

GOLDBERG MANDELL O'DELL FOOS

WEALTH PROTECTION PLANNING

FOR DERMATOLOGISTS

*Four Lessons on Building Wealth
and a Thriving Dermatology Practice*

SAMPLE CHAPTER

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David J. Goldberg, MD, JD
David B. Mandell, JD, MBA
Jason M. O'Dell, MS, CWM
Carole C. Foos, CPA



2015

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FOUR LESSONS ON BUILDING WEALTH AND A THRIVING
DERMATOLOGY PRACTICE

By David J. Goldberg, MD, JD, David B. Mandell, JD, MBA,
Jason M. O'Dell, MS, CWM, Carole C. Foos, CPA

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ISBN: 978-0-9909008-7-0

Manufactured in the United States of America.

SAMPLE CHAPTER

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Dr. Goldberg was the first recipient of the ASLMS Leon Goldman Award named after the founder of laser medicine. He is past Chair of the Ethics Committee of both the American Academy of Dermatology and the American Society for Lasers in Medicine and Surgery. He has been or is currently a member of the Board of Directors of the American Academy of Dermatology, the American Society for Dermatologic Surgery and the American Society for Lasers in Medicine and Surgery.

Dr. Goldberg is a Clinical Professor of Dermatology and Director of Laser Research of New York's Mount Sinai School of Medicine. He is also Medical Director of Skin Laser & Surgery Specialists of New York and New Jersey with offices in New York, New Jersey and Florida. He has published over 150 peer-reviewed manuscripts and is author and/or editor of 15 books on Laser Hair Removal, Ablative and Non-ablative Skin Rejuvenation, Photo-damaged Skin, Complications in Cutaneous Laser Surgery, Dermal Fillers in Dermatology, Cellulite and Fat Removal Techniques and Acne and Rosacea. Dr. Goldberg has performed pivotal research studies in the areas of laser hair removal, non-ablative skin treatments, dermal fillers and new botulinum toxins. He is on the editorial boards of the Lasers in Surgery and Medicine and Dermatologic Surgery. He is Senior Chief-Editor of the *Journal of Cosmetic*

and Laser Therapy. He is a director of both the New Frontiers in Cosmetic Medicine and 5 Continents Aesthetic Medicine meetings. Finally, Dr. Goldberg is an attorney having graduated from Fordham University School of Law in New York where he currently serves as an Adjunct Professor of Law and teaches a course entitled “Advances in Health Care Law.”



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David B. Mandell, JD, MBA, is a principal of OJM Group, attorney, author, and renowned authority in the fields of risk management, asset protection and financial planning. Mr. Mandell is co-author of the books *For Doctors Only: A Guide to Working Less and Building More* and state versions of the book for physicians in California, Ohio, Georgia and New York.

Mr. Mandell has also written two books for John Wiley & Sons, Inc., the oldest publisher in the U.S.: *Wealth Protection: Build & Preserve Your Financial Fortress* and *Wealth Secrets of the Affluent*. His previous books include *The Doctor's Wealth Protection Guide*, *Wealth Protection, MD* and the Category I CME Monograph *Risk Management for the Practicing Physician*, which continues today in its 6th printing.

Mr. Mandell has also published articles in more than 50 medical publications, and has addressed many of the nation's leading medical conferences, including the American Academy of Ophthalmology, the American Section of the International College of Surgeons, the American Association of Neurological Surgeons, the American Academy of Dermatology, the American Society of Plastic Surgeons, the American Society of Aesthetic Plastic Surgeons, and numerous others.

Mr. Mandell graduated with honors from Harvard University. His law degree is from the UCLA School of Law, where he was awarded the American Jurisprudence Award for achievement in legal ethics. While at UCLA, he also earned an MBA from the Anderson School of Management.



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Mr. O'Dell graduated with a Bachelor of Arts in Economics from The Ohio State University and has earned a Master of Science degree with an emphasis in financial planning. He serves on the Board of Directors of the Alzheimer's Association of Greater Cincinnati and is a member of the Financial Planning Association, Cincinnati Estate Planning Council and the Advisory Board of Partners Financial.



