Today’s Dentists: Their Financial Challenges and the Wealth Management Approach

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Beyond the recent once-in-a-generation financial meltdown, today’s practicing dentists face a host of financial challenges/pressures, most of which existed long before, and will continue to exist long after the financial crises. To bring to light these challenges, over the first half of 2010 we conducted interviews with several Ohio-based dentists, dental practice consultants, a life coach to dentists, a hospital (dental department) administrator, a dental association executive, as well as an accountant and an attorney, each of whom specializes in dental practices.

The first part of this paper identifies and discusses issues which create financial pressure for dentists. Note that some of these problems, like increasing investments in technology, issues with dental insurance carriers and dealing with health care reform are endemic to the practice of dentistry and, because their existence is based on long-term economic, political and industry trends, no amount of planning can change them. Others, like running an efficient practice, managing debt, providing for a financially secure retirement and compelling your advisors to work collaboratively for better solutions represent a different story. These are challenges dentists can meet and, with the right professional assistance, fix.

The second section of the paper explains what it’s like to work with a wealth advisor. It details the consultative process wealth advisors utilize with their clients and how they access the resources and counsel of a hand-picked, outside team of specialized experts to identify and provide customized solutions for their clients’ unique financial gaps, vulnerabilities or opportunities.
Part I – Financial Challenges

**Staying Abreast of Technology**

According to the overwhelming majority of those we interviewed, technology – the cost vs. benefit of staying abreast of the new technological developments – represents one of the biggest challenges dentists face today. Those who choose to consistently upgrade their materials, equipment and software are correspondingly faced with a continuous reassessment of their fee schedules, regularly increasing patient fees for advanced procedures made possible by the new technology. Most dentists are afflicted with, as one calls it, the “gadget gene,” which can be sometimes good, sometimes not-so-good, but always expensive. Investments in technology must make good business sense – the explicit benefits of better patient care and enhanced dental team efficiency/productivity should be balanced against the costs of purchase and maintenance.

**Reasons dentists say they are transitioning to a high-tech orientation**

- Patients are happy to pay higher fees if enhanced technology helps them experience shorter, less invasive and more comfortable visits to their dentist. Dentists we interviewed feel that better technology translates into increased patient confidence and treatment acceptance.
- Patients respect their dentist’s consistent technology upgrades to keep abreast of advancements in dentistry.
- Continuing to invest in new technology** will continue to help them make more efficient use of chair time and, therefore, realize positive returns on their investments.
- By-products of better technology are heightened dental staff teamwork and satisfaction.

“We still need to have good hands, good eyes and a good heart.”
~Central Ohio Practice Consultant

We talked with an endodontist whose practice serves patients out of two locations. When he and his partners decided initially to go with a digital network in one location, leaving the other non-digital, they quickly found that patients who went to both locations asked to go to the digital x-ray location. Additionally, they experienced some patient push-back in terms of being treated at all in the non-digital location due to their “low tech” perception of the office.

The bottom line is that having state-of-the-art technology in a dental practice does not necessarily set the dentist apart. It still boils down to the skills, knowledge and experience he/she has gained and what is done with it. As one Central Ohio dental practice consultant put it, “You still need to have good hands, good eyes and a good heart.”

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*The irrepressible compulsion to tinker with new technologies, techniques and ideas.
**Pressable ceramics, CA (Computer-aided) design and manufacturing technology, digital impression systems and dental implants.
Running the Practice as a Business

Several dentists and professional advisors of dentists we talked to expressed definite feelings about the importance of running a practice as a business. The Bureau of Labor Statistics reports that of the 141,900 practicing dentists in 2008, three out of four were solo practitioners.¹ Virtually 100% of these solo practices do not have a HR department, so managing people and running a practice are big challenges.

