



DENTAL NEWSLETTER

August 2016

A Great Dental Read

Comments from dentists indicate that Synstrat Dental Stories has been a great read about their profession. Although based on stories by Graham Middleton, it was edited by prizewinning author Kate Middleton (B Music, BA Hons Melb, MA Georgetown Washington DC, MFA University of Michigan) who is currently finishing a doctorate in creative writing. The result is far more readable, with Graham's often hastily written magazine stories significantly reconstructed throughout.

Dentists can obtain a copy of this publication by making 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 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).

New ADA CEO

We understand that the CEO of ADA Incorporated has resigned and a process is underway to find a successor. We urge the ADA to make the number one issue in determining who the successor should be the need to conduct a national campaign among all dentists against predatory health fund practices.

15-20 years ago, ADA Inc. leadership lobbied government to allow dental immigration and increase the number of dental schools. Australia got flooded with dentists, and in turn the oversupply of dentists meant that some, desperate to fill their practices with patients, signed preferred provider arrangements. At first these favoured the dentist, but progressively, as a few larger

health funds dominated the market, they have exploited extras insurance, with the big four skimming 22 cents in the dollar from premiums and having 73% of the market compared to ACA, HPL, Navy Health and Defence Health which skim only 5% and have a tiny proportion of the market.

The major funds spend a lot of money advertising extras cover on television, yet authorities as diverse as Graeme Samuel, ex ACCC chief, the CEO of Private Health Insurance Advisory Commission (now subsumed into APRA) and Choice spokesman Tom Godfrey, have all criticised health insurance, with Choice and PHIAC saying extras cover doesn't make any sense, and in the case of Choice, patients are better off paying for extras services themselves and banking the premiums.

From the perspective of the long-term health of the dental profession, it would be better if nobody had extras health insurance and all patients had a simple one-to-one relationship with their dentist. Third party relationships always lead to what economists refer to as 'deadweight losses'. The deadweight loss is occasioned by the administrative costs of the third party, including advertising costs taken from extras premiums. As well, profits are diverted to other purposes.

The truth about extras insurance is that it's not a zero sum game. Both the dentists and the patients get well and truly screwed over by the largest funds, with the 22% break-off being partially contributed by the dentist in the form of control over fees, and much of it wasted on unnecessary administration, unnecessary advertising and diversion to either the health fund's reserves or, in the case of Bupa, Medibank Private and nib, dividends paid to shareholders or the organisation's parent.

If the predations of the major health funds continue unchecked, then several things will follow:

1. Dental patients will continue to pay unnecessary premiums for what they get back.
2. Some treatment options are denied patients in order that the health funds can manipulate their benefits in order to generate their 22% profit.
3. Dentists lose control of their practices bit by bit, being limited in the treatment options they can offer and limited on what they can charge.

Transfer of Goodwill Value

Step by step the goodwill value of the dentist is destroyed or effectively transferred to the health fund. Dentists who let their practices be taken over by a major fund will experience their fees being slashed to the point

at which the dental practice owners are working for less than they would pay another dentist to do the same treatment.

They will struggle to superannuate themselves or their spouses, they will struggle to replace equipment or update their dental fit-outs, and struggle to pay school fees or make house payments, let alone upgrade their original house to a longer-term house which suits them. Eventually, dentists captured by health funds can expect to retire onto the old age pension with their entertainment limited to the local bowling club.

Independent Dental Network

Dentists who are threatened should seriously consider joining **Independent Dental Network (IDN)**. IDN will provide dentists with the tools they need to fight predatory health funds.

Contact merv@independentdentist.com.au

Synstrat has no financial interest in IDN other than the fact that many clients are threatened by the health fund insurers, and we wish to see them insulate their practices.

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.

Not All Happy in Dental Corporate Land

Dentists who sell to corporates sign confidentiality agreements, and therefore to the extent that they speak to us we can't name them or the corporate concerned. However, be aware that there are many stories of dentists who sold to corporates and who wish they hadn't. Generally these are dentists who sold too young and having experienced what happens within the corporate world if their fees dip below certain targets. Some wish they had never got involved with a corporate.

Another problem is that of corporates writing due diligence conditions into their contracts which mean they can withdraw or force changes to the contract within the last 24 hours before settlement. The dentist has spent a lot of money in providing all the accounting data etc required by the corporate, and has told their staff.

What To Do

If approached by a corporate, insist on being advised of other dental practices which have joined that corporate. Go to the dentists concerned and ask them about their experience; but since the ones introduced to you will be the happier dentists, take the trouble to ask them if they know other dentists in that particular corporate's fold, and go to them. Dentists who are not prepared to approach, say, half a dozen other dentists who have sold their practices into the corporate fold and who are working for them, particularly those who have worked for several years, have themselves to blame if, having sold, the conditions are not to their liking.

Many new practice start-ups are from dentists who have worked for corporates and come to intensely dislike the structure. If in a major city, this typically means moving a bit over 8km from the practice in which they worked, because legal sources advise that is the approximate distance within which judges are likely to enforce exclusion agreements. On a wider basis, judges don't like enforcing exclusion agreements on the general principle that people need to ply their trade to make a living. If testing an existing contract, dentists should take legal advice. Synstrat are not lawyers but observers of what is occurring.

Prediction

In 20 or 30 years' time the proportion of privately owned dental practices in Australia will be much the same as now. Yes, corporates will have bought a lot of practices but some practices will have shrunk in size and been amalgamated, while new practices have sprung up. The corporates don't tell us of their failures. The dentists with the best interpersonal and clinical skills gravitate to practice ownership.

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

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 to register your email address, and advise the postal address we currently send your newsletter to.

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.

Visit 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

**For further information on this subject, please call:
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