A Fresh Approach to Retirement Funding

by Paul Homoly, Kenneth H. Mathys, and Rob Ziliak

Dentists need a process that makes retirement savings a part of their everyday practice experiences. Too often the pressure and complexity of delivering clinical care diverts the energy and attention needed to implement retirement strategies. Consequently, many dentists face retirement challenges that are unsolvable without drastic, unwelcome changes to their lifestyles.

There are hundreds of retirement articles out there; however, very few of them take into account the unique financial circumstances that dentists are faced with at the time of retirement. Fortunately, there is a new way for dentists to fund retirement savings that also fits into their clinical culture, a way that is often overlooked by mainstream finance experts whose target audience often excludes clinicians.

By offering interest-bearing patient financing administered through a third party, dentists can earmark the principal and interest payments received from patients to a segregated retirement savings account. This strategy allows dentists to avoid taxation on principal and interest payments and allows those payments to grow in a tax-deferred environment.

By offering a modest number of patients these financing solutions, dentists can:
- Fill empty chair times in the schedule
- Treat patients who normally would not have accepted care without financing solutions
- Enjoy referrals from these grateful patients
- Secure their retirement savings goals.

Dentists’ mindsets

Although many dentists have modest business skills, their mindsets are more often aligned with production, collection, case acceptance, and scheduling. More specifically, when patients do not accept treatment recommendations, time and money are lost in the process, resulting in the dentists’ suffering.

To make treatment acceptance easier, dentists can offer patients financing options supported by financial institutions. This provides the opportunity to link retirement funding into dentists’ mindsets.

Dentists can make patient-financing solutions available through a company that shares the financing interest paid by the patient.

The process:

1. Patients are offered financing solutions. These solutions include a choice in which they make modest down payments for their dental care.
2. Dentists complete patients’ care and patients make interest-bearing monthly payments to the finance company. The finance company earns a small percentage of these payments and sends the remaining payment balance, with interest, to the dentists.
3. Dentists take these interest-bearing payments earned from patients and deposit them into a segregated account earmarked for retirement savings. Once deposited into a retirement savings account, the interest-bearing payments...
grow in a tax-deferred environment like other retirement savings.

This process fits perfectly into dentists’ mindsets because many dentists have open time in their schedule. They also have many patients who would not accept care if financing weren’t available. By offering financing, dentists solve two problems. One, patients who normally wouldn’t accept care without financing now accept care. Two, the open time dentists have in their schedule is now filled with these patients.

By solving the problems of patient refusal of care and open time in their schedules, dentists can simultaneously solve retirement funding without having to alter their mindsets.

**A closer look**

Let’s look at an example of how this could work in a dental practice. Dr. Stephanie Kotter began offering interest-bearing financing for her patients two and a half years ago. She started by offering it to her recall patients who needed additional care but delayed treatment until it fit within their budgets.

She discovered that of her 1,500 active patients, close to one-third needed additional care, and, when offered patient financing, 25 percent of those additional-care patients chose to go ahead with treatment. The average treatment fee for these patients was $1,200, yielding Dr. Kotter an additional $135,000 in production, 80 percent of which she financed over a period of 26 months at an interest rate of 12.99 percent.

In addition to the extra revenue from the initial down payments (20 percent) and principal and interest payments, less expenses (per month)

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<thead>
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<th>Number of new loans (per month)</th>
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<td>$8,640 total amount (per month)</td>
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<td></td>
<td>$5,000</td>
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<td>36</td>
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<td>26 months 78 patients</td>
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Author’s note: Information from sources deemed reliable, but its accuracy cannot be guaranteed. Performance is historical and does not guarantee future results.
interest payments, she enjoyed increased patient referrals from patients who were grateful to her for making it easier for them to receive care. These results gave her the confidence to offer financing solutions to all of her new patients.

Now after two and a half years, Dr. Kotter's patient financing loan portfolio is worth $113,000, yielding $8,800 a month in principal and interest payments. Here’s a chart of Dr. Kotter’s patient financing progress. (See p. 63.)

Notice how, after 26 months of offering patient financing, Dr. Kotter averages three loans a month, totaling $8,640, and she is receiving $8,800 a month in principal and interest payments. In other words, she has reached a point where there is no cash-flow risk. Plus, she gains in referrals from patients who normally may not have accepted care without the benefit of patient financing.

Dr. Kotter is in her late 40s, married, and has two sons, both of whom are in private schools. Up until now, Dr. Kotter has been paying down debt, financing large purchases for her practice, compensating her staff well, paying tuition and enjoying a reasonably nice lifestyle. Unfortunately, like many dentists, Dr. Kotter has not been sufficiently saving toward retirement.

By solving the problems of patient refusal of care and open time in their schedules, dentists can simultaneously solve retirement funding without having to alter their mindsets.
Dr. Kotter’s combined federal, state and local tax rate is 40 percent. If all $8,800 of increased monthly income is subject to ordinary income-tax rates, she will net roughly $5,300 of the amount while paying the federal, state, and local taxing authorities an additional $3,500 per month. Retaining just 60 percent of the principal and interest payments is not appealing.

The solution

Dr. Kotter’s new-patient financing loan portfolio can fund her retirement savings and enable her to pay less in taxes. For example, by funding a custom-designed retirement plan arrangement, inclusive of both a defined contribution (401(k) profit sharing) and defined benefit (cash balance) plan, Dr. Kotter can defer all $8,800 of increased earnings per month, while also having the assets grow tax-deferred until withdrawn during retirement. When all $8,800 per month is contributed into the retirement plans, the earnings can be treated as pretax income for corporate and personal tax returns.

In other words, rather than share $3,500 of the increased monthly earnings with taxing authorities, all $8,800 will be deposited into a retirement-plan structure.

To satisfy federal retirement-plan laws, Dr. Kotter would need to share some of the $8,800 of monthly savings with her staff. After Dr. Kotter’s staff census was studied, she learned that 10 percent, or $800, of the $8,800 total contribution would need to be allocated to her employees so that the plans would remain compliant with applicable laws.

By paying herself first, Dr. Kotter accomplished key financial goals without sacrificing. Rather than paying nearly 40 percent of the new earnings in taxes, she was able to share 10 percent with her team.

She also did not need to modify her lifestyle spending or compromise making new investments into her practice.

Conclusion

Dentists’ clinically-oriented mindsets often do not coincide with good financial planning and follow-through. Too many dentists are forced to retire to a less-than-ideal lifestyle. However, if retirement-fund savings were connected to their everyday clinical mindset, then creating abundant retirement savings could be a predictable outcome. Interest-bearing patient financing managed by an outside third party can be the stress-free solution for dentists to save for retirement and retire on their own terms.

To find out more about how to create a portfolio of interest-bearing patient financing, contact Comprehensive Finance at (866) 964-4727 or visit Comprehensivefinance.com.

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