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Introduction

From David J. Goldberg, MD, JD

As a busy dermatologist, I recognize that time is the most valuable asset for any practicing physician. I appreciate you taking some of your time to read our short book. I hope you find the information insightful and helpful. Along with my co-authors, we have attempted to provide information on what we believe could significantly impact your practice and ultimately your long-term financial health.

Dermatology is a great field because, as you are well aware, it presents an immediate opportunity for the practitioner to help their patients—and earn a good living while doing so. What the practice does not afford, is much time for anything else, especially financial and business planning. How many of us finish school, complete residency, and then jump right into practice without taking any time to plan for our financial future? It can be years before we stop to take a breath and assess our financial goals. We can do better.

One of the most difficult aspects of planning is simply getting started. By reading this book, you have taken the first step. The next step is acknowledging that you cannot do it alone. All doctors are intelligent, highly-educated individuals. One thing that can be difficult for us is admitting when we do not understand something. There are many conflicts in the financial services industry. Some less-than-scrupulous advisors prey on investors' lack of knowledge. Finding someone you trust to understand your specific situation can be frustrating. The best advisors not only help you plan, they also educate you so you can make the best decisions regarding your own financial health.

The purpose of this book is to arm you with information. The following four sections discuss issues that have come up in my own personal life and professional practice. Each section includes an introductory challenge, followed by lessons in how to do handle the issues. The issues and lessons include information on how to protect your assets, reduce your tax liability and plan for retirement while growing your practice.

I hope this book provides a reference for you, but more importantly, I hope it motivates you to start planning. Again, thank you for picking up our book—I sincerely hope you find the information as valuable as I do.

**From David Mandell, JD, MBA, Jason O'Dell, MS, CWM
and Carole Foos, CPA**

We thank Dr. Goldberg for his invaluable contribution to this book, and we thank you for taking the time to read it. As our co-author described, this book has been created in a “discuss challenge/discuss solutions” format. In each of the four areas, Dr. Goldberg will describe a particular challenge he has seen in practice or personal planning and we will describe potential solutions to the challenge in our Lessons.

Our firm has helped over 1,000 physicians of all specialties throughout the U.S. Our material in this book describes some of the ways we help our doctor-clients every day. Some of the writing here is unique to this text, while some comes from our seven other books written over the years, starting with *The Doctor's Wealth Protection Guide* and the CME piece *Risk Management for the Practicing Physician* in 1998 and continuing to our latest book, *For Doctors Only: A Guide to Working Less & Building More*.

If anything in this book sparks your interest, we encourage you to contact us. We are always available for a free consultation to answer questions or to see how we might be able to help you, given your situation. You can reach us at mandell@ojmgroup.com, odell@ojmgroup.com, carole@ojmgroup.com or 877-656-4362.

Medicine and the Law: The Good, The Bad and The Ugly

David J. Goldberg, MD, JD

One key lesson I have learned from my practice and working with David Mandell, Jason O'Dell and Carole Foos is that in order for most of us to truly enjoy a rewarding career, we must focus some of our time and energy on the business of dermatology as well as the practice of dermatology. As with all fields and specialties; there is the good, the bad and the sometimes ugly sides of doing business. When choosing our path, most of us consider the pros and cons and then generally set out in a direction we believe will provide for the most opportunities and the fewest obstacles.

Some pros and cons are easily and quickly discernable, while others mask themselves—the devil is indeed in the details. Many little cons can quickly overtake a single great pro if we do not see the cons or simply fail to plan for them. In my experience, failing to plan is usually what leads to the ugly situations.

I've written the book with my co-authors to help unmask and reveal some of the cons associated with the business aspects of our chosen field in the hope of not only bringing awareness, but also to help you plan and maybe avoid some of the ugly pitfalls lurking out there.

