fees are price sensitive and easy for patients to compare, there are usually others that are less sensitive that can be raised.

Practice Buyers Should Consult with Practice Sellers Before Converting a Fee for Service Practice into an Insurance Practice: A largely fee for service practice is a valuable commodity that caters to patients who appreciate the quality work and attention they receive. The goal should be to maintain these positive attributes. Treat Dr. Seller as best as you can, and ask for Dr. Seller's input on major decisions you are contemplating. Dr. Seller wants you to succeed. Your continued success ensures Dr. Seller's legacy. Do not be so confident as to think that you have all the answers. If you don't heed this advice, don't then ask why patients who otherwise would be paying your full fee are now getting discounts because they have insurance coverage.

One retired orthodontist said, "He never asked for my advice." Another retired general dentist said, "He now does about 40-50% of what I did. It has been very frustrating to me to see a fantastic practice go to hell in just 3-4 months."

World's Worst Employee Sues for Wrongful Termination . . . and Loses: The employee was the dental practice's patient coordinator who among other things engaged in a shouting match with a patient for which she needed to be restrained by co-workers, arguments with co-workers, leaving early when she was told to work until the end of her shift, poor dress and general bad attitude. She claimed she was fired because of her race but produced no evidence. The practice kept good records of performance reviews and provided plenty of testimony to support her termination.

The surprising thing is not that she lost, but that she had the nerve to bring the suit in the first place. Most employment claims are frivolous, but some lawyers need the money or the litigation experience and will take these losers on contingency. Therefore, we recommend that you buy small Employment Practices Liability Insurance policies in order to cover the cost of your own legal fees (and perhaps settlement costs). Discuss this with your office's property and casualty insurance agent. Spend only so much in premiums that you will be covered up to $100,000 per year. (See Johnson v. Great Expressions Dental Centers of Florida, No. 3D13-794, Fl. Ct. of App., Jan. 8, 2014).

"Cash Balance" Defined Benefit Plan vs. "Traditional" Defined Benefit Plan: A defined benefit ("DB") plan is a retirement plan that provides a targeted monthly benefit at retirement for you and your employees. The goal of a DB plan is to have enough money to pay benefits when participants reach retirement age. The plan is targeting to fund a certain pot of money equivalent to the benefits accrued for each participant. Year by year, the contribution to the plan is determined based on the assets in the plan, the expected return in future years and participant data. If the plan's value drops, the employer's contribution will increase. If the plan's value rises faster than expectations, the contributions will decrease.

A DB plan is appealing where the owner wants to contribute more than what is permitted in a profit sharing plan, where the individual maximum is now \$52,000 (\$57,500 for someone age 50 or older who maximizes 401(k)).

A traditional DB plan has a uniform benefit structure for all participants. For example, a traditional DB plan's benefit formula might be 2% of the employee's highest annual pay multiplied by years of participation. A traditional DB plan would be most beneficial to an older, highly paid owner with a young, lower paid staff. The main drawback of a traditional DB plan is the cost of the benefits for the staff, especially if there are older or highly paid staff members.

A cash balance ("CB") plan is a special type of DB plan where each participant receives a contribution credit based on the plan formula plus a stated interest credit. The contribution credit is calculated each year based on the participant's compensation (e.g., 7% of compensation). This is similar to a profit sharing plan where the cash balance contribution credit is analogous to the contribution. Participants earning similar pay receive similar allocations regardless of their age. This mitigates one big problem with the traditional DB plan, where older employees get substantially larger contributions even if their compensation is the same as younger employees.

Until recently, CB plans were not widely adopted because some courts were holding that they unfairly discriminated against older employees, and employers did not want to adopt these plans under a cloud of uncertainty. The Pension Protection Act of 2006 removed this concern freeing up employers to adopt them.

The example below shows a case where the doctor is maximizing profit sharing and 401(k) contributions and on top of that receives a CB contribution of \$96,700. The doctor receives \$154,200 in total. The doctor has only 59% of the total compensation but receives 88% of the total contribution, which is an excellent result. The results would look even better if the doctor's spouse were in the plan.

Name	Nearest Age	Compen-sation	401(k) Deferrals	Profit Sharing	Cash Accrual	Total Benefits	% of Wages	% of Total
Totals (for 6 Participants)		\$490,000	\$23,000	\$48,300	\$103,600	\$174,900	35.69%	100.0%
Owner Doctor	50	\$260,000	\$23,000	\$34,500	\$96,700	\$154,200	59.31%	88.2%
Staff 1	55	\$60,000	-	\$3,600	\$1,800	\$5,400	9.00%	3.1%
Staff 2	45	\$55,000	-	\$3,300	\$1,650	\$4,950	9.00%	2.8%
Staff 3	35	\$45,000	-	\$2,700	\$1,350	\$4,050	9.00%	2.3%
Staff 4	25	\$35,000	-	\$2,100	\$1,050	\$3,150	9.00%	1.8%
Staff 5	21	\$35,000	-	\$2,100	\$1,050	\$3,150	9.00%	1.8%

If you are interested in boosting your tax deductible plan contributions, contact us and we can prepare a feasibility study. By doing this work for many dental clients, we are able to keep our retirement plan fees low.