While some cursory business education is provided during dental school, dentists point out that at this particular point in training, their focus and priority is on doing what needs to be done to get out of dental school (clinical requirements, didactic requirements, board examinations, etc.) and the business curriculum gets the quick “once over”. One dental practice advisor emphasized that given the current practice management challenges (personnel issues, costs of new technology, overhead, etc.), today’s successful dentists must be astute business people in running their practices or they will not do as well as their predecessors in easier times. The Maryland-based Levin Group has provided practice consulting services to thousands of general and specialty dentists since 1985 and in a recent “Dental Tribune” article, founder/CEO Dr. Roger Levin explained that the best practitioners realize they cannot do everything well. That is why highly successful dentists surround themselves with excellent management systems and advisors. This allows them to focus on what they do best – practice superior dentistry and provide excellent patient care.²

A Central Ohio Orthodontist mentioned that dentists in their prime earning years need to maximize every applicable financial opportunity they have, typically illustrated and implemented by trusted advisors. Dr. Levin states, “Dentists should love what they do. Too often, the business side of their practices takes away from the enjoyment of dentistry.” Combining astute business skills with excellent clinical skills drastically increases dentists’ probability of success, lowers their stress and helps them more fully enjoy what they do.

Politics and Dentistry in Ohio

Every Ohio-based dentist we talked with acknowledged the value of the Ohio Dental Political Action Committee (ODPAC) and its effectiveness advocating on their behalf. Several feel that ODPAC has consistently stepped in to prevent (or seriously soften) unnecessary legislative or regulatory intervention thereby saving them operational/procedural hassles and expense. ODPAC has proved a strong advocate for Ohio dentists’ interests, working through legislative and regulatory processes, educating decision makers as to the impact their actions have on the dental community.


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Managing Dental School Debt and Pursuing the Appropriate Career Path

According to the American Dental Education Association (ADEA), today’s dental school graduates enter the workforce with an average school-related debt of $170,000.³ The practicing dentists and dental consultants we interviewed conveyed to us that the basic initial career choices for the general dentistry graduate are:

- Join an existing practice as an associate earning a decent salary, eventually owning the practice at some point in the future.
- Enter a dental residency program, honing one’s skills and taking time to contemplate the next career move.
- Buying an existing practice directly out of the gate which, unless lack of money is not an obstacle, means taking on even more debt.
- Going to work for a corporate dental entity (‘super practice’) typically at a higher compensation level than the other three options, but with longer hours and more pressure to generate volume.

The greater the debt, the more limited the real and perceived career elections become for fledgling dentists. The temptation for many is to focus on reducing debt as quickly as possible, discounting those career options which don’t offer healthy take-home paychecks right away, but, over the longer run, could prove to be more fulfilling and financially rewarding. The consensus of the dentists we talked to was that a dental school education and, later, practice and/or equipment acquisitions are excellent investments, well worth the accumulation of debt.

Relying Less on Dental Insurance

The dentists we interviewed feel that as medical costs continue to soar, health care benefits will increasingly compete with dental benefits for employer dollars. Dental benefits of employer-sponsored insurance programs have been capped at around $1,500 per year for several years, yet the costs of treatment have continued to increase.⁴ And while the number of Americans with employer-sponsored dental insurance plans is steadily decreasing, the plans themselves have become so complicated that patients and dentists alike are confused and frustrated trying to understand what is covered and what isn’t.

Insurance companies continually change plan deductibles and percentages of coverage, “down code” procedures to reduce payments to dentists and have been known to simply discontinue coverage of certain procedures altogether. The point is that more and more money is coming out of patients’ pockets, which makes it essential that dentists have payment options in place to help make treatment acceptance palatable for their paying patients.


¹Insurance companies “down code” dentists’ bills which means they price a procedure based on less complex and lower-cost procedures than that reported by the dentist.
Health Care Reform – No Help Here

Given this country’s growing number of uninsured/underinsured adults in need of dental construction and repair, it is worth noting that the recently passed healthcare legislation did nothing to materially expand dental coverage for these people. The American Dental Association (ADA) did not support the healthcare reform bill because it failed to include provisions to enhance dental care access for millions of Americans by properly funding Medicaid services. Today, dental spending by the federal government represents less than 5% of its overall healthcare expenditures. Several of the dentists we interviewed touched on the fact that those who provide service to Medicaid beneficiaries more often than not lose money on each visit. Unfortunately, this means that the dental problems of this increasingly large population remain undertreated.

