7 BIG MISTAKES DENTISTS MAKE THAT WRECK RETIREMENT

DENTIST ADVISORS

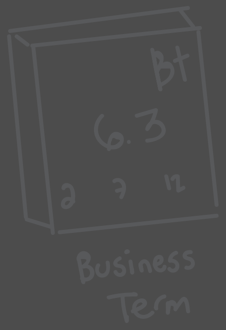
Congratulations!

You’re one of the highest-paid people in the country: dentists and specialists consistently rank among the most successful working professionals in the U.S.

But a good income doesn’t guarantee a successful retirement. The Dental Economics/Levin Group reports that half of all dentists believe they will have to postpone retirement.[1]

Why do dentists struggle to build adequate retirement portfolios, especially when they earn so much money from thriving practices? Are you part of this group?

Don’t let your retirement dreams fade into the sunset because of a few mistakes you could have avoided. Here are the seