FUNDING YOUR PENSION PLAN WITH THE VALUE OF YOUR PRACTICE

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Continued growth and success of a solo practice are becoming more and more difficult every day. With increased competition, the influx of capitation plans, HMO clinics, advertising retail centers, and an unpredictable economy, practitioners are experiencing a difficult time of maintaining their traditional patient base while trying to improve their quality of life.

Like many practitioners, chances are you spend almost all your earnings just to maintain your present lifestyle. Putting money away is a great idea, provided it does not require you to work any more hours or lower your current standard of living. You figure you need to practice for at least another ten years or so just to make ends meet, and that puts you even closer to retirement age. Many doctors rationalize away the need to save for retirement by convincing themselves that they will just work another five or ten years. So where can you get the money you need for your pension plan?

A practice pre-sale merger may be the answer. In this type of transaction, one doctor sells their practice to an established practitioner and continues to practice for another five, ten, or fifteen years. A pre-sale merger is an excellent way to liquidate a large asset - your practice - to fund your pension while still working and maintaining your level of income before the merger. The money in the pension begins to grow and by the time you are ready to retire, the money you received for the value of your practice can grow by two, or maybe four times what the value of your practice is today.

To illustrate this concept, let's say Dr. Freedom wants to free up more of his management and administration responsibilities, fund his pension, and still practice and maintain a similar take-home pay. Dr. Freedom sells the practice and mergers with Dr. Dobetter. Dr. Dobetter's goal is to increase his income without working harder, and still manage the office.

BEFORE MERGER	**DR. FREEDOM**	**DR. DOBETTER**
Age:	48	33
Gross Production:	$300,000	$150,000
Doctors Income:	$120,000	$ 45,000
Work Days per Week:	4 (8 hr. days)	4.5 (8 hr. days)
Overhead Expense:	60%	70%

AFTER PRE-SALE MERGER	**DR. FREEDOM**	**DR. DOBETTER**
Gross Production:	$300,000	$150,000
Doctors Income:	$105,000	$109,000

Fund Pension:		$ 22,800 per/yr
Work Days per Week:	$4 (6 hr. days)	5 (6 hr. days)

Dr. Dobetter purchases Dr. Freedom's practice for 180,000 with a down payment of $30,000 and a remaining promissory note of $150,000 at 9% interest for the next ten years, or $1,900 per month. The practice is moved over to Dr. Dobetter's office. Dr. Freedom works 7am to 1pm Monday through Thursday and Dr. Dobetter works 12pm to 6pm Monday through Thursday and all day Friday. Dr. Dobetter incurs production expenses of lab at 10%, supplies at 8%, staff at 15%, and Dr. Freedom's commission at 35% ($105,000), leaving about 32% gross profit margin before debt service, or $96,000 per year. Assuming Dr. Dobetter borrowed the down payment of $30,000, his annual debt service would be about $32,000, leaving an additional $64,000 income to Dr. Dobetter. This additional profit plus his present production income of $45,000 would total $109,000 per year.

With this type of merger arrangement and by consolidation certain expenses, both the Seller and Purchaser can complement each other's goals. In the example discussed, both parties have improved their quality of life. The Seller can end up with $350,000 or more in his pension plan ten years later, while substantially reducing his management and administration time in the office. The Purchaser has more than doubled his income while working the same or fewer number of hours each week.

If you would like to learn more about your practice transition options, please call Larry Chatterley at 303-795-8800 (Colorado)or 435-654-1717 (Utah).