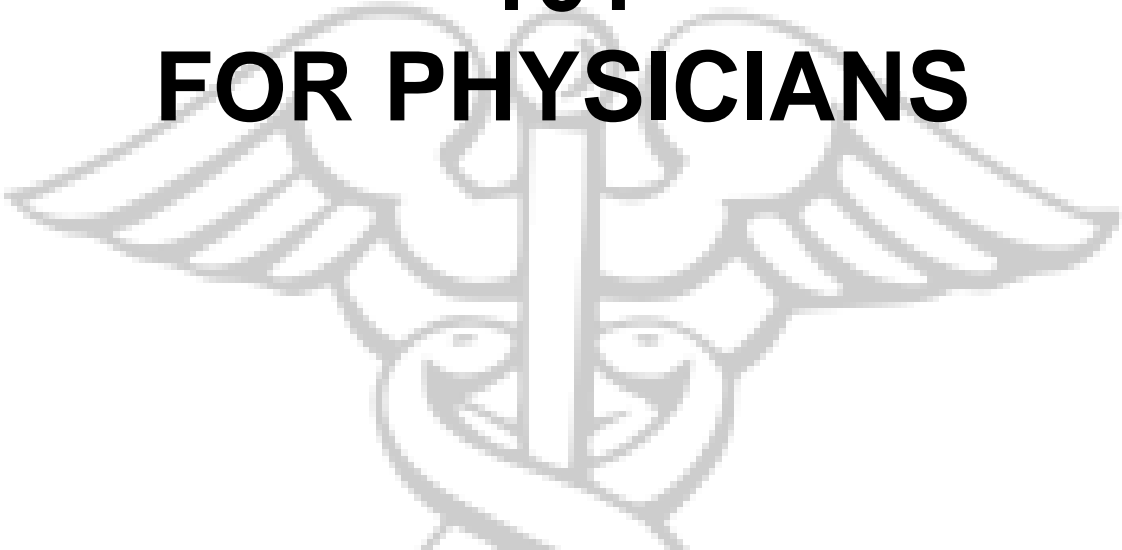


ASSET PROTECTION 101 FOR PHYSICIANS



ABOUT THE AUTHOR

Asset Protection attorney Ike Devji helps to protect thousands of doctors with over \$5 billion dollars in assets nationwide often at the referral of their advisors, CPAs and local attorneys. He was recently named one of WORTH magazines "Leading Wealth and Legal Advisors" and is the Executive V.P of the Wealthy 100™, a Phoenix based wealth management and wealth strategy and preservation firm with a network of advisors across the U.S.

Before joining the Wealthy 100, Mr. Devji, a litigator by training, acted as the Managing Attorney of the law firm of Lodmell & Lodmell, one of the nation's leading Asset Protection only law firms. Mr. Devji currently maintains an of-counsel relationship with the firm and selectively consults and provides Asset Protection services to high-net worth, high liability clients including business owners, real estate developers, C-level executives and professional athletes and entertainers.

Ike has spoken on Asset Protection to literally thousands of physicians and other high-net worth clients across the country. He continues to teach continuing legal education on this subject to other attorneys and regularly lectures at the request of leading medical practice management and investment management groups including Blue Chip Planning, Mosaic Financial Advisors, CFO Advisors, Christenson Wealth Management, MultiFinancial Securities, Greenbook Financial, ING, ING TRUST, numerous banks, and both Lorman and the National Business Institute.

Mr. Devji also consults on a number of other wealth and estate preservation and maximization strategies for qualified individuals including premium financing, real estate depreciation and income and receivables protection strategies. Ike Devji may be reached at ID@thewealthy100.com or by phone directly at 602-808-5540.

