



## DENTAL NEWSLETTER

April 2016

### Will Health Funds and Dental Corporates Destroy the ADA?

If they were to become dominant, the ADA's influence would disappear and dentists would no longer benefit from belonging.

It is vital that dentists shake off the shackles of the big three for-profit health funds, i.e. Bupa, nib and Medibank, which must produce profits for their owners in favour of small not-for-profit funds such as HIF, Australian Unity, Defence Health and Teachers' Health.

Health funds paying out only 78 cents in the dollar of extras cover is one of Australia's greatest rip-offs. Top income earners are required to have only basic hospital cover with an excess of \$500 or less to avoid paying the Medicare levy surcharge.

### Government Schemes

Rumours of the likely demise of the children's dental scheme bring to the fore the issue of making business decisions related to government schemes.

There is an inevitable focus on the health budget, since healthcare costs have been rising at a much faster rate than the consumer price index. Inevitably the health minister is directed to find savings offsets, and as dentistry is part of the health portfolio it is a soft target.

Dentists who set out to build practices on the defunct Medicare CDDS suffered financial trauma when in September 2012 the government announced the scheme's cessation, with treatment in progress finalised by 30 November 2012. Some dentists had recently committed to long-term premises leases and fit-out leases, and had borrowed heavily on the assumption that by cultivating relationships with referring medical GPs they would receive a large number of patients for whom they could provide \$4,250 of dental treatment per head. When the scheme ceased, few patients were prepared to pay for further dentistry, saying 'I'll wait until the government throws some more money on the table.'

After the cessation of the scheme, Synstrat received a number of valuation assignments which revealed that the ongoing fees of a practice had fallen dramatically from the prior financial year. We took care to correctly identify the change.

Worse, some dentists who had committed to start-ups of practices just prior to the cessation were on the hook for large sums of money and long-term lease obligations, for example leasing space in major shopping centres and fitting out practices only to find their intended source of patients had disappeared. Some practices were offered

for 'sale' on the basis of taking over leasing and finance commitments.

### Don't Be Fooled

Overwhelmingly, dentists' own homes prove to be much better investments than residential rental properties because they renovate and improve their own homes, whereas residential rentals get knocked about.

Don't be fooled by sales projections which indicate that residential rental properties grow in value at twice or greater the rate of inflation. They don't. Sales of owner-occupied homes drag the averages up because many have had substantial capital improvements. Statistics reflect the value of land title transfers, but do not measure improvements.

With the exception of some country premises, most dental premises significantly outperform residential rental properties.

Salesmen-written articles and projections showing residential rental returns are invariably inflated. The best net return on residential rental property, after unavoidable landlord expenses, is about 2.7%. That's a poor investment yield. Many residential returns have lower net yields. This yield is for ungeared property.

### Pass it on

If you have friends in a dental chat line or a dental study group who are not receiving our newsletter, please email it to them. If they wish to be added to our distribution list, they may contact [annie@synstrat.com.au](mailto:annie@synstrat.com.au)

### Non-Dentists Owning Practices

In years valuing practices we've never come across one owned by a hygienist, prosthetist or oral therapist which has produced above average dental EBITDA.

### Practice Consultants

The ones that charge around \$35,000 a year and tell you to:

- Do your most challenging appointments early in the day when you are fresh;
- Have fewer and longer appointments;
- Keep a spot before lunch for emergencies;
- Do more crown and bridge;
- Put your fees up

are charging a lot for a bit of advice eked out over a year. Granted, they teach dentists to look at their book more systematically, but their worth is questionable. We've seen evidence in country towns where one of two practices has spent up big on consultants, but the other has produced better results.

## Marriage Breakdown – Property Settlement Valuations

To avoid protracted dispute, valuation by a jointly appointed valuer is required. Synstrat has been valuing dental practices for 22 years and has a wealth of data. Our valuations are rarely challenged because they are recognised as being the most authoritative in Australia. Telephone David Collins or Graham Middleton on 03 9843 7777.

