Over 50? Why this recession should be your last!

As this article is being written in early July, **the stock market has officially entered the definition of a "BEAR MARKET,"** and dental offices nationwide are feeling the effects of decreased production as dental care competes with ever-rising prices of fuel, food, and other commodities.

Dentists over 50 years of age have the luxury of looking back at the past 25 years or so of practice life and reminiscing with their colleagues about past economic downturns. Most of them have remarked that this current economic tailspin is a formidable one, and one that many believe will take several years to correct.

To get a real-world focus on this downturn, I thought I would interview one of my clients nearing the end of his active practice-ownership career. Dr. Richard Huot of Vero Beach, Fla., has some unique perspectives because he has owned eight practices over his career, extending from Maine to Florida. In addition, he is a practice-management and practice-transition consultant.

Rick W.: Dr. Huot, looking back over your career, what insights can you share regarding the current economic situation?

Dr. Huot: In the past, the business of dentistry had some slow times, but practice growth was fairly consistent from year to year. Negative growth was only experienced in areas where a significant number of jobs were lost. More recently, with the advent of cosmetic dentistry and a large number of elective restorative options, dentistry has become more of a discretionary rather than a "necessary" expense, making it more vulnerable to the ups and downs of economic cycles. This trend will lead to doctors working harder to gain the trust and loyalty of their patient base, convincing them that routine preventive maintenance is both important and prudent for their dental health.

Rick W.: The current economic downturn seems to be putting extra pressure on practitioners over 50 to get their financial house in order. Your thoughts?

Dr. Huot: According to the 2006 "Dental Workforce Model: 2004-2025" American Dental Association Report, fully 54% of all practicing dentists will be over the age of 50 by 2010. Yet, a 1996 Merrill Lynch Retirement Survey found that, nationwide, only 4% of the entire population can retire at the level of income they last earned at 65. Those statistics indicate that dentists 50 or over will have to take a hard look at the current business model they practice dentistry in, and make adjustments to ensure they will have an adequate and diversified retirement portfolio that can weather the current low-earnings environment, and provide funds for the inevitable slow-down of their practice schedule as they enter their 60s.

Rick W.: What options do you see for these doctors?

Dr. Huot: Several transition options can be mutually beneficial and help in this process. These options are:

1. *Merging your practice with a fellow practitioner to take advantage of lower overhead costs or to avoid costly purchase of new equipment that will take funds away from your retirement contributions.*
2. *Buying a practice as part of a long-range plan to increase patient flow and/or to create a practice large enough to let you bring in an associate/purchaser while continuing to work. This also has the effect of utilizing the office space more efficiently, allowing the buying or selling dentist to take more time away from the practice.*
3. *If you are ready to get out of the "joys" of ownership, then you should be thinking of the steps to take to get your practice ready for sale.*

Rick W.: Tell me more about your thoughts on merging a practice.

Dr. Huot: If you have been practicing in the same location for over 10 years, chances are some of your dental and office equipment is starting to show its age. You might be contemplating the purchase of some of the latest (and very expensive) equipment that has come on the market. It may be that your reception area is starting to look a little "dated," or that your computers and other office equipment have outlived their usefulness.

Unfortunately, a financial plan that involves increasing your retirement contributions may compete directly with those equipment purchases. Despite the technological advantages and generous depreciation write-offs, large purchases of new equipment may not be the best financial return on your investment at this late point in your career. However, sharing those costs with another practitioner may be more attractive.

When you think about it, a merger can dramatically cut fixed overhead since you do not need to be renting extra space nor do you need duplicate equipment, etc. An alternative to an outright merger might be a space-sharing arrangement. The office chosen in that situation would be the larger and more modern of the two offices or the office located in the area that has demographically higher growth and a more prosperous economic base.

Depending on how close you are to retirement, becoming an associate for a younger dentist who in turns buys your practice and outfits the office with the latest advanced technology may be a wiser choice.

Rick W.: Why would an older dentist be a potential buyer?

Dr. Huot: Think about it. A lot of practices could use some new patients. Untold dollars are wasted doing external marketing, signing up for low-quality managed care plans, or other efforts to spur growth. Why not buy a nearby office instead? These patients may be "new" to you, but they are established, high quality patients who happen to be in somebody else's office. In addition to more patients, you might actually prefer the other doctor's space, and he may have some of the newer equipment you would like to have. You may not be able to treat all of his patients, so you will need an associate. Who would be a better associate than the seller? He or she may want to cut back enough to give you the extra patients you currently need, and this arrangement allows the dentist to have a place to work for a few more years. Sounds like a win-win to me! (Note that *you* may want to sell to such a person someday, when the combined practices are large enough to meet both your goals.) Also, your current practice may not be large enough to let you bring in an associate/future buyer, yet still let you both work. Buying a practice, letting the seller stay awhile, and then replacing the seller with a new associate/buyer could make for a perfect transition.

In the six practices that I purchased in Maine and Florida, the banks financing the purchase clearly saw that the practice loan debt could be serviced by the increase in hygiene production alone ... even after overhead expenses were taken into consideration. Equipment and supplies gained from the selling office initially lowered overhead, and some of the best dental staff members I have worked with over the years came from the practices I purchased. Experienced help also has the effect of reassuring existing patients that their "new" dental office has some familiar faces, making the transition complete!

Rick W.: What if you don't really have the energy or desire to stay in an ownership position that the above two approaches require? What should you be doing to make your practice more valuable and more attractive to a potential buyer?

Dr. Huot: Great question, Rick! The simplest answer is: Do comprehensive dentistry on all your patients until the day you put the handpiece down for good! Many of the practices I purchased were from dentists approaching the end of their careers, and some records I reviewed clearly indicated that some dental work was "slipping by." By this I mean that the former owner had ensured that the patients were cavity-free, but probably had never thoroughly discussed periodontal health or consistently had patients come in for preventive maintenance. Over 70% of the charts I reviewed prior to purchase did not even contain a six-point probing periodontal chart. Also, as dentists get more "seasoned," they tend to not diagnose conditions or procedures they have slowly eliminated from their routine. My advice to them at this stage of their careers is to make sure they refer these procedures to specialists, take continuing-education courses to become more proficient in those fields, or slowly work in a younger dentist who is competent in those areas of treatment.

Today, people are living longer and healthier lives, but the physical demands of dentistry will require most dentists to slow their practice "pace" as they reach their 60s. A desire to live those years in both financial and physical health will require most dentists to make smart choices as they approach the 50-year mark. Proper planning and choosing competent advisors will allow that to happen.

A hard look at their dental practice business model and a thorough analysis by an accountant or other advisor who specializes in working with dentists will go a long way toward ensuring that a doctor can choose the right flight path to get lined up for the "final approach."

Rick W.: Dr. Huot, thanks for taking the time to share some of your thoughts with our readers. I'd like to add a comment of my own to this discussion: Doctors who sell their practices and remain as associates with their own corporation may have a unique opportunity to boost up retirement-plan contributions with no employee costs. Some plans allow doctors 50 and over to contribute an extra $5,000 per year in addition to the current plan limits. **DE**

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