CERINI & ASSOCIATES, LLP | CERTIFIED PUBLIC ACCOUNTANTS
PRESENTS

BEST PRACTICES

VOL. 17
SUMMER 2019

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BRINGING A UNIQUE UNDERSTANDING OF KEY ISSUES FACING THE HEALTHCARE INDUSTRY

FROM THE EDITOR - EDWARD McWILLIAMS, CPA

When our firm has our meetings on what content we want to share in our newsletters, the same question always comes up when we get to Best Practices, *"What do physicians want to hear about? What issues do we see in the marketplace?"* We often draw on what current challenges and questions our current clients are facing at that time. Our goal is always to bring physicians and their practices information that is relevant and can be a tool to help them grow.

With that goal in mind, we are happy to present the Summer 2019 edition of Best Practices.

Taxes are always at the forefront of everyone's mind in April, but often a forgotten thought by the summer. We preach to our clients the importance of having a year-round mindset when it comes to taxes so that they know in advance their estimated obligations for the year and can take advantage of opportunities as they arise. One such opportunity we wanted to highlight this issue covers the use of different tax-deferred accounts. Many physicians can feel overwhelmed with the different options or not sure even if the method they have chosen is optimal for their practice. Our primer should help cut through the confusion.

Many tax-deferred accounts are synonymous with retirement accounts. To that end, we wanted to help physicians start thinking about what their retirement needs can be and help to emphasize why these tax-deferred accounts are such a powerful tool. Retirement always feels so far away until it's not, and by then its many times too late to achieve all your goals in the manner you want.

Practices have now mostly adapted to the EMR mandate and many are even seeing improved operations as a result, but one item that constantly worries practitioners we speak with is the fear of data breaches. These breaches can exposure practices to high levels of risk and understanding some basic tips on how to mitigate these risks is crucial.

Finally, we touch on ways that we have seen some practices continue to thrive in the current marketplace, particularly in competing with large practice groups. While these large practice groups can offer economies of scale and bargaining power, smaller practices can still thrive by specializing their practice areas and using their small size to their advantage by being able to quickly and rapidly change.

We hope you find these articles informative and a great tool for growing your practices. If you would like more insight on a personal level, please feel free to reach out to us to see how we can become part of your practice's success story.

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HOW MUCH DO YOU NEED TO RETIRE?

Did you know that 41% of all doctors have less than $500,000 in their retirement account even though their average salary is $294,000 a year? How much a doctor will need to retire is a question that varies from doctor to doctor, depending on their lifestyle and plans during retirement. If your considering your own situation, you need to ask yourself three questions;

1. *When do you plan on retiring?*
2. *What do you plan on doing during your retirement years?*
3. *What other sources of income can you anticipate receiving during your retirement?*

The average life expectancy of an American is 78.7 years. So when your considering retirement, you need to ensure that you have an appropriate level of funds to extend beyond that date (*after all, when it comes to life expectancy, we all want to beat the average*). As a result, your age at retirement has a big impact on how much you need when you finally decide to hang up your stethoscope. The earlier you retire, the more non-earning years you have to provide for.

In looking at your needs in retirement, unless you drastically going to change your lifestyle, most financial experts agree that you will need approximately 70% of your pre-retirement income to maintain the same quality of living that you had before you retired. This means you need to understand your expenditure patterns to truly determine what your needs will be. Certain expenses will either decrease or disappear; such as commuting, professional clothing, taxes, mortgage costs, and children related costs… (*they would have hopefully moved out by the time you retire thus decreasing the expense of having children at home; kids are expensive*).

Medical expenses are the most common *"new"* retirement expense that need to be consider, as this is one of the few expenses that actually increases in retirement years. Unanticipated medical expenses can wreck years of retirement goals, so you should prepare for health costs as part of your retirement planning. Considered funding a health savings account on your own at work, as this type of plan can help you prepare for any current medical expenses as well as any healthcare costs in retirement. You should also consider a long-term care policy that will cover any chronic issues that may pop-up later in life and look into health plans to supplement Medicare coverage, to better control the rising cost of healthcare in later years.

