FINANCIAL PLANNING FOR DENTISTS

FOUR QUADRANTS™

The Multimillion Dollar Secret for Dentists

Think back to when you first went to college. You were on your own for the first time, away from home and living life as an adult (or so you thought). With the fun of being away from Mom and Dad for the first time, though, came responsibility. Some of us were prepared for it. Others weren't.

The problems you have now may be the same that so many young people have when they're first on their own – and you might not even realize it. You don't have a plan; or, if you do, it's flawed or not fully realized. You may just be trying to survive one day at a time, paying things off as they come but never knowing what's next. You may think you know and simply be wrong. Why does this happen? Because you weren't properly prepared. You don't know what you need. You're not ready to be on your own yet.

The answer is a smarter plan, a plan that gives you exactly what you need to be able to handle the present and the future.

Let's get started.

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STARTING OUT UNPREPARED

The heart of the problem here is that dentists are expected to function as business professionals when they start a practice, but they aren't properly prepared for it. They aren't trained in business. Not a lot of business majors go on to dental school – most dental students studied chemistry, anatomy, or another life science in their undergraduate careers.

Then in dental school they learn mostly clinical skills. Through formal schooling, a dentist is lucky to have more than one or two business classes. Then when they buy a practice, they have to work as an entrepreneur with no training and few instincts. The mind of a scientist and the mind of a business mogul simply work differently, and dentists are supposed to do both. Some schools are starting to try to help solve the problem by adding business courses but for most dentists, it's too late for that.

So how do you build a financial plan without years of practice? It's really not as hard as you would think, if you just divide your financial practices into three parts.

1. RUN A SMART PRACTICE

It's easier said than done. But there are fairly simple steps a dentist can take to run a smarter practice that many dentists either don't realize or choose to ignore.

DROP YOUR PRACTICE'S OVERHEAD.

One place where a lot of dentists waste money is through silly overhead spending. If you're sinking 80 to 85% or more of your spending into overhead expenses, you're in trouble because that's not normal. It dominates your finances and keeps you from being able to spend on anything other than operating expenses. The good news is that in a million-dollar practice, every 1% drop in overhead saves you about $10,000. Dropping your overhead from 90% to a more reasonable level of 55-60% can save you $300,000 a year or even more.

Drop your practice's overhead from

90% ▶ 60%

for

$300,000

Savings or More

*Four Quadrants Advisory internal statistics

8 SOURCES OF HIGH OVERHEAD IN A DENTAL PRACTICE

FOURSIGHT: High Overhead in a Dental Office

We've been working with dentists and specialists for nearly two decades. And although no two clients are the same, lowering overhead to 60 percent or below is often the key to better cash flow and better income. Here's a look at the common culprits of high overhead.

Location and Capacity Issues

It's no secret that a location can make-or-break a dental practice. Dentists are notorious for overbuilding space for their current needs based on production gains that just never seem to materialize the way they had planned for. Can you do more with less space that allows you flexibility to grow in the future? "If you build it, they will come" only works in *Field of Dreams*.

Overspending

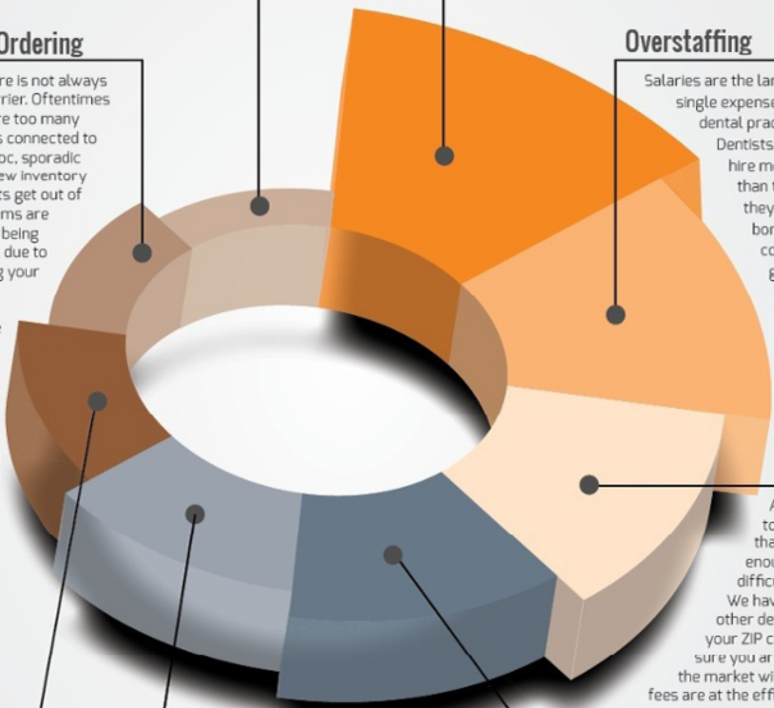
Costs associated with borrowing money to buy things (equipment, technology, etc) you don't need (yet), or repairing instead of replacing consistently problematic equipment can creep up and drag a practice from black to red. And be wary of the year-end equipment push for "tax benefits", they'll still be there if you don't buy items ASAP.

