Planning Ahead for Early Retirement

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For many of us who have been in practice since the 60's, dentistry has offered us a wonderful lifestyle and the opportunity to be involved with a challenging and respected profession. But times have changed. Our litigious society has forced us to practice defensively -- you need a masters degree in record keeping to satisfy risk management. The emergence of managed care has lowered our profit margins, forcing us to work additional hours to produce the same amount of dollars. The expense and aggravation of OSHA compliance continues unabated. Overhead costs, even in well-run practices, are exceeding 65%. In conversations with my colleagues, early retirement or "Earlier than originally planned" retirement, is an issue that is discussed with increasing frequency. The purpose of this article is to offer suggestions on how an early exit might be accomplished.

Unfortunately, most dentists cannot afford to retire early, even if that is their desire. Statistics show that only 15% of our profession by age 60 have the financial strength to live in retirement at anywhere close to their accustomed standard of living. For many dentists, the appraised value of their practice (by whatever method used) represents a substantial amount of money - but if this asset is not liquid, what good is it! As we often say, you can't pay your bills with receivables!

The chances of finding some young dentist with a big satchel full of money, willing to purchase your practice, are remote at best. So what about financing! Well, for many reasons, bank financing has become a very difficult process. Welcome to the 90's! Banks, these days, only write secured loans - a loan collateralized by equity. Young doctors don't have much equity - in fact, most of them are in moderate to serious debt from educational loans. Banks no longer lend money based on income potential. So unless a young doctor can find someone to co-sign a note for the purchase price, what usually happens is that the seller will have to finance the purchase by taking back a lot of paper with an extended pay- back schedule. Since most young doctors do not have the management skills or business expertise to operate your practice, this becomes a very risky situation. If you leave and the practice gets into trouble, you may never see your money.

An arrangement that I feel offers the selling dentist the best possible chance to receive a fair value for his practice is a careful and well thought our plan implemented five to ten years prior to the expected retirement date. This plan involves:

a) hiring a younger doctor to work as a paid associate for twelve to eighteen months. At this time, you only have to paint in broad brush strokes what you envision happening if the relationship proves to be successful.

b) creating a partnership agreement with this doctor that specifies a five to ten year buy-in of your practice, while you are still there, working, advising, and teaching. This is followed by a five to ten year buy-out of the balance of the practice after you have retired.

You can't get to plan (b) unless plan (a) is successful. You may find you made a poor choice. This can happen. If patients and staff do not relate well to the new doctor, the transition will not be successful. In order to protect yourself, only sign a one-year employment agreement. If the new associate does not live up to your expectations, do not be afraid to try again. Two points to remember:

1. You don't really make money on an associate, certainly not enough to compensate you for the hours and energy you must devote helping the associate build his practice.
2. You don't need or want a revolving door policy with associates. Patients and staff dislike it. Your sole purpose in hiring an associate is to allow you to complete your retirement plan.

There must be adequate physical space for the associate to work without interfering with your normal scheduling routine. And I think it makes no sense for the new associate to work in your office only when you are not there. You need to be working together in order to observe his dynamics with patients and staff If an expansion of your existing space is necessary, it should probably be done on a gradual basis as the associate becomes busier and you become comfortable that the relationship is working. By the time you are ready to offer partnership status and a buy-in arrangement - in other words, when you are convinced the marriage will work - you and your new partner-to-be should be well on your way to visualizing a physical space that will allow both of you to practice full-time.

It will probably take at least six months to complete a partnership agreement. I advise NOT involving lawyers until you and the associate have discussed every conceivable issue and contingency you can think of: compensation, vacation time, division of responsibilities, transference of patients, insurance, involvement or non-involvement of spouses, etc. What happens if one of you becomes disabled! What happens if one of you dies! What happens if after a few years, even with all this planning, the partnership isn't working out! As painful as it may seem, now is the time to plan for a possible divorce. When the two of you are comfortable with your arrangements, then bring in legal assistance to prepare the documents.

The details of a buy-in/buy-out arrangement are far too complicated to discuss in the format of such a brief article, but I feel that two elements of the arrangement should be mentioned here:

1. A formula must be determined that places a value on the practice for both buy-in and buy- out purposes. This formula cannot change without the consent of both parties.
2. The selling doctor receives a substantial, non-refundable cash deposit at the time of the buy-in.

Once you have reached this stage of the plan, you can feel confident that retirement is achievable and on-track. It is up to both of you to make it work from here. By design, the terms of the partnership agreement should impose harsh penalties on either doctor who reneges. One of my favorite sayings is that for a deal to be a good deal, it has to be good for both parties. From the buyer's perspective, the above-mentioned arrangement ensured a total turnover of the retiring doctor's practice with all its inherent good will. Patients had a chance for all these five to ten

years to observe the younger doctor. They may, in fact, have seen him for emergency treatment. Patient retention should be 85%-95% provided staff remains stable.

A new physical space was created, allowing both doctors to practice efficiently. In the ideal scenario, six months before the selling doctor retires, a third doctor is introduced into the practice. This doctor will become the purchasing doctor's new associate for twelve to eighteen months, and the entire process repeats itself. From the point of view of the seller, this arrangement allowed the retiring doctor to have received income during the buy-in years and the confidence to realize that he would receive all of his buy-out dollars because the younger partner now was established and had acquired the management skills to conduct the practice in a profitable manner.