## The Flood of New Dentists Continues

540 overseas-trained dentists are booked to do either of the two series of Australian Dental Council exams this year. On recent performance, about 20% will succeed and a huge number of the failures will line up for future exams. Overseas-trained dentists, other than the ones from New Zealand and the UK, continue to flood into Australia under various immigration loopholes.

## Independent Dental Network (IDN)

IDN will provide dentists with the tools they need to fight predatory health funds.

Contact [merv@independentdentists.com.au](mailto:merv@independentdentists.com.au)

Note: Neither the Synstrat Group nor its partners/directors have a financial interest in IDN. We have many dental clients and we want what is best for dentists and their patients. We believe dentists should seriously consider joining IDN.

## Everybody's Going Electronic!

Help us to save the planet by electing to receive the Dental Newsletter by email. In addition to the newsletter, information not provided in the newsletter is periodically emailed to dentists on our distribution list. Please email [annie@synstrat.com.au](mailto:annie@synstrat.com.au) to register your email address, and advise the postal address we currently send your newsletter to.

## The Big Practice Con: A Case Study

Read *Synstrat Dental Stories* (page 39). To obtain a copy of this publication written by Graham Middleton, make a tax deductible donation to the **Delany Foundation**, a charity which brings hope and opportunity into the lives of young people deprived of education in Australia, Papua New Guinea, Kenya and Ghana, including medical aid and meals to enable kids to participate in learning.

The charity is administered by volunteers, and hence every dollar collected is spent on those in need. Once you have made your donation, please email confirmation of your donation along with your postal address to [annie@synstrat.com.au](mailto:annie@synstrat.com.au) and a copy will be sent to you. Donations can be made by mail to:

Delany Foundation  
PO Box 429  
Casula Mall NSW 2170

Or via direct debit to the Delany Foundation Ancillary Trust, BSB 062 784 CBA account number 4050 5402. Should you have any difficulties, contact Matthew Mahoney on 0419 202 787 or 02 9600 8184.

Also available free on request: **Buying and Selling General & Specialist Dental Practices** (booklet size) and **50 Rules for Success as a Dentist** (booklet size).

## Synstrat Dental Practice Valuations

Synstrat is the only accounting group in Australia which maintains an active, continuously updating database of dental practice benchmarking performance. This is essential in assessing features of a practice. As accountants to many dentists we also witness the finalised purchase and sale agreements, and this is a critical tool in assessing the market. Telephone David Collins or Graham Middleton on 03 9843 7777.

## Independent Financial Planning and Life Insurance for Dentists

Synstrat is experienced at providing financial plans for dentists. These take into account dental practice profitability and benchmarks, as well as ownership of premises and other family assets and other financial issues. Telephone Graham Middleton, Cameron Darnley or Roger Armitage, each of whom are experienced financial planners, on 03 9843 7777. Cameron can also assist with life insurance. Synstrat Management Pty Ltd holds its own licence. It is not obliged to recommend the products of a particular bank or insurance company.

## Buying a Practice – Accounting Advice

We meet dentists who, because of wrong advice, exposed themselves to greater capital gains tax on eventual sale far into the future. If buying Telephone Graham Middleton or David Collins on 03 9843 7777.

## Dental Workforce Projections

Reports such as the one by Inside Economics dwell on the sources of new dentists by numbers and dental wastage. They indicate that the number of dentists per 100,000 of population will rise to the high 60s by 2020, way above the past. However, they fail to measure changing demand such as the long-term impact of fluoridation and the cross-elasticity of demand from hygienists and oral therapists.

No study we have seen measures the number of dental operatories which are completely unused for part of the normal dental working week. Nor do they measure how many dentists have long gaps in their book. Synstrat doesn't have an overall measure of this spare capacity, but we daily see evidence of it through the dental practice valuations we do and the accounting services we provide for dentists. The real surplus of dentists probably exceeds 1500 and growing.

Visit [www.synstrat.com.au](http://www.synstrat.com.au) for more information on these topics.

THE SYNSTRAT GROUP ARE AUSTRALIA'S MOST  
EXPERIENCED DENTAL PRACTICE BUSINESS  
ADVISERS, FINANCIAL ADVISERS, ACCOUNTANTS  
AND VALUERS

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