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The Impact of Getting the Financial Basics Right

Two dentists, Dick and Harry, graduate together at age 23.

Dick is the sort of person who gets the little things right. Harry has a lasse-faire attitude.

Dick carefully looks around for a practice in which to work, where with effort he can quickly acquire a full week's work. Within a year or so, he is not only fully booked and gaining personal referrals, but his income based on the standard commission is stable. Harry is casual about his employment, changing practices fairly easily and ends up working in three separate practices on a part time basis. In each practice, he is regarded as the overflow dentist. Two years out of dental school, Dick is earning $20,000 a year more than Harry, or roughly $10,000 after tax.

Dick pays down his credit cards each months. Harry has several cards and they all have unhealthy debit balances.

Three years out of dental school, Dick is $45,000 better off than Harry. More importantly, the improvement in Dick's financial situation is accelerating relative to Harry's.

Marriage
Five years out of dental school, Dick and Harry both marry. Dick and Susie put down a healthy deposit on their first home. They determine that they will live off Susie's wage and pay all of Dick's after tax income into the house mortgage. Harry and Jill start off with a bigger debt, and are happy to pay their mortgage at the rate required by the bank.

Eight years out of dental school, Dick and Susie have $275,000 equity in their home. Harry and Jill have $120,000 of equity in theirs.

Practice Purchase
At this point, Dick and Harry both purchase dental practices. Dick buys out his old boss who by this time was working part time, with Dick seeing most of the patients. As a result, Dick continues to enjoy strong support from loyal patients built up over the past 8 years. He employs a part time dentist.

Harry buys into a practice which is advertised for sale at arms length. It has a similar fee base, but at the outset he has to start by winning over patients who are loyal to the previous owner.

Dick pays attention to the little things in the practice, watching the use of materials carefully and controlling the hours worked by nursing and reception staff. Harry is a bit casual about these things. Dick pays attention to fee scales, whereas Harry's fee scales are a bit haphazard. As a result, Dick makes $50,000 per year more profit than Harry. Harry needs nearly all his profit to maintain his and Jill's lifestyle, keep his credit cards in check and make minimum monthly mortgage payments. As a result, Harry and Jill's net wealth increases at a glacial pace. Dick is no superstar, but he and Susie accelerate the payments on their home mortgage, carry the business debt and begin to accelerate their superannuation funding.

At Age 35
Dick and Susie's net financial position is $330,000 better than that of Harry and Jill. Dick has regularly benchmarked his practice, and maintained good control over costs and fee settings. He is now producing $65,000 more profit per year (pre tax) than Harry.

Dick and Susie re-borrow against the equity in their mortgage to pay for significant home renovations which are largely reflected in the increasing value of their house. Having done so, they again set payment goals on their mortgage. Harry and Jill's house is badly in need of renovation, but somehow there is never sufficient money. Both Susie and Jill have now left their former employment to raise children, and are provided with a share of respective practice income through accounting mechanisms.

At Age 40
Dick and Susie's financial position has accelerated away from that of Harry and Jill. Their home is worth more, their mortgage is less, their superannuation fund is larger, and Dick's practice profitability continues to outstrip Harry's by a significant margin.

Harry continues to be casual about practice management, not seeing the necessity of getting proper advice or benchmarking his practice. Indeed, he doesn't think about those sort of things. As a result, he goes on paying a bit too much for materials and overlooking wasteful over ordering. His approach to fee setting remains casual, and his staff have loaded in extra work hours. They seem to be busy, but Dick's staff do the same amount of work in less time. The difference in the net worth of the families is now $725,000. Due to the compounding effect of capital employed, the rate of change between the two is accelerating.

Accounting and Financial Advice
Dick's adviser conducts a continuously updating practice benchmarking database. Dick is attentive and requires a comprehensive service. Dick takes action when the benchmarking shows up an area of inefficiency. Harry's advisers reflect Harry's attitude and they are a bit casual. They might, if pressed, search for database information elsewhere, but not dealing with a lot of dentists they are not cognisant of the key issues to look for. Their advice lacks authority. They usually tell Harry he is doing alright, but they judge his financial situation against unrelated small businesses, some of which are perennial strugglers. Dick's advisers provide a reliable framework, and they give him an accurate idea of performance on a 6 monthly basis.

The Private School Years
By age 45, both families have children in their secondary private schooling years. Dick and Susie are able to cope comfortably with this financial burden as their interest non tax deductible home mortgage has been paid off. Harry and Jill have a nasty financial jolt as each terms fees role around. Dick and Susie are still saving and their superannuation fund is increasing at a healthy rate. Harry and Jill are just surviving. At age 45, the difference in the net financial worth of the two families is $1.2 million.

The Golden Years
By age 50, their children are beginning to leave school. They still require support while undertaking tertiary studies or vocational training, but have part time jobs. Dick and Susie's financial position is blossoming. Harry and Jill are still coping, but only just. The difference in the two family's net financial position is now $1.9 million. Dick and Susie regularly take nice holidays. Harry and Jill are lucky to be able to afford to take a cheap holiday close to home.

Between age 50 and 55, Dick consciously shrinks his clinical hours to 8 sessions per week. Harry is still working 10 sessions. As a result, Harry's income is catching up, but his and Jill's much inferior capital position means that they are still saving much less than Dick and Susie.

At Age 55
Dick decided that he and Susie can afford to sell the dental practice and premises. He will work about 3 days per week as an employed dentist from this point on, and they will enjoy life. They won't be able to draw their superannuation pensions until age 60, but that's not a problem as there is plenty of capital left over from the sale of the practice and the premises, in addition to other savings.

Harry's Health Risk
Harry is desperately trying to catch up, but he is beginning to show signs of wear and tear. He and Jill would like to sell their practice and premises at age 60, but the reality is that the financial needs suggest that it's going to be at age 65. By that time, Harry runs the risk that patients will be approaching younger dentists, and his fees will begin to decline. His practice may not be as attractive to a purchaser.

It's possible that with improved management and the luck of good health, Harry may make it through to a comfortable retirement from age 65. It is also possible that he may end up relying upon the aged pension.

The Lessons

- Nobody is going to become mega rich as a dentist, but the reality is that there is a wide gap between those who get basic issues right and those who don't.

- Choosing the right adviser is one part of the equation. Having a disciplined approach is also an important part of the equation.

DENTAL LIFE CYCLE CHANGES

Life Cycle Stage	Typical Age	Lifecycle Issues
Post Graduation	23-32	Newly graduated. First employment in practice. First real income. Payments on car, HECS. First superannuation. (Super Guarantee Charge). Marriage. Savings commence for first home purchase.
The Stressful Times	28-36	Marriage. Arrival of first children. First home purchase. Home mortgage. Period of transition from assistant to partner or associate. Living on single income. Minimum ability to save.
Emerging Financial Security	33-44	Return to two incomes. New home or major renovations to accommodate growing family and teenage students. Time for serious retirement planning. Peak income years.
Mature Practice Years	45-55	Children left/leaving home. Responsibility for ageing parents. First discretionary income. Time of likely inheritances. Mortgage paid off. Planned wealth accumulation via superannuation and other investments. Superannuation fund now a major asset group. Real level of professional income beginning to fall slightly. Planning new interest and activities to replace work.
Preparing for Change	55-65	Phasing down practice involvement. Possible sale of practice and work part-time for new proprietors. Moving to smaller home. Increasing health risk. Enjoying help to children and grandchildren. Probably still saving as own needs are now lessened. Time of investment of proceeds of reduction in home sales and sale of practice.
Active Retirement	65 onwards	Active pursuit of other interests. Monitoring capital investment and income flows.

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