



optimizing **the** independent **contractor** status

Financial Designs, Inc.

Who cares more about your financial future than you?

The financial distinction between employees and the independent contractor can be summarized this way:

Employee: An employer designs an employee's compensation and benefit package to captivate and retain the employee.

This is why employers often use eligibility and vesting schedules, as well as benefits which cease when you terminate employment. In the final analysis, an employer designs your benefit package with their business interests in mind, not your financial future.

Independent Contractor: As an independent contractor, you decide the amount of income you want to earn, the most appropriate business entity, the type of insurance benefits you desire from the best carriers, the most appropriate retirement plan, and how your funds will be invested.

independent **contractor** vs. **employee**

taxes

An independent contractor can take a deduction for all business expenses.

An employee can only deduct the business expenses which exceed 2% of adjusted gross income.

retirement

In 2016, an independent contractor can contribute up to $53,000 annually into a fully tax deductible retirement plan (to be indexed for inflation). Individuals over age fifty can contribute up to $59,000.

An employee is typically subject to limitations involving vesting schedules, eligibility requirements and investment choices.

insurance flexibility

An independent contractor can tailor an insurance portfolio to accommodate his/her individual needs. This flexibility can help to assure adequate protection is provided and unnecessary benefits and costs are eliminated.

business entity

As an independent contractor, you have flexibility to operate as a sole proprietor, LLC, S corporation or C corporation. This can assist in reducing tax liability and protecting assets.

continuity

An independent contractor can maintain insurance and retirement plans if a change in work environment occurs.

An employee usually forfeits group participation in insurance and retirement plans upon separation from the employer.

The information provided is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. Tax and legal advice offered through Financial Designs Tax Services, LLC and Financial Designs Legal Services, LLC. Individuals are encouraged to seek advice from their own tax or legal counsel.

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retirement planning

The maximum tax deductible contribution between all defined contribution plans is $53,000 in 2016 (to be indexed for inflation). Contributions for a tax year can be made up to the tax return filing deadline or date of extension.

The two most common types of plans are the "Simplified Employee Pension" plan (SEP IRA) and the "Individual 401(k)" plan. The SEP is popular due to its relative simplicity as it requires minimal administration. Contributions to a SEP are limited to 20% of net self-employed income, to a maximum of $53,000.

The "Individual 401(k)" plan allows contributions to be made up to $18,000 plus 20% of net self-employed income to a maximum of $53,000. An additional $6,000 catch-up contribution can be made if participants are age 50 or older. The "Individual 401(k)" plan requires slightly more administration but allows for higher contributions to be made by individuals over age 50 or with income levels below $265,000 and provides more plan design options than a SEP.

An independent contractor has great flexibility in selecting the most appropriate investment vehicles to fund their plan.

asset protection planning

Physicians spend a great deal of time learning how to build a fortune, but typically spend little time learning how to protect it, preserve it, insulate it and keep it out of the reach of creditors. An independent contractor can establish their own medical corporation which may help to limit their exposure from other physicians and service providers with whom the physician works. This arrangement can also provide flexibility and financial planning opportunities that would otherwise not be available as an employee. Physicians should be concerned with arranging their assets and affairs in a manner that will successfully transfer their legacy to the heirs in the most orderly and tax efficient manner.

Independent Contractors can implement the three "P"s:

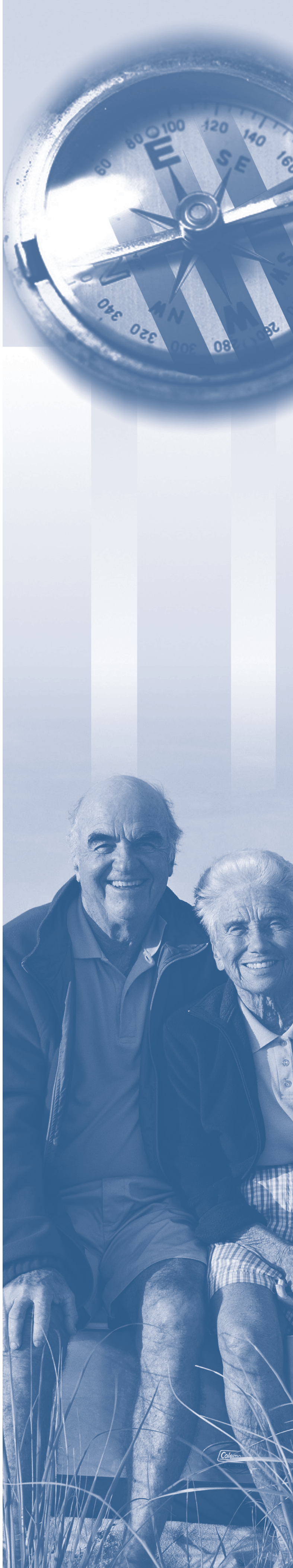
- **Preserve** assets for their heirs and family by structuring the proper Estate Plan and reducing death taxes.
- **Protect** assets during their lifetime by creating liability shielded entities and lowering financial profiles.
- **Process** the plan by properly designing and implementing strategies in the most practical and skillful manner.

