MSF COMPANIES

Consulting
Investment Advisory
Insurance

CASE STUDY

PLASTICS PRACTICE
STREAMLINES FINANCES

How one successful Plastic Surgery and Aesthetics Practice, engaged a team of Financial Professionals to:

- Cut More Costs
- Retain More Earnings
- Reduce Their Tax Burden
- Address Exit and Succession Concerns
- Provide for the Retirement Plans of the Partners and Employees

By Michael S. Berry, ChFC

CASE PRESENTATION

For one successful plastic surgery and aesthetics practice, engaging an innovative team of financial professionals, allowed them to reduce their tax burden, cut costs, retain more earnings, address the exit and succession concerns of the practice, and provide for the retirement plans of the partners and employees. The arrangement and leverage of the multi-specialty advisory team, provided not only a financial return, but also a return on efficiency, best practices, and morale.

The revenue of this $16 million practice comes from four sources: clinical patient care, an ambulatory surgery center (ASC), spa services, and real estate income. Typically, when we see large aggregate revenue coming into a practice, from multiple streams, there are a number of planning strategies one can employ to create greater efficiencies in the practice, as well as to the maximize financial benefits.

In determining the overall needs of the firm, the planners began by assessing areas that most commonly lead to an erosion of wealth of the partners, and decreased financial efficiency of the practice:

1. Taxes
2. Disability
3. Premature Death
4. Investment Performance
5. Fees and Costs
6. Uninsured and Underinsured Risks
7. Personal Planning Considerations of Partners (divorce, retirement)

With these threats to wealth in mind, the planners constructed a customized strategy to coordinate the following disciplines: tax reduction, asset protection, corporate structure, retirement plans, investment and portfolio allocation, group benefits, insurance, revenue-cycle management, and estate planning. Sub-specialists and other financial and legal professionals were also consulted to provide their expertise in designing the most optimal strategy.

Financial Planning Services is taking a very parallel path to Healthcare. Not just in the regulation, fee compression, and mergers space, but in the chassis by which strategy and products are delivered. The quality of the outcome will be based on coordinated "Wealthcare". Wealthcare allows each specialist to weigh in on important decisions, similar to health care coordination.

FACTS OF THE CASE

Partners at Different Places in Life

One of the foremost challenges in planning for this specialty practice is that, the partners are at different stages of life, and thus have vastly different income and savings needs. With this practice, two of the partners were going through divorce and needed cash liquidity. Two other partners are young physicians, just getting settled into their careers and with the goal of providing financial stability for their young families. Two additional partners are nearing retirement and seeking to implement a buy-out robust enough to provide a comfortable lifestyle after they stopped working.

Additional Planning Considerations

Along with the primary agenda, in the background and also important are, group benefits, revenue cycle management, and best practices. All of which needed to be reviewed for profitability leaks and inefficiencies. It is important to note that some of the best solutions presented themselves in uncommon areas of financial strategy and products.

There are several corporate entities, LLC's, and corporate structures, with uncommon ownership arrangements.

THE ENGAGEMENT PROCESS

In order to maximize the success of the practice; its partners, engaged the advisory firm of MSF Companies. MSF Companies leverages a national network of specialists with a true emphasis on boutique financial planning services and ability to coordinate resources. MSF Companies undertook many specific tasks and became CPO "Chief Planning Officers" – working closely with the Partners, Executive Director, and some of the existing advisors.

Including:

Corporate Planning: Evaluated current corporate structure, partnership agreements, buy/sell agreements, analyzed the potential advantages and disadvantages of using multiple corporate entities; analyzed current corporate qualified and non-qualified benefit/retirement plans and compared to alternatives that may provide additional tax and cost efficiencies, and overall benefit to owners and employees.

Risk Management: The planning team identified potential corporate uninsured and underinsured risks, including an examination of business overhead and disability risk, liability risk, and possibly using a captive insurance company to insure various financial, legal, environmental risks to the operating business.

Maximize Profitability: The financial advisory team helped to identify revenue cycle profit leaks, excessive credit card processing fees, and overpayment of business taxes.

Tax Analysis: If taxes are not managed properly they can lead to highly significant erosion of wealth. In this case, the planners brought in a healthcare tax consultant. Tax consultants also prepare returns, but tax reporting service is ancillary to evaluating all the possible reduction techniques.

Insurance Product Analysis: One of the essential underpinnings of a strong and secure financial plan is insurance. In this case, the planners conducted an evaluation of current life, disability, and long-term care insurance policies. They then compared existing policies to alternative products, with tax, asset protection, retirement, estate planning, and wealth accumulation goals in mind. In this case, the planners were able to identify a number of improvements over the practice's current insurance status.

