WEALTH PLANNING STRATEGIES FOR DENTISTS

First and foremost, we believe in stabilizing the investment portfolios of our dentist clients. That will usually entail a free complete evaluation of your current investments in both personal and qualified plan portfolio's. We will then provide our 2nd opinion on those portfolio's. This will include an analysis of your portfolios compared to your personal and professional goals, objectives and your risk tolerance. This analysis will be looked at through the prism of our Household Endowment Model. This model was created by Wealth Strategies Advisory Group (WSAG) and is now known as The Household Endowment Model® (THEM).

THE HOUSEHOLD ENDOWMENT MODEL®

THEM was created after detailed research into how our client portfolios could be enhanced and built with the goal of mitigating risk and creating portfolios which would not be 100% correlated to the stock and bond markets. Our research led us to David Swensen and The Yale Endowment Model. This portfolio has outperformed, with less risk than the standard 60/40 (60% stocks/40% bonds) investment plan. THEM has been created to emulate The Yale Endowment Model but designed for the individual investor, allowing access to institutional private investments vs 100% investment in the public markets. These investments will include private equity in private companies, private real estate and private institutional debt to name a few. For more information on THEM, we invite you to view our website, www.thehouseholdendowmentmodel.com , which will offer a video overview and several of our recent white papers on this strategy and model.

Today's affluent dentist is faced with many obstacles in pursuit of serving their patients, growing their practice, their income and their personal net worth and of course for many, their independence. Just as important if not more so, is to protect their assets and hard-earned wealth from the many predators out to get those assets and accumulated wealth. The purpose of this paper is not to debate all of these obstacles but to provide wealth planning strategies to protect the affluent dentist from losing these assets.

Compounding the problem is that many affluent dentists are entrepreneur's and have a variety of diversified business interests which without proper planning could also be subject to or cause unjust losses. The primary goal is to create wealth, protect their wealth and future wealth against potential creditors, litigants, children's spouses and potential ex-spouses. We believe this involves proper and specific asset protection and estate planning.

A study by Russ Alan Prince looked at a fundamental issue: whether dentists were satisfied with their financial situations. It found that every single dentist had at least some level of dissatisfaction with their financial circumstances. This study showed well over half of those surveyed reported being highly dissatisfied. About one-third said they were moderately dissatisfied, while approximately 8 percent said they were somewhat dissatisfied.

Given the substantial wealth of these dentists, why this deep discontent? The answer is clear when we look at their four major financial concerns:

- Negative impact of rules and regulations on profitability
- Excessive and increasing liability
- Downward pressure on incomes
- Losing their wealth

By and large, most affluent dentists have worked long and hard to accumulate their wealth. They are acutely aware of their financial fragility and realize that, should they lose substantial wealth, neither their age nor the current medical environment is favorable for regaining what was lost.

As a result, the underlying financial motivation of affluent dentists is to protect and preserve their wealth. Let's look at asset protection and wealth transfer.

Asset Protection for Dentists

What exactly is asset protection? Essentially, it means using legally acceptable concepts and strategies to ensure that a person's wealth is not unjustly taken from him or her. The primary goal is to protect wealth against potential creditors, lawsuits, children's spouses and potential ex-spouses.

Specifically, asset-protection planning for dentists is intended to accomplish two things:

1. **To mitigate the possibility of being sued by motivating a potential creditor to settle.** Effective asset protection will encourage potential creditors and his or her attorneys to avoid litigation. As a result, the dentist is likely to be able to settle for much less than the amount the creditor is attempting to get.
2. **In the case of a lawsuit, to minimize or eliminate the financial impact of a judgment against the dentist.** When a creditor does win in court against a dentist, good asset protection can greatly mitigate the financial burden—primarily because most of the dentist's assets will legitimately not be available to satisfy the judgment.

As we all know, affluent dentists are well-aware of their liability exposure in today's litigious society. Despite these concerns—and clear need for asset-protection strategies—relatively few affluent dentists have acted to create an asset-protection plan.