Inefficiencies in Ordering

The more is not always the merrier. Oftentimes there are too many vendors connected to an ad-hoc, sporadic inventory system. Too few inventory audits (if any) mean costs get out of control and duplicate items are ordered without, if ever, being detected. On top of that, due to multiple vendors getting your business, you're nothing more than a average client at best to multiple vendors; explore the possibility of going "all-in" with someone for larger discounts.

Overstaffing

Salaries are the largest single expense for any dental practice. Dentists often hire more staff than they need, overpay the ones they have, and/or have elaborate bonus systems in place that cost the practice a fortune. By getting a better hold on the staff all-in expenses, you'll be taking the first big step to keep overhead under wraps.



Low Fees

Are you charging too much for that cleaning? Not enough for that difficult extraction? We have ways to audit other dentists fees in your ZIP code to make sure you are charging what the market will bear and that you are fees are at the efficient levels to support your practice's business model.

Bad Decisions

Nobody's perfect, but better information means better clarity and therefore better judgment. Having a good team in your corner to quantify numbers will provide you the ammo you need to feel good about your decision. With our firm acting as an external CFO for our clients, there isn't a scenario that our clients face alone.

Inefficient/Sporadic Collections

Better cash flow means more income and a more predictable practice. But nothing kills this like sporadic collections based upon bad internal systems/ processes or ineffective collections vendor. It may be time for a new strategy that allows to maximize the collection of money for work you've already completed.

Insurance Adjustments

Just because you sign up for a new insurance plan doesn't mean it will bring an infusion of new patients and work. We almost always recommend paring down, not adding, plans to the practice to streamline things even further so you don't become a slave to your plans.

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PLAN FOR LARGE PURCHASES.

Planning your midsize or large purchases can help as well, rather than simply buying them with cash when it seems like the time might be right. One issue is a refusal among many dentists to go into debt. While debt is frightening, considering the dental school loan payments most dentists recall without fondness, paying for everything in cash is not a sustainable plan for the capital intensive industry.

The bigger issue is knowing whether a purchase will really help your practice make more money, and whether the timing for a purchase is correct right now. That's determined by your current financial status. Are you making the right amount of money in take-home pay right now, or would a raise be merited? Is the practice running efficiently enough to be able to handle a major purchase? Are there any other necessary major expenditures planned for the next few months? The answers to these questions will help you decide whether you should buy now, or wait a while.

PLAN TO START YOUR TRANSITION AT LEAST A DECADE BEFORE YOU RETIRE.

The sooner you start planning for your retirement, the better. That goes for saving and investing money for sure, but it also means planning for what happens to your practice after you retire. This isn't something that you do at the last minute, when you're tiring and starting to shrink your schedule. You should start preparing to transition your practice to younger hands at least ten years before you intend to actually retire, and even earlier if you can. You need to find your successor, and you need to build an exit plan.

Read More: Financial Planning for Dentists: It's Not Too Late to Save for Retirement.

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1. CONTROL YOUR TAX SITUATION

Tax time doesn't start in April. There are two major steps you need to take to make sure your practice's taxes are being managed properly.

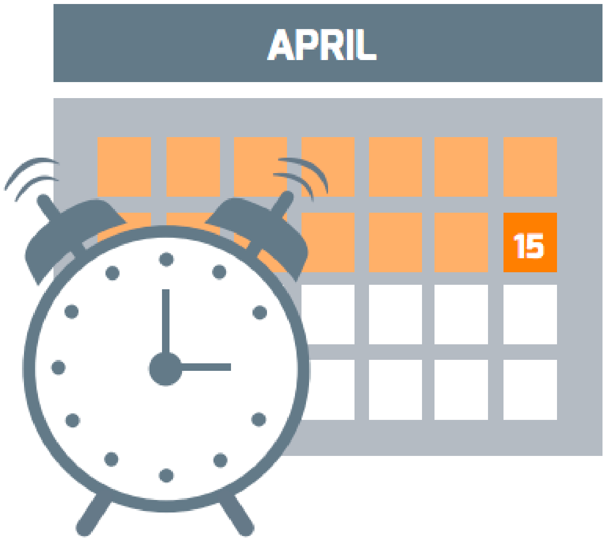
ESTABLISH YOUR PRACTICE WITH THE PROPER CORPORATE & INCOME STRUCTURE.

