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HSA Reimbursements Can Be Made Years After Incurring the Medical Expense Giving You the Opportunity to Live Off of Some Tax-Free Income Later in Life: We like the idea of funding the HSA each year, and to the extent we incur health care expenses, we will pay them out of our personal checking account. The HSA is the only savings vehicle with **three** key tax advantages. Every other type of savings or retirement plan (e.g., IRAs and 529 plans) has only two, and a tax must be paid either at the beginning or at the end. With the HSA, contributions are tax-deductible, investments grow tax-free, and distributions are also tax-free if they are used to pay for health care. We will maximize the long-term growth of the HSA by leaving as much tax-advantaged money in the account for as long as possible.

In our experience, staff generally views their HSAs as a resource for paying annual health care expenses as they come due. But, as the owner, we view the HSA as a retirement account targeted to paying for expensive health care expenditures later in life - something all of us will have to face at some point.

An interesting wrinkle is that health care expenses incurred in the early years (which were paid out of your personal checking account) can be reimbursed in later years from the HSA. There is no time limit on when the reimbursement must be made, only that the expense be incurred **after** the HSA was established and that the expense was not otherwise reimbursed or deducted as an itemized medical expense. We therefore plan on keeping our receipts for decades in order to claim some tax-free income in retirement.

For example, if in 2016, we incur $2,000 in health care expenses, which we pay personally, and leave $2,000 in the HSA, the $2,000 might grow to $8,000 by 2036, at which point we claim our $2,000 tax-free reimbursement. The biggest problem is that the ink on the doctor's receipt will have disappeared by then, so we also plan to scan the receipts into a computer and maintain an electronic "health care receipts" file.

Real Estate is All About Location, Location, Location: This old real estate agent's mantra applies to the dental office as well. An office located prominently on a busy street or in a strip center will have far more exposure to new patients than one hidden away in a professional building. If you are thinking of building or leasing a new office, keep this truism in mind.

If You Own Your Practice and Your Office Building, the Rental Income is Not "Passive Activity Income": In a recent Fifth Circuit Court of Appeals case (*Williams v. Comm.*, 117 AFTR 2d, 2016), the court affirmed an earlier Tax Court ruling in favor of the IRS. The taxpayer, a physician, owned his medical practice in a C corporation, and he owned the office building in an S corporation. He treated the rent paid to the S corp as "passive activity income" on his personal tax return in order to use it to absorb his "passive activity losses" (e.g., building operating expenses, depreciation, etc.). The tax laws are extraordinarily strict in this area. Passive activity losses (PALs) can only be used to offset income from passive activities, such as rental income, and can practically never be used to offset income from non-passive activities, such as salary from a business (see next item).

But not all rental income is passive. The tax regulations make an exception in the case of the same person owning an interest in the real estate and in the business that is renting the real estate. If that person "materially participates" in the business of the tenant, such as a medical practice, dental practice, or other business, then the rent is treated as non-passive and cannot be used to absorb the PALs.

In Limited Situations a Married Couple Can Use the Passive Activity Losses of One Spouse to Offset the Non-Passive Income of the Other Spouse: The general proposition is that losses from a real estate activity are always passive and cannot be offset against income from non-passive activities. There is a narrow exception, however, if the individual qualifies as a "real estate professional." This means that he or she **must provide more than one-half of their total personal services in real estate trades or businesses in which they materially participate AND perform more than 750 hours of services during the year in such activities**. The real estate lobby has carved out an unfair exception for itself, relative to the rest of the country's workforce, where real estate owners and operators pay very little income tax thanks to their ability to offset building depreciation and other expenses against their real estate income.

Some readers of this Newsletter may be able to benefit here as well. As a full-time practicing doctor, you will not meet the real estate professional tests. However, if your spouse is actively engaged in the real estate business and does qualify, then his or her real estate losses can offset the non-passive income you earn through your practice. The IRS is well aware of this possibility and interprets the requirements strictly. Material participation in real estate means more than working for someone else as an employee in a real estate management company. The spouse must have an ownership interest and be active in management and must be able to prove, through time logs and diaries, that he or she is working the required number of hours.

Employees Who've Sued Their Former Employers: There are some people who will not hire anyone who has sued a prior employer. Obviously it is unfair to generalize that way, but they may have had a bad experience with such an employee or perhaps they are afraid they could become a target over any perceived slight. We have been advised by a labor law specialist we respect that depending on the nature of the prior lawsuit, failing to hire for that reason might be construed as inappropriate retaliation against someone for exercising their legal rights. Normally we think of improper retaliation as applying to the employer involved in the particular dispute -- not to someone totally unrelated to the matter. If you are not going to hire someone who you learned has sued a former employer, your several reasons for not hiring should definitely not include that point.

Two Practice Building Tips:

(1) Have a set time in your daily schedule for scheduling emergencies. Leave up to an hour open in the doctor's schedule where appointments can only be filled starting that morning. A good time is between 2-3, giving patients time to get in but not so late in the day that it interferes with the busy afternoon schedule. Hygiene should be booked all day. Only the doctor's schedule will have the open block. Let your patients know that one of the many advantages your practice offers is that they can always be seen in the case of an emergency.

(2) Make time to attend the funeral of a patient or patient's family member. It's the right thing to do and shows you are compassionate. If it's impossible to attend the funeral, then be sure to pay a condolence call.

Balancing PPO Participation

By Bill Rossi

For many practices, PPO participation is their biggest expense after staff wages (or even greater than staff wages in some cases). Historically, dental practice collection percentages had been 95%+ (of gross production). Now it's not uncommon to see collection percentages at 70-80%..and sometimes less.

