SECURING YOUR RETIREMENT IN THE AGE OF DECLINING REIMBURSEMENTS AND THE AFFORDABLE CARE ACT (OBAMACARE)

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INTRODUCTION

As an emergency medicine physician, I used to love practicing medicine. It was fast paced, exciting, and I was making a positive impact in peoples lives. However, as the years passed I began to feel the impact of mundane tasks that I had been saddled with that infected the quality of my practice.

While palpable, it had always been difficult to articulate the decline. Then I came across an article on Forbes entitled, "Malcolm Gladwell: Tell People What It's Really Like To Be A Doctor."

This article was written by Robert Pearl, M.D. about an interview he conducted with author Malcolm Gladwell. Below is an excerpt from that article and probably the best description I have ever read.

THE DUALITY OF BEING A DOCTOR

Most physicians go into medicine with a mission-driven spirit, committed to helping people. They are grateful for the opportunity to care for others, proud of their ability to diagnose and treat, and inspired by the trust their patients put in them.

But those experiences contrast vividly with the economic side of being a physician.

> Each day mundane financial tasks distance doctors from the reason they chose medicine as a career in the first place.

That's the duality of being a doctor. There's the fulfilling personal side and the frustrating impersonal side. The personal side reminds doctors why they love practicing medicine. The impersonal side poses a significant threat to the future of medicine. Let me begin by explaining the personal side.

AWE AND TERROR: THE CLINICAL SIDE OF PRACTICING MEDICINE

For academically outstanding students with a desire to improve the lives of others, becoming a physician is a great career choice. They work hard in their training to master both the science and art of modern clinical practice.

This hardworking and altruistic spirit is necessary for aspiring doctors to endure the physically, emotionally and financially taxing aspects of medical school and residency training. And that's where future physicians experience both awe and humility as they navigate the complex journey of becoming a doctor.

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They spend their days exploring the mysteries of the human body. They learn to decipher medical secrets by looking into the eye, listening to the heart and palpating the abdominal organs. They gain the competence and confidence needed to cut open a body with a scalpel, insert scopes into the different orifices and cavities, and remove damaged tissue to eradicate disease and restore health.

Out of context, these practices would constitute assault and battery. In medicine, these activities are essential. Being entrusted to perform them is a privilege afforded only to those who earn the title of "doctor." It is an awesome responsibility.

Physicians are permitted and often required to ask deeply personal questions. Patients answer willingly. The intense and intimate nature of the doctor-patient relationship represents a unique bond, a trust forged in just a matter of minutes during a standard clinical encounter.

The majesty of the human body, the importance of health, and the personal fulfillment that comes from healing define the physician's world and the clinical practice of medicine.

But along with the awe and pride comes an underlying terror.

As physicians treat patients, they are afraid of making a mistake or harming someone. Physicians worry about missing a life-threatening diagnosis, unintentionally spreading infection or committing a technical error. This fear isn't just the self-protective paranoia of being sued for malpractice. It stems from a profound anxiety of violating the deeply embedded, core principle of the profession: Primum non nocere or "first, do no harm."

Most nights, physicians go to sleep fulfilled and grateful for the honor of becoming a part of their patient's lives. And overall, the opportunity to make a difference is fulfilling and satisfying.

But when something goes wrong, the agony runs deep. There are sleepless nights filled with tossing, turning and painful reflection.

CLAIMS AND PAINS: THE CLERICAL SIDE OF PRACTICING MEDICINE

As fulfilling as patient care is, most doctors (particularly those in individual and small practices) lament the other side of the job: the business of health care.

As much as half of each day can be consumed with clerical and administrative tasks: completing insurance claims forms, navigating complex coding requirements, and negotiating with insurance companies over prior approvals and payment rates. And this affects not only physicians, but also their patients – further complicating medical practice and increasing the level of frustration.

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In my conversation with Gladwell, he spoke about a doctor's office he'd recently visited. He described interacting with four support staff: three doing paperwork and only one assisting the physician with medical care.

"That's insane," he said..."It's just wrong. It's a misuse of resources."