In my practice, I handle both medical and cosmetic dermatology. There are similarities between dermatology and the rest of medicine and there are dissimilarities. At least initially, I would like to focus on what sets dermatology apart.

Dermatology is a unique field. The uniqueness is what I would gather drew many of you to the field. Why else would you subject yourself to arguably the most rigorous and competitive field in medicine? The fact that the practice is so exclusive is certainly

positive and for me choosing dermatology was desirable because it offered the rare possibility of seemingly endless options. I could combine medical and surgical procedures, see both the oldest and youngest patients, and utilize noninvasive procedures to make my patients happier and more at ease with their own skin. It is a great field because it permits the practitioner to help their patients and earn a good living while doing so.

Toggling between medical and cosmetic treatment also provides a nice buffer to some of the uncontrollable realities of the outside world. As doctors, we have little influence over the country's economy, but it is nice to know that when times are good and people have money to spend, we know they will seek us out for cosmetic procedures like laser hair removal, treatment of unwanted blood vessels, and anti-aging of the skin. During good economic times, my practice would usually see a split of 60-percent medical procedures and 40-percent cosmetic. These nonsurgical/noninvasive cosmetic procedures are expensive and generally not covered by most insurance plans (at least not today). We know the procedures may be viewed as a luxury to our clients—and if times get tough, the clients may tighten their purse strings.

Think back to the fallout of 2008. When the economy collapsed, many people, regardless of how affluent, cut back on expensive luxury items. Dermatologists who could toggle between cosmetic and medical procedures could keep their practices going by reverting to medical treatments to make up for the lack of cosmetic business. During a recession, you may wind up with as much as 90-percent of your business coming from medical treatments (covered by insurance plans).

As of the printing of this book, things are starting to get better. Our patients are more comfortable seeking cosmetic treatment. Everything is cyclical—but being able to withstand cycles is why our field is such a good field to be in. You have the ability to change your business to fit the times.

If you have been practicing for any length of time, you know the above positives also have some negative connotations as well. In conducting cosmetic procedures, we often times deal with patients who may be seeking procedures before they need to, or seeking treatment more often than necessary. These situations put the practitioner in the precarious position of either providing the

treatment, or denying the treatment and knowing very well the patient will eventually find someone who will provide it.

Outside of patients and issues related to the practice of dermatology, we find ourselves facing the same problems most other physicians face. There are continually increasing numbers of regulations and the subsequent difficulties in dealing with those regulations. The rise of Electronic Medical Records (EMR) is a good example of regulations that have come down the pipeline that have greatly affected how we do business—even if it has not affected how we treat patients. The cost of EMR in our field is extremely high. Regardless of what system is adopted, licensing fees, membership fees and maintenance costs seem to keep going up. We are all continuing to deal with the Health Insurance Portability and Accountability Act (HIPAA), which by now may only represent a minor issue—it still continues to increase the cost of doing business and running a practice.

No discussion of current regulations would be complete without at least mentioning the Affordable Care Act (ACA). As with many practices, the ACA is reshaping the practice of dermatology. With the influx of patients with access to healthcare, many offices are preparing for the onslaught of new patients. Offices are already utilizing more midlevel providers, such as nurse practitioners or physician assistants.

It used to be that once prospective dermatologists completed their training, they could either join a practice or hang out their own shingle. As recently as ten years ago it was still profitable and conceivable to set up your own office. Those days are coming to an end because the cost of running an office continues to skyrocket—especially in our field.

One cost generally underestimated at best, or ignored at worse, is labor. Labor costs are even higher in our field because you need so many qualified employees to run an efficient practice. The costs jump even higher if you intend to conduct cosmetic procedures (never mind the cost of equipment). You cannot get by with warm bodies—you need qualified and highly trained individuals—which means higher salaries.

Currently, there is a shortage of qualified physicians assistants for the dermatology field. When most of these assistants complete their training, they have little idea how to actually practice

dermatology. They may need to be trained in the practice, and this training takes time and costs money.