Retirement Readiness

A 2007 research study conducted jointly by the American Academy of General Dentistry (AGD) and Hufford Financial Advisors concluded that, in the best case scenario, three out of ten dentists will have sufficient income in retirement to maintain their current standard of living. Several dentists we interviewed wistfully mentioned the timeworn belief that every one of them would be retiring at or around 55 years of age. In the AGD/Hufford study referred to above, only 32% of the responding dentists indicated that they ever plan to fully retire. The reality is that most dentists are finding it imperative to work longer than they originally expected to keep their income stream flowing. There are reasons for this.

Sale of dental practice probably won’t adequately fund retirement

Too many dentists who have been relying on the sale of their practices to carry them through retirement are dismayed to discover that their practice sale proceeds are much less than they were planning. Regarding some of the more established dentists, those with abbreviated remaining career spans, many have resisted technology and office upgrades. Walking into a practice with dated surroundings and equipment is like walking into a house that hasn’t been improved for several years – the new owner will have to put a lot of money into it to bring it up to today’s standards and, accordingly, the purchase price will have to come down. Another reality of dentistry today is that there are not enough new graduating dentists coming out to replace those retiring. And as discussed earlier, the debt load of the average dental graduate is so high, fewer are initially choosing the sole practitioner career route in favor of one offering them higher pay, right away.

“Dentists need to diversify and have other options at retirement because if he/she becomes ill or something else out of his/her control happens that makes the practice less valuable and if there is no succession plan in place and there aren’t any immediate buyers in the market, you’re faced with a fire-sale situation.”

~Attorney to Ohio-based dentists


Today’s dentists are waiting longer to seriously embrace retirement/wealth planning

A couple of facts: Once again we note that most dentists today embark on their careers with significant debt; and, most will eventually become practice owners which means they will incur even more debt. Paying down their education, practice acquisition and equipment purchase indebtedness typically takes them well into their thirties so it is rare that they begin to seriously plan and put money away for themselves until their early forties. A fortyish general dentist in Central Ohio credits a retired dentist and family friend with some good advice he was offered right out of dental school: “He urged me, when I start making my dental school loan payments, to match these payments dollar-for-dollar into a retirement fund. He was basically telling me that I probably won’t want to practice the rest of my life, so I’d better discipline myself to start putting money away early.” The Levin Group advocates that dentists put a comprehensive wealth plan in place as early in their careers as possible: “The sooner dentists begin to fund retirement and accrue personal savings, the earlier they will reach financial independence and the more money they will have to fuel their lifestyle and retirement.”8

As one Central Ohio dental practice consultant put it, “The true value of owning a dental practice is the income and lifestyle it generates for a dentist over its lifetime, not what he/she can get out of it when it’s sold.” The Levin Group counsels that concentrating on production and wealth planning are two of the best ways for dentists to get to end their careers with no debt and a financially secure retirement.9

“Money is important, but I just don’t follow it. It’s great to have, and it allows my family and me to live the life we want. It’s hard for me to say, okay, this is how much money I want in retirement. I just don’t know. That for me is the most frustrating thing about trying to plan.”

~Central Ohio General Dentist

Working Collaboratively with Advisors

A dental practice consultant we interviewed explained that from his experiences and observations working with scores of dentists over the past 20 years, most of their advisors work aside from (independently of) each other as opposed to along with each other in a holistic, collaborative manner. Assuming dentists’ intentions in utilizing advisors are to receive unbiased, optimal strategies for their unique financial challenges and goals, this piecemeal approach may not be the most effective. If a dentist’s advisors don’t communicate with each other, it’s very possible one or more of them are failing to take into account important insights, perspectives or facts which should be a part of the basis for recommending/implementing strategies. As a life coach to a multiple-location dental practice told us, “Dentists don’t have the time, temperament or training to personally navigate their financial courses – they need ideas and strategies brought to them from trusted advisors.” In a perfect world, these strategies would be the result of the efforts of a group of competent advisors, collaborating synergistically for the optimal benefit of their client(s).