Most dentists join a PPO in the hopes of gaining or retaining patients. No dentist likes to lose patients, and when you do lose a patient because you're not in the network, it can be a powerful inducement to sign up for a PPO. Once you're participating in a PPO, it's easy to feel there's no other choice. However, you don't have to take everything the PPOs dish out.

In many areas, the PPOs will have the majority of the providers in the area but no PPO has 100% of the providers. Therefore, it is possible to survive and thrive outside the participation of any one PPO. For most doctors, it's a matter of having the right balance.

As a general rule of thumb, if you're collecting less than 90% of your gross production, this should be reviewed. If you're collecting less than 80%, chances are very high that you would benefit by cutting back on PPO participation. It is possible to cut the PPOs and keep the patients. Plus, when you take a look at your own practice. You probably have patients that are already seeing you out of network.

When deciding where to cut back on PPO participation, look first for plans that are 15% or less of your patient base and have fee allowances with greater than a 30% discount.Providers have more options in a marketplace that has a greater variety of PPOs. You don't have to be chained to any one PPO. The worst case scenario is to be in an area where 90% of the insurance is through just one company. That makes it tough! Fortunately, that's not the case everywhere. Cut back one at a time.

You may be participating with group plans that include multiple PPOs. There can be "PPO creep" on these plans where you can sign up for several plans and then find out several more had been added despite the fact that you didn't directly contract with them.

Sometimes you're better off directly participating in the PPO network and sometimes you're better off just dropping the network altogether. And to add to the complexity, sometimes the PPO network pays better out of network than it does in network.

If you are netting less than 35% of your collections and gross staff wages are in line(<27%) and you don't have extraordinary equipment/ facility expenses, then the PPO's are the likely culprit.

PPOs are sort of like the casinos in Las Vegas. The "House" has all the odds in its favor. However, as a player, you can play smart, and sometimes you don't have to play at all! You have more power than you think. For most practices, two to four plans are the right mix. You can adjust the participation in plans just like you're adjusting ballast in a hot air balloon. Cut back the plans one by one until you have the right mix of profitability and busyness. Every year negotiate fees for the plans with which you have contracts (a topic beyond the scope of this article).

It's been my experience that most doctors join a plan too impulsively or leave a plan too irrationally. This is a serious issue and deserves serious analysis. A good look at your PPO situation can do more for your bottom line than almost everything else. You can add $1,000's and even $10,000's to your annual profits.

We all know that hard work, integrity and skill make a difference in your success, but don't forget the other component, **courage**. Serious consideration and a bit of courage can save you a lot of sweat and stress.

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management of over 220 dental offices in the Upper Midwest and monitor over $30,000,000 per month in Dental activity. They are nationally recognized experts in dealing with PPO issues.

How To Judge Whether A Money Manager Is Worth His Or Her Fees: We are willing to pay someone a reasonable fee to do what we cannot or do not wish to do. There are countless investment advisors desiring to invest our money. They charge fees and are entitled to them. The problem is that many disappoint by underperforming the markets - with no offsetting benefits. What kind of offsetting benefit might we hope for? Perhaps a trusted advisor will temper our greed and calm our fears when markets swing to their occasional extremes. When markets are tumbling, a wise advisor calms the client's fear, discourages selling at the bottom and encourages selective buying.

Assuming we're not getting any such advantage, how can we tell whether our money manager is earning his or her fees? We would compare the portfolio's performance to the market's performance. While it is easy to match the market, it is not easy to beat it. Without any offsetting benefits, we would want to see that after accounting for their management fee, the results were at least as good as what we could easily achieve ourselves with a simple three-index-fund approach. If the professional money manager cannot meet that standard, why are we paying 1%-or-so to underperform when we can match the market virtually for free?

For example, we might invest 60% in the Vanguard Total Stock Exchange Traded Fund (Ticker: VTI), 15% in the Vanguard Total International Stock ETF (Ticker: VXUS), and 25% in the Vanguard Total Bond ETF (Ticker: BND). You might prefer a different allocation. For comparison purposes, it would be fair to use an allocation that approximates the investment allocation chosen by the advisor. If the manager holds a significant amount of cash for you, do not forget to adjust for that. The annual expense charged to manage these three funds is only about 0.05%, 0.14%, and 0.07%, respectively.

Below are each fund's returns going back to 2010, covering both up and down markets. For a 60%/15%/25% allocation, we have given the weighted average return for each year. Note that when the stock markets were rising, the bond portion was a drag. And when the stock markets were falling, the bond segment was a bonus. If we had a money manager who, on average, was not outperforming such a simple-to-handle, three-fund portfolio by a couple of percent (and we were getting no substantial ancillary advantage), we'd consider switching managers or taking back control of the money.

	2015	2014	2013	2012	2011	2010
U.S.	0.4%	12.6%	33.5%	16.5%	1.0%	17.3%
International	-4.1%	-4.8%	14.9%	18.3%	-14.6%	11.1%
Bond	0.5%	5.9%	-2.0%	4.3%	7.9%	6.6%
60/15/25 Blend	**-0.3%**	**8.3%**	**21.8%**	**13.7%**	**0.4%**	**13.7%**

If someone else is handling your investments, you can compare how they have done to these statistics as a simple way to judge whether you are getting adequate performance to justify what you are paying. If performance figures are not readily available, we would not go crazy trying to calculate the precise performance. An approximation would probably be sufficient. For example, if the year-end balance is $120,000, the beginning of the year balance is $100,000, and an early January $9,000 addition was made, we would divide the $120,000 ending balance by $109,000 (1.101 or +10.1% for the year). That is not absolutely precise, but close enough (and assumes only an early in the year contribution and no meaningful distributions during the year).

If we were dissatisfied, we would discuss it with the advisor. Perhaps we missed something or there is another explanation. The conversation might be uncomfortable, but as professionals, we would like the same courtesy.