He also expressed concerns about the economics of medical practice and the consequences for physicians:

"I don't understand, given the constraints physicians have in doing their job and the paperwork demanded of them, why people want to be physicians. I think we've made it very, very difficult for them to perform their job. I think that's a shame. My principal concern is the amount of time and attention spent worrying about the business side. You don't train someone for all of those years of medical school and residency, particularly people who want to help others optimize their physical and psychological health, and then have them run a claims-processing operation for insurance companies."

It's this side of medical practice that wears down even the best physicians.

Yet it's reality for many American doctors, particularly those in small offices who are reimbursed on a fee-for-service basis. Filling out claims forms and managing thousands of billing codes are frustrating and exhausting tasks. No wonder multiple surveys over the past two decades show a progressive decline in doctor satisfaction among those in community practices.

It's not the long hours or the demands of patient care that have eroded their satisfaction. It's the insurance side of health care.

And in 2012, a study found that:

9 out of 10 physicians across the country are unwilling to recommend the profession to others.

He further goes on to say, "...the insurance system can erode the professional and personal satisfaction of even the most dedicated physicians. That is why it has to change. The solution is not a government-run program with the inevitable red tape and endless regulations. This will only make matters worse."

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While this piece was well written and right on the mark in so many ways, it falls painfully short of painting a complete picture. Absolutely insurance companies are a thorn in the side of physicians, as are malpractice attorneys. However, little to no mention was made of the main protagonist – the government.

It would be like me writing an article on how performance enhancing drugs have ruined major league baseball and citing Jason Giambi without any mention of Mark McGwire, Jose Canseco, Barry Bonds, or Alex Rodriguez.

This story got me thinking about ALL of the things that are wrong in medicine - the things that have nothing to do with patient care. The things that require me to spend half of my work day behind a computer doing data-entry instead of patient care. What follows is a companion piece to the above article.

It takes a deeper dive into the ills of the profession and at the end discusses my own personal story and the roadmap I followed to practice medicine on my own terms.

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THE DECLINE OF MEDICINE AND PHYSICIAN SATISFACTION

The Golden Age of Medicine is over. The day in which the physician-patient relationship was sacrosanct is long gone. More and more healthcare providers are finding themselves beholden to third party regulation, mandates, pre-approvals, algorithms, and various other sorts of red tape that are intended to save insurance companies and the government money.

The impetus to save money has the consequence of creating a one-size fits all big box-store type of medicine that stifles patient choice, limits provider options, and could have real consequences for lessening the quality of the American Health Care System.

With all of this in mind, it is no surprise that a large majority of patients and healthcare providers are apprehensive about the so-called reforms taking place today. Along with reform comes worsening reimbursements and economic challenges that make an already difficult situation next to impossible.

More and more, physicians find the practice of medicine to be unsatisfying. The evolution of this decline can be traced back to many of these rules and regulations:

- Emergency Medical Treatment and Labor Act (EMTALA)
- Health Insurance Portability and Accountability Act (HIPAA)
- Recovery Audit Contractors (RAC)
- Medicare Sustainable Growth Rate (SGR)
- The Joint Commission (TJC formerly known as JCAHO)
- The Patient Protection and Affordable Care Act (PPACA or ACA or Obamacare)
- Accountable Care Organizations (ACOs)
- Bundled Billing
- Patient Satisfaction Surveys
- Medical School Costs
- Increased Taxes
- Electronic Medical Health Records (EMR)
- Computer Physician Order Entry (CPOE)
- Physician Shortages
- Threats to Medical Licensure
- ICD-10 Mandates

The list is both daunting and depressing.

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MEDICAL SCHOOL COSTS

The cost of tuition for medical school has skyrocketed over the years. In fact, the Association of American Medical Colleges now places the median four-year cost of attendance at over $200,000. When you factor in housing costs and living expenses, it is not uncommon to see debt loads of $250,000 to $300,000 just for attending medical school. After forbearance for residency, a twenty year payback schedule and compound interest it can end up costing you over $500,000.