Part II – The Wealth Management Approach

**What Wealth Advisors Do…**

Wealth advisors take a holistic approach to helping discover and meet their clients’ financial needs. Hallmarks of advisors who truly practice wealth management are:

- They use a consultative process to gain a detailed understanding of their clients’ most important financial wants and needs. Client challenges most always revolve around the four key areas of their financial lives:
  1. **Wealth Enhancement** – Attaining the best possible investment returns in such a manner as to minimize the tax impact on these returns while applying investment vehicles and styles strictly within the levels of the clients’ tolerance for risk.
  2. **Wealth Protection** – Protecting wealth from the possible threats of creditors, litigants, children’s spouses, potential ex-spouses and catastrophic loss.
  3. **Wealth Transfer** – Passing assets to succeeding generations in a way consistent with client-expressed wishes, utilizing the most tax-efficient solutions available.
  4. **Charitable Giving** – Employing the most tax-efficient avenues/vehicles available in fulfilling client charitable ambitions.

- They offer customized choices and potential strategies designed to fit their clients’ specific needs. The range of interrelated financial services includes, but is not limited to, investment brokerage and management, insurance, estate planning and retirement planning. Wealth advisors utilize the resources of their affiliated broker-dealer firms, but most rely heavily on advice and assistance from a professional network of hand-picked, outside experts. (See ‘advanced planning through an outside professional network’ section of this paper.)

- Beyond the initial work, described above, wealth advisors continue to work with their clients on an on-going basis to identify their evolving needs, facilitating custom strategies to meet these needs.

**Advanced Planning Through an Outside Professional Network**

The most effective wealth advisors facilitate sound strategies for solving their clients’ financial challenges (including those beyond the investment management functions). This includes identifying these challenges, determining the best strategies for solving them, providing the specific service(s) and managing it all seamlessly. What is absolutely key to recognize here is that most wealth management advisors have in place an outside network of highly specialized experts who are able to take the information garnered from the advisor’s discovery process (‘total client profile’, presented hypothetically), identify financial gaps, vulnerabilities or opportunities and suggest optimal solutions for each of them. This group typically consists of a private client attorney for tax, estate planning and legal issues, as well as an insurance specialist who works closely with the attorney to identify and structure.
solutions utilizing the entire range of available insurance vehicles. Depending on the complexity of the clients’ solution(s), there are times when the expertise of credit experts, corporate tax attorneys, actuaries, securities attorneys, income tax specialists, valuation specialists, practice transition consultants and others may be needed. Motivation for professionals to be a part of this team is that many eventually become involved in the implementation of these strategies. Though strictly independent of each other, it’s customary for these advisor network professionals to interact collaboratively for more powerful insights and holistic client strategies.

The Consultative Wealth Management Process

Most clients find the consultative process wealth advisors utilize refreshingly dissimilar to those processes (or the lack thereof) they have experienced with financial people with whom they have worked before. Typically following a series of five regularly structured meetings, an outline of how the process works is in figure 1. Each meeting has a specific focus and purpose, and, though the formats and sequences may vary from advisor to advisor, these are the kinds of meetings one can expect in a wealth management environment.