Asset Protection 101 – Basics Every Doctor Must Know

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Good financial advisors seek to create safe, steady growth and help you avoid losses and exposures to things like market risk and income and estate taxes. A natural extension of that stewardship is making sure that the growth you are fostering, as well as the balance of your assets, are safe from exposure to an increasingly predatory and hostile litigation system. Not only is litigation against doctors **more common than ever** (as is evidenced by the heated debate on this topic in the context of our national healthcare debate), it's **more dangerous than ever** given the multiple attacks on the wealth of the thousands of doctors we serve including:

- Current Economic Conditions
- Decreasing Compensation and Insurance Reimbursement Rates
- Increasingly Hostile Litigation System that Targets YOUR wealth
- Stalled or Negative Investment Momentum
- Increasing Overhead and Liability Insurance Costs
- Decreases in Liability Insurance Protection due to large awards, *consent to settle* and *defense inside the limits* clauses in your current coverage
- Increasing Employee Lawsuit exposure; suits against medical employers have tripled in the last ten years!
- Increasing burdens of Income and Estate Taxes; the death tax will be 55% of everything over \$1MM in 2011 as of the time of publication

Most of our clients have obvious exposures, such as a physician's potential malpractice exposure or the enduring liability that a large commercial contractor faces. Other sources of exposure are more insidious, such as merely being wealthy and visible, owning income property, or something as simple as you (or your kids) owning and driving a car every day. The numbers are staggering; we are at a point in our litigation system where we have *over 70,000 lawsuits filed per day in the United States alone*, many without any real merit. Unfortunately being "right" or careful is not enough to keep you safe, nor is relying on your skill and experience.

What we and our clients must take to heart is that litigation attorneys are in *business*. Just like any business, including yours, they have weekly meetings in which they examine growth, cash flow, revenue goals and new leads or opportunities. This economic motivation is a key and explains in part why we see awards rising and why plaintiffs' attorneys regularly seek and obtain awards above the limits of applicable liability insurance policies. The average medical malpractice *policy*, as just one example, is \$1MM, whereas the average national malpractice *award* is about \$3.9 million. This leaves the physician "holding the bag" for the other several million dollars. The average doctor simply can't survive that kind of a loss and maintain their financial goals.

Why are your advisors concerned?

As illustrated by the numbers below, awards continue to spiral out of control, fueled by litigation attorneys who have become partners in lawsuits and who are economically incentivized to create and magnify adversarial relations between parties who might otherwise reach some reasonable, if not amicable, settlement.

WHAT ESTABLISHES THE NEED FOR ASSET PROTECTION?

Facts about our litigation system for you:

- We live in a society that files some 70,000 lawsuits per day, many without merit;
- The average medical malpractice award is \$3.9 MM, some authorities put this number substantially higher;
- The average legal costs of settling a frivolous lawsuit is \$91,000 – plus the actual settlement amount itself;
- The average sexual harassment suit against a small business produces a verdict of \$530,000. Employees are suing more often, winning more often and winning proportionally larger judgments. They win 75% of the time;
- Only the top 5% of Americans have a net worth of over \$1MM. Using that as a baseline, it's pretty easy to see where even a client who is worth only a few million dollars fits in on the food chain.

COMMON RISK FACTORS OF OUR CLIENTS – some combination of any of the following:

- They are high net-worth, high liability, or they will be soon (i.e. new doctor)
- They are highly visible, traceable, and or collectible
- They have assets that would be difficult to replace if lost or reduced
- They have employees
- They own their own business
- They have professional liability
- They own liability generating assets, i.e. rental property
- They have children

Can't we just insure our way to safety?

No, unfortunately, for a number of reasons. **First**, it's impossible to insure yourself against every possible contingency and exposure. There will always be many exposures for which no insurance exists or which are not adequately covered by the amount of coverage the client has in place or can afford. **Second**, the liability insurance business model is simple: Take lots of premiums in and pay as few claims as possible. The difference equals profit. When an insured contacts their own carrier to report a claim, a number of the questions asked by the insurance company seek to determine if coverage can be reduced or excluded due to the contributory negligence of their own insured. Think about the questions, "Were you wearing your seatbelt? Were you smoking or on your cell phone at the time of your accident? Do you wear corrective lenses? Have you ingested drugs or alcohol within the previous 24 hours?" **Third**, the holy grail of

the “umbrella policy” and policy limits are rarely fully understood by clients and advisors. To the consumer, “umbrella” means “everything”. To the insurance company it means specific occurrences to specific limits under specific conditions. Add to that the fact that many liability insurance policies are inclusive of defense costs and the actual amount left for the award is reduced, again exposing the insured person personally. For example, your physician or small business owner client has a \$1 million liability policy in place and gets sued. The insurance company spends \$400 thousand on defense costs and loses, resulting in an award of \$1.2 million. In this scenario, only \$600 thousand is available from the policy to put towards the claim itself. Our advice: buy as much insurance as you can afford, assume it won't work and have a good back up plan.