Our offices evolved to include one of the two best training programs in the country to train graduated and certified PAs in our field of dermatology. I can assure you that, under the ACA, there will be a need for more and more PA training programs. This is a major financial factor in calculating the cost of doing business.

The costs of running a medical practice are extremely high to begin with, and these changes will only make them higher. Many of my colleagues in dermatology run mom and pop organizations, but these smaller practices may be a thing of the past, if not already extinct.

Every day we find decreasing reimbursements and increasing costs of doing business. Decreasing reimbursements, and increasing regulation combined with the increase in overhead in running a practice make it much scarier now to practice than ever before. The combination of these factors are making a once rewarding and promising career in medicine, specifically in dermatology, that much more difficult to facilitate. Combined with the long and strenuous learning and training curve, many otherwise qualified individuals are simply choosing other life pursuits.

I often tell new dermatologists that they are entering the most exciting field that exists. We can treat everybody. We can treat patients for (sometimes life threatening) medical conditions and for minor issues. We can treat them surgically or cosmetically.

I think as dermatology residents begin their residency (a crushing four years), they are clueless and have virtually no idea how to run an office—much less protect themselves from lawsuits.

Young residents have to give it all they've got! When in college they must get the best grades and be in the top of their class. They have essentially no social life and kill themselves to get good grades to get into medical school. When they get to medical school, they must strive to be the best of the best of the best in order go on to a dermatology residency. When they are in the dermatology residency they are rewarded with the opportunity to continue competing among the best of the best. Just speak to my son who recently completed his dermatology residency.

When these new doctors come out of a dermatology residency they have high expectations about the income they will make and

yet they have no idea how difficult it is to get started. As discussed above, starting and running a practice is very expensive. There are many dermatologists out there who claim they got started on \$350,000. The reality is—it is nearly impossible to get started the right way with such low capitalization. The new reality is more and more dermatologists are looking to either stay in academics or perhaps join a large group practice because that cushion will help them get started.

If you are already involved in your own practice, then you know the importance of planning. Every practice should have a business plan not only from a revenue and expense perspective, but also a plan of what tax or benefit or retirement tools can be implemented today and as the practice grows. Even employed physicians should have a “business plan” with goals and milestones as well. Taking the concept further, every doctor in all specialties should have a personal financial plan. This is crucial if one hopes to reach personal financial goals. As the saying goes, “Failing to plan is a plan to fail.” Can a practice or physician survive without planning? Sure, but the practice and/or physician cannot thrive. Whether you engage in private practice, an employed position, or academia, you must recognize how active planning increases the efficiency of your work and allows you to better reach your potential.

We hope this book offers you some guidance towards actively planning for the success of your practice, career and personal financial life. The lesson I have learned is the adage of working *on* the business, instead of *in* the business. My co-authors will provide you some valuable advice and insight into being more proactive in your career and finances. I hope you find the information as valuable as I do.

LESSON 1

Be the CEO of Your Career, Even if You are Employed

David Mandell, JD, MBA, Jason O'Dell, MS, CWM
and Carole Foos, CPA

TRIAGE SUMMARY: You must act as the CEO of your own practice and career, and go beyond “seeing more patients” as a primary strategy. Learn how to use leverage—especially of your advisors and assets—and take advantage of the opportunities around you.

Work “On” Your Practice, Not Just “In” It

In medicine, patients come to physicians like you when their bodies are unable to heal themselves. Patients who delay seeking medical treatment are missing out on the power of modern medicine and failing to take advantage of an opportunity to dramatically improve their health. Similarly, the financial, tax and legal ailments impacting your medical practice or personal finances cannot be healed without professional care. Simply working harder and hoping that the problems will solve themselves is like the patient hoping his body will heal itself.

Even more likely, you may not even see any problems yourself, but you will not be working at maximum efficiency without consulting an expert. You may think that you are adequately protected, pay the right amount of taxes, or are truly positioned well with your assets—but how do you know without a check-up or second opinion?