There are two major steps you need to take to make sure your practice's taxes are being managed properly. The first is to establish your practice with the proper corporate and income structure. There are three primary types – the C-corporation, the sole proprietorship, and the S-corporation.

The C-corp outlived its usefulness in the 1980s and is no longer advisable. The sole proprietorship is simple for accountants, but lacks the main benefit of the **S-corp:** the ability to take income both as distributions and in W-2 taxable income.

What does that mean for you? The fact that no taxes can be withheld from distribution payments – all taxes on this income must be paid later – makes planning extremely difficult. Any change in income or overhead has a huge impact on your tax bill when 100% of your taxes are being paid on a yearly or quarterly basis.

In an **S-corporation** you can still take some of your income through distributions but you also have the ability to take income in a regular paycheck like the rest of your staff, with taxes withheld. This way a percentage of your tax obligation is paid with each paycheck, and your end-of-the-year responsibility is smaller.



You can't start worrying about taxes **a few months before** your return is filed.

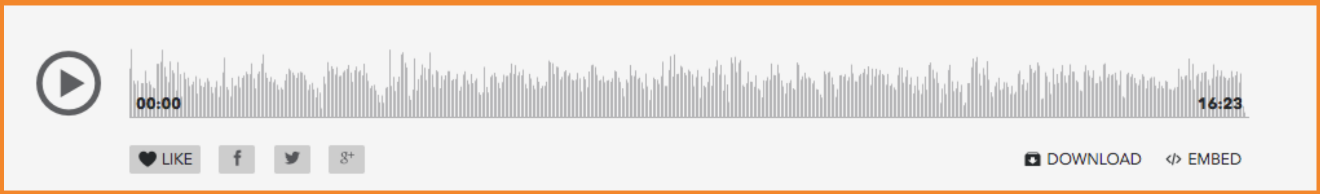
BE PROACTIVE RATHER THAN REACTIVE.

Your tax management also must be proactive rather than reactive – you must take actions to prevent problems from occurring, rather than just solving them after they do. Reconciliations should be done monthly by your accountant, with the smallest number possible of uncertain or uncategorized transactions. Regular tax estimates should be provided, based on changes in things like the financial forecast and the practice's overhead. You need to get your monthly statements and other relevant materials to your accountant in a timely fashion.

In short, you can't start worrying about taxes two weeks before your return needs to be filed. For the prudent dentist, tax time is all-year-round.

LISTEN TO THE PODCAST:

THE MILLIONAIRE DENTIST, FOR SOME END OF THE YEAR TAX TIPS.



MANAGE YOUR CASH FLOW

EACH DOLLAR CAN ONLY BE SPENT ONCE.

Ensuring that your money is being used properly is really what this is all about, and the area where you have the most visibility into that is in your personal and practice cash-flow.

And one of the biggest things you can do to make sure your cash flow is healthy is to manage your dental practice debt properly. Bad personal cashflow can manifest itself in similar ways as bad cash flow in your practice: wildly swinging bank accounts that never grow enough to make you feel secure.

People hate debt, and dentists tend to hate it even more than most. When buying equipment, many dentists try to avoid loans as much as possible to keep from building debt. When money is available, a lot of the time it goes towards paying off the debt that they already have. But that’s not necessarily the best way to do things.

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GOOD DEBT CAN HELP YOU GROW. BAD DEBT CAN CRUSH YOU.

There are two kinds of debt: good and bad. As the names suggest, all debt isn't to be avoided. Good debt is something like taking out a loan to buy a new piece of equipment for your practice that will pay for itself, or your mortgage. An example of bad debt is a high interest credit card or equipment that does not improve efficiency in your practice dramatically. If you have a lot of bad debt, that should be eliminated – but good debt can be managed more gradually. This way you can concentrate on bringing on personnel and materiel that your practice needs to grow, without hamstringing your finances. It's also crucial to live within your means, both at home and at work. While good debt is something you can use to grow, bad debt will crush you. High credit card bills, wasted money, and a lifestyle that you can't afford all have the potential to doom your practice and destroy your career. Spend carefully. One area where you should probably be spending more than you are is on your retirement.