It is incumbent upon the planning team to help educate physicians as to these issues and to work together to provide comprehensive planning that meets physicians' needs.

tax planning

The independent contractor status provides the opportunity for tax reduction in a variety of areas. As an example, deductible business expenses may include:

- **General**- Association Dues, Licensing Fees, Medical Journals, Cell Phone, Continuing Medical Education (including tuition, airfare, hotel, rental car, meals, etc.)
- **Home Office Expenses**- Furniture, Equipment, Supplies
- **Business Portion of:** Internet Use, Utilities, Home Insurance
- **Business Automobile Expenses** - Gas, Maintenance, Car Insurance, Lease or Depreciation



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disability income insurance

key **issues**

Through a unique arrangement with your contracting company, you are eligible to receive significant disability premium discounts[1] on individual disability insurance policies from highly rated companies. These policies are portable and offer definitions and provisions which help protect your most valued asset – your future income potential.

Many medical professionals perceive that disability income insurance contractual provisions are fairly uniform. Unfortunately, this is not the case. One subtle difference in a definition or benefit can cost you hundreds of thousands of dollars during a claim.

From a medical professional's point of view, what should you look for in a disability income policy?

non-cancelable and guaranteed renewable coverage: Your policy cannot be changed (as long as premiums are paid on time)...and your rates will not increase until age 65.

liberal definition of total disability[2]: You are considered to be disabled when, due to injury or sickness, you are unable to perform the primary duties of your specialty.

residual disability benefit[2]: This provision ensures you will continue to receive benefits even if you perform some work and receive some income while partially disabled.

recurrent disabilities: You are not subject to another waiting period for a continuing illness or injury if you attempt to return to work and a related disability reoccurs within 12 months of the time you return to work.

coverage for HIV: If your employment is terminated due to being HIV positive, benefits will be paid to you even though you are physically able to work in your occupation.

guaranteed increase options[2]: This feature allows you to increase your coverage without proof of insurability.

claims paying ability of company: When protecting your most valuable asset, you should seek a highly rated insurance company.

indexing of pre-disability earnings: This benefit allows your residual benefits to keep pace with inflation.

waiver of premium: This provision waives premiums as they come due when you are receiving either total or partial benefits from your policy.

cost of living adjustments[2]: Your total monthly benefit will be increased annually during a long-term claim.

[1] Discounts are subject to underwriting approval.
[2] This provision would be typically added by a rider at an additional cost.

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health insurance

customizing **your** plan

Independent contractors can secure the individual health insurance plan which best fits their specific needs.

Independent contractors can tailor an individual plan to provide essential protection while eliminating unnecessary features and costs.

When reviewing your health insurance coverage, consider the following:

deductible – Calculate the long-term premium savings achieved with a higher deductible versus the larger premium associated with a lower deductible.

co-insurance – Beyond the deductible, what percentage of the expenses must you pay...0%, 10%, 20%? More importantly, how long do you pay this co-insurance percentage before the plan begins to pay 100%?

network option – Compare provider networks for physicians and hospitals within PPO, HMO, EPO, and POS plans for maximum benefit.

healthcare reform

federal healthcare regulation – All lifetime limits on health insurance benefits have been removed on plans effective after September 23, 2010. Another added benefit with plans effective after September 23, 2010 is that certain preventative services such as mammograms, colonoscopies and routine vaccinations are covered 100% with no deductible, co-pay or coinsurance.