Analysis from the Russ Alan Prince study pinpointed the principal motivations of dentists for not having an asset-protection plan. The leading reasons are as follows:

1. These dentists did not know who to trust for creating a plan.
2. Lack of time. They recognize the need to do so but because of so many interests competing for their time they just haven't gotten to it.
3. They thought it would be too expensive, they have no need for a plan or it may be illegal.

The above issues are reasons for dentists to seek a wealth planner who is willing to work with them in resolving these issues, not reasons to ignore the risks involved. Wealth Strategies Advisory Group is a firm fully capable of walking through the process with its key outside advisory private client attorneys and CPA firms and/or working with the dentist's key professional advisors. Now let's look at a sampling of the specific asset-protection strategies used by affluent dentists today. This is intended to give you a perspective on the types and breadth of approaches available.

Use of State Law Exemptions

Depending on the state where the dentist resides, the law may allow for "exemptions" that enable him or her to protect wealth from the claims of creditors.

Forms of Ownership

How affluent dentists own property is critical. Real and personal property can be held in a range of forms of ownership either to put the asset out of the reach of creditors or to make it less desirable for the creditor to attempt to claim it. One goal of asset-protection planning is to ensure that assets, from a creditor's viewpoint, are owned in an unattractive form.

Use of Business Entities to Hold Property

Setting up the dentist's business as a limited liability entity can help avoid liability. Structured and managed properly, these entities can disqualify personal liability.

Restructuring the Medical Practice

While often overlooked, there is frequently an opportunity to limit liability by restructuring the medical practice. A classic example of this would be when multiple dentists form a professional medical corporation and share profits and expenses according to the production of each. If one of the dentists is sued for malpractice, the receivables and assets of the entire corporation could become subject to the creditor's claim. This can be eliminated by splitting the existing medical corporation into separate medical corporations. The dentists could continue to practice together under the same roof, but would substantially reduce their potential liability.

Asset Protection Trusts

This strategy is dependent on the state's law and the law of numerous offshore jurisdictions where they may serve to shield assets from creditors.

Gifting Assets

Gifting cash or other assets to a spouse, children or grandchildren can be a very effective asset-protection tactic, especially when such gifts are made at a time when the dentist does not have any creditor issues.

Beyond simple gifting—which may become subject to gift taxes—there are a number of advanced gifting strategies that can enable the wealthy dentist to transfer wealth without incurring gift tax. Leveraged properly, these strategies can also serve to protect wealth.

They include charitable lead annuity trust, grantor-retained annuity trusts, private annuity transactions and installment sales.

Structuring Gifts and Inheritance to the Dentist

Dentists who expect to receive a gift or inheritance can request to make the gift in a format that will serve to protect that money, rather than giving it outright. One way to do this is to place the gift or leave the inheritance in a trust for the dentist's benefit. Designed properly, the trust can be an effective asset-protection vehicle.

Wealth Transfer for Dentists

Based on research wealth transfer, also referred to as estate planning, is second to asset-protection in importance for affluent dentists. Research shows 9 out of 10 have estate plans; however, it also reports that the majority are more than six years old. The age of an estate plan can be a useful indicator of its quality. Given the ongoing changes in the tax code, even a plan that was state-of-the-art when originally crafted is likely to be out of date 6 years later.

Changes in the client's life also cause an estate plan to become dated. The research shows most surveyed dentists are indeed in a different place now when compared to when their estate plans were created. Not only are most wealthier, many have also experienced a life-changing event such as the birth of a child or grandchild, a divorce, a death in the family or a marriage.

It's apparent that most dentists who've already done an estate plan in fact should at a minimum have their plans reviewed, if not redrawn completely. It's even clearer that those few affluent dentists who have no estate plan should take care of this very crucial task.

So, again one asks why to have these dentists thus far chosen not to attend to their estate planning issues? The research shows approximately 42 percent say the topic is just too difficult to deal with given the emotions that it can evoke, it's easier to avoid or put off addressing it at all. About the same percent report once again it's a time issue, they just have so many priorities to deal with this one is put aside while at the same time knowing it something they should take care of.

A smaller number have stated they don't need an estate plan because they believe everything is going to their spouse or they are not wealthy enough to owe any estate tax. This may be true to some extent but, in any case it is shortsighted not to engage in some level of estate planning, events happen and circumstances change. For these reason's it is all the more important that affluent dentists work with a wealth planner who can take on the job of coordinating the team of experts and greatly reduce the amount of time required by the dentist to devote to estate planning.

To provide a perspective on the range of wealth-transfer strategies currently used by affluent dentists, let's examine a selection of these strategies. As with the asset-protection strategies described above, use of these strategies is highly situational and should be discussed and coordinated with an estate planning attorney who specializes in these issues.

Revocable Trusts

Revocable trusts are fundamental documents often used in estate planning, but too often are not drafted appropriately for the affluent. To maximize creditor protection, they generally should keep the assets in the trust for as long as possible.

In addition, the trusts should authorize an "absolute discretion" standard for distributions in order to gain maximum flexibility and creditor protection. Finally, the trust should provide for adequate control over the trustee so that someone—either the children or a "protector"—can evaluate how the trustee is doing and change if necessary.

Life Insurance Planning

The proper life insurance can solve liquidity challenges faced by an estate, such as when the dentist's assets are mostly tied up in real estate, fine art, business enterprises or the like. Policies should usually be owned by a properly structured irrevocable life insurance trust, as assets held in such a trust would not be included in the taxable estate. There are a variety of strategies in use to pay these premiums in the most tax-efficient manner. Again, consulting with a tax and legal professional is highly recommended.

Qualified Personal Residence Trust

A qualified personal residence trust, or QPRT, enable wealthy dentists to pass their primary residence or vacation home on to the next generation in a tax-efficient manner. Essentially, it allows for a reduction in the fair market value of the residence when calculating the value of the gift.

Grantor-retained Annuity Trusts

In a grantor-retained annuity trust (GRAT), the dentist gifts property by placing assets in the trust and then receiving an annuity payment for a set number of years. The gift for gift-tax purposes is the present value of the remainder interest in the trust—and not the current value of the assets—thus effectively reducing the gift tax due.

Sale to a Grantor Trust

In this strategy, the affluent dentist forms a grantor trust and sells assets to the trust in exchange for a promissory note. The trust then repays the note over a fixed term, usually at the lowest interest rate allowed by the IRS. At the end of the tern. The assets remaining in the trust are excluded from the dentist's estate.

Family Limited Partnerships and Limited Liability Companies

Used in tandem with a sale to a grantor trust, the use of a family limited partnership or limited liability company can further extent the tax advantages of such a sale. Because a limited partnership interest or nonvoting LLC interest is considered to have relatively little market value, a sale of such an interest to the trust could demand a significant valuation discount. As a result, the trust repays a smaller amount to the dentist and retains a greater amount when the note has been repaid.

Charitable Lead Annuity Trusts

A charitable lead annuity trust operates in much the same way as a grantor-retained annuity trust, with a key difference: Instead of the trust making annuity payments to the dentist, it makes them to one or more specified charities. When the annuity term ends, any property left in the trust is available to non-charitable beneficiaries, such as the dentists children.

In Summary

Our description of both asset-protection and wealth-transfer strategies only scratch the surface. When they are applied in the real world, they can range from quite straightforward to extraordinarily complex. The purpose of this paper is while you should understand their basic approach and intent, it's imperative that you turn to your network of professional experts to design and implement any of these strategies.

Executed properly, advanced planning for the affluent—and certainly not just affluent dentists—can result in lifetime and even generational savings of millions of dollars, while helping them to achieve their key financial goals in the shorter term.

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Disclosures:
Please note this paper is NOT tax or legal advice. Please consult with a qualified attorney or accountant on all issues of this type and understand laws are continually changing.

Research Data from source: Russ Alan Prince, Gary L. Rathbun and Arthur A. Bevelas, Wealth Preservation for Dentists, 2006

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