Finally, in determining how much you need to save in order to meet your retirement goals, you have to consider other income streams that you may have, such as social security, rental income, investment returns, etc. In addition, many retirees move out of state or downsize their homes. If you own a home that is fully paid off, this could provide additional resources that can be used to help with your retirement needs.

So let's look at a hypothetical example. If after calculating your post-retirement monthly expenses you determine you will be spending approximately $150,000 per year on a pre- tax basis, you would need approximately $3,750,000 at retirement. This is based upon an estimated 25 year past retirement life expectancy and assumes that investment income and inflation are equivalent. Higher rates of returns on investments will decrease the amount necessary at retirement, as will additional sources of income. For instance, if you receive $2,000 per month in social security, $1,500 per month in rental income, and your investments outperform inflation by $2,000 per month, your requirement at retirement would shrink to approximately $2,100,000.

So when should you start saving to generate that number? If you plan on retiring at the age of 67 and you start saving at the age of 30, you would need to save approximately $1,300 per month to generate $2.1 million at retirement, but if you wait until the age of 40 to start, you will need to save more than double that at almost $2,700 a month. It is always a great idea to start saving as early as possible in order to maximize your retirement lifestyle. The power of compounding returns is real.

If, after taking into consideration your retirement expenses and your estimated retirement income, you feel you still won't have enough to retire, there are some steps you can take to further enhance your ability to enjoy your retirement. First, delay your retirement until you are 70 so you will be able to receive the max social security benefits. The difference between retiring at the age of 70 or 65 is almost 50% more benefits. This will also decrease the number of post retirement years, which will reduce the amount of resources you will need at retirement. Second, max out your retirement plan contributions. Keep in mind that once you reach age 50, you can make catch up contributions of $6,000 per year to your retirement plan. Also, as previously discussed, the earlier you purchase long-term care coverage, the cheaper the annual premiums will be.

Everyone's idea of retirement is different, but life shouldn't stop when you retire. It's important that you properly plan to ensure that you have the resources necessary to live your retirement years on your terms. The key is, the sooner you start the planning process, the better off you will be.

The analysis included in this article are for exhibition purposes only. We suggest you speak to your financial advisor and accountant to plan for your personal retirement. If you need assistance, feel free to call us.

BRIAN WARFIELD
STAFF ACCOUNTANT

UNDERSTANDING & OPTIMIZING TAX-DEFERRED ACCOUNTS

With the passing of the **Tax Cuts and Jobs Act (TCJA)** many taxpayers found themselves in a difficult position this past year. In high cost of living/heavy tax areas like New York, this may have resulted in an unexpected tax burden, or perhaps the confusion around the release of the tax cut resulted in missed tax savings. No matter the result, the root problem comes from being unprepared and uninformed.

Even given all the massive changes in the tax code as a result of the TCJA, one of the best tools taxpayers have assisting in reducing their tax burden for the year and increase their savings is with the use of tax-deferred accounts. A tax-deferred account, broadly speaking, is an account that is usually funded using *"pretax"* dollars (*by a function of reducing your taxable income now*) and allows for growth of the investment tax-free. The tradeoff for this will be that generally when the investment is withdrawn, it is then taxed. By avoiding tax currently and in the growth period, taxpayers will see better returns which are compounded in the tax-deferred account.

QUALIFIED RETIREMENT PLAN (QRP)

A Qualified Retirement Plan is the most popular type of tax-deferred account. These plans allow taxpayers to put money aside for retirement and grow tax-free. When looking at the plans, some of the benefits are more focused on the individual, wage-earning taxpayers while other plans are designed for business owners whose compensation is generally in the form of pass-through income. The plans are not completely mutually exclusive (*for example, a passthrough S Corporation owner also will draw a salary that can see tax savings via a 401(k) plan*).

