

As physicians age into their 50s, many begin considering an exit strategy. Of course, some want to stay in practice indefinitely, but these days many physicians seriously contemplate leaving active practice at age 55. This rite of passage can be difficult, and it brings a unique set of challenges to family physicians in solo practice.

While some physicians may choose simply to close the practice, I strongly encourage making an effort to find a buyer or successor. Simply shutting down is no way to end a long and, presumably, rewarding career. Not only does the physician reap no financial return for the business, but closing a practice can be every bit as difficult and stressful as succession planning. It requires managing many potentially troublesome legal, ethical and practical details during a time when the physician is likely to have declining interest. The process can produce many months of angst for the physician, staff and the physician's family.

Instead, the better approach is for the physician to find a buyer or successor before heading off into retirement.

#### **Getting started**

Some doctors find transition planning difficult because they are not really sure about their intentions. When asked when they plan to retire, they say, "Maybe five years from now." It's important to get started early, even if you're not sure exactly when you want to retire. Delaying hurts your chances of maximizing the practice's value. It also increases the chance that death or disability will intervene, leaving you or

your family without a well-developed plan.

Proper transition planning takes at least five years. This gives you the best chance of retaining most, if not all, of the practice's value. It allows for recruiting a committed buyer, negotiating the documents that set forth the buyout terms and arrangements, and indoctrinating

**It's never too soon to start planning a smooth transition from solo practice to retirement.**

# **Developing a Solo Practice Exit Strategy**

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# Closing a practice can be every bit as difficult and stressful as succession planning.

the successor(s) to the practice and its patients. It also allows time to repeat the steps if the first candidate fails to work out, which is not unusual.

Before you begin the transition, keep in mind that most physicians tend to overestimate the value of their practices. In my experience, family physicians receive a fair price for their used furniture, equipment and receivables and a sum for their goodwill value. The average goodwill figure ranges from 30 percent to 50 percent of a year's gross revenue, although it varies widely (even down to zero) on the basis of many factors, such as practice location, payer mix, patient mix and the physician's reputation.

You should allow at least five years to plan a proper transition.

The average goodwill figure is lower than many physicians expect.

It works best to look for a buyer and a successor at the same time.

Finding a buyer or a successor, although challenging, is always a better option than closing a practice.

## Two strategies

The most effective transition planning requires pursuing two different strategies simultaneously: trying to find a group or hospital to buy the practice and recruiting for an associate. The first approach is unpredictable; the second requires considerable time and expense.

**Finding a buyer.** An existing group will often be the best potential buyer for several reasons: It presumably has the financial capacity to pay a fair price, it can most easily facilitate the transition by allowing the seller to phase out gradually, and it may have the strongest reason to seal the deal — protecting its turf from another buyer. Because of this, your plan should include contacting existing practices, even if you consider them competitors, to determine whether any of them are

## About the Author

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interested in acquiring your practice.

This can be difficult. Physicians typically refrain from talking with their colleagues about retiring and "selling out." They often feel embarrassed at admitting their plans. By holding back, however, they lose out on their best possible transition opportunity. A straightforward approach works best. Let the managing physician in the group know you're interested in retiring and ask whether the group would be interested in discussing an approach that would allow you both to achieve your goals. Occasionally, a group practice will approach a solo physician they believe might be nearing retirement to ask about the potential for a merger or sale, but more often it's the solo physician who has to make the first move.

It may also be worthwhile to approach the hospital president or medical affairs director. Family physicians direct many patients to a hospital and represent a huge source of revenue for the hospital. While they're unable to admit this reason, hospitals will often go to extremes to ensure continued referrals.

**Finding a successor.** Until a group or hospital has formally agreed to take over your practice, your efforts to recruit a successor should continue. If there is a residency program in your area, asking faculty in those programs about potential candidates may be an excellent way to find a gem. Many local and state medical societies offer physician recruitment resources at little or no cost. The AAFP offers placement services as well (<http://www.aafp.org/x19935.xml>).

If you are in an area where it may be difficult to recruit physicians, you may need to engage a physician recruitment firm. This can be costly, but in some cases the local hospital might be willing to share in the expenses.

Bringing a new doctor into the practice may be the best option if you're interested in easing into retirement with a part-time schedule. A typical arrangement would allow the new doctor to come on board as an employee

for six months to three years and then buy a share of the practice. An interim period of partnership usually works well for both parties. This allows you to ease into retirement, provides for an orderly transition for your patients and makes the arrangement more economically feasible for you and your successor. For example, after one to three years as an employee, the new doctor might buy a 50-percent share of the practice and work as your partner until your retirement date, at which time he or she would complete the buy-out. Some arrangements factor in a lesser workload for the senior doctor during the transition period.

The terms by which you will phase down your patient care responsibilities should be specified in the contract, as should your successor's commitment to buy you out if your death or disability precedes your full retirement.

If the associate does not measure up to your expectations or if the associate decides that the opportunity is wrong for him or her, you should cut the cord quickly and try again. It takes significant time to recover from such a setback, which is a major reason I urge physicians to start succession planning as many as five years before they intend to retire.

Of course, there are myriad details involved in carrying out this type of succession plan. All should be captured up front in the initial employment documents. Among the questions to be considered are the following:

- When should partnership begin?
- What percentage of the practice should be sold initially?
- What valuation formula should be used for the buy-in and buy-out?
- How should the practice's net income be split between you and your partner?
- How should decisions be made?
- Will work responsibilities (including call) be equally divided?
- Should there be restrictive covenants and non-solicitation provisions? If so, what should be protected?
- What type of termination provisions should be in place?

While I favor the first approach – seeking out and contracting with a hospital or competitor to buy a practice – it is essential to pursue this second approach as well until a contract is signed. In fact, the specter of an energetic, well-trained new physician entering the market may make purchasing your practice more attractive to an existing group. Of course, once you enter serious dealings with a would-be successor, you should cut off talks with other practices unless the new-doctor arrangements fall through.

### **Worth the effort**

While effective transition planning can take considerable time and effort, you will be glad you did it, particularly when you consider the alternative. If you fail to carry out an effective transition plan, you may find yourself having to shut down your practice. In addition to losing any economic return on the enterprise, you would have to collect receivables, terminate loyal staff members, find a repository for patient records, notify patients of your plans and help them find a new doctor to handle their medical needs, among other unenviable tasks that are beyond the scope of this article.

It's a lot easier – and more satisfying – to follow a transition plan and see to it that the practice is in good hands. **FPM**

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