Preparing for Medical Practice Closure

An RSRS Publication

Getting Ready to Retire

Financial and Estate Considerations for Retiring Canadian Physicians

Retiring and Practice Closure:
Key Estate Planning Issues and General Financial Issues

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Contents

Introduction 4

Will you have income? 5

Earning additional income post-practice 9

Your will and estate considerations 11

Insurance - Where does it stand? 13

What about patient records? 15

Lease obligations 17

Obligations to your staff.. 19

Transitioning your patients 20

Corporations 21

Acknowledgements... 24

Introduction

A physician contemplating retirement has a myriad of details to tend to, both professionally and personally. Prudent financial, estate and legal planning can make a big difference, both in the short and long terms.

The following booklet discusses some of the key issues that may impact your situation. We hope you find it helpful.

Retirement sounds good, but are you financially prepared?

Estimate Current Cash Flow

Whether you've been considering retiring from medicine for some time or the idea only occurred to you recently, you may be ready to make it happen — but are your finances ready? Start with **cash flow**.

> CPP and pension income can be split with your spouse so that you end up paying less tax.

It's important to estimate what your current cash flow needs are to determine, based on your life expectancy, how many years your retirement 'nest egg' will last. Look at **everyday expenses** (mortgage payments, child expenses/schooling, auto expenses, food and other household expenses), and determine the annual cost of **retirement hobbies** (golfing, travelling, etc.) and other **foreseeable expenditures** (vacation home, children's weddings, etc.), comparing these expenditures with the amount of income your **investments** will earn once you have retired. The difference will have to come out of your **retirement nest egg** and will, in turn, reduce the amount of income your investments will generate each year.

Review your **sources of income** such as **CPP**, pension payments from an **IPP**, investment assets and the **tax effectiveness** of each type of income. Calculate whether your **after-tax income** will cover your expenses. **Track your expenses** so that you can make changes if your income isn't high enough to pay for everything.

Pension and **interest income** are taxed at your **highest marginal tax rate**. Dividends and capital gains are taxed at a lower rate. So you should try to structure your investment portfolio so that interest income is earned in a **registered account** such as an **RRSP**, **RRIF** or **TFSA**.

Splitting Income

CPP and pension income can be **split with your spouse** so that you end up paying less tax. When you **apply for your CPP**, you will have to indicate the desire to split the income with your spouse on the application form. If you are receiving income from a pension or a **Registered Retirement Income Fund** (RRIF), you can choose the most tax-effective split with your spouse when you file your tax return. When you calculate the best allocation, keep in mind the **clawback** on Old Age Security (OAS) — which is based on your income — so that you don't end up losing your **OAS** entitlement.

Now that you are retiring, you may want to take on less risk.

Risk and Your Asset Mix

Review your investment portfolio's **asset mix** and make sure it matches your **risk profile**. Now that you are retiring, you may want to take on less risk. In that case, you may want to **reduce** your

exposure to **equities** and **increase** your exposure to **cash** and **fixed income** such as **bonds** and **GICs**. Keep in mind that if you do this, your portfolio's **rate of return** will probably **decrease**. Review your cash flow requirements before making this change.

Which assets do you draw down first?

Which pool of retirement assets do you start to draw down first — **TFSA**, **non-registered account**, **RRSP/RRIF**, money in your professional **corporation**, etc.? The answer to this question depends on your **age** and the **age of your spouse**; whether the investments in those accounts have **unrealized accrued gains**; how much income is **required** and how the income will be **taxed** once the amounts are **distributed** from the investment account. There is no one right answer and often monies are taken annually from a **combination** of sources.

Will you want to earn additional income through a teaching assignment, part-time work in a walk-in clinic, being a locum, etc.?

Retiring from private practice by no means suggests that all work must come to an end. If you feel that maintaining some ties to professional medicine is still in the cards for you, don't surrender that license just yet.

There are a myriad of things you can do to keep yourself as connected and busy as you like. **Here are a few ideas**:

- Teaching / Lecturing
- Locums
- Part-time work at a walk-in clinic
- Consulting for a health technology company
- Consulting for a pharmaceutical company
- Sitting on the board of an organization involved in healthcare
- Training / mentoring a younger doctor who may be taking over the practice
- Joining a healthcare mission in a third world country
- Working at a summer camp as the camp doctor

These are just a few of the many opportunities that may be right for you. If **ongoing income** is important, you'll want to set that as a criterion for making the right choice. You may find that you can cover many of your everyday expenses, even with **part-time work**, so that you're not solely dependent on your **retirement nest egg** for financial support.