1. The Discovery Meeting

At this initial exploratory meeting, there does not yet exist any form of commitment on the part of the prospective client or wealth advisor. The advisor’s mission is to gain as complete a comprehension as possible of the prospective client’s total financial picture. This means engaging the prospect in a systematic, detailed interview process designed to go beyond the specific asset management issues/requirements, delving into the prospective client’s most important goals, values, relationships and dreams. With this powerful information, the advisor will typically create a “total client profile” (many times illustrated graphically) which provides a clear picture of who the prospect is and what he/she really wants and needs. At this juncture, the advisor is prepared to make a basic judgment as to whether or not the wealth management process can add substantial value to the prospective client’s financial condition. If this appears to be the case, an investment plan meeting is scheduled.

2. The Investment Plan Meeting

Approximately two weeks after the initial discovery session, the wealth advisor will submit to the prospective client a detailed investment plan. Based on what was uncovered in the discovery meeting, the plan will reflect
the prospect’s specific needs and risk tolerances and benchmarks will be provided for tracking progress toward his/her stated goals. Normally the investment plan will include an overview of the prospect’s “total client profile” as well as the wealth advisor’s consulting process and investment recommendations. Typically the advisor’s investment approach and portfolio management process are detailed including a discussion of the historical returns of key indexes and of a range of hypothetical portfolios. A well thought-out and crafted plan which all parties fully grasp and buy into can serve as a roadmap to help maximize the probability that prospective clients will achieve all that is important in their financial lives.

Most wealth advisors will point out at this time that while investments should be considered the foundation of a client’s entire financial picture, there are other significant issues beyond investments to be indentified and treated in solving all of his/her financial challenges. Once the prospect becomes a client, the advisor will likely take the case (hypothetically) to his/her professional network of experts (see ‘advanced planning through a professional network’ section of this paper).

Note that at the conclusion of this investment plan meeting, there still exists no commitment to a working relationship between the advisor and prospective client. The wealth advisor will ask the prospect to take the proposal home, study it, document any questions that arise and bring them into the mutual commitment meeting one week later.

3. **The Mutual Commitment Meeting**

   This meeting provides the prospective client the opportunity to voice any questions or concerns he/she may have regarding the investment plan or anything relating to the advisor’s consultative wealth management process. If all has gone well in the first two meetings and it makes sense to commit to working together, all agreements are executed, paperwork is completed and implementation of the plan begins.

4. **The 45-day Follow-up Meeting**

   At this juncture, there has been a flurry of activity – a small mountain of account document paperwork has been generated, typically multiple brokerage accounts and money balances have been transferred and the new client is more than likely feeling overwhelmed. The purpose of this meeting is to make sure all paperwork is properly organized and that any lingering questions are answered fully.

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10Past performance does not guarantee future results
5. **Regular Progress Meetings**

These meetings are usually held on a regularly scheduled basis. At the first one, the wealth advisor will present to the client a laundry list of advanced planning issues/challenges he/she will likely be facing. This prioritized list, with a corresponding range of recommended strategies, will be the result of hypothetical consultations between the advisor and his/her professional network of outside experts. Subsequent regular progress meetings will be devoted to documenting any changes in the client’s life and reviewing progress toward meeting his/her financial goals and advanced planning challenges.

**Conclusion**

Often referred to as the “last cottage industry”, the dental profession still provides room for a lot of professional individuality. As one dental practice consultant pointed out to us, “Dentists don’t have near the daily regulatory/red-tape challenges compared to their medical brethren – most can have a very successful independent type of practice where they call the shots.” The typical successful dentist works four to four-and-a-half days per week and enjoys a “balanced” lifestyle. In fact, many we interviewed mentioned steering their careers into dentistry in quest of this “balance” to their personal and professional lives. On the other hand, several very real financial challenges exist for today’s dentists. As we have pointed out in this paper, some of these challenges are due to outside forces. While these issues affect dentists’ incomes, individual practitioners hold little or no power over them. The other issues detailed, however, can be met and managed with proper professional assistance. An extensive analysis of each dentist’s unique financial situation utilizing a thorough discovery process designed to uncover what he/she really wants and needs is a great place to start. We believe that the wealth management approach provides today’s dentists the best opportunity for meeting their financial challenges and realizing their dreams.

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