By delaying your productive earning years well into your 30's and taking on debt loads equivalent to half of a million dollars, it's easy to see how difficult it can be to save for retirement, start a family, and purchase a home. These pressures are further exacerbating when coupled with expectations of private school for the children, luxury vehicles for their parents, country club memberships, vacation homes, etc.

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT (HIPAA)

This governmental regulation mandates for patient confidentiality leads to increased costs and the threat of fines for those who do not comply. Certainly all physicians are for patient confidentiality. However, with the new electronic medical record requirements, there is increased risk of computer hacking, viruses, worms, and Trojan horses. Physicians have been mandated to protect against such breaches at their own cost.

Additionally, should such a breach occur, the government can impose criminal penalties in the range of $50,000 to $250,000 in fines and up to 10 years in prison. If the infraction doesn't meet the level of criminal activity, they can still impose civil penalties of $50,000 per incident up to $1,500,000 per calendar year.

THE JOINT COMMISSION (TJC FORMERLY KNOWN AS JCAHO)

This highly powerful, bureaucratic organization is empowered by CMS to provide accreditation to health care organizations. Licensure is required for an organization to participate in Medicaid and Medicare programs and therefore receive reimbursements.

They are well known for demanding arbitrary and even nonsensical mandates that medical providers and organizations must comply with or risk losing their license and ability to collect reimbursement from CMS for their services.

PATIENT SATISFACTION SURVEYS

Companies like Press Ganey administer patient satisfaction surveys. The government has mandated these surveys and tie hospital compensation to how well they perform on these surveys. Many people see the day in which physician compensation will also

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be tied to how well they perform on patient satisfactions surveys.

These surveys have become a real thorn in the side of hospitals and medical care providers. Many fear that they will have to practice fast-food menu type of medicine in which the patient orders what they want and the physician risks financial penalties if he or she does not provide it. More and more they wrestle with the temptation to over-test and over-prescribe in hopes of making patients happy instead of providing sound (effective and efficient) medical care.

Despite the fact that patient satisfaction surveys have never been shown to be a reliable indicator for quality care, the train has already left the building. Hospitals and physicians are being judged by the consumer is always right mentality.

EMERGENCY MEDICAL TREATMENT AND LABOR ACT (EMTALA)

This unfunded federal mandate passed by Congress in 1986 requires Medicare-participating hospitals to treat and stabilize all emergency medical conditions regardless of the patient's insurance status or ability to pay.

On the surface, it is not a bad public policy to have such a safety net to provide for those amongst us who have a true life-threatening medical emergency. However, the government created this mandate without providing any funding for it. As such, it places a significant financial burden on physicians, hospitals, and the emergency medical system. In essence, it requires hospitals, emergency medicine physicians, and call panel physicians to provide uncompensated and undercompensated charity care.

According to a 2003 AMA study the average emergency medicine physician provided $138,300 of annual EMTALA-related charity care. Specialty physicians who take emergency room calls also shoulder a significant amount of financial burden created by this law. Although the government does not provide funding for this mandate, the do provide significant financial penalties for those providers who are unwilling to assume these financial burdens.

RECOVERY AUDIT CONTRACTORS (RAC)

This program was created by congress and intended to identify "improper" payments made by Medicare to physicians and hospitals. In essence, these auditors are bounty hunters who are paid a contingency fee to claw back as much money as possible by denying claims. Clearly they have a conflict of interest as their compensation is tied to the denials that they make.

By creating a system that empowers individuals (frequently nurses) to second guess complex medical decisions made by physicians after the fact and for their own gain produces an environment that has great potential for abuse.

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These audits also put great financial and time burdens on physicians and hospitals that have to appeal to be reimbursed for the work that they do. RAC audits and appeals add unnecessary costs and stress to an already overloaded system.

MEDICARE SUSTAINABLE GROWTH RATE (SGR)

The SGR was part of the Balanced Budget Act of 1997. It is an attempt by CMS to control Medicare spending on physician services. This flawed formula ties physician reimbursement to GDP and not actual health care practice costs. As a result, the sustainable growth rate has produced steep cuts in physician compensation.

