



THE SUNSETTING PHYSICIAN: STRATEGIES FOR A SUCCESSFUL EXIT

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WHY SUCCESSION PLANNING IS IMPORTANT

- Fewer physicians interested in a variety of specialties
- Generational differences are leading to less interest in a traditional partnership track
- A well-crafted succession plan helps to recruit and retain top talent
- Establishes a career path for the next generation of leaders
- Allows physicians to financially plan for buy in
- Establishes a path for investment by physicians in ancillary opportunities
- Helps to avoid cash management issues and partner disputes
- Ensures practice continuity, growth and independence

COMMON SUCCESSION PLANNING ISSUES

- Cost-prohibitive Practice and ancillary investment (e.g., real estate, research, OBL, ASC) buy-out structures and valuation mechanisms may lead to a cash crunch
- Physician retention of equity in ancillary investments post-retirement for an extended time period may lead to dissatisfaction among more junior group members
- Simultaneous physician retirements could lead to “gating” pay out disputes and a cash crunch
- Retired physician insistence on participation in new investment opportunities post retirement and/or continuing certain Practice-related employment benefits
- Restrictive covenant breaches post-retirement

MODERNIZING YOUR PRACTICE'S ORGANIZATIONAL STRUCTURE

- OUTDATED. Large buy in and buy out partnership model
- SITUATION-SPECIFIC. Founder's model
- MOST COMMON. Small or no buy in and buy out partnership model
- GROWING IN POPULARITY. Law firm/accounting three-tiered equity model

A Practice's ability to modernize its organizational structure could be significantly impacted by its corporate organizational form (LLC v. Inc.) and tax considerations (S corp. status v. partnership)

ELEMENTS OF AN EFFECTIVE PRACTICE WIND DOWN AND RETIREMENT PLAN

- Retirement based upon age or tenure
- Length of wind-down period
- Addresses mental and physical disabilities
- Call coverage requirements
- Decreased or phased productivity requirements
- Share of medical directorship fees

ELEMENTS OF AN EFFECTIVE PRACTICE WIND DOWN AND RETIREMENT PLAN (CONT'D.)

- Redemption triggers from ancillary investments and participation in new ancillary investments
- Buy-out payment terms, timing and gating mechanisms
- Malpractice “tail” related costs and expenses
- Key-man life insurance premium costs and payments of proceeds
- Establishing reasonable restrictive covenants

SUCCESSION PLANNING DOCUMENTATION

- Employment agreements
- Practice organizational documents
- Joint venture organizational documents
- Wind down and retirement policy
- Life insurance policies
- Retirement plans (e.g., 401(k) and pension plans)

All documents should be synchronized

PRACTICE EXPERIENCE

- 6 month notice of retirement, 1 or 2 year wind down track
- Max 2 MD Retirements in any given year
- Year 1= .8 FTE MD Year 2= .7 FTE MD
- Reduced Income/ Distributions– Reallocated to Pod
- Reduces Workload, Office, Hospital, Call proportionately
- Max working age 70 years old
- MD recruitment starts at 6 months. Wind Down MD mentors New MD
- Can Retire without Wind Down. Max 2 MD Retirement applies.
- Forfeit Buy Out if Wind Down aborted