A little proactive medicine goes a long way

We are all aware that there is a ton of **offense** out there. You can't drive across town without seeing ads for contingency fee attorneys plastered on billboards, bus stops and without hearing their ads on the radio. “Were you injured at no fault of your own? Have you been treated unfairly at work? Did you take a medication that may have injured you? Call us; we will get you compensated at no cost to you”. An interesting experiment is for you to Google “personal injury” and add the name of your city. The number of listings for attorneys will be staggering to you, especially when you consider that all those attorneys are in their offices right now waiting for the phone to ring, or thinking of ways to *make* it ring. Remember *your wealth* is the product that they sell and advertise.

The question is what kind of **defensive planning** have you examined? You insure your homes, cars, personal property, health and even your very life, but what level of planning and forethought have you, invested in *insuring your net worth*? Typically very little forethought, other than liability insurance, has gone into this area. This lack of planning can be disastrous, especially for clients who have reached the pinnacle of their career and who are looking towards retirement. What option would a 58 year old doctor have if he or she lost a substantial portion of their net worth to a car accident in which there was a fatality, because their child had a party and another teenager died or was injured, or because they were accused of sexual harassment by a disgruntled employee (all issues I've addressed for clients recently)? Think you or your locality are immune? Just turn on the nightly news and realize that every fatal accident you see reported that day will likely be accompanied by a seven figure lawsuit.

A great deal of the defensive planning involves the proper titling and compartmentalization of assets into acceptable and easily manageable units of risk. It's easier than it sounds but still needs experienced guidance. The mantras we teach our clients are simple:

1. **Own nothing, control everything;**
2. **What you don't own can't be taken from you;**
3. **The best defense is being an uncollectible target, take steps to remove the economic incentive to pursue you.**

As is illustrated below, moving the title of assets to various appropriate and legitimate entities can dramatically reduce the amount of the exposure you face, and can actually help make the liability insurance you have in place more effective. How? It removes the economic incentive to pursue you beyond the limits of the policy and forces settlements into a reasonable range. Why pursue someone for more than the limits of their policy through a long and expensive court proceeding if they didn't have any assets that can be reached? For the plaintiff's attorney this is a losing proposition and he will likely encourage his client to settle so that he can move on to the next case after taking his share of the award.

In most cases, collectible assets can be sheltered or reduced by over 90% with the use of well tested and established tools like LLCs, Limited Partnerships, Asset Protection Trusts and Receivables and Income Protection plans, to name just a few examples.

BEFORE AND AFTER

ER Doctor age 48, Married

BEFORE			AFTER		
Home Equity	\$700K	RLT	Home Equity	\$700K	IWMT
Rental Property	\$500K	RLT	Rental Property	\$500K	LLC/FLP
Investments	\$1MM	RLT	Investments	\$1MM	FLP/IWMT
Vacation Home	\$250K	own name	Vacation Home	\$250K	IWMT
Pers. Checking	\$25K	own name	Pers. Checking	\$25K	own name
Qualified Savings	\$500K	In Plans	Qualified Savings	\$500K	In Plans
Boat	\$50K	own name	Boat	\$50K	own name
Jewelry & Art	\$125K	own name	Jewelry & Art	\$125K	FLP
NET ASSETS			NET ASSETS		
\$3,150,000			\$3,150,000		

Collectible \$2,650,000

Collectible \$150,000*

This number includes the approximate value of personal vehicles, personal property and personal checking.

As you can see, the vast majority of a client's collectible assets are accounted for and sheltered in this example. The best tools used are legal, tax neutral and have a legitimate business purpose. The numbers scale easily up or down.

I already have a “Revocable Living Trust”. Doesn't this make me safe?

No, this is a dangerous misconception that the majority of the public is working under. The Revocable Living Trust or RLT is a wonderful estate planning tool. However, like most tools it has a specific purpose; in this case, primarily the avoidance of probate and estate taxes.

