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Selling Your Practice?

Do your homework on cashing in before you cash out

By Janet Kidd Stewart | October 21, 2010

Ready to give up the solo life? Do all the math.

Healthcare reform is spurring another wave of practice sales. Before you sign on the dotted line, however, make sure you've calculated the long-term financial and career implications, experts say.

"Doctors are selling and hospitals are buying because of the fear of the unknown," says Terry McGeeney, MD, president and chief executive of TransforMED, a practice consulting firm and a subsidiary of the American Academy of Family Physicians.

"Everyone is hedging their bets," says McGeeney, who spent 12 years in a rural solo family practice before joining a large multispecialty group, and then moving to the consulting company. "Hospitals aren't sure what reform will do, but they do know there will be more accountability and need for a strong primary-care base. Doctors in smaller practices are sensing they may not be able to participate in the rewards of reform without being in a larger system, though I'm not sure that's entirely true."

Still, the urge to merge can sometimes lead to deals done with substandard valuations and little attention to the long-term career and personal financial implications, warns McGeeney and others.

"When doctors sell they typically look at the immediate windfall and income for the next couple of years," he says. "They tend not to focus on the fact that they'll be victims now to compensation plans and restructuring."

Joel Greenwald, a former physician who is now a financial adviser with several physician clients, recalls a client who sold his practice at age 50 for $500,000, a number that brought his net worth to a level where he felt comfortable giving up a seven-figure income and walking away to an early retirement.

"I was worried that he'd be bored in retirement, but every time I see him he gives me a smug smile," says Greenwald. "It all starts with: What do you want the rest of your life to look like? Do you want to practice until you drop or be done yesterday?"

If you're in the latter camp — whether you're truly done or just ready to give up the administrative tasks of running a solo practice — keep these tips in mind:

1. Know your worth — and that of your practice

Don't settle for a buyer's valuation of your practice, says McGeeney. Because these estimates can vary widely in quality, you'll want your own separate assessments of both the real estate and the equipment holdings in your practice, he says.

Some sellers skip this step because there's often little negotiating room on items like medical equipment, he says, but with practices being sold for basically the value of the property and equipment, you want that number to be right.

And don't forget about taxes.

Signing bonuses are taxable as income and you could face capital gains taxes if you sell your office building, McGeeney says, so factor those into your plan when evaluating an offer. In some cases, it may make more sense from a tax standpoint to lease your building instead of selling outright, for example.

Get the feeling you're being offered a cookie-cutter package with little wiggle room? Instead of selling, say, an imaging center for its book value, try negotiating for working a piece of future revenue streams from the center into your compensation package, he says.

2. Know what's next

If you're selling your practice to join a larger group or hospital, have a figure in mind for the value of lightening your administrative load. Is it worth it to you to take a pay cut roughly equal to that figure to be rid of the day-to-day business obligations?

And depending on the deal you strike, remember that you might not actually be freeing yourself from all the hassles.

"Hospitals used to assume a certain amount of losses from operations to keep the referrals flowing, but with the economy the way it is today, they want practices to help control costs and they aren't willing to pump money in," McGeeney says.

Can you live with the cheaper sutures and the different colored gloves of the acquirer?

3. Think about the finish line

If it's been awhile since you've spoken with a financial adviser, this may be a good time to touch base — provided you've vetted the adviser carefully and interviewed at least two or three candidates.

Draw up, or have the adviser draw up, a proposed net worth statement that reflects your assets and liabilities after the transaction.

Now consider how those assets can be invested and turned into an income stream, whether that's now or down the road.

"We often see wishful thinking that these transactions mean doctors will be able to retire," after selling the practice, or a few years after joining a larger group, Greenwald says. "Once I tell them they're really supposed to just take 4 percent out of the portfolio as income in that first year, they realize their current spending numbers are pretty big."

If you're selling to a hospital or large group and plan to continue working with them, get a clear understanding of the new system's retirement plan. If you have a plan from a previous employer, see if the new plan accepts rollovers. Some large group and many hospital employer plans are reviewed at BrightScope (**www.brightscope.com**).

If you've had an individual defined benefit or contribution plan, be sure to make final contributions into those plans before moving to a group retirement plan and ask the new group's administrator about time restrictions for getting started in the new system.

As for salary packages after the initial buyout is complete, be sure you get a written explanation of the compensation plan going forward, whether it's production-based or some other measure.

Finally — and most important, McGeeney says — consider whether you'll truly be happy getting rid of your practice, because if you're not, your performance will be compromised and that will ultimately hurt your bottom line the most because you'll retire too young out of frustration.

"I tell physicians the most important thing to think about is the culture change involved," McGeeney says. "Most people in solo practice or very small groups started that way because it fit their personality. You need to carefully reflect on that before you leap. You give up a lot of autonomy doing this, and some can adapt but others cannot."

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