For individual taxpayers, Qualified Retirement Plans cover the typical retirement savings vehicles such as a 401K or an IRA. In 2019 you will be able to save up to $19,000 in pretax earnings in your 401K account. Additionally, those of you who are over the age of 50 can contribute an added $6,000 per year. As for IRA's, there are different types you can consider:

1. *Traditional IRA*
2. *Roth IRA*
3. *SIMPLE IRA*

Traditional and Roth IRAs have the same contribution limits, the smaller of $6,000 per year (*$7,000 for those 50 and older*) or earned income for the year. There are also certain other limitations, such as other Qualified Retirement Plan coverage for you or your spouse in connection with employment and income limitations. The primary difference between a Traditional and Roth IRA has to do with the deduction for contribution; a traditional IRA is deductible now and therefore reduces taxable income, but a Roth IRA is nondeductible, does not reduce taxable income but also does not incur income tax when withdrawn. In a perfectly theoretical vacuum, if a taxpayer were to invest the savings from a traditional IRA over the same period a month is held in a Roth IRA, both accounts will leave the owner in the same place after taxes, not making one better than the other. An analysis of the current and future facts and circumstances can help determine which is best. Unlike with a 401k or SIMPLE IRA, a taxpayer can set up an IRA outside of their employment.

A SIMPLE IRA is a form of retirement account that is designed for the employees of small business taxpayers and works in function very similar to a 401(k) plan. An employee can elect to contribute up to $13,000 of his or her pay (*$16,000 if over the age of 50*) per year to a SIMPLE IRA in 2019. This can then be either matched dollar for dollar by the employer, up to 3% of the employee's compensation, or the employer's contribution can be a flat 2% of the employee's compensation.

For business owners, many of the above strategies can work, but there are additional wrinkles to consider in how much the business may want to contribute to the plan. For 401(k) and SIMPLE IRAs, the company can make certain elective or nonelective contributions on behalf of the employees, allowing for a current deduction and increasing the amount that is deferred by the company. Smaller pass-through entities also have the option of a **Simplified Employee Pension (SEP)**, which is an employer only contribution to a retirement account. This amount is generally 25% of eligible compensation up to an annual IRS limit. For 2019, the limit is $56,000 of contributions or $224,000 in compensation.

Many of these plans have *"more than one way to skin the cat"* allowing for picking and choosing of features that can be combined in order to best maximize contributions and benefitting owners.

529 PLANS

If you have children, a 529 plan is another way to pursue an additional tax deferral. Contributions to 529 plans can now be used to pay up to $10,000 per year of K-12 education, as compared to the previous tax law that limited its use to post-secondary education expenses. The earnings in these plans are also tax-free if they are used to pay for tuition for kindergarten through college. The contributions are not deductible on your federal tax return, but most states allow the deduction if you utilize a state-approved plan. The benefit on these plans is the tax-deferred growth rather than the immediate tax savings.

HEALTH SAVINGS ACCOUNT

Health Savings Account, or HSA, is a financial account established by an individual or family to pay for qualified medical expenses tax-free. Health Savings Accounts can be opened by an individual or offered by an employer alongside a high-deductible health insurance plan.

Health Savings Accounts combine the benefits of both traditional and Roth 401(k)s and IRAs for medical expenses. Taxpayers receive a 100% income tax deduction on annual contributions to the HSA, they may withdraw HSA funds tax-free to reimburse themselves for qualified medical expenses, and they may defer taking such reimbursements indefinitely without penalties.

HSAs are unique and come with triple the tax advantages:

- *Tax-deductible contributions,*
- *Tax-free accumulation of interest and dividends, and*
- *Tax-free distributions for qualified medical expenses.*

Unused HSA balances will convert to a qualified retirement plan upon separation from the employer of a change in plan. The purpose of tax planning is to ensure tax efficiency.

Through tax planning, all elements of the financial plan work together in the most tax-efficient manner possible. People are inclined to make careful plans when they consider making a home purchase, accepting a new job, or taking a dream vacation. However, when it comes to taxes, they often leave matters to chance, perhaps not realizing the tax savings that can result! The tax-deferred vehicles outlined above give you a few of the ways to save money for your future and on your taxes. Even so, comprehensive tax planning before any major changes, from divorce to downsizing your home, can have immediate and long-lasting results. At Cerini and Associates, we are prepared with advice and planning for any situation, large or small, which can have an immediate effect on your financial wellbeing.

