Physician Asset Protection: Estate and Retirement Plans

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A continued look at a two-physician couple and the multi-million dollar difference a complete risk-management planning update made to their family.

Asset protection planning for physicians requires a series of layers that address a wide range of risks. Today, we continue our look at a two-physician couple and the multi-million dollar difference a complete planning update made to their family.

We began our case study with Bill and Preeti Deutsch, whose names were changed for confidentiality reasons, a successful couple with two children that were advised to update their family's estate plan and insurance risk management planning due to the age of their existing planning, the increase in the scope and complexity of their assets, and risk factors as practice owners, parents, investors and physicians. Our second installment saw them significantly upgrade their life insurance, two kinds of disability insurance, and create an additional creditor exempt asset. Fortunately they were proactive enough to take steps to protect their success and plans while they still had the legal ability to do so. After those issues were addressed, we returned to their exposed personal property (liquid) and real property (real estate) assets, here's a reminder of what was exposed:

- $1.3 million in combined income and minimal debt beyond their mortgage
- Recently purchased home for $1.8 million, with $600,000 down
- $750,000 in a combination of investment accounts, CDs, some precious metals, etc.
- They are members of the LLC that owns Bill's office building and which has a positive cashflow from the rent received from the practice and two other tenants
- Shares in a separate S-corp. that owns an ambulatory surgery center (ASC) they invested $200,000 in, which now produces monthly income

How Exposed Assets Were Managed and Connected to Their Estate Plan

First, the couple was informed their state had only $100,000 in homestead law protection. This meant that they had $500,000 in currently exposed home equity today and that exposure would get larger every year as they paid off their seven-figure mortgage at a highly accelerated rate. To protect their current and future home equity and add predictability to their estate planning wishes their home was transferred to a special purpose irrevocable trust. This allowed them to keep the financial benefits of home ownership such as mortgage-interest tax deductions, while moving the home's significant exposed equity out of their personal and professional liability shadow.

A limited partnership, also commonly referred to as a family limited partnership, was created for the family and funded with (made the owner of) their non-qualified, exposed savings and investments. This amounted to roughly $750,000 that was retiled to the partnership by the appropriate bank, broker dealer, custodian, etc. and in some cases ownership of specific physical property was formally transferred by the owners. The majority owner of this partnership is the same irrevocable trust described above, which names the physicians and their children as the beneficiaries. The other, fractional owner was an LLC that served as the partnership's manager, and which they jointly owned and was structured to provide the family current and future privacy.

Their ownership interest in the medical building LLC was transferred from under their names to the new partnership. The result was the couple's LLC interest was now properly linked to their estate plan, and the income distributions now went directly to the partnership, rather than to Bill and Preeti personally, where they would have been exposed to all of their unrelated personal and professional liability.

Finally, an LLC was created with the irrevocable trust as the owner, and their S-corp. shares for their ASC shares were transferred into it, likewise predictably connecting the shares to their estate and the income distributions the ASC was generating, which would flow to the LLC and then to trust, instead of the doctors themselves.

Retirement Plans: If it ain't broke...
The couple also had legally creditor-protected retirement savings in qualified retirement plans (IRA/401K/529), these were not touched. They were encouraged to max fund these plans for both tax advantages and statutory creditor protection.

Next, in our final discussion on this case study we will add up the numbers and take a hard look at the dramatically increased level of protection our doctors ended up with in many areas.

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