In fact, it has taken annual Congressional action known as "the doctor fix" to keep these cuts from happening. Without these temporary fixes, there would have been a 27.4% cut to physicians in 2013. By 2016, the SGR will cut physician payments rates by almost 40%.

This lack of economic certainty makes it difficult to hire additional staff and purchase new equipment. While practice costs keep rising, reimbursements have either stagnated or declined over the years. Without annual congressional action in any given year, a catastrophic cut imposed by the SGR could put many individual physicians out of business.

THE PATIENT PROTECTION AND AFFORDABLE CARE ACT (PPACA OR ACA OR OBAMACARE)

This United States federal statute signed into law on March 23, 2010, is designed to increase access to the uninsured by markedly expanding Medicaid. While virtually all health care providers are for better access to care, there are many downsides for medical professionals.

For example, the ACA mandates new health information technology (HIT). These mandated electronic medical records (EMR) and computer physician order entry (CPOE) come with huge upfront costs as well as extensive time in training. Most find them cumbersome and slower than paper records and some find them counterintuitive and even dangerous to patient care.

Many medical professionals complain that they spend more time in front of a computer with data entry than they do in direct patient care. For providers who intended on retiring in a few years, there is no ability to opt out. They must comply with the law or face penalties. Others have opted to hire scribes at even more of an expense to do the data entry for them.

Some have suggested that the EMR was passed to make RAC audits easier as well as documenting medical provider behavior, practice patterns, and outcomes. This would

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make influencing behavior and practice patterns easier.

The ACA also adds more patients to Medicaid which pays only 56% of what private insurance pays. In addition to this expansion of underpayments, the ACA leaves the flawed sustainable growth rate (SGR) in place. Additionally, it creates a new board to further cut provider payments. This Independent Payment Advisory Board (IPAB) gives 15 unelected bureaucrats the power to contain the growth of costs in Medicare.

The ACA also exacerbates current physician shortages. By 2020 the current physician shortage is projected to swell to almost 100,000. By inserting massive amounts of red tape many health care providers feel that the doctor-patient relationship is being destroyed. Some physicians are opting for retirement rather than compromising their Hippocratic Oath by having to focus more on government rules rather than specific patient needs.

The ACA does nothing to provide for tort reform, so these mandates to cut costs and ration care, come with no protections against onerous medical malpractice suits.

Lastly, the ACA levies a host of new taxes.

The net result of this law on medical professionals is to be overworked, underpaid, micromanaged, and highly taxed.

ACCOUNTABLE CARE ORGANIZATIONS (ACO's) & BUNDLED BILLING

Accountable care organizations are expanding rapidly. These are groups of health care professionals that come together in an HMO type of organization to care for populations of patients. The ACA is encouraging these structures of health care delivery.

ACOs are about third party control of medicine as well as decreasing costs. They provide assembly-line, box-store types of group practices in which mid-levels have an expanded roll and lower costs through limited services. Decreased physician pay can be obtained through limited access and bundled billing.

INCREASED TAXES

Years and years of increased debts and deficits have led to calls for higher taxes. Medical professionals have always been highly taxed. Recent tax increases continue to target medical professionals as well as other high earners.

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For example, in recent years, we have seen things like:

- Increased Social Security portion of the payroll tax from 4.2% to 6.2%
- Increase in the top marginal rate
- Phasing out personal exemptions and phasing down itemized deduction for high earners
- Increasing tax rates on investments
- Increasing death tax
- New 3.8% surtax on net investment income
- Etc.

More tax hikes on the federal, state, and local levels are constantly being proposed that disproportionately affect health care professionals and their net incomes.

THREATS TO MEDICAL LICENSURE

Many physicians have decided to opt out of the Medicare and Medicaid system due to these low reimbursements and red tape. This "Concierge" option is becoming more and more popular. With a perfect storm of increased patients, aging baby boomers, and a growing physician shortage, how likely is the government to allow capable physicians to escape very low government reimbursements?

Many are starting to look at tying state medical licensure to a requirement to accept Medicaid and Medicare patients. Should laws like these pass, health care professionals will be forced to take low reimbursements or be excluded from practicing medicine.