“Seeing More Patients”—A Placebo

Confronted with any legal, tax, or financial setback, many doctors follow the business strategy of “seeing more patients.” If the practice suffers because of a successful lawsuit, a sudden unforeseen expense, or an unproductive associate, physicians often simply try to “make up for it” by seeing more patients in hopes of billing more—and dermatologists follow the same instinct.

The same tactic is followed by many doctors who are behind in their retirement planning, who feel like they are paying too much in taxes, or who are getting divorced. Any financial setback seems

to yield the same resulting behavior. Many physicians approach their entire career with the business strategy of working as long and as hard as possible for as long as they can physically endure it. Does this remind you of any of your peers? Do you see someone like this when you look in the mirror?

Certainly, there are many flaws to such a business strategy. Let's examine a few of these flaws so you can understand why other strategies are better:

1. This strategy has diminishing financial returns

Even if you work harder and see more patients, each patient you see will potentially net you fewer dollars. As your marginal expenses for each additional hour of work may be the same and your taxes may increase if you hit new marginal tax levels, your "take home" may actually become less per dollar as you work harder. Even if this is not the case, the next two flaws certainly apply.

2. This strategy has financial limits

Even if you worked as hard as you possibly could and you could make more on each additional dollar earned, you only have 24 hours per day. As a dermatologist, do you really think that you can work 18 or 20 hours per day over an extended period of time? How long can you work without your skills suffering? Of course, you are capped in the total income that you can generate by "just seeing more patients."

3. This strategy will take a great personal toll on you

Extreme stress, physical ailments, divorce, decreased life expectancy—these are all common symptoms for all physicians, and especially successful dermatologists, who choose "seeing more patients" as their business mantra. Are these extreme personal costs worth it? We think not—especially given #4 below.

4. There is a better way

If working as hard as you could was the only alternative available to allow you to meet your financial

goals, that would be one thing. However, the truth is that there is a much better concept upon which you can build your practice and personal finances. This concept will be explained below.

Use Leverage to Your Advantage

Let's consider the following all-too-common scenario. You work a very long day and generate \$10,000 of billings. The insurance companies pay your practice \$3,000 for your hard work. Your practice overhead is about 50 percent, so \$1,500 of that income is gross profit. However, the \$1,500 isn't yours. Of the \$1,500 you actually receive, the Federal, state, and local tax authorities will take 40 percent to 50 percent or more in states like California or New York, leaving you with only \$750 to \$900. In other words, less than 10 percent of the work you do in a given day actually results in money you keep. This means that you have to do \$3,000,000 worth of work in order to generate less than \$300,000 of money for you to enjoy. Unless you want to continue to work ten times as hard as necessary, you have to learn to work smarter. This is the key to the concept of **Leverage**.

If you refer to the *Merriam-Webster Dictionary* and look up the word "Leverage," you will be presented with three definitions:

1. The action of a lever or the mechanical advantage gained by it;
2. POWER, EFFECTIVENESS;
3. The use of credit to enhance one's speculative capacity.

We will offer very simplified interpretations of the three definitions of Leverage stated above. The first definition states that Leverage increases the amount of force exerted. To exemplify this concept, think of Leverage as the act of wedging a stick between two heavy rocks that you could not move with just your hands. In order to efficiently move one of the rocks, you need to push down on the stick that you wedged between the rocks. In doing so, the rock can be moved. Leverage—the wedging of a stick—allows you to move a rock you would otherwise not be able to move.

The second definition of Leverage simply states that the act of Leverage allows people to be more efficient, effective, and powerful. This can be interpreted to mean that Leverage allows people to get more done in less time. It can also be interpreted to mean that Leverage allows people to get a job done with less effort. In either case, Leverage enables people to be more effective.

The third definition of Leverage applies to credit and loans. In this definition, Leverage allows people to buy things they don't have the money to buy in an effort for them to increase their financial capacity. To illustrate this definition, think of a home loan—the \$500,000 home that is purchased by a family with only \$100,000 of their own money to use as a down payment. Leverage is the ability to enjoy the use of or participate in the upside potential of an investment you otherwise could not afford.