Even after you retire, you may want to remain involved in the medical profession in some capacity.

Are your wills updated? Do you have Powers of Attorney for personal care and property?

A **will** is a living, breathing document that should be revisited at least once **every five years** and changed to reflect your current marital status, life scenarios and objectives. For example, perhaps **philanthropy** was not important to you during your professional career but now has taken on new meaning post-retirement or towards the end of your career. Parents may want to provide for a disabled **grandchild** who was born subsequent to the drafting their original will. Or there could be a **change** in tax legislation, so that what was once considered prudent tax planning is no longer tax-efficient. For instance, although it is still considered good tax planning to

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set up a trust in a will for the deceased's spouse and each child, due to **new rules**, testamentary trusts and estates only receive favourable tax treatment during the first 36 months of the trust. After 36 months, **multiple testamentary trusts** no longer have access to **graduated tax rates**.

Powers of Attorney

For similar reasons, Powers of Attorney for personal care and property should be **put into place** and/or **reviewed**. Perhaps a child has demonstrated poor financial aptitude or has had to declare bankruptcy recently. Do you really want that child to have the authority to make financial decisions on your behalf, with your money?

Also, depending on the wording used in some Powers of Attorney, they can become stale-dated or invalid after a period of time when dealing with specific property.

Life/disability insurance? Critical illness/long term care insurance?

Disability insurance provides protection while you are working so that if you are no longer able to work for a prolonged period due to a specific condition or accident, you will still receive a steady income through disability payments. **Life insurance** is put in place to provide a one-time lump-sum payment to your beneficiary upon your death. Sometimes, that lump-sum payment is intended to be used by the recipient to pay off a mortgage or business loan, provide funds that can pay for children's post-secondary education, or to provide financial support to the widow(er) and allow him/her to maintain his/her current lifestyle even though there will now be considerably less income being generated by the family as a whole. In retirement, the need for disability insurance and life insurance is **greatly diminished**. For example, there may no longer be a mortgage and the children may be finished with post-

At some point, the cost of life insurance may outweigh the benefit.

secondary education. Also, as one ages, term life insurance becomes increasingly more expensive. At some point, the cost may outweigh the benefit.

If you think that you will not have enough funds to pay for extra care in the event of a critical illness, you should consider purchasing either **Critical Illness insurance** or **Long Term Care insurance**. Critical Illness insurance will pay out a lump sum, whereas Long Term Care insurance pays out a monthly amount. Critical Illness insurance can be used for anything including paying off a mortgage, whereas Long Term Care insurance can only be used for care-related items such as a Personal Support Worker or a long-term care facility.

What about your patient records?

There are obligations placed upon you and your estate (in your absence) regarding the **compliant retention of the patient records** from your practice, particularly when no physician is taking over. The obligation varies by province and lasts anywhere from 10 years to 34 years (in the case of paediatric files in BC). Furthermore, you must also **respond** to any authorized **request for information** from these records during that period in the interest of "continuity of care". Needless to say, such obligations can be quite onerous and expensive.

Fortunately, there are **companies*** today that take on these **obligations** on behalf of the physician and provide everything from **secure storage** to **patient notification**, facilitating **transfer of information** to **authorized requestors** and secure **shredding** at the end of the term.

Depending on your situation, you may be eligible for these services at **no charge** due to the fact that the storage company will cover its costs through the fees collected when transferring record copies.

* The publisher of this booklet (RSRS) is a leading provider of these services for physicians across Canada

Do you have any continuing lease obligations — premises, equipment, etc.?

If you can avoid it, it's preferable not to be on the hook for certain **lease obligations** after you close your medical practice. A lawyer should carefully review your lease agreements to determine what penalties you will incur for breaking the lease or for early termination of your lease. If there is a penalty, find out if it's possible for you to **sublet** the premises or equipment under the terms of the existing lease. With these considerations in mind, it's prudent to plan for retirement/closure of your medical practice around the **same time that the lease for the premises expires**, unless you are part of a **larger physician group** or can sublet the space to a new tenant. Alternatively, in the case of an unavoidable penalty, you may want to try negotiating a reduction in the amount.