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SUMMARY

I think that Dr. Benjamin Brown best summed it up in his piece "The Deceptive Income of Physicians" when he said:

"Yes taking care of patients is rewarding. However, when physicians are unfairly reimbursed for their services they feel exploited. This feeling of exploitation or being taken advantage of is what bothers physicians the most. Physicians spend 40,000 hours training after high school and take out over a quarter million dollars in loans all so that when they are done they can work 60 hours per week, be paid less than they were expected, give about 40% of their income to the government in taxes and pay 25% of their net income to their student loan lender. They feel exploited because after all that they have sacrificed they are enslaved to the highly regulated healthcare industry, which unfairly pays them."

As I said in the beginning of this paper, the Golden Age of Medicine is OVER.

Healthcare professionals are being battered with decreased reimbursements and lowered incomes coupled with the increased expenses of taxes and inflation.

Additionally, job satisfaction is at an all-time low from the micromanagement and red tape that is becoming ever more present.

Retirement ages are rising for physicians just as their job satisfaction is decreasing. Many feel trapped and long to practice medicine on their own terms. Realizing that they have little power to affect government policy, many doctors see the handwriting on the wall and are looking for alternative forms of income. Never before have I seen so many physicians scrambling to formulate exit strategies.

Things like consulting, medical spas, health and wellness, skin products, anti-aging, and MLM are common alternatives that many physicians are pursuing. In fact, I have a colleague who now sells used cars part-time.

For me, it was less about starting a side venture and more about accelerating my portfolio returns. I wanted to make work optional and not be a slave to my career.

Here is how I did that.

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MY STORY

I've been working in emergency medicine for almost two decades now. Sometime during my career, I started to notice my job satisfaction beginning to decline. I began to see earned income as a trap. I was trading my valuable time for heavily taxed income. Initially, I invested those after-tax dollars in the stock market using mutual funds, but found it too unpredictable and highly volatile.

Thankfully, I began investing in real estate and missed the years of stock market losses that plagued so many health care professionals. I had already lost a decade of prime earning years to medical education, I was fortunate not to lose a second decade to the stock market.

I started out investing in residential properties (1 – 4 units) because I could afford the down payments and I believed I could do it. I did fine with residential, but found that the small inconsistent returns that come with small properties did not justify the significant management headaches.

Without the economies of scale that come with bigger properties, the path to wealth utilizing residential real estate comes slowly after you pay off the existing mortgages. I was not willing to bear the burdens of being a landlord just so I could become wealthy 30 years down the line.

I knew there had to be a better way.

I stumbled into commercial multifamily real estate and passive direct fractional ownership by accident. You see, my first deal was a stroke of good luck and a story of right place, right time. The wife of a fellow ER doctor was in real estate and involved in putting together an investment group to purchase a 72 unit property in Albuquerque, New Mexico. One of their investors had fallen out of the deal and I was asked to participate.

I purchased a 12.63% stake in the property and sold my interest back to the group three years later nearly doubling my money.

From that point on, I was hooked.

I made great money despite making mistakes along the way. For example, we failed to use professional property management and invested in a less than ideal market. I was determined to learn all I could about commercial multifamily real estate and perfect the process.

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WHY COMMERCIAL MULTIFAMILY REAL ESTATE?

There are a lot of reasons I chose commercial multifamily real estate, but the main reasons are:

- Capital Preservation
- Evergreen Business Model
- Multisource Economic Benefit (income, principal pay down, appreciation)
- Tax Minimization
- Inflation Resistance

I have read the "Millionaire Next Door" and knew that the two most common paths to becoming a millionaire are business and real estate. However, when I looked at the statistics, I found that 9 out of every 10 new businesses fail after 5 years. On the other hand, the current foreclosure rate in commercial multifamily is very low. In fact, in the best markets in the country, the rate is less than 1%.

I believe that the number one rule in investing is, "Don't lose money." All investments have some risk, but my goal was to be in a conservative asset class with a low risk profile. For me, business was just too risky.