Quite simply, Leverage is a method by which you can do more with less. Less effort. Less money. Less time. If you are looking for a shortcut to financial success, Leverage is the closest thing to it.

The Importance of Leverage

Successful physicians know that Leverage is an important tool to increase their wealth. Without Leverage, people would have to do everything themselves, including running their own business, earning money, handling financial affairs, paying for everything with only their own money, micromanaging everything at work and at home, and still finding time to eat and sleep.

If you feel like this is an accurate description of your life, then you are not using Leverage. Leverage makes your life easier. Leverage frees you to do the things that are most important, most profitable, or most enjoyable to you. Leverage is what allows you to achieve greater levels of financial success. No matter what your financial goals, mastering the art of Leverage and incorporating it into your planning will help you reach these goals faster. As we mentioned earlier, Leverage is how physicians can increase the power and effectiveness of their financial planning. You can do the same.

Financial Leverage: The Foundation of Wealth

For thousands of years, every great construction project required the use of levers to complete the building process. This was true for moving the large stones to build the pyramids of Egypt and lifting the stones for Stonehenge. Levers were used to build all of the great castles, churches, synagogues, and mosques around the world. Financial projects are very similar to construction projects. Both can seem overwhelming at the beginning and both feature a collection of complex tasks that must be executed with skill and precision. The success of both types of projects begins with significant and detailed planning. After the plans are drawn, they must be implemented accordingly. One person alone could never accomplish the implementation of such plans. Instead, the plan requires a team of people working together to accomplish the same goal. For us, that goal is building and maintaining wealth.

**Without exception, every high income earner
and wealthy family has relied on financial Leverage
in one way or another.**

Once you grasp the concept of Leverage and the financial applications of Leverage, it becomes impossible to imagine how affluence could possibly be built without it.

Types of Financial Leverage

Physicians can use different types of financial Leverage to create and build wealth. These include:

Leverage of Effort: Since the goal of Leverage is to get more done with less effort, all forms of Leverage require that you leverage your individual effort by including the efforts of others.

Leverage of Assets: Leverage of assets is one way to increase your financial status and get more out of what you currently possess. If you had an unlimited amount

of money or land, you wouldn't need to accumulate any more wealth; however, this is not the case for most people. Since we all have limited resources, we want to get the most wealth/asset accumulation and financial protection out of what we have with the least amount of effort and the lowest amount of risk.

Leverage of People: Savvy business owners know that they only have the capacity to do so much and that the Leverage of people is one way to get more than 24 hours out of a day. By leveraging other people's efforts, you can increase the number of tasks you can accomplish in a day. By leveraging people with special skills and expertise you don't possess, you can get things done in much less time than it would take you to do these same tasks, if you could accomplish them at all.

Generally speaking, physicians utilize Leverage to some degree, but they are not thorough in their application. They try to leverage effort by working hard; we know that. Doctors also may try to leverage assets in their practice through medical equipment for which they can bill and they may try to leverage people through technologists, nurses, and physician assistants, who can generate income to the practice. Still, few physicians apply this concept broadly enough in their practices to result in any real wealth building. Even fewer physicians effectively leverage people or assets with respect to their personal finances.

Leverage of Advisors: This is a sub-set of the "leverage of people" category, but it is important enough for us to break out. As advisors to over 1,000 physicians across the U.S., we see first-hand every day the benefits that can be gained by busy physicians if they have an expert coordinated advisor team working for them. This might come in the form of reduced income taxes, higher portfolio returns, better-protected assets, a superior corporate structure, better-leveraged benefit plans, a true retirement roadmap—or the psychological benefit to the doctor that they know they're well advised and

do not have to be their own CFO, essentially, while also managing the practice and trying to have a life. What is this peace of mind quantifiably? For many busy dermatologists, quite a bit.