The RLT is, as the first word in the title suggests, REVOCABLE during your lifetime. This means that during your lifetime you can easily be ordered to revoke the trust and tender trust assets for the payment of a judgment by a court. This is a common occurrence. *The trust becomes irrevocable only upon your death.* Thus, during your lifetime it does not shelter you from any sort of lawsuit exposure. Conversely, Asset Protection does not replace or duplicate good estate planning, but rather works in conjunction with it.

What exactly can be protected?

Non-qualified investments, cash, stocks, both personal and investment or commercial real estate, business equipment, intellectual property, interests in non-liability generating businesses, valuable collection such as art and cars and even future income and business receivables are just a few examples. We typically exclude the personal checking accounts, personal “daily driver vehicles” and personal property.

Some Basics of Good Asset Protection Planning

1. **Do Something today.** Asset Protection is like Net Worth Insurance. You can't insure against a loss after it's already happened. The only good attack against a properly drafted Asset Protection Plan is TIMING – that it was done too late and with the intent to “delay, hinder or defraud” a specific plaintiff.
2. **Be realistic about the possibility of exposure and about the effect that a six or seven figure judgment would have upon the financial plan you have in place.** The most common and egregious mistake made by advisors of all types is telling clients who are worth “only” a few million dollars, or who are working hard to get there, that they are not “big enough” to justify doing this kind of planning; this is nonsense. Of course a client worth five or ten or even \$100 million needs this type of planning. But who will be affected more? The ten million dollar client can take a hit for a million or two and keep the cars, house, lifestyle and the kids in college, but our more average client would be financially devastated. *They*

need it even more. Some of the smartest clients we have are typically new physicians with little more than six figures in student debt, a leased car and an apartment. Why? Because they understand that every day that passes strengthens the tools they have in place: “the longer it cooks, the harder the shell”. They also know that they need to have a safe place *to put* every dollar they make, have a safe place *within which* it can grow and *from which* to re-invest it and put it to work for their family.

3. **Have Top Counsel In Place In Three Core Areas: Asset Protection, Financial Management and Accounting.** A good team will help nurture your success, help protect you from loss, mistakes and scams and make sure that you get to keep the money you earn in a legal, efficient and ethical way. These team members make sure that you keep a larger portion of every dollar you make, pay as little in tax as the law allows and that your money works as hard for you as you did to get it.
4. **Use the right tools.** Asset Protection is part art, part science, just like your business. There are certain proven methods and tools that work and others that do not. Be wary of promoters, do it yourself kits and promises of domestic jurisdictions that will make you safe and save you money on taxes. Each tool has a specific business purpose that protects specific types of property, they are not all interchangeable.
5. **No, Nevada Corporations do not work.** In fact, they are increasingly viewed as presumptively fraudulent due to a long history of abuse and tax fraud. Thousands of consumers have purchased them under false promises of secrecy, bearer share anonymity and tax advantages. Almost all these promises are completely fictional. Our information shows us that the term “bearer shares” does not even exist in the statutes of the state of Nevada. Unless you live there, do business primarily from or in the state of Nevada and have the assets in question housed in the state, a Nevada LLC will not help you, especially if it lacks a real business purpose as explained below.
6. **Maintain a legitimate business purpose for all legal tools.** We commonly see good tools misused by clients and inexperienced planners which do more harm than good. In order to take advantage of the full protection the law affords we must maintain an essential business purpose for the tools we use. The use of limited partnerships for investment management and LLCs to hold investment or commercial real estate are two examples of well proven and tested business usages.
7. **No, transfers to a spouse, child or relative are not effective.** This is especially true if the transfer is made after an exposure has occurred. A

thinly disguised “gift” will easily be reversed and the property seized by the court in the event of a judgment. Further, these types of transfers are rarely legitimized by the appropriate recording and tax reporting formalities. If you gave your 17 year old your \$1 million home at full equity, you better have a gift tax return illustrating that, and it better have been done well in advance of the harm complained of. Even if the gift is effectively made, all you have done is given away something you want to protect and exposed it to *another person’s* liability.