JOHN CARPENETO, MBA
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DATA BREACHES IN HEALTHCARE ORGANIZATIONS

Disclosure of the **Personal Health Information (PHI)** of patients is one of the biggest threats as those affected are more vulnerable to both medical and financial identity theft. Unfortunately, health care organizations are popular victims of data breaches. Criminal attacks now make up the majority of these breaches; like in March 2018 when a hacker accessed the work station of a Med Associates employee and had access to 270,000 patient records, or later in 2018 when HealthEquity data for about 190,000 customers was breached for about a month after a hack on two employee email accounts.

Considering the high percentage of organizations that have been victims of data breaches, it is important to know how to address privacy and security threats. The first line of defense against a PHI breach is having strong procedures surrounding the disclosure of patient information. With the large volume of requests for information, some organizations outsource the **Release of Information (ROI)**.

Whether handled internally or externally, technology and information governance practices should be effective in making sure PHI is complete and timely for its intended purpose and available only to parties that have a legitimate need for the information. Here are some key management principles for ROI in areas of quality control, productivity management, and turnaround times.

Quality Control Practices address the monitoring, tracking, processing, and completion of requests for information.

- **Monitoring receipt of the request:** At a minimum, organizations should record the date and time the request was received (*e.g. stamp or write the date/time on each receipt*), identify who requested it and when it was needed, and confirm the request was authorized.
- **Tracking the request:** Involves some type of log (*e.g. simple binder, specialized software, etc.*) that is used to monitor the activity of the request. Requests should be prioritized.

  ROI software facilitates the tracking of requests throughout their lifecycle. Software can aid management by analyzing data easily for monitoring purposes (*e.g. staff performance and turnaround times by type of request*).
- **Processing the request:** Includes verifying the completeness of the request, ensuring the requestor has a right to request the information, verify the identity of the patient, and assess the appropriateness of the information requested. In short, processing the request includes making sure the right data is given to the right people.
- **Completing the request:** requires an evaluation of the completion of the request. This is essentially looking back and verifying that all the procedures were carried out properly. If the request was not complete, *was the it returned? Was the information released recorded for internal auditing and record?*

Productivity management is an area where technology offers significant value. ROI software or other technology provides various tools for data manipulation, and can provide individual production statistics, request volumes, and information about turnaround times.

Even without technology, it is important to accurately record volumes of incoming requests by request type, track staff who complete requests, collect date/time of key processes and turnaround times, record date/time that information was provided to requestors, and record the method used to deliver the information (*e.g. fax, mail, or in-person*).

Turnaround time goals and standards should be established internally based on the type of request (*i.e. a patient in an emergency room requires a shorter turnaround time than a scheduled appointment*).

After establishing turnaround time expectations, organizations should staff to these requirements and then monitor compliance with these requirements. Organizations should be able to identify request types for which the expectations are regularly not met; and periodical evaluation of processes, request volumes, and staff performance can help recognize where adjustments need to be made.

These general principals can help set an organization up for success in managing PHI. Organizations that implement sound procedures addressing the points above, are ahead of the game; however, best-laid plans often go awry. Breaches can, and likely will, occur. In addition to these practices, healthcare organizations should consider implementing the following strategies to mitigate data breach risks:

- Create a team that periodically assesses risks and controls to identify privacy and security issues; set priorities; update policies, procedures, and technology accordingly; and standardize access and disclosure practices (*i.e. specify who may access what PHI and what to do if a breach has occurred*).
- Encrypt all electronic information using the **National Institute of Standards and Technology (NIST)** standard for data. Stolen unencrypted devices are presumed a HIPAA breach; but if the device is encrypted, breach notification is not required.
- Use technology to detect and prevent the unauthorized use of electronic data. Some applications can continually monitor software and system hardware for outside threats and security risks.
- Invest in cyber insurance to help mitigate the financial risks of a breach. Be sure to determine both the extent of coverage and the cost.
- Provide ongoing training to promote understanding of organizational policies, procedures, and relevant laws and regulations governing disclosure of PHI. Follow each training program with an assessment to measure effectiveness.

