

The Modern Physician: An examination of the changing environment affecting patient care, medical practices, and seeking a secure retirement.



By Andrew Plocker-Sr. Vice President, Portfolio Management Director,
Alternative Investments Director, Financial Planning Specialist,
Financial Advisor



111 S. Pfingsten Rd. Ste 200

Deerfield, IL 60015

Direct 847-480-5467

Fax 847-498-1546

Toll Free 800-543-3623

andrew.m.plocker@morganstanley.com

www.advisor.morganstanley.com/andrew.m.plocker

Health care in the United States is undergoing dynamic change that for physicians presents significant hurdles in their pursuit of patient care, the growth of their practice and the path to retirement. Contributing to this turbulent transformation are economic, regulatory and political forces as well as advances in medical-related technology, demographic changes and escalating costs.

This report explores the issues impacting physicians and their practices and offers potential solutions we believe wealth management advisors can offer to assist them in addressing matters that help to enhance, protect and transfer wealth for them and their families. Many manage their practice, supervising employees and overseeing payroll, regulatory and administrative paperwork and electronic health records (EHR). They also must address issues of **wealth enhancement, wealth protection, wealth transfer and charitable giving.**

We have delved into each of these issues in ways that we consider practical and useful. In the process, we studied research by the Morgan Stanley Healthcare Research team and by other third-party health-care researchers, and interviewed physicians -- some who own their own practice and others who don't -- certified public accountants, attorneys with health-care knowledge and other professional advisors with experience serving the physician community.

The Changing Face of HealthCare

Few industries are undergoing so much transformative change as health care. Besides shifts in government and regulatory policy, technological advances, and economic and political forces, the business of practicing medicine must endure fluctuating consumer attitudes and behavior while considering the outlook of physicians toward their profession itself. Medical school graduates and young physicians already in practice face a different profession than physicians weighing retirement.

Physicians face several major issues today including:

Physician burnout: A 2018 survey of physicians' practice patterns and perspectives by the Physicians Foundation ⁽¹⁾ found that 38% of physicians sometimes have feelings of professional burnout while 31% have such feelings often and 9% have them continually ⁽¹⁾. They cite long hours, taking night or weekend calls and performing work-related tasks at home, especially on administrative paperwork for those physicians who own their own practice.

Young physicians in particular often experience stress adjusting to a new environment while learning the business aspects of medicine, including the rules and regulations of the government, insurers and hospitals -- all of which limit their time with patients. EHRs don't always help. Fifty-four percent of physicians surveyed believe EHRs have had a negative impact on the physician-patient relationship and 61% believe they have had a negative impact on efficiency and productivity, according to a national survey by The Doctors Company ⁽²⁾.

A common refrain comes from Brian Rotskoff, M.D., president and CEO of Illinois Allergy Asthma and Sinus Center: *"The private practice physician is undergoing significant change. We are increasingly burdened by administrative paperwork, regulations, and reimbursement issues. I simply want to take care of patients."*

Owner or Employee Status: For the first time, the percentage of patient-care physicians working as employees in 2018 (47.4%) outstripped the percentage of those with an ownership stake in their practice (45.9%), an updated benchmark survey from the American Medical Association ⁽³⁾ found. Of course, pros and cons apply to each:

Pros of private practice:

- Flexibility in work hours; “be your own boss.”
- Choice of how many patients to see in a day.
- Ability to determine the employees to hire.
- Capability to decide the practice’s atmosphere.

Cons of Private Practice:

- Potential loss of referral network.
- Burden of administrative issues and paperwork.
- Dealing with reimbursement.
- Managing employees.

Observes Brian Helfand, M.D., Ph.D., a Northshore Medical Group urologist: *“For many younger physicians, starting their own independent practice has become a huge challenge. Paperwork, regulation, managing employees, developing a referral network has become difficult.”*

While private practice growth in general has been tremendous, there are differences emerging among specialties. Chicago attorney Ericka L. Adler with Roetzel and Andress and a health-care professional in regulatory and transactional health-care law says, *“The trend of practices selling appears to have slowed down over the past 10 years in our practice. As it relates to private equity, we are certainly no longer seeing the same volume of transactions in certain specialties, such as dermatology, because many of the most ideal practices have been acquired. However, we are seeing a significant uptick in ophthalmology, dentistry and orthopedic practice equity deals.”*

Some physicians believed hospital employment would improve the health-care landscape and opted for employment over managing independent practices. Still, the Physicians Foundation’s 2018 Survey of American Physicians ⁽¹⁾ signaled that 58% of respondents now believe the trend toward hospital employment will neither enhance quality of care nor decrease costs.





Other areas of healthcare, such as dental practices are experiencing similar change. Dental Service Organizations or DSO’s have been aggressive in recent years in acquiring dental practices and building large organizations much like medical practices.

Todd Erdman, an attorney in Wheeling, IL focusing his practice on dentists, physicians, and business owners notes, *“There are many similarities today between what physicians and dentists are experiencing in terms of the decision to stay independent or not. Many of the pros and cons are the same. While many of my clients are in favor of keeping dentistry and other healthcare sectors as cottage industries, often it comes down to what state of your career you’re in and the geographic location of the office as to whether it makes sense.”*

The Amazon Effect

A recent Morgan Stanley Healthcare Research report ⁽⁶⁾, ***“Click Here for Healthcare Savings: Transitioning Trillions to Online Shopping,”*** ventured that the use of technology and Amazon-like services could deliver significant savings in the health-care industry by disrupting how consumers shop for health care and presenting meaningful implications for physicians. As seen in other industries, the use of reviews and price transparency has exploded. Morgan Stanley researchers used the online travel industry as a model for what may come in health care, and they developed a hypothetical tool, **“Health Care Expedia or HCX.”**

Barriers and Tools

		Description	Current Tool(s)	Insufficiencies	HCX Role
	Consumer Behavior	The norm in healthcare is not to spend time shopping around or comparing services	No comprehensive tool; those that shop use insurer’s site, employer provided solutions like Castlight, or word of mouth	No centralization of data; lack of user friendliness	Encourages the consumer/patient to engage in their healthcare, and incentivizes active decision making by having price and quality measures transparent
	Data Fragmentation	There is a lot of data, especially from government programs, where there is no data standardization making comparisons near impossible.	CMS data CMS pricing tool	No standardized data Pricing tool does not give actual cost, but an average	Standardizes data (evidence suggested by Mayo Clinic) Brings data to the patient in a user-friendly and informative way
	Physician/Provider Resistance	Standardizes data (evidence suggested by Mayo Clinic) Brings data to the patient in a user-friendly and informative way	CMS price transparency rule effective 1/1/19	Requires a “master list” of prices which has little relation to what the patient or the insurer pays	Gets the real pricing data from providers, which will include how much the patient will be responsible for
	Electronic Health Records (EHR)	Another data issue where there is no standardization, which has encouraged patients to stay with their current provider.	Apple, Amazon, and UnitedHealth are all pursuing efforts to engage consumers and lower patient data barriers	Barriers exist (institutional, technological) to communication between EHRs, particularly when they are outside the same health system	By putting data in the hands of the patient it allows for smarter choices and will encourage potential provider switching for cheaper/higher quality care

Source: Morgan Stanley Research
(6)

As the researchers see it, HCX could empower people to take greater ownership of their care, favoring cheaper sites for care and preventative medicine. This is a potential negative for health-care facilities and physician practices. A site similar to Kayak.com or Expedia.com could be used to seek reviews and costs that pertain to physicians, facilities and procedures. As costs increasingly shift to them, patients are approaching health care as consumers, empowered by technology and the accessibility of information. Morgan Stanley notes, however, that some practitioners will resist the trend, arguing that price shopping encourages patients to favor cost over quality in an industry that should not be commoditized.

Status of Reviews in Healthcare

The Problem

- Awareness of online physician ratings (65%) was lower than other categories like cars (87%)
- 67% had not used any rating site for surgeons, according to a Johns Hopkins study; 84% had not used a review site of those surveyed at Mayo Clinic; 77% had not used a site according to a Deloitte survey in 2018
- 33% of physicians in a Baystate Medical study had zero reviews; site features varied

Source: JAMA, Pew, Morgan Stanley Research (6)

HCX

The Facts

- 74% consider reading reviews online as important when purchasing something new
- 77% of Mayo Clinic patients surveyed said a negative review would cause them to seek care elsewhere; 81% said positive reviews would lead them to seek care from that provider
- Several sites have healthcare reviews, including Yelp, Healthgrades, Medicare.gov

Online reviews are another possibility for HCX. Reviews are widely used for online shopping outside of health care. The tool could feature reviews of physicians and facilities to assist decision-making by patients. A recent Mayo Clinic study ⁽⁶⁾ found that 81% of patients would actively seek care from a physician with positive reviews. Conversely, 77% would look for another physician based on negative reviews. To a lesser extent, knowledge of malpractice lawsuits would influence decisions as well. A low penetration of online reviews exists in health care with Morgan Stanley Research ⁽⁶⁾ estimating that fewer than 35% of adults use online reviews when selecting a physician. But, as online review sites become more commonplace the possibility exists that their use will grow in health care.

Influence of a review/malpractice history		
A positive physician review alone would cause me to seek care that individual	Number (803 Total)	Percentage of total
Strongly agree	226	28.1%
Agree	427	53.2%
No impact	127	15.8%
Disagree	14	1.7%
Strongly disagree	9	1.1%
A negative physician review alone would cause me to seek care that individual	Number (796 Total)	Percentage of total
Strongly agree	215	27.0%
Agree	396	49.7%
No impact	134	16.8%
Disagree	41	5.2%
Strongly disagree	10	1.3%
Knowledge that a physician had been sued for medical malpractice would cause me not to seek care	Number (790 Total)	Percentage of total
Strongly agree	234	29.6%
Agree	293	37.1%
No impact	209	26.5%
Disagree	48	6.1%
Strongly disagree	6	0.8%

Source: Mayo Clinic, Morgan Stanley Research (6)

How do physicians plan for the future?

With health-care's changing nature in the U.S. as it affects consumer behavior and the environment for private practice, physicians face challenges that impact their wealth and future retirement goals. Below, we outline one approach and how it potentially may address many of these issues and allow physicians to focus their time and efforts on practicing medicine and caring for patients. **The goal: to help physicians reduce their financial stress so they can concentrate on practicing medicine.**

A **Wealth Management Formula** for physicians is simple but highly comprehensive. The formula: **Wealth Management = Investment Consulting + Advanced Planning + Relationship Management, or stated simply WM=IC+AP+RM.** In this report, we are focusing our attention on *Advanced Planning and Relationship Management*, considering it crucial for physicians' long-term security.

Advanced Planning = Wealth Enhancement + Wealth Transfer + Wealth Protection + Charitable Giving

For many physicians and their families, four major areas of concern arise:

1. **Wealth Enhancement:** It is a physician's ability to keep as much of their income and wealth in their own pockets. This is achieved by minimizing taxes and lowering the cost of liabilities, if applicable. Many physicians, especially those who own their own practice, are able to accrue sizable tax deductions through retirement vehicles.

According to research by AMA Insurance in a 2016 Report on U.S. Physicians Financial Preparedness ⁽⁵⁾, most physicians (87%) possess a 401(k) or 403(b) qualified savings retirement plan, and many max out their annual contribution. Yet many will need 75-85% of their pre-retirement income to

maintain their lifestyle -- and accumulating that much with the contribution caps placed on qualified plans can prove challenging.

Consulting Actuary Craig Blumenfeld with Profit Planners LLC, a Chicago independent, full-service employee benefits consultancy, notes: *"For many physician practices, there are significant opportunities for large retirement plan contributions and, thus, tax deductions and long-term tax-deferred investing."*

Blumenfeld believes doctors may be ideal candidates for a specific type of retirement plan, known as a Cash Balance Plan. A cash balance plan is a hybrid plan in the sense that it combines the features of both defined contribution and defined benefit plans. Like most defined benefit plans, there are no participant contributions. The employer determines benefit levels and bears responsibility for providing the specified level of benefits at retirement.

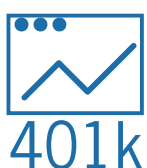
**This is an example of a physician who may be an ideal candidate for a cash balance plan:*

- A physician business owner/partner in a medical practice with a 401(k) profit-sharing plan with contributions limited by IRS limitations.
- The physician desires additional tax deductions.
- The physician's goal is to accumulate significant wealth.
- The physician owner/partner is 52 years old, earns \$275,000 annually and seeks to maximize tax deductible contributions.

With a 401(k)/Profit Sharing Plan, this physician can contribute \$61,000/year. Combining it with a cash balance plan may allow the physician to contribute \$286,206/year.

**Profit Planners LLC-Illustrated contributions may be increased or decreased. Cash Balance plan based on fixed interest credits of 5.00%, flat/fixed contributions to age 62, and a Plan Sponsor subject to the PBGC.*

Physician's Use of Qualified Retirement Plans



87%

have 401k/403b
in place

MAX 65%
401k

Max out their
contribution each year



58%

of physicians have an
employer match

(5)

CPA David Faje, a partner with Warady & Davis LLC in Deerfield, IL, says, *"We've seen tremendous growth over the past 10 years in cash balance plans. The potential savings can be significant for the right client. The Tax Cuts and Jobs Act (TCJA) passed in 2017 also has provided opportunity along with some uncertainty for physicians who are business owners. Physicians should evaluate several important issues."*

2. **Wealth Transfer.** Wealth transfer addresses issues relating to estate planning, such as transferring wealth to the next generation or to other non-family beneficiaries, such as charities. Physicians must consider not just tax consequences but also the type of legacy they wish to leave. There are several key considerations for physicians when considering wealth transfer:

- **Wills:** Who will receive assets under my Will and who will ensure that my assets are distributed as I wish? What property does my Will cover? Who will be the executor? Who will serve as guardian of my minor children?
- **Revocable trusts:** Who will receive my assets that pass under my revocable trust and who will ensure my assets are distributed as I wish? What are the terms of my trust? Who will be the successor trustee?
- **Retirement accounts and life insurance:** Who are the beneficiaries of my retirement accounts, annuities, and/or my life insurance policies?
- **Powers of attorney/health-care proxies/living wills:** Who will make financial and health-care decisions on my behalf in the case of incapacity or disability?

3. **Wealth Protection:** It is a physician's ability to avoid catastrophic loss, protection against creditors, litigation or identity theft. Put another way, it's seeking to avoid the large iceberg that might bring down the ship. Various forms of insurance should be considered with professional insurance experts versed in such issues that may affect physicians including life insurance and disability insurance. Identity theft is a modern day iceberg that many are unfamiliar with in terms of how to protect against it.

Property and casualty insurance professional Roger Taylor of CMT Insurance and Risk Management, Bannockburn, IL, observes: "We are seeing more and more interest among high income professionals inquiring about Identity Theft Insurance. Many have heard of consequences that can be devastating."

Physicians in private practice must be aware of liabilities that can put their practice at significant risk. For example, a medical practice can be held responsible for the negligent acts of its employees and for any injury suffered at a company event.

Attorney John Sheldon, a partner with Wiczer, Sheldon, & Jacobs, Northbrook, IL, says, "We have seen instances of business owners being put at significant financial risk over their employees' careless acts that have caused serious injury or harm. Many business owners have not thought ahead to protect themselves in such an event, and their financial loss could have been totally avoidable."

Physicians also must consider having proper buy/sell agreements in place to protect partners and their families from a partner's death or exit. Sheldon says, "One big mistake physicians make is not having a buy-sell agreement. Another is not having an agreement wide enough in coverage to include death, disability, divorce, departure and disqualification."

Other **Wealth Protection** solutions to consider include:

- **Life and Health Event Protection:** This might include life insurance, disability income insurance, and long-term care insurance. These types of insurance can help with income replacement, coverage for potential health-care expenses and protection against the potential liability to meet financial obligations.

- **Income Protection:** One example of income protection can include fixed annuities, variable annuities, indexed annuities and income annuities. These can help address gaps between your future income and expenses.

- **Tax Planning:** Tax planning is important to discuss with your CPA. Tax planning can include developing a strategy for your taxable and nontaxable accounts, tax loss harvesting, adherence to wash sale rules, and access to professional third-party tax services to enhance your insights into taxes.

- **Legacy Protection:** Solutions may include retaining the services of third-party trust companies or trust professionals, and custom-tailored solutions to help meet your personal, tax, financial, investment and estate planning needs. These may help protect your wealth, control the current and future management of your assets, reduce current and future tax liabilities, and support future generations and philanthropic goals.

Charitable Giving: Considered the fourth leg in the stool, it is an important consideration for many physicians. Helping others and giving back to the community is what led many physicians to medicine. They desire to help people improve and, in many instances, save their lives. Charitable giving can be a further extension of these aspirations. But there are important questions to consider in deciding how to go about it. They include deeply personal issues: What are the causes I care about the most? Are there causes that have affected my life personally or the lives of loved ones? There also are issues to consider from a financial perspective and that can prove beneficial from a tax and estate planning perspective.

Charitable gift annuities, charitable lead annuity trusts, charitable remainder trusts, donor advised funds and private foundations are some of the avenues physicians can consider. It is important to discuss these options with an experienced CPA or estate planning attorney as well as with your financial advisor to evaluate the best options.

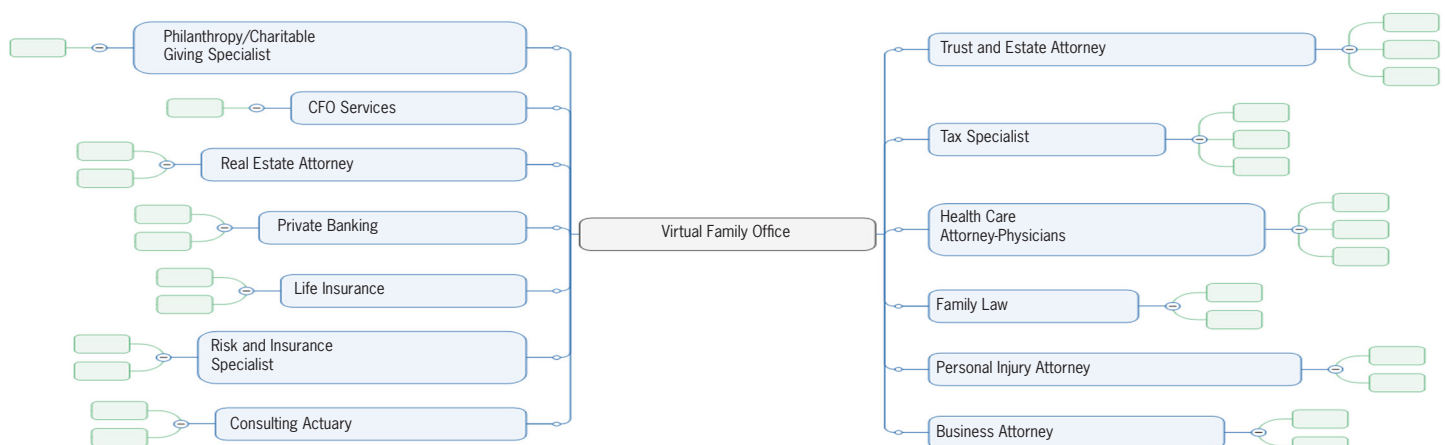
Relationship Management: It is another critical component of the Wealth Management formula for physicians, and it comprises two parts:

- **Client Relationship Management:** This entails building and fostering client relationships over time through a consultative process. Successful relationships are built on trust and based on integrity and quality service. It's important to conduct a deep discovery process at the start of a relationship to gain an understanding of all issues important to the physician. The discovery process is ongoing as life circumstances constantly change. Client relationship management that extends to other members of the family may be critical to the planning process.

- **Professional Network Relationship Management:** This involves managing relationships with other professional advisors, including those who are part of the clients' network and those within the Wealth Manager's network. Few wealth managers possess the knowledge and experience to address all elements of the Wealth Management process for physicians alone. These professional advisors may include tax professionals, attorneys, risk and private insurance professionals, consulting actuaries and private bankers. We call this the **Virtual Family Office, or VFO**. An effective VFO should bring coordination between these advisors and resources available at the Wealth Manager's firm.

Of his VFO, Michael Jablon, a retired surgeon at the Illinois Bone and Joint Institute, says: *"Having a team of advisors I trust and I know are looking out for me and working together on my behalf gave me the confidence as I approached retirement that nothing would fall through the cracks and I was on track for a comfortable retirement."*

A list of your other trusted advisors who make up **The Virtual Family Office** could look like this:





Conclusion

For most physicians the future is bright, but more complicated than it used to be. They are faced with a variety of obstacles in the pursuit of serving their patients, growing their practice, and building their wealth for themselves and their family. Our analysis here has attempted to raise many of the issues that we feel today's physicians should consider. This should serve

merely as a starting point for discussion with your Wealth Manager to assess your individual goals, values, and objectives. What separates elite Wealth Managers from those who are merely technically competent is their intense focus on the human element. That means you!

- (1) The Physicians Foundation 2018 Survey of America's Physicians. Conducted for the Physicians Foundation by Merritt Hawkins.
- (2) The Doctors Company-The Future of Healthcare: A National Survey of Physicians, 2018
- (3) 2018 AMA Physician Practice Benchmark Survey
- (4) Mayo Clinic Proceedings Study of online physician reviews, 2018
- (5) AMA Insurance 2018 Report on U.S. Physicians' Financial Preparedness©
- (6) Morgan Stanley Research Bluepaper, Click Here for Healthcare Savings: Transitioning Trillions to Online Shopping- January 16th, 2019

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