Personal Catastrophic Planning: The planners included an examination of various potential risks to the wealth status of each partner's family. This was essentially a deep evaluation of financial security of each family member that yielded recommendations to shield the family from risks to the greatest possible degree.

Analysis of Personally Held investments and Asset Allocation: This analysis included an evaluation of the past performance of the investments with a particular focus on asset allocation, risk tolerances, tax efficiencies, management fees, and an assessment of the relationship between the current investments and their relationship to the overall financial plan.

Educational Funding: A number of the partners in this practice had small children or children who were nearing college age. The planners employed 529 plans and other alternatives that enabled the partners to invest in suitable strategies.

Cash Flow Statements and Balance Sheets: The planners worked with the partners to develop a cash flow model, in order to anticipate future cash needs and identify the capacity for future wealth accumulation..

Estate Tax and Asset Protection Management: Including a review by an independently contracted Trusts & Estate Tax attorney. The agenda was to discuss projection of estate taxes and present recommendations for reducing unnecessary taxes, determine the most efficient choices for paying any unavoidable taxes, and align the use of annual exclusions and unified gifting programs.

Philanthropy: Analyzed, organized and developed gifting strategies that benefit the charity, donor, and the donor's family with the very highest level of financial safety.

eMoney Advisor Planning Tools: This service provided full view of the partners' financial picture with a personal and secure web page that organized and consolidated all financial accounts, tracked balances, created budgets with customized financial plans, and stored all important documents in the secure "vault."

BENEFITS & SAVINGS

By employing the strategies of the financial planning team, the partners were able to retain $812,000 (pre-tax) in retirement plans. This yielded a current tax saving of approximately $324,000 for the partners. This can be re-applied on an annual basis. The assets then receive preferential tax treatment growth as long as the plan and contributions follow all of the ERISA, DOL, and U.S. Treasury rules. The practice added a defined benefit plan to the existing 401k, safe harbor match, and profit share plans. As a by-product, employees received enhanced education, increased funding and a lower cost plan.

Disability Protection: Each partner was able to acquire an additional $15,000/month of tax-free disability income benefit supplementing existing coverages. The partners were able to acquire this coverage as part of a guaranteed issue, with no exam and no medical underwriting, and all with own occupation specialty definitions for the physicians' disability insurance plans.

Implement a Lifecycle LLC: Lifecycle LLC's simplify the buy-in and buy-out arrangements for all entities. The partners were able to fund buy-sell agreements, tax efficient supplement retirement, and to design exit strategies for outgoing partners. The practice secured $30 million in the form of a cash-value life insurance policies. Disability buy-out and disability key person coverages are now in place.

For $216,000 per year over 10 years ($2.16 million in total) the principals were able to secure $30,000,000 in life insurance to accomplish the following:

- Buy-Sell Requirements to Cover a Departure or Death of a Partner
- Supplement Retirement Funding
- Tax Deferral
- Exit Strategy of Practice
- Asset Protection

Investment Management: Two of the partners have embraced a personal investment management solution of pivoting between wealth accumulations (offense) and wealth preservation (defense) in a timely fashion. They were able to do this by using tax efficient and low cost exchange traded and indexed funds.

HR Administration: The financial consultants introduced newer, more efficient human resources (HR) administration with modern tools and functionality that gives employees, supervisors, and managers the power to manage HR data, tasks, and inventory. With the new and enhanced business intelligence tools, the executive director is now able to produce more than 100 standard reports using a simple report writer, as well as HR insight charts, Affordable Care Act reporting, and point-in-time reporting. All customized to this client's specific requirements.

A 15% Savings on Credit Card Processing.

The Financial Planning team agreed to keep most of the group benefit plans as is. The only change was to the group disability contract.

The Planners continue to work with the Partners on estate and philanthropy planning.

Upgraded Tax Consultants and Tax Representation.

CONCLUSION

When the advisors began their review they found that many aspects of the practice's financial plan had been cobbled together over time as the practice grew and changed, and as partners came and went. The diverse components did not function as efficiently as they could as a cohesive plan. By analyzing, and then orchestrating, the advisors were able to significantly improve upon a good foundation, seal profitability leaks, save money for the practice, reduce risk, and ensure rich retirement plans for the partners.

It's important to note that not every engagement requires ALL aspects of a practice's finances to be overhauled. Some things stay the same. In this case, for instance, the long-term care insurance policies measured up to market benchmark quality, as did the group medical. The team ultimately recommended that the clients maintain these policies.

CONTACT US

Thank you for taking the time to review this abbreviated case study.
For a complete analysis of this case, or to discuss your specific situation, please contact us.

Michael S. Berry, ChFC

MSF COMPANIES LLC

Phone: 855.449.7100

Email: mberry@msf-advisors.com