

The Top Ten Financial Mistakes Dentists Make

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Over the past twenty years, I have had the pleasure of seeing many young dentists prosper financially. Those that do succeed do so because they have a financial plan and they live it. Some dentists are constantly behind the financial eight ball. The following are my observations of the common financial mistakes made by dentist:

1. Waiting too long to purchase a practice.

Many young dentists make the mistake of thinking they cannot buy a practice because of their debt load and lack of professional experience. The income differential between an owner dentist and an associate is substantial. The truth is many young dentists can qualify to purchase a practice either right out of school or shortly thereafter. Another mistake in this area is overlooking excellent opportunities in rural areas. Traditionally, these practices do very well and sell at a discount.

2. Building or buying an overly expensive home.

Many young dentists are guilty of shopping for homes based on the monthly payment rather than the total costs. The difference in total mortgage payments made between a mortgage of \$250,000 and \$350,000 is \$239,508! The monthly payment difference may only be \$700-800, the difference really adds up over thirty years.

3. Building the “Shrine to Me”

Overspending on a building can cause real problems for years to come. We have seen dentists forgo funding retirement plans for years due to being over extended on the building. Generally, most dentists make the building decision based on emotional needs rather than on practical needs.

4. Failing to Maximize Retirement Plan contributions early.

When it comes to financial goal achievement, procrastination is the enemy of success. We know the average dentist will need about \$2.5 million to fund their retirement. Putting off funding for just five years costs an additional \$228,000!

5. Failing to plan their estate.

Even with the new tax laws that may phase out the estate tax, there are many good reasons to have an estate plan. A young dentist with a family needs to be just as concerned with his or her estate planning as the senior or retiring dentist.

6. Failing to Maximize tax savings.

Using the tax law to your benefit is essential for financial success. Taxes affect your investments, cost of equipment, retirement and many other areas of your financial life.

7. Over-Emphasis on Tax savings.

It is important to realize that it is not possible to pay zero taxes. Every scheme ever attempted to pay zero tax has failed. It is never worth it to commit fraud.

8. Lack of Proper amount, or type, of Life and Disability Insurance

The problem here is that often the advice on insurance comes from those who sell it. Many times the recommendations are likely to be what is best for the sales person and not the dentist. Having said that, it has been our experience that most dentists are underinsured for both life and disability.

9. Failure to understand their investments

Financial Planning literature refers to dentists and physicians as “Celebrity Investors”. They say that such investors always want to be in whatever is hot today. This most frequently leads to poor investment results. Take the time to learn about investing and portfolio diversification. Remember if it sounds too good to be true, it probably is.

10. Getting a Divorce

The old joke is the easiest way to lose half your portfolio is to get a divorce. This is true whether we are talking about a marital dissolution or partner dissolution. Ending a personal or business relationship can have devastating results for the dentist. It goes without saying that you should enter into long-term relationships very carefully.

I read a statistic once that said only 4% of dentists will retire with an adequate retirement savings. This same statistic is true for factory workers. With a little planning and some discipline, you can be part of that successful 4%.