8. **“Just” an S-corp. or an LLC is not enough.** Single member or closely held corporations with just one or two owners are exactly they type of entity you commonly hear referred to when you hear the phrase “piercing the corporate veil”. If a business has only one or two owners who closely manage and control the operations of the business on a daily basis, or even worse, who are also directly responsible for a harm or injury, it is relatively simple for a court to pierce the veil and grant access to the owner’s personal assets. This is especially true with successful small businesses and family businesses that often don’t maintain the formalities of keeping personal and business expenditures completely separate, bolstering the argument that the person and the corporation are one and the same.
9. **Get professional, individual help.** There are a wide variety of skill levels in every profession, including the law. Many so-called Asset Protection professionals are not attorneys, or are attorneys who apply bits and pieces of knowledge from other fields of practice that may actually diminish legal protections in existence. Every plan must be uniquely tailored to the individual, their activities and the unique nature of their assets. There is no one-size-fits-all solution, even though clients with similar assets may have similar looking plans.
10. **The legal tools used are typically tax neutral.** Don’t try to combine tax planning and Asset Protection. In most cases, the tools used are taxed neutral and do not provide tax advantage or tax liability. Many times abusive tax structures are disguised as Asset Protection, often promising tax free growth offshore in various trusts or captive insurance plans. Putting money into a plan tax free, growing it tax free and pulling it out tax free is rarely if ever possible; you can’t have all three.
11. **Don’t forget about income and receivables – protect the source.** Very often we see doctors that are concerned about protecting everything they have been fortunate enough to accumulate while ignoring ways to protect their future income. We find that many doctors, even those with a very high net worth, often have fixed business and personal overhead commitments based on the expectation of a certain income level. If they

suddenly had that cash flow tap turned off, they would not be able to sustain their current monthly expenditures. This scenario would force them into a situation where they were selling off assets or going into qualified plans early and making substantial lifestyle changes. There are options available for qualified physicians that can securitize that income stream.

12. **Don't draw liability in.** In many cases physicians unintentionally escalate their value as a target. For instance, how many of your peers have vehicles that they or their spouse drive titled in the name of their business? Which of the following three defendants is most exciting to a plaintiff: John Smith, Dr. John Smith, or Smith Surgical Inc.? As you can see, the corporate defendant is often the most exciting and deepest pocket. In order to fix this we simply transfer the vehicle back to the client's name and have them take a car allowance from the business. Remember, with a good plan in place you won't have substantial exposed assets anyway.
13. **Have Adequate Levels of Insurance** on everything: malpractice liability, auto, home, life, long term care and disability. Buy every dollar of liability coverage you can afford, assume it won't be fully adequate and have a back up plan.
14. **Protect your credit; it is one of your most enduring and valuable assets.** As credit markets have tightened, even the wealthy are having trouble obtaining credit for every day issues like home and auto purchase or leasing. This means check your credit reports regularly and take steps to protect your identity.

This introduction is just that, an introduction to the most basic concepts behind legal and effective Asset Protection planning and provides only generally applicable rules and issues to be aware of. When you are ready to explore the solutions available, seek qualified counsel that has a proven record of experience in this specific field.

ESSENTIAL LEGAL AND FINANCIAL PLANNING CHECKLIST FOR BUSINESSES AND MEDICAL PRACTICES

The following is a basic "must have" checklist (in no order) that most of our business owner and physician clients find to be indispensable. Many sources of loss or exposure can be easily planned for and addressed in a proactive manner.

The days of opening your doors and simply running a cash register are long gone; things are now much more complex. KEEPING your wealth requires an experienced and sophisticated team and in some cases almost as much effort as MAKING it in the first place.

Who's on your team? Do they have the skills and professional partners required to do the job or have you and your business outgrown them?

We see recurring patterns and common needs across many successful businesses. We help clients and their advisors all over the U.S. coordinate all or any of these issues with the team of professionals we have assembled to help maintain their hard earned success. Please review this list to see which areas you need to update or explore. As always, call me with questions.

