



## DENTAL NEWSLETTER

August 2006

### Emotion Used to Sell Life Insurance

The following is from life insurance industry training material for new agents:

*"The best time to take out insurance is when clients are young and healthy as there are unlikely to be any underwriting issues encountered. However, clients will generally say they can't afford the premiums, as they would rather spend their money on something else. But the key is to turn a need into a want. Once their needs are converted into a want, clients will find the money for the premiums."*

*Talk to clients about the benefits of particular insurances and tell stories. This puts emotion into the equation, and it is emotion that opens the purse strings. Recounting stories paints pictures for clients, and puts them in the shoes of those who have suffered an illness or death. They can then understand the consequences of having insufficient insurance. It is only then that strategies can start to be discussed"*

### Our Comment

Many dentists have a life insurance need. They also have other needs. As with all needs, the reasonable thing to do is to ration each of your needs to achieve a balance. The best life insurance salesman has the persona of an amiable grandfather. They can easily get you to insure beyond the rational amount that you would choose.

Remember that as your practice matures; you reduce your home mortgage; you increase your superannuation funding and

your net wealth increases. As your net wealth increases, you can afford to reduce your life insurance.

For dentists who are lucky enough to be married to a dentist, there is a significant degree of cross insurance inherent in the fact that one marriage partner can takeover the practice of the other.

As we age, life insurance premiums become more expensive and eventually the life insurance companies will price us out because of the rising risk of mortality. We should aim to phase out the need for life insurance through growth in our net assets. It is unlikely that a dentist with a \$1 million home and \$1.5 million of superannuation actually needs life insurance.

### Tax Changes Killing Negative Gearing

Under amended tax scales, and given the superannuation rules applying from 1<sup>st</sup> July 2007, a husband and wife partnership will be able to have a joint taxable income of \$300,000 plus have a combined tax deductible superannuation contribution of \$100,000 before they have \$1 of taxable income taxed at the highest marginal tax and Medicare levy rate of 46.5 cents per dollar.

A couple with \$250,000 of combined income who choose to sacrifice \$100,000 into tax deductible superannuation contributions will pay no more tax on their marginal dollar than 31.5 cents of tax and Medicare levy.

At the lowered tax rate, negative gearing into residential rental properties; particularly some of the schemes sold in areas such as South East Queensland,

simply do not pass the test of being sound investments.

Lowering marginal tax rates, and moving the threshold outwards has killed negative gearing as an investment strategy, with the exception of "active business assets" or the continued negative gearing of assets which already have significant unrealised embedded capital gain.

Sydney developers are now landlords of last resort, having been unable to sell their latest projects. The South East Queensland market is in trouble. Many of those who attended so called "Wealth Creation Seminars" and were seduced into buying 5 or 6 rental properties, are now desperately trying to sell as rent fails to meet expenses. The seminar promoters have vanished.

### **Dental Practice Valuations**

Value is determined by supply and demand. Demand is determined by the size of the potential pool of buyers allied with their personal opportunity cost.

Finding buyers for up market practices with lots of expensive high end treatment plans is extremely limited as dentists with the necessary technique and marketing skills who run practices of this nature, usually already own and operate their own practices. The pool of potential buyers can be near zero. It is therefore unlikely that any sane dentist is going to pay a high price for such a practice.

Conversely, the number of dentists that can step into a traditional type of practice and run it successfully is much greater.

### **Objectivity of Valuation**

To gain objectivity as a practice valuer, one requires an enduring exposure to dental practice owners, buyers and sellers, and evidence of actual sales in the form of the contracts of sale which end up in the buyers accounting records. At Synstrat, we have been gathering this data for many years. Conversely, where a vendor's accountant has never valued a dental practice before, but tries his hand, they invariably produce a price which

while pleasing to clients, is commercially unrealistic.

Where a purchaser consults an accountant with similar inexperience of dental valuation, that accountant invariably advises their new client that the practice is worth much less than the market would in fact pay. Lack of actual knowledge means that both vendors and purchasers accountants come up with figures which are heavily biased towards their clients needs.

At Synstrat, we have been advising dentists for many years, see dental financials on a daily basis, oversee Australia's most accurate continuously updating database on general dental practices and have valued a large number of practices.

### **Obtaining Valuations**

For more information regarding valuation of a practice which you intend to buy or sell, contact Graham Middleton or Lorraine Arousi on (03) 9843 7777.

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

***For further information on this subject,  
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