

## **Financial Management: Ten Financial Management Tips for the Healthcare Professional**

*By Timothy D. Lott, CPA, CVA*

While many of the basic financial management tools and ideas remain the same from year to year, some new ideas are driven by the current economy and tax laws and some of the basics are worth repeating. Here are ten tips that every healthcare professional in private practice should be aware of:

1. Maintain good billing and collection procedures. This is one of those basic, worth repeating tips. You should ensure that your billing team remains current with the various billing codes and E&M modifiers. Every year there are changes in this area and if you fall behind, so will your collections. Your collection team should have the best collection policies in place. Make sure they collect the patients' copay and outstanding balance BEFORE the doctor sees them on the day of their visit.
2. Maintain proper internal controls over spending. Make sure supplies are being used and not wasted, make sure your long distance service is the most cost effective, make sure your cell-phone plan is the best available.
3. If you have practice debt, review the terms of the notes regarding the interest rate. "Money is cheap" is the overwhelming condition in today's economy. If your debt interest rate is greater than 7% you should look into refinancing that business debt.
4. Give yourself and your family some peace of mind. Review your insurance coverages for life, disability and even long-term-care to ensure you have adequate coverage. Before September 11<sup>th</sup> these issues were easily overlooked, however, given the current circumstances in the world today these issues can not be left behind.
5. As of January of 2002, there were significant changes in the qualified retirement plan arena. The "401k Safe Harbor" pension plan is the hottest retirement vehicle that has received a lot of attention this year. If you haven't had your retirement plan reviewed recently it's not too late. Because of these changes the "Defined Benefit" plans are also making a comeback and many doctors are again looking for opportunities to employ their spouses to increase the family retirement savings.
6. Many of us have seen our overall net worth drop due to the decline in the stock market. This doesn't mean you should bail out of the markets and stash the cash underneath the mattress. It does mean that you should review your investments with an investment advisor and talk about terms like diversification, asset allocation, bonds and fixed income. These terms went by the wayside during the

years that the stock market was climbing like never before and it's time to return to the basic fundamentals of investing wisely.

7. "Reducing your Taxes" is a concept that never gets old. Make sure your practice is paying for every business expense it should such as the business use of your automobile or your spouse's automobile. Business expenses like travel, meals, entertainment, gifts, continuing education, conventions and meetings, etc. should never be paid personally (note I said "business expenses").
8. If you have children and they work in the practice make sure you pay them a reasonable rate of compensation. After all, they're probably in a lower tax bracket then you which help reduce the overall tax bite of the entire family.
9. Look for other opportunities to reduce your taxes. Part of your investment portfolio that may also generate some tax savings are tax-free bonds and real estate. Yes, real estate. You can still generally deduct the mortgage interest and real estate tax on a 2<sup>nd</sup> or vacation home and "Money is Cheap". So if you have ever considered a 2<sup>nd</sup> home now might be a good time to get active with your desires.
10. "Money is Cheap!" This is the overwhelming theme in today's economy (other than the market is down). Look at your personal debt and see if there's an opportunity to reduce your cost of borrowing. Interest rates are at a 40-year low with some 15-year mortgages going for 5.5%. If you have non-deductible interest loans like educational loans, credit card debt, personal car loans, consider converting the interest to tax deductible interest. Be sure to ask your tax advisor about the deductibility depending on the amount borrowed. If you have family members, children for instance, that are out on their own with credit card debt, maybe it makes sense to lend them the money to pay off the 15% debts and have them pay you at 7%. They save and you're diversifying your investments so everyone wins.

*Tim Lott, CPA, CVA is a Partner and Director of N/L Healthcare Advisors with Naden/Lean, LLC in Timonium, MD.*