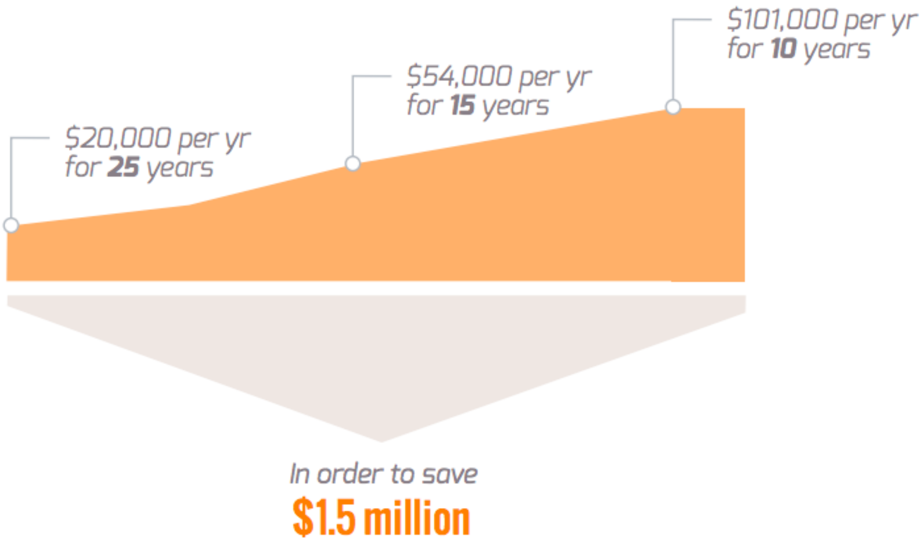
Read: How Much Do You Need to Save for Your Retirement This Year?

When you're first starting out, your retirement is abstract – it's a long way off, so you might not put the mental and emotional effort into it that you do for expenses that seem a bit more urgent. But if you think logically about it, your early efforts to save for retirement are crucial.

SAVE MORE. TAKE LESS RISKS.

If you fail to invest now in your retirement, you will miss out on returns for every day your money isn't in the market. Money saved at age 30 ends up worth more than what you save at 50. The idea of compounding of interest over time makes this very clear. For example: a person who saves $20,000 a year for 25 years will, at the end, have $1.46 million saved. But to get that same amount in only 15 years, you'll have to save $54,000 a year. In ten years, it's $101,000 a year. If you don't invest in your future now, you'll have a lot of catching up to do in the future. You can't make up for age. An intelligent capital preservation strategy is critical as well. Many rely on the stock market to try to build wealth, but with the high level of unpredictability involved, that can be a very dangerous proposition.

That's why the prudent plan is to focus on saving more and taking less risk with that money in the market. Do not take unnecessary risks in the market by chasing big returns to make up for your lack of past savings – take control of what you can, and pump those numbers up.



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FEE-ONLY ADVISOR VS. COMMISSIONED ADVISOR.

That's also why a fee-only advisor is better for your money. A commissioned advisor isn't only working for you – they're also working for themselves, and for the firm that pays their salary. That doesn't mean they're dishonest, or that they're not looking out for you. But if an advisor is paid by commission on individual transactions, it's going to be in their best interest to create a strategy that involves more transactions. That could be the best option for you. But it also might not be. Typically commissioned fees are 2 or 3 times higher than what you pay fee-only advisors, as well.

A fee-only advisor is only beholden to your interests. They're paid only a flat percentage rate, by you, for their asset management services. Because of that, they can act in a more objective manner, and devise a strategy that's truly the best for you and you alone. It's in their best interest to do the best work possible for you, more so than other kinds of advisors. They are rewarded for upwards performance and penalized for declining performance – and that's the way it should be.

WHAT DOES THIS MEAN FOR MY PRACTICE?

The most important thing to consider when a financial plan is being created for your practice is that it has to be personalized for your practice, and it has to be comprehensive. A generic plan that's devised by a single advisor is unlikely to fit all the unique needs and nuances of your practice. Your custom, comprehensive plan should be as unique as you and your practice are and should focus on the 2 major financial aspects of your life: your practice and your personal finances. No general financial adviser out there knows how a dental practice works front to back and as such, they also won't know how to translate practice goals into personal financial planning and long-term retirement success. That's why you need a unified team to manage everything.

A comprehensive approach gives you visibility into the total effect of every financial decision you make. If you ask an accountant or a banker whether you can afford to remodel your office, you might get different answers from each because they come at the question from a different angle. To build long-term success and prepare for the retirement you deserve, you have to have all of your bases covered.