- 1. Asset Protection Planning** – Think of it as **Net Worth Insurance**. Distancing you from your assets and protecting them from your personal and professional liability. This requires simple, cost effective and pro-active planning today while you still have well defined legal options. There is little or nothing to be done, except paying defense attorneys, if you get caught in a suit before you do something.
- 2. Coordinated Financial Planning** – Making sure the money you make is working as hard for you as you worked for it and that the planning you have in place includes both growth and loss prevention strategies.
- 3. Disability Insurance** – Protecting your cash flow against injury and illness, the times you need it the most. Large amounts of coverage with lots of sophisticated bells and whistles are available. Also, make sure that your cross-purchase or buy-sell agreements are properly funded. If your partner has a stroke or some other debilitating illness, how long will you (or he) be willing and able to make large monthly payments to a non-productive partner?
- 4. Liability Insurance** – Let's make sure it's enough, and then let's have a back-up plan (See item #1 above). This refers to both professional and personal liability coverage. These days we see multi-million dollar exposures from routine events like auto accidents routinely.
- 5. Life insurance** – Making sure you have appropriate amounts to cover estate taxes, generate income for survivors and pay off debts you want settled. We also make sure that you are not paying too much and have the most flexible policy with the greatest number of benefits. Again, cross-purchase and buy-sell agreements must be carefully funded. We routinely see these agreements between our business owner clients that are either unfunded or under-funded. If your partner dies with no coverage or inadequate coverage in place you could easily find yourself across from their family in a courtroom explaining why the business should be liquidated to pay them the deceased's share.
- 6. Worker's Comp Coverage** – Making sure that you and your employees are protected against injuries and their rising costs.

7. Employee Benefits Planning – From basic benefits like 401K to Executive Compensation planning. There are a number of ways to provide these benefits, some are more advantageous to you, the business owner than others.

8. Employee Handbook – Governs their rights and your responsibilities, controls actions in the workplace and your employer policy. If you don't define certain policies the courts (or worse your employee's attorneys) will define them for you. This is one of the highest ROI investments you can make in your business in my opinion.

9. Employee Dispute Resolution Package – Prevents employee lawsuits and makes you a hard target – reduces your exposure. Right now they win 75% of the time and the average sexual harassment verdict, as just one example, is at \$530K. Your business is 5 times more likely to be sued by an employee than for any other reason. Have a plan.

10. Proper Corporate Formation – Is your formation or lack of it exposing you to liability and taxes? Will it hinder you in the case of sale? Do you have too many eggs in one basket? For example if your practice owns the building it operates from you are needlessly exposing the real estate asset to professional liability. Simple fixes can save you millions if something bad happens.

11. Professional Accounting Service – Do you have a good CPA? Taxes & payroll are just the beginning – have a pro. who proactively offers solutions and shows you legal tax avoidance options in addition to administrative and reporting functions we rely upon them for.

12. Real Estate Depreciation / Property Tax Reduction Study – Get tax deductions for depreciation NOW when you need them. You can get large current deductions on your investment real estate in a safe and legal way.

14. Income and Receivables Protection Planning – Make sure the cash flow you use to fund all these other things is safe. Your income can be “equity-stripped” just like a piece of real estate and the value put within protected structures that grow them in a protected and tax advantaged way.

15. Tax Reduction and Retirement Income Planning Including Pensions – Remember – it has to last at least 30 years and account for inflation! Instant lesson, compare the cost of an automobile or a loaf of bread 20 years ago to their costs today and see if inflation made a difference. Imagine dealing with that kind of cost increase on a fixed income 20 years from today.

16. Estate Planning – Who gets what, when and at what cost in estate taxes? You can make the Estate Tax exposure number zero in many cases. We do not consider dying in 2010 (when Estate tax will be zero for a very short time) to be a good estate plan. Do you really think our current national debt will allow doing

away with this exposure? We and the tax and estate planners we work with don't.

17. Exit Plan Strategy – Ok you've been successful – now what? Make sure that business is an asset when you want to leave and that the planning you have done minimizes your tax exposures on the sale or transfer. A little proactive work here can save you as much as 50% in taxes.

18. Long Term Care Insurance - The costs of this kind of care are soaring - can you risk your retirement savings and family's legacy by not having it? Medicare has a 5 year look back and requires that you are nearly destitute before they cover essential daily care.

As always contact us for help or more info on any of these issues. Neither I nor any other planner can be an expert at everything, but we do have a tremendous list of national partner resources that we use to serve our clients and will be happy to point you to good help in any of these areas.

Yours, Ike Devji, J.D.