THE PHYSICIAN'S FINANCIAL HEALTH SERIES: USING PRIVATE POOLED INCOME FUNDS FOR RETIREMENT

FINANCIAL ADVISORY SERIES

Today's Practice

SOUTHWEST EDITION

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WHAT MAKES A GREAT TAX ADVISOR
FEATURING BEST SELLING AUTHOR
TOM WHEELRIGHT, CPA

BECOMING "SUPER DOC":
STAYING INDEPENDENT... AND SUCCEEDING

MARKETING
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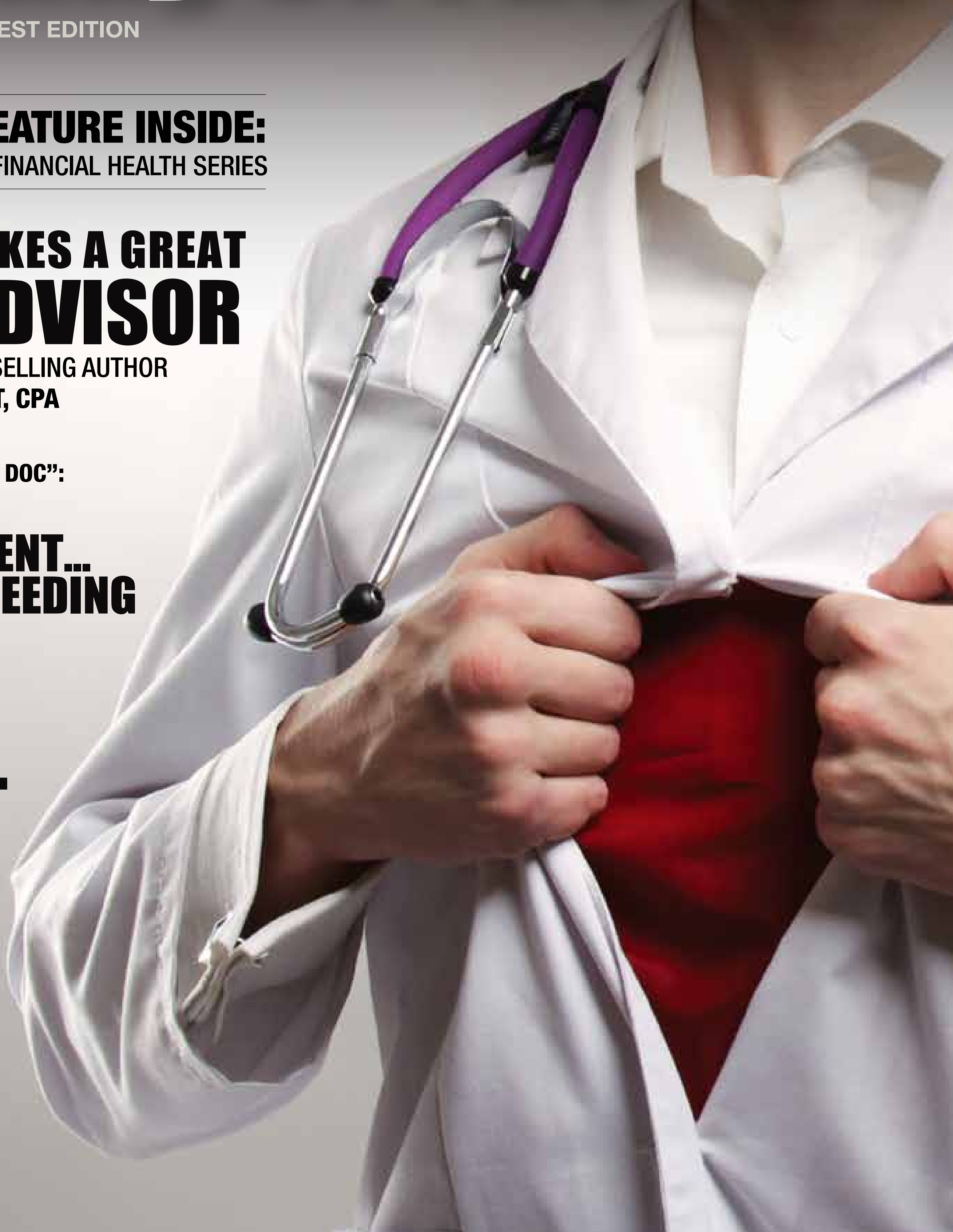
WHY IT MATTERS TO YOUR PRACTICE

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WHAT MAKES A GREAT TAX ADVISOR?

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Founder and CEO
ProVision CPA's

BEFORE YOU SELL YOUR PRACTICE...

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TICK TOCK... AND THE TAX TRAP.

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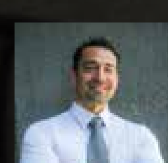
CASHFLOW INVESTING DONE RIGHT



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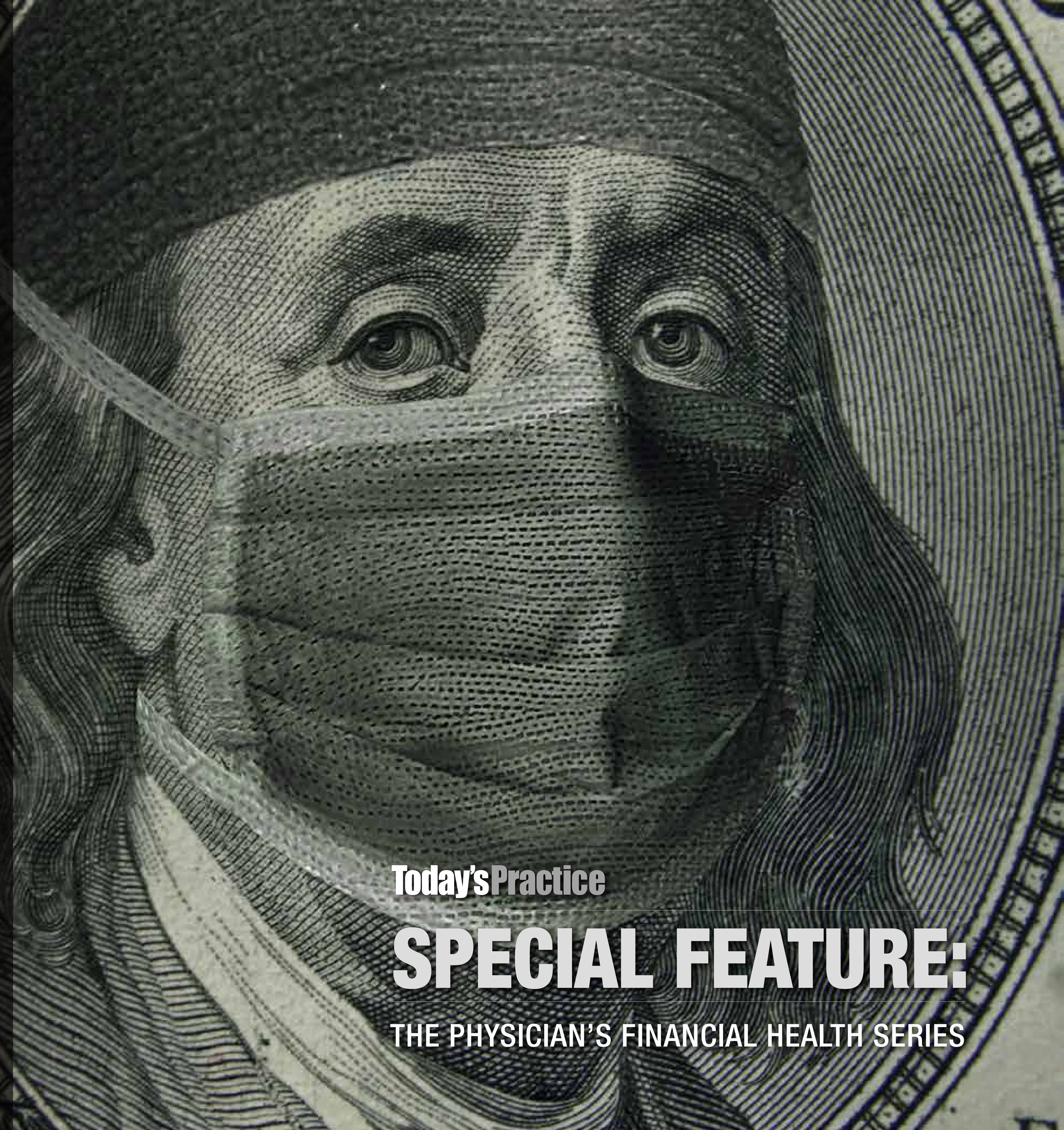


Today's Practice

SPECIAL FEATURE:

THE PHYSICIAN'S FINANCIAL HEALTH SERIES

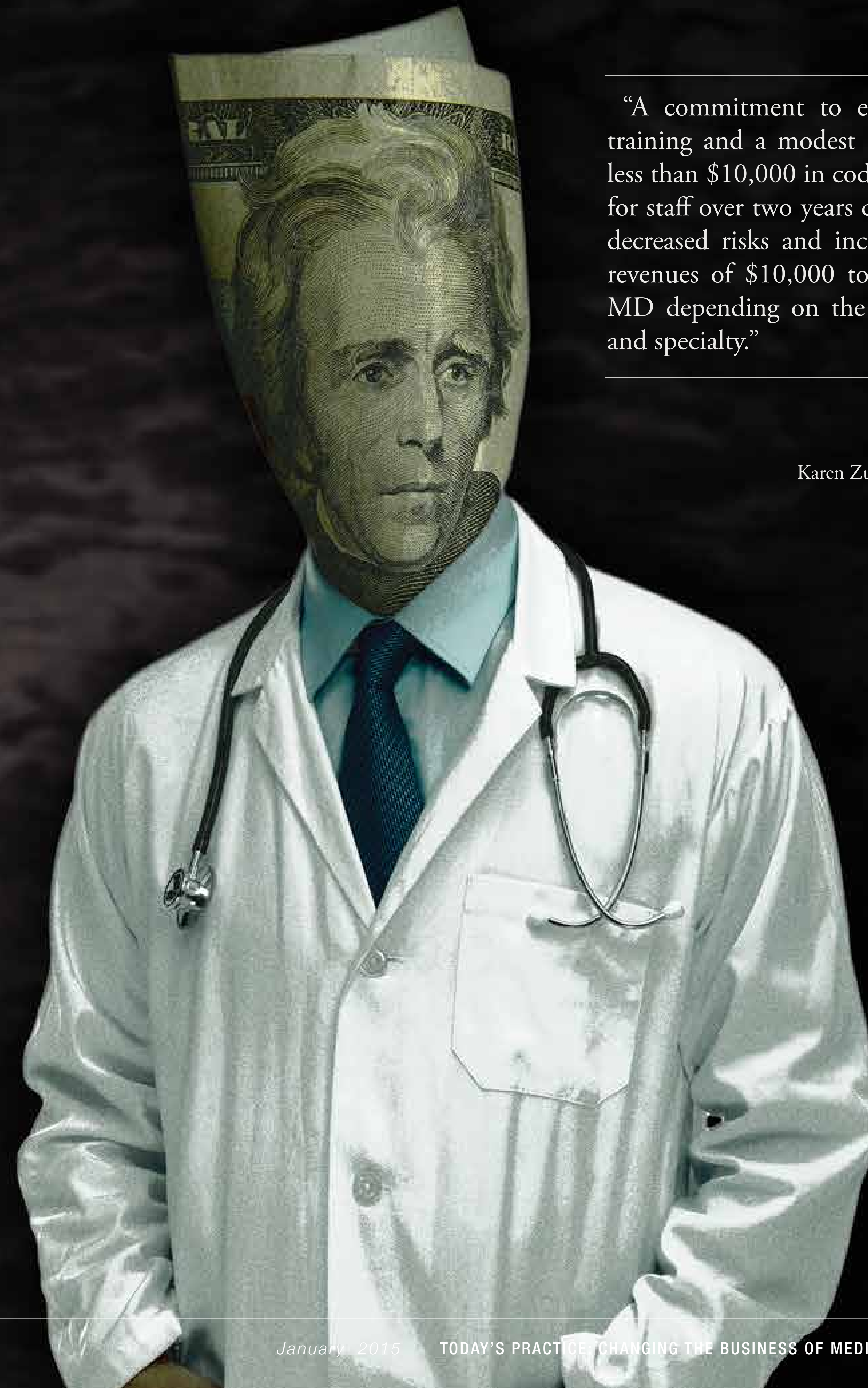
SPECIAL FEATURE: THE PHYSICIAN'S FINANCIAL HEALTH SERIES

BEFORE YOU SELL YOUR PRACTICE...

WHAT THE INDEPENDENT PRACTITIONER NEEDS TO KNOW IN TODAY'S ENVIRONMENT.

CHRIS JARVIS, MBA, CFP® & JIM LAUZON, CLU® | PART ONE OF TWO

Are you sure you're ready for the brave new world of healthcare? In this fast-changing environment with hospitals and private equity aggressively courting physicians, what you don't know could cost you millions.



"A commitment to education and training and a modest investment of less than $10,000 in coding education for staff over two years could result in decreased risks and increased annual revenues of $10,000 to $40,000 per MD depending on the practice type and specialty."

Karen Zupko
President
Karen Zupko & Associates

Before You Sell... (continued)

Chris Jarvis, MBA, CFP® & Jim Lauzon, CLU®

This two-part article will provide you valuable information to help you make more informed decisions as you face important choices in your career. Part I will focus on what you can do to get the most out of private practice. The more profitable you are in private practice, the more options you will have in the future. Part II will focus on getting the most out of a sale or employment opportunity, if that is the path you ultimately decide to take.

Why would anyone buy your practice?

The PPACA calls for Affordable Care Organizations (ACOs) in each Medicare region to be responsible for cost-effective, high quality healthcare for its residents. To be able to adequately serve the patient population, ACOs need to aggressively recruit physicians. This "integration" is taking place nationwide as healthcare systems are vying to secure the local ACO designation... and collect all the Medicare revenue.

At the same time, private equity is investing billions of dollars in the acquisition of platform specialty practices with the hopes of selling them to the hospital systems that will desperately need them to provide a full range of services to its patients. "Platform practices" are the ones that have the ability to be expanded with additional providers and extenders. They often have ancillary services, such as an ambulatory surgery center, lab, pharmacy, or other income-producing entity that can benefit from referrals from physicians in a geographic area.

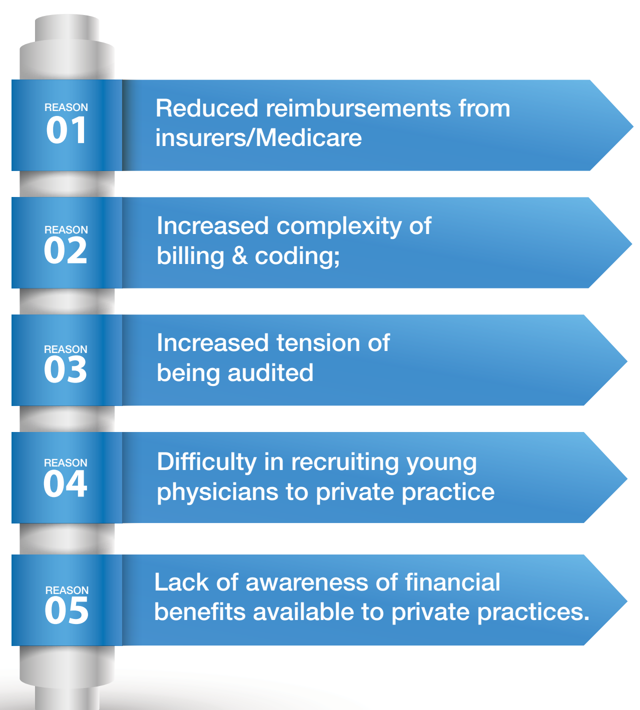
According to CMS, healthcare spending is expected to grow by 6.2% per year from 2015 to 2022. By 2022, it is expected that healthcare will make up 19.9% of the United States Gross Domestic Product (GDP). With the largest segment of our population (Baby Boomers) entering retirement and the statistical evidence that the vast majority of healthcare dollars are spent in the last 20 years of our lives, it is easy to see why so many investors see opportunities in healthcare.

Why Would You Want to Sell Your Practice?

Because of local or specialty-specific factors, some groups (like cardiologists) are practically forced to "integrate" with a hospital. For most specialists, the situation is not so dire. Once upon a time, when reimbursements were generous and compliance was less complicated, practice owners could "get by" with mediocre management and systems. Now, stricter guidelines for reimbursements and increased compliance costs make it much harder for smaller practices to thrive.

As a result of these challenges, many physicians see hospital integration as a haven from the "hassles" of running a practice. In conversations with Karen Zupko, founder of Karen Zupko & Associates (a leading consulting firm for many surgical specialists), we came up with the following reasons for doctors' increased interest in a hospital-based practice (see below).

Top reasons for doctors' increased interest in a hospital-based practice:



Being an employee at a hospital can be a great fit for many doctors. But, until you understand how good things could be for you, you won't be able to fairly assess the opportunity cost of giving up private practice for hospital employment.

In our experience with thousands of medical practices over the last twenty years, the problem isn't necessarily that the healthcare system is broken. The problem is THE DOCTOR'S APPROACH to navigating the healthcare system is broken.

If managed properly, your practice can reasonably expect to:

If you could collect more, spend less, and keep more of the increased profit from your practice by working smarter, not harder, you would need a much more attractive offer before you would agree to give up on private practice and become an employee of a hospital. Even if you have already made up your mind that you will eventually join a hospital practice, you should still read this article and implement the strategies offered so you can be in a stronger negotiating position.

"Misconceptions can lead to bad decisions."

Leaving practice and becoming employed certainly may have its benefits. However, we believe that physicians overestimate the true benefits they will receive from joining a hospital and underestimate (if not completely ignore) the financial benefits available to those in private practice. If specialists fully understood how to easily and efficiently increase revenue, reduce costs, and increase net after tax income, we believe the trend toward employment would slow significantly. Let's consider a few of these dangerous misconceptions.

Step #1: Stop Leaving So Much Money on the Table.

According to Karen Zupko, poor practice management has an enormous impact on revenue and expenses. Not only have reimbursements (for properly coded procedures) been declining, but more importantly, failure to keep up with coding changes has led to mistakes that result in a staggering amount of lost annual revenue. Estimates from coding professionals range from an average of $20,000 per surgical specialist to more than $40,000 in some cases.

Doctors lose over $25 billion per year in denied or reduced reimbursements.
- MDTech.com

Most practices have yet to realistically address the growing accounts receivable owed by patients with insurance coverage. These uncollected revenues have resulted from skyrocketing deductibles, ever-increasing coinsurance and copays, and an expanding list of uncovered services in patients' health insurance plans. Rapid technology changes lead to antiquated systems that are ill-equipped to handle the challenge of tracking down and collecting this revenue!

Before You Sell... (continued) Chris Jarvis, MBA, CFP® & Jim Lauzon, CLU®

For a small investment, experts are available to not only train your staff, but also to serve as a resource as problems arise. According to Karen Zupko, a published expert with over 35 years of experience, "A commitment to education and training and a modest investment of less than $10,000 in coding education for staff over two years could result in decreased risks and increased annual revenues of $10,000 to $40,000 per MD depending on the practice type and specialty. Physicians are always focused on costs" observes Ms. Zupko, "but rarely are they aware of how much they are losing. Ignorance is expensive."

Step #2 – Plan to Be Your Own Sugar Daddy

Though we have seen dermatology, pain management and ophthalmology practices purchased for $20 to $50 million, we want to save the secrets to getting such a large buyout for Part II of this article. In this piece, we want to focus on what you can do with your own money to achieve the best possible retirement you can – without having to give up your independence and autonomy to work for someone else.

Traditional Retirement Plans are Inadequate, when:

- 01 You earn more than $300,000 per year
- 02 You have more than 10 full-time employees
- 03 You have employees who earn over $75,000 per year
- 04 You have employees over the age of 50

The single greatest injustice is that physicians get absolutely no training on how to run a successful medical practice. Successful business owners use sophisticated corporate structures, private insurance arrangements, and non-traditional retirement planning options to maximize the value they get out of their businesses. If more doctors knew how to increase tax-efficient retirement contributions by $50,000 to $500,000 per year, there would be much less interest in hospital-based practice integration.

If you are earning $300,000 to $3,000,000 (or more), retirement plans offer you very little benefit, while subjecting you to unnecessary Department of Labor oversight, potential fiduciary risks, and significant contributions for employees that are not based on merit. Successful physicians need to consider the following ideas so they can be more like the savvy business owners in their communities:

Highly-Successful Physicians Should Consider:

- 01 Implementing non-traditional retirement plans so they can make up to $500,000 annual contributions
- 02 Creating a captive insurance company to protect the practice, reduce current tax, and improve overall cash flow
- 03 Leveraging low-cost financing to fund creative retirement, retention and recruitment efforts
- 04 Protecting future income with up to $100k/month "own occupation" disability income insurance from Lloyd's of London

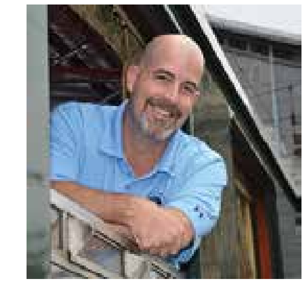
Conclusion: Small Changes = Big Results

Unfortunately, physicians spend so much time on clinical issues and so little time on business strategy. For specialists, the time required to master a sub-specialty is even greater. Ironically, the "business of medicine" seemingly punishes those who take the time to excel at the clinical side of medicine and rewards those who develop the financial expertise necessary to profitably practice medicine.

Before you throw your hands up and give in to becoming an employee, make sure that you understand the costs and benefits of your decision. You owe it to yourself to explore ways to legitimately increase your revenue and benefits while reducing your compliance risks and tax liabilities. You don't have to become Warren Buffett, but you do need to invest time and money to consult with experts who have an outstanding track record of working with specialists like you. After you explore your options and have a clearer picture of what you can do on your own, you will be better prepared to assess any deal you get from a hospital or a private equity firm. Part II of this article, "Getting the Most Out of Your Deal," is available from the authors if you can't wait for the next issue of *Today's Practice*.

> "Before you throw your hands up and give in to becoming an employee, make sure that you understand the costs and benefits of your decision. You owe it to yourself to explore ways to legitimately increase your revenue and benefits while reducing your compliance risks and tax liabilities."

about the author:



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Jim has been a leading professional in the financial services industry for over 25 years. Jim began his financial service career with New York Life in Boston and Connecticut building teams of representatives and managing offices while supervising at a principal level. At New York Life he was an Associate Managing Partner, Managing Partner and Advisor/Principal.

After New York Life Jim became the Succession and Estate Planning expert for Smith Brothers Financial, LLC, in Connecticut. With the support and cooperation at Smith Brothers Jim created AFRM, LLC. He decided to duplicate this model he designed at Smith Brothers and has been working with large Commercial Property and Casualty Agencies. Jim works primarily with the property and casualty business owners to make sure the Commercial clients Succession Plan and Estate Plan are done the right way while simultaneously increasing the P&C's bottom line in revenue, exponentially.

Jim earned his Chartered Life Underwriter® (CLU®) professional designation from The American College. Jim is a member of Business Enterprise Institute, Inc., (BEI). BEI provides comprehensive practice development tools, education and ongoing support to business owner advisors who specializes in comprehensive Exit Planning. Jim is a graduate of Bridgewater University where he played football and earned his Bachelor of Science.

Jim is a licensed principal holding his series 7, 65 and 24.