In the event that you must fully vacate the premises, try listing your equipment on one of the **free web listing boards** such as **kijiji.ca** or **craigslist.ca**. Alternatively, the company providing record storage may also offer **services** regarding the sale or donation of your office equipment and used medical devices.

Is there an obligation for severance payment to staff?

You may be obligated to pay notice of termination and severance pay.

If you have employed **staff** (nurses, receptionists) in your practice, you may be obligated to pay notice of **termination** and **severance** under your province's employment legislation. While each province is different, payment obligations usually depend on the employees' **length of service**, the **number of employees** being dismissed and the practice's **total annual payroll**.

You may want to encourage your staff to **remain with the practice** through the closure process by offering them a **bonus** for not leaving early.

Is there an opportunity to transition the practice to another doctor and enjoy the benefit of fee-sharing?

Physicians generally don't like leaving their patients without a new doctor when they retire. Patients certainly don't like to be left without a physician either. While it's not easy to find a physician to assume your practice, sometimes to **smooth the transition**, the retiring doctor will invite a new doctor to practice at his/her location for a period of time, or the retiring doctor will practice at the new doctor's premises for a short period of time. If the retiring doctor hands off his/her patients to a new physician, the new doctor may be willing to provide some form of compensation to the retiring doctor for his/her time in assisting with the transition or seeing patients at the new location.

A new doctor may be willing to provide some form of compensation to the retiring doctor...

Doctors Who Are Incorporated — Key Points to Keep in Mind

If your practice is **incorporated**, and you hold investments in the corporation, you may choose to keep your corporation after you stop working as a doctor. However, since the income on these investments will not be taxed at a favourable rate, it may make more sense to **legally terminate the corporation**.

> ...it may make more sense to terminate the corporation.

Before the practice is legally terminated, any assets in the corporation should be distributed to shareholders. Depending on the type of investments in the corporation and the amount, the funds can be paid out as **regular dividends, capital dividends** or perhaps the **last year's salary to the doctor**. Or you can choose to do a **combination** of all three.

After all of the assets have been distributed, you can apply to the **Ministry of Finance** to legally **terminate the corporation**.

Individual Pension Plan through Corporation

You can choose to set up an **Individual Pension Plan** (IPP) for yourself through your corporation so that when you retire, you can have the **equivalent** of a **defined benefit pension plan**. You will receive a **continuous income stream** just like any other company pension. While you are working, you can make **contributions** as an employee of the corporation based on the T4 income you receive. The **company also contributes** to the plan and can **deduct** these contributions, and the amounts that can be contributed are much **larger** than **RRSP maximums**.

Two Wills

If you choose **not to dissolve** your corporation and to keep it instead as a holding company, then you should consider having **two wills prepared**. The first will would cover all assets of the **estate** except for the corporation and the second will would only address the **corporation's shares**. By doing this, you would **avoid** paying **probate fees** on the value of the corporation, since the shareholders and beneficiaries would not ask for the second will to be probated.

It will also make the **transfer of ownership** much **quicker** when there is no probate involved.

If a corporation holds a **term life insurance policy** on the doctor and you decide to dissolve the corporation, the policy should be **transferred to the physician** before dissolution. There will be no tax consequences as a result of the transfer, since it is a term life policy. You can then decide at the next maturity date whether you still need the coverage.

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Marcy loves the challenge of collaborating with clients to solve their financial planning issues. As founder of **The Care Network**, Marcy has particular expertise working with seniors on retirement and assisted living matters. She works closely with other service professionals, such as lawyers and accountants, to provide holistic strategies for financial, estate, and investment planning.

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About RSRS

Since 1997, **RSRS** has provided professional practice closure assistance services to Canadian physicians in the areas of patient notification, paper and electronic record storage and scanning, EMR extracts, medical record transfers and release of information, and secure shredding. **RSRS** also facilitates the transition of a practice from one physician to another.

RSRS provides services in full compliance with the guidelines set forth by the **provincial Colleges of Physicians & Surgeons**, **medical associations**, as well as the **Canadian Medical Protective Association** (CMPA).

RSRS is a member in good standing with the Association of Information & Image Management (AIIM) and the American Records Management Association (ARMA).

For more advice and additional information to help you wind down your medical practice, contact **RSRS** at **1-888-563-3732**, ext. **2** or email info@RSRS.com.

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