

# PERSONAL & PRACTICE Financial Health

## *Is It Time To Make Some Tough Decisions?*

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**W**E HAVE SPENT THE BETTER part of the last three years in the worst economic downturn in recent history. During this time, we've all learned that the stresses of a recession aren't reserved for the working-class, median and lower income households.

This time around the recession has touched everyone including high income earners, like dentists. Sure, many of the challenges that high income earners face, like lower net income, are similar to those of median income earners, but the solutions are often quite different and many times lean toward the psychological side of the equation.

Let's review a few tips that can help you get through the remainder of this downturn with a minimum of recession-induced stress both at home and at the office.

### At Home

**Communicate:** Perhaps this pointer goes without saying but we've all heard the dismal statistics; seven out of ten marriages end in divorce and that most of those are because of financial management differences. Not surprising when you consider that only 33% of couples agree that they have a viable plan for their finances. It's always better to have open lines of communication when making any tough decisions, but when it comes to finances, it may be even more important to open up. When all is "said and done," it will be more satisfying having done it together. Avoid becoming a statistic over something you have control of.

**Separate your "Needs" from your "Wants":** These lines often become blurred. If money seems in short supply, it might be a perfect time to look at your expenses and categorize them one way or the other. For example, your mortgage payment is a "need," but paying it off eleven years early is probably a "want" and might not really be necessary when extra cash is short. On the savings side, retirement might fall in the "need" category, but education funds for your children, as important as it may seem, really falls into the "want" category as other options are available. Add up your needs and wants and see what you come up with. It might shed a lot of light on some things like, how easily small adjustments can relieve financial stress, or perhaps how well you are really doing in the overall scheme of things. Believe it or not, this can actually be a fun exercise and may make you feel better. We suggest a beverage of your choice.

### Don't go overlook the small things:

Have you ever looked at your expenses and said to yourself, "I don't know what I can cut that would make a big enough difference?" That is normal for high income earners that have relatively high fixed expenses. It can seem like the only thing to cut that would make a dent are the things you can't cut! Give yourself a break. Rather than do nothing, pick one or two of the seemingly insignificant ones and dump 'em! It will give you the sense of accomplishment that you need to continue thinking clearly about your finances. Among a few other things, my wife and I gave up our tennis club that we really weren't using as much as we used to. We didn't want to, but we really haven't missed it. I used to think it was a "need" because of the exercise factor, but now I realize it was a "want" because I have no trouble finding other ways to exercise.

**Get creative with building and managing your cash to reserves.** We generally recommend, and find that clients are most comfortable with, at least six months of living expenses in a position that could be tapped into in an emergency or for a pending opportunity. But have you considered that lines of credit, like a home equity line, could act as a great cash reserve? Having a HELOC available can be very effective as it leaves your other dollars available to tier into various other liquid and semi-liquid positions for better long-term wealth-building.





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## In Your Practice

Of all the bumps you may take during these tough economic times, no bruise hurts worse than the one you see on net income. Doctors experience firsthand how dramatically net income can fluctuate with just a modest drop in collections.

Consider this example:

Monthly collections	\$50,000
Monthly expenses (60% overhead)	\$30,000
<b>Monthly Net Income</b>	<b>\$20,000</b>

If collections drop by just 10%, net income falls by a painful 25%.

Monthly collections (10% drop)	\$45,000
Monthly expenses	\$30,000
<b>Monthly Net Income</b> (25% less)	<b>\$15,000</b>

Practices with higher overhead experience the most dramatic effect: Net income can fall 50% or more from a modest drop in collections. What can you do to keep your practice healthy during this uncertain period of time?

The most effective solution, of course, is to register strong production and collections each month. Since this goal is even harder to attain right now, it is paramount that the doctor and team focus on achieving as high a treatment acceptance rate as possible.

Consider how you can fine-tune the following areas: co-diagnosis, treatment and financial presentations, and hand-offs. The reasons people fail to schedule often go beyond just the economy. For example, patients fail to see the value in the treatment or they are not informed of how to fit treatment into their budget.

Overhead also requires careful consideration, and the biggest expense of all involves staff. Are you overstaffed? Where are your areas of wasted time? Do you have clear

policies regarding when the team clocks in and out, especially when your schedule falls apart?

Two other expenses of note include dental supplies and lab costs. You may be able to work with your dental supply rep to shave off some of your expense and have a similar discussion with your lab. Often they will help you find creative solutions that work well for everyone.

Finally, increase your fees at least annually. Remember that your overhead costs continue to rise, and you automatically lose ground unless you increase your fees appropriately.

## In Summary

There is no silver bullet for managing finances in difficult economic stretches. Keeping your finger on the pulse of what is happening both at home and the office, however, proves over and over again, to be the key to helping eliminate unnecessary stress in dentists' lives.

Our last tip is simple: Make sure you have good advisors on both sides of the equation, and make sure that all of you are communicating about your needs and wants and that the advice, strategies and products you use are all tailoring accordingly. Remember, everyone is different, and if we all did the same thing, no one would enjoy financial success. Here is to better financial health, mental and otherwise! ●

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