The Patient Protection and Affordable Care Act (ACA):

1. Requires coverage for all individuals or they will pay a penalty. The 2016 penalty is $695 per adult ($347.50 per child under 18, max penalty for a family is $2,085) OR 2.5% of household income (max penalty of the average premium for a bronze plan), whichever is greater. For those with qualified income, there will be federal subsidies available.
2. Guarantees health insurance coverage to all individuals with no pre-existing limitations.
3. Standardizes certain provisions and benefits such as limits on deductibles and out of pocket expenses.

Health insurance rates will be based on:

1. Where you live
2. Your date of birth
3. The number of individuals on the plan
4. The plan you choose
5. If you use any tobacco (Tobacco user premiums will be rated up to 50% higher)

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Healthcare Marketplace:

The primary purpose and only reason to obtain health insurance through the exchange or "Marketplace" is if the family income is low enough to qualify for a subsidy. There are more options for companies and plans when working directly with a broker off the Marketplace.

Marketplace Fast Facts

- Designed for comparing and purchasing health insurance (limited to those plans and companies choosing to operate on the marketplace)
- Each state must have a marketplace or use the federal marketplace
- Carriers have the option of whether or not to sell plans on the exchange
- Carriers can still market to consumers through Brokers
- Consumers eligible for the new health insurance financial assistance must apply for the subsidies on the marketplace or exchange depending on their resident state

health savings accounts

One of the options for health insurance is a Health Savings Account (HSA) plan. An HSA combines high deductible health insurance with a tax-deductible savings account. Money in the savings account can help pay the deductible. HSA contributions can be withdrawn tax-free for prescriptions, doctors' fees, lab and hospital charges, dental expenses, eyeglasses, and other similar medical costs. Account balances left in the HSA earn tax-free interest and carry forward from year to year.

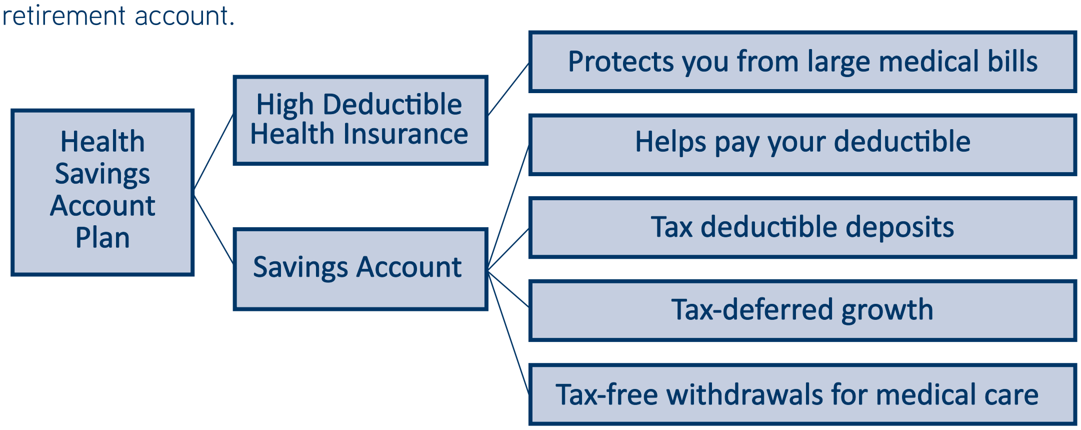
To obtain the benefits of an HSA, the law requires that the savings account be combined with high deductible health insurance. An "HSA qualified health plan" is designed with a minimum deductible of $1,300 for singles or a $2,600 family deductible when two or more family members are insured.

For the 2016 tax year, you are allowed to contribute up to $3,350 for individuals and $6,750 for families. Individuals age 55 and over can save an additional $1,000.

how **your** hsa **will** work

HSA Deposits:	100% deductible from gross income
Maximum Contribution for 2016:	$6,750 for families or $3,350 for individuals. A $1,000 "catch up" contribution is available to those age 55 or older
Non-Medical Withdrawals	Income tax + 20% penalty unless over 65 or disabled
Interest Earned	Tax-deferred. Tax-free if used for qualified health related expenses

HSA account balances generally can be invested into money market or mutual fund accounts. Funds can be transferred from one administrator to another without tax ramifications, much like a retirement account.



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life insurance

developing **a** firm **foundation**

Life insurance is a cornerstone of a sound financial policy. A properly designed life insurance portfolio is a critical component and a significant step towards reaching your financial goals.