Make Your Assets Work for You: The Power of Compound Interest

“Remember that money is of a prolific generating nature. Money can beget money, and its offspring can beget more.” —*Benjamin Franklin*

“Compounding is mankind’s greatest invention because it allows for the reliable, systematic accumulation of wealth.” —*Albert Einstein*

We will start with some basics. At some point in your life, someone has undoubtedly explained to you the power of compound interest. Compound interest is a simple concept; your money makes money by virtue of interest earned on prior interest—which has become part of principal. In other words, the “compound” return is the subsequent return earned on earlier returns reinvested alongside the initial investment.

Compound interest is a simple way to build wealth—it just takes patience and discipline. You must have the patience to allow your money to grow on its own, and you must have the discipline to leave the money alone.

Let’s take a look at a few examples that demonstrate the power of compound interest and how it affects retirement savings.

For our first set of examples, we will figure out what the annual contribution to a retirement fund would need to be in order to reach a goal of \$1 million dollars by the age of 65. We will assume an annual rate of return of 6 percent, and we will assume for each age that the individual has already set aside a set amount in a fund.

These are basic examples. We are not factoring in taxes, inflation or any number of other factors that could affect any given specific situation. These examples are simply to put years and dollars into context for informational purposes only.

Current age	Retirement age	Expected annual return	Current amount saved in a fund	Goal	Annual Contribution Required
35	65	6%	\$50,000	\$1,000,000	\$9,016.47
40	65	6%	\$75,000	\$1,000,000	\$12,359.71
45	65	6%	\$100,000	\$1,000,000	\$18,466.10
50	65	6%	\$200,000	\$1,000,000	\$22,370.21
55	65	6%	\$250,000	\$1,000,000	\$41,900.97
60	65	6%	\$500,000	\$1,000,000	\$58,696.20

As you can see above, in the example of a 40-year-old with \$75,000 in savings, who puts away \$12,359.71 annually for 25 years, they save approximately \$383,992.75 out of pocket.

$$12,359.71 \times 25 = 308,992.75 + 75,000 = 383,992.75$$

However, the 6% interest compounding over 25 years accounts for an additional \$616,007.25, taking the individual to \$1,000,000. The money earned via compound interest nearly doubled what the individual actually saved out of pocket.

$$383,992.75 + 616,007.25 = 1,000,000$$

Factoring In Inflation and Taxes

The above examples demonstrate the power of compound interest, but they do not tell the whole story. What happens when we account for two very real and important drags to real investment returns—taxes and inflation? What do you really have to save in order to reach your retirement goals? Also, if we want to look at saving to maintain a lifestyle in retirement, it is important that we calculate based on that—not just a stagnant lump sum at age 65.

In this way, if we factor in 3 percent inflation and a 30 percent tax rate, and assume now 7 percent returns, net of fees (a very generous assumption), and then calculate for an annual income requirement, you will see that you must save much more than previously calculated.

Below, we examine the annual required savings amounts for two basic levels of after-tax retirement wealth—\$120,000 and \$240,000. In other words, if you think you can live comfortably on \$10,000 per month after taxes today and want to project what you would need to save each year so that you can maintain that same lifestyle *in 2015 dollars* when you get to age 65, look in the \$120,000 column. If you require about \$20,000 after-tax per month today and want to maintain that level of lifestyle in retirement, then the \$240,000 is your column.

Age	Retirement Income Goal—in 2015 Dollars	Required Annual Savings— After-Tax	Retirement Income Goal— in 2015 Dollars	Required Annual Savings— After-Tax
35	\$120,000	\$66,748	\$240,000	\$132,956
40	\$120,000	\$79,387	\$240,000	\$158,774
45	\$120,000	\$97,993	\$240,000	\$195,986
50	\$120,000	\$127,627	\$240,000	\$255,254
55	\$120,000	\$183,328	\$240,000	\$366,657

Keep in mind, there is no guarantee returns will be 7 percent post-fee—in fact, that is a very generous assumption. Of course, as returns decrease, savings must increase to make up for it. Should returns creep into the 3-4 percent range for a period of time, you may have to double your actual savings to reach your goals. Also, if returns decrease, you will have to fight the urge to increase your risk tolerance just to make up for it—especially as you get older and closer to retirement.