Many health care organizations are focusing more on privacy and security, but rapidly changing cyber threats continue to outpace investments in technologies and processes to protect PHI. Healthcare management professionals have to find a balance between guarding privacy, maintaining legal compliance, and facilitating quality patient care through information sharing and organizations to be proactive. Implementing the principals and strategies above should give your practice an effective enterprise-wide approach approach to the ROI process.

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HOW TO COMPETE WITH LARGE HOSPITAL GROUPS

Consolidation in the healthcare industry continues unabated as national and regional hospital groups continue to increase their breadth of offerings by acquiring other groups, standalone hospitals, physician practices, home health agencies, senior living communities, and whatever else can fulfill their needs. Constant needs for capital investment and negotiating power with insurers have convinced the industry that bigger is better and survival requires volume. *So how can smaller hospitals and physician practices compete and thrive in such an environment?* There's no easy answer to that question.

AFFILIATION AND SPECIALIZATION

It may seem counter-intuitive, but many smaller hospitals and practice groups have fared well by affiliating with their larger competitors who are trying to acquire or defeat them. When you're smaller, it's hard to contend with the sheer breadth of services or size of hospital systems. Specialization becomes essential. If your group can fill in a niche service area that's lacking in the community, then a partnership of sorts could prove mutually-beneficial, as an outlet for positive care for the larger group, and as a source of much-needed referrals and census for the smaller provider. Choose your discipline areas wisely and focus your energy and time to create distinct differentiations that make your continued success essential. We've seen this work in some specialty surgeries, rehabilitation, emergency care, senior care, and various therapies.

EMBRACE TECHNOLOGY AND INNOVATION

The larger groups have the capital needed to meet electronic health record requirements and to respond to other government mandates and regulatory changes, but they lack the nimbleness that smaller groups have. Stay abreast of emerging technology trends, such as telemedicine, that can provide you access to new groups of patients that you'd otherwise never see. If you're an early-adopter of game-changing technology, you can create barriers to entry that effectively keep your larger competitors at bay. There are also forward-thinking visionaries who may disrupt the entire healthcare world. These are relative outsiders that are accustomed to revolutionizing marketplaces. Be aware of what they're working on, be they small clinics in their physical locations (Wal-Mart), ways to current insurance reimbursements (Amazon), or something else that none of us are even thinking about yet (Apple) and identify (early on) if you can somehow fit into their grander plans.

RESULTS AND SERVICE MATTER

Healthcare reimbursement continues to evolve over time, with more and more payors seeking to move to a more value-based billing methodology, as opposed to traditional fee-for-service-based models. Instead of being paid for the number and type of services provided, outcomes and results will start to determine reimbursement amounts. Be on the forefront of focusing on true patient care and results. This will help maximize your payments in coming months and years. We all know of horror stories in patient mismanagement and care at larger groups, where often it seems that patients are lost in the gigantic shuffle. By being smaller, you can provide more direct and personalized attention that can help to distinguish you from your competitors. Reduce wait times, return calls timely, truly coordinate care with other providers, and take a genuine and holistic interest in the needs of your patients. In this online-savvy world, ratings and feedback matter. Do whatever you can to improve your "scores" to attract new patients seeking a better and warmer experience from their current healthcare provider.

IN SUMMARY

Healthcare continues to be a challenging field. An aging population, rising costs, increased government regulations, stagnant reimbursement rates, constant litigation, patient-directed services, and many other challenges await all healthcare providers, from the sole practitioner to the largest hospital group. To succeed as a smaller player, there's much less room for error. Be diligent, craft a smart and inventive strategy, think outside the box, and commit to your long-term strategic goals. Finally, keep open lines of communication with other potential strategic partners and if all else fails, you may need to look for other alternatives.

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