Term and permanent are the two basic types of life insurance. The most appropriate policy(s) will be dependent upon your unique situation. Many times a good long-term strategy involves a combination of both term and permanent insurance.

Characteristics of term and permanent life insurance:

term **life** insurance

- Provides temporary coverage
- Initial premiums are lower than permanent policies
- Income tax-free death benefits
- No cash value
- Premiums are level for specific periods of time and then increase
- Many policies are convertible to permanent policies

permanent **life** insurance

- Can provide life-long permanent coverage
- Initial premiums are higher than term policies
- Income tax-free death benefit
- Accumulates tax favored cash values
- Level or flexible premium structures depending on policy type and design
- Can provide a permanent estate tax planning vehicle, inheritance for heirs, funding for education or a charitable gift upon death
- Cash / account values can be a source for supplemental retirement income which often can be received free of tax

how **much?**

Many individuals select their amount of life insurance coverage in a haphazard manner. Consequently, they become over or under insured without being aware of the problem. To determine the appropriate amount and type of life insurance, it is important to complete a needs analysis. Contact Financial Designs for assistance in determining how much life insurance you may need to help completely protect your family.

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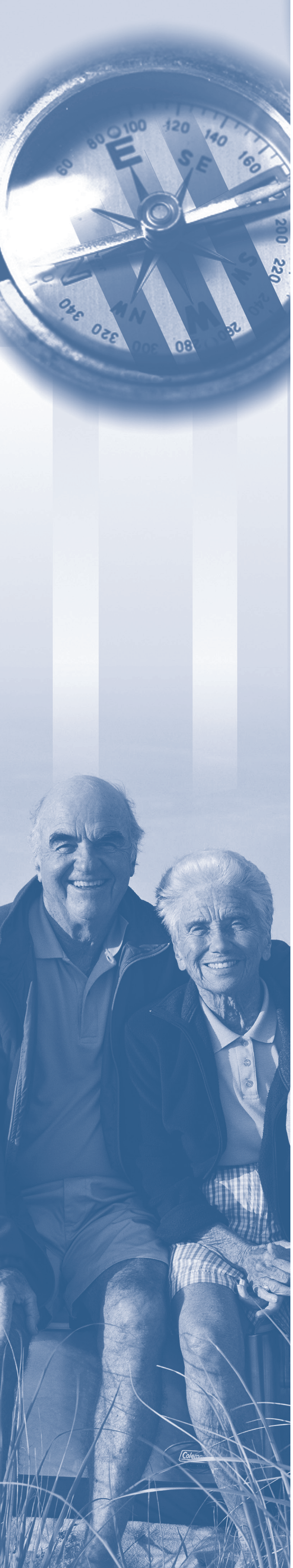

comprehensive services

Financial Designs, Inc. (FDI) is a financial consulting and services firm committed to the development of custom designed financial and benefit strategies for physicians. Since 1979, Financial Designs has assisted physicians throughout the United States. As a result, FDI has been successful in identifying the financial benefits and flexibility unique to medical professionals. Financial Designs offers comprehensive services, tailored to fit the client's specific life situations and objectives.

what to expect...

Contact FDI. You will be aligned with a professional representative who will be your personal contact and assist you throughout the process. Additionally, FDI uses a team approach and utilizes specialists for each service offered. Your FDI professional will be your single access point and serve as your coordinator with the other specialists required to help achieve your financial objectives.

our lifetime commitment...

Service to our clients is at the core of our mission. FDI understands that you need flexibility, convenience and continuity in your financial services. Our experienced professionals will constantly monitor the services and products provided to help assure our clients receive the most appropriate strategies and products available.

Benefit Design & Insurance Services

- Health Insurance and Health Savings Accounts
- Disability Income Insurance
- Life Insurance
- Long Term Care Insurance

Tax Services

- Quarterly Estimate Assistance
- Tax Return Preparation
- Continuous Tax Planning

Retirement Planning

- Analysis of Retirement Plan Options
- Objective Portfolio Management Strategies
- Retirement Distribution Analysis

Legal Services

- Estate Planning
- Asset Protection Analysis
- Business Entity Formation

The information provided is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any federal tax penalties. Tax and legal advice offered through Financial Designs Tax Services, LLC. and Financial Designs Legal Services, LLC Individuals are encouraged to seek advice from their own tax or legal counsel.

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