As you can see above, there are some significant savings requirements here. While we assume \$0 other savings to get you to the goal and you may have some (real estate equity, etc.), this underscores the need for a well-modeled, comprehensive financial plan. As we mentioned earlier, “Failing to plan is a plan to fail.”

Accumulating and sustaining wealth during volatile markets is not easy. There are different ways to build wealth in up, down, and sideways markets that go beyond socking money away, diversification, and managing risk. We will discuss some of these later in this book.

See Opportunities Around You

Many dermatologists already recognize the many opportunities to become a “doctrepneur” in the enormous healthcare business space.

If you haven’t yet seriously looked at your position in the healthcare system as a source for wealth creation, now is the time. Spending on healthcare in the U.S. in 2010 accounted for 17.6 percent of the Gross Domestic Product.¹ With an estimated \$2.7 trillion spent on healthcare expenditures in the U.S. in 2011 and projections for 2016 reaching \$3.6 trillion, it is obvious that there are opportunities all around you.² Here are a few to consider:

Real Estate: One way to get started leveraging your practice to create more wealth is to consider the physical location of your practice. Would it make more sense to own the building rather than leasing space? If you owned the building, could you also rent space to others? Investing in commercial real estate may seem daunting, but it can provide for reliable streams of additional income.

Ambulatory Surgery Centers (ASC): Getting involved in or starting a surgery center provides physicians the opportunity to pool services, increase efficiency, get higher percentages of reimbursement for procedures, and obtain higher profits with the same working hours. Many centers help doctors increase the quality of care and decrease overall costs to patients. Baby boomers demand relief from their ailments, be it a joint replacement or treatment for an injury. They typically seek out “one-stop shops” and treatment options that call for the shortest possible recovery time and the lowest possible out-of-pocket costs. Catering to the aging boomer population could be a lucrative endeavor.

Medical Devices: As more than 70 million boomers hit retirement age in the coming years, you can expect medical device sales and development to continue to rise—despite a 2.3 percent tax on medical devices that began in 2013.³ Indeed, by 2030 an estimated

¹ Statistics taken from the Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

² *Id.*

³ Section 4191 of Internal Revenue Code—effective December 31, 2012.

4 million knees will need to be replaced in the U.S. alone.⁴ With an aging population and an improving economy, the government is projecting spending on medical services to reach nearly 20 percent of the U.S. gross domestic product by 2021.⁵

As frontline participants in the ever-expanding field of health-care, you have the ability to realize opportunities before others and get involved early. Stay cognizant of what is going on in your field. Stay alert to opportunities. Don't be afraid of change—be prepared to take advantage of innovation to make your practice more profitable. Always seek out ways to make your line of business work for you.

⁴ *Projections of Primary and Revision Hip and Knee Arthroplasty in the U.S. from 2005 to 2030*; The Journal of Bone and Joint Surgery, American Volume; 2007 Apr;89 (4): 780-5; S. Kurtz; K. Ong; E. Lau; F. Mowat; and M. Halpern

⁵ Statistics taken from the Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group

WEALTH PROTECTION PLANNING

As a practicing dermatologist for over 30 years, as well as a clinical professor and attorney, I have learned many lessons about the business and financial aspects of a dermatology practice. I also know that time is a physician's most valuable asset. That is why I am so proud of this new book. My co-authors and I have created a short book that features four concise lessons – all of which can have a significant impact on a dermatologist's long-term financial well-being. Focusing on practice structure, tax reduction, asset protection and wealth building, we wrote this book in a Challenge-Solution format that allows you, the dermatologist, to concentrate on the areas you find most valuable. Thank you in advance for taking the time to read it.

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SAMPLE CHAPTER