Out of all of the classes of real estate (retail, office, industrial, etc.) multifamily has the best risk adjusted returns as well.

The next thing I like about commercial multifamily real estate is that it represents an investment in the basic need of shelter. Do you ever foresee a time in which people won't need a roof over their heads? Since there will always be a need for shelter, this asset class is evergreen.

Another great thing about real estate is multisource economic benefit.

Real estate provides current yield in the form of cash-flow while also providing equity growth in the form of appreciation and principal pay down.

This allows me to have my cake and eat it too. I collect recurring cash-flow that allows me to work less as a physician while my investments grow and increase my net-worth.

I also wanted an investment that minimized the two biggest drags on wealth accumulation – taxes and inflation. Real estate happens to be one of the most tax advantaged investments available. It is not uncommon for the investor to receive their yield either tax-free or tax-advantaged. This benefit in the tax code comes from depreciation and accelerated depreciation from cost-segregation.

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Additionally, I can harvest my growing equity tax-free utilizing a refinance. I can also sell the property and defer the tax via a 1031 exchange.

Frankly, if your investments aren't tax-advantaged, tax-deferred, or tax-free then you aren't investing in real estate.

Inflation is a silent tax that erodes the value of money. Think about how much a gallon of gas costs today versus what it cost 50 years ago. That gallon of gas hasn't changed, but what has changed is the value of money. Many people feel that worsening inflation is looming given recent fiscal policy. Fortunately, real estate is an excellent hedge against inflation. It has a long-track record of beating CPI by a healthy margin.

HOW DO YOU PLAN TO RETIRE?

Medical professionals used to be held in high esteem. They worked endless hours for the good of their patients and enjoyed a high wage for their efforts. It was the Golden Age of medicine. The prosperity that those physicians enjoyed has largely escaped the medical professionals of today.

The more government and insurance companies inserted themselves into the doctor-patient relationship, the worse things became. Doctors became more and more burdened with preauthorization requirements, denials of payments, JCAHO, EMTALA, HIPPA, RAC audits, and the threat of the sustainable growth rate as well as other Medicare and Medicaid rules and regulations.

Loss of autonomy from over-zealous regulation has become burdensome to say the least and has created an environment in which small individual practices are being swallowed up in favor of large box-store type accountable care organizations.

Little to none of these third party intrusions were initiated or welcomed by health care professionals. Now the affordable care act is the law of the land and the writing is on the wall.

Pick your poison, whether it is ACO's, bundled payments, or single payer, the result will be the same – work harder for less money with less autonomy and more red tape.

I'm sure you didn't go into medicine to get rich, but you also didn't think you would have to worry about money.

As your income declines, will you have enough money to retire?

If you do retire, what would you do if you ran out of money?

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Never before has your investment returns been more important.

Commercial multifamily real estate is a compelling asset class that can create financial freedom, permanent wealth, and save your retirement.

You work hard for your money and you should be rewarded in retirement by being able to play hard and enjoy the finer things in life. Who wants to pinch pennies and live within their means? I would rather expand my means. I want to travel the world and spend my valuable time connecting with friends and family.

I also want to leave a legacy for my children and grandchildren. That is hard to do when you are consuming your nest egg trying to make ends meet.

Commercial multifamily real estate is a sustainable asset class that combines consistent predictable income with asset appreciation.

It is a conservative investment in an evergreen asset class with a long history of proven results. In fact, it has the best risk-adjusted returns of any other real estate class over the last 30 years.

Unfortunately, far too many medical professionals underutilize real estate out of fears of management headaches. However, passive investing in direct fractional real estate utilizing a private real estate investment firm can give you access to stable multimillion dollar properties to diversify your portfolio without ever having to become a landlord.

I am passionate about real estate because I know what it's done for me and my family and I 100% believe that every physician should at least take a look at this asset class.

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NEXT STEPS

To learn more about how you can benefit from this asset class, schedule a 15-minute phone consultation today. Don't hesitate as the consultation is complimentary and there is No Cost and No Obligation to you. We welcome the opportunity to assist you in reaching your financial goals.

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