

When Should I Start my Succession Plan?

By Richard M. Ornstein, CPA



SHAREHOLDERS

Martin R. Glickstein, CPA
mglickstein@glccpa.com

**Rodney S. Laval, CPA
of Counsel**
rlaval@glccpa.com

W. Neal Carris, CPA
ncarris@glccpa.com

James M. Loomis, CPA
jloomis@glccpa.com

Mary C. Dantuma, CPA
mdantuma@glccpa.com

Bethany K. Lusby, CPA
blusby@glccpa.com

Richard M. Ornstein, CPA
rornstein@glccpa.com

J. Russell Hamlin, CPA
rhamlin@glccpa.com

PRINCIPAL

T. Shepard Burr, CPA
sburr@glccpa.com

Many of our physician clients are forward-thinking and have a well-devised succession plan. Regardless, this is one of the most common questions that we receive from our clients, especially as the economy has affected many retirement plans. Our answer is that it is never too early or late to start a succession plan.

While this is true for most business types, it is especially true for medical practices. Medical practices are in the unique position where they do not have a number of options available to them that would be available to other businesses for succession planning purposes. For example, because of licensure requirements medical practices cannot transfer ownership to an employee stock ownership plan or pass the business on to family members who are not physicians. Furthermore, sole practitioners have more planning to do than those in a group practice as physicians in a group practice have the option of passing on ownership of the practice to others in the group. Sole practitioners must bring on an associate should they desire to pass the practice on to another physician. Moreover, it is becoming increasingly difficult for both solo and group practices to sell their practices to hospitals or practice groups because of the fear of diminishing reimbursements and uncertainty of the future of healthcare delivery.

Successful, multi-generational practices typically find success in the planned addition of new associates. The influx of new blood helps keep the practice healthy and viable as older physicians retire. It is important to ensure that associates are added at regular intervals to ensure that there are sufficient funds available to fund retirements. Normally, practices that regularly add associates have well-crafted buy-sell agreements that spell out clearly the expectations for partner buy in and buy out. Furthermore, these practices set guidelines on the number of years of service before an associate is offered partnership and whether the associate will be an equal partner. It is also not uncommon to see senior physicians take reductions in pay to help fund the addition of a new associate.

If you are thinking about creating a succession plan for your practice, you should consider the following suggestions:

1. Set goals. The first part of your plan should focus on the goals that you want to achieve when you retire – both for you individually and for your practice. You should also develop a timeline to plan the growth of the practice.
2. Get advice. Succession planning, for medical practices especially, will require the advice of your attorney and accountant. These individuals will be able to review your succession plan to ensure that you do not accidentally enter into any pitfalls.
3. Talk to your group. If you are a member of a group practice, it will be vital to ensure that they are on board with the goals of your succession plan. Beginning the succession planning process before your partners are in agreement can be a recipe for disaster.
4. Decide on value. Your group practice members will have to sit down and agree on the value of your practice for the purposes of crafting buy-sell agreements. This is important because different formulas can add varying weights to differing segments of your practice. Also, the value of your practice can have different impacts on your tax situation.



5. Review! This is by far the most important step listed here. Succession plans are living documents that should be updated as necessary. Your practice, tax laws and other regulations will undoubtedly undergo significant changes during the life of the plan, and your succession needs may change drastically. This can have a significant impact on your ability to attract new associates or may leave you with an outdated plan that does not reflect your new succession goals.

The professionals at our firm can assist you in creating a succession plan. Please call us today.