



Succession Planning Needs to Start Early

By Ed Rabinowitz
Sep 22, 2009

The only thing that is constant in life is change. It's always occurring. The ability to adapt to change is one of the keys to success in any of life's endeavors. That includes developing a transition strategy for the time when you decide to hang up the stethoscope and walk away from your practice. And the earlier you put that strategy in motion, the better.

"If I take on a client who's 35 years of age, I get it into his or her head that succession planning is critical no matter what age you are," says Ralph Anderson, partner at the accounting and business consulting firm of Friedman LLP. "I look at someone who comes to me at 55 years old ... it's almost too late."

Succession takes time

A good succession plan can take between five and 10 years to implement. Kevin Long, an attorney and CPA based in Massachusetts, says that's because many physicians, especially those with specialty practices, are independent. As such, they're most likely to sell the practice to another physician, and that's a process that takes time, especially in today's economy.

One of the reasons is that a physician's practice is a service business. According to **Larry Ploucha**, an attorney with the Ft. Lauderdale, Florida-based law firm of **Atkinson, Diner, Stone, Mankuta & Ploucha**, it would be very unusual for a physician to sell his or her practice for any number above the net asset value of the furniture and equipment. And while some practices may be in possession of very expensive equipment, the average physician is not. Therefore, the most likely purchaser of the practice is a younger physician who is brought into the business.

However, Long explains, sweat equity is dead. "For younger physicians, it's like castor oil. But, they don't have financial equity, so how are you going to make [the transition] happen?" The answer, he says, is a process that allows younger physicians to purchase the practice over time, using the profits of the practice, and keeping an appropriate level of control in the practice in the hands of the selling physician. "But it can take five to seven years for that to happen. And before you can put [the process] into effect, you have to find a physician and become comfortable working with them. So, it's easily a ten-year program."

Easier said than done

Ploucha explains that the current marketplace for young physicians is extremely competitive. Physicians completing their fellowship training and moving into the

working world have a clearer view these days in terms of what they want from the standpoint of partnership and participation in a practice. “Compared with twenty years ago, doctors today are tougher negotiators and are looking further down the line. It’s a very competitive marketplace for the physician trying to hire that next generation of doctor.”

There’s also the issue of compatibility. Anderson explains that one of the curve balls that gets thrown into the mix is when the younger physician who is brought in doesn’t work well with the established physician, or with the patients. “That’s a big problem,” he says, noting that if transition planning hasn’t begun early enough, physicians are often stuck trying to find someone with whom they can work.

First steps

The first step to successful transition planning is to mentally prepare yourself that you can do it, says Anderson. “Get used to it, know it’s going to happen, then start planning for it.” The planning, he says, includes putting away between five and ten percent of your gross revenues as though it were an expense. In effect, it’s your own pension plan beyond what you might be doing with regard to a defined contribution plan. The reason? In all likelihood, the practice, by itself, is not going to finance your retirement.

But, cautions Ploucha, don’t overlook contributing to qualified retirement plans. He calls them the only legitimate, blessed, IRS-approved tax shelter left in the economy. “The ability to put money aside from your earnings on a tax-deferred basis and only pay income taxes when you take the money out is still the biggest and only legitimate tax shelter people have. The sooner you start, the more you’re going to benefit from compound earnings over the ensuing decades.”

It’s human nature, Ploucha adds, to figure that when you’re age 30, age 65 is a long way off. However, before you know it, you’re 55. And when you start assessing your opportunities for retirement savings, it’s difficult to cram 20 or 30 years of savings into 10 years of working. “There are too many unknowns. You have to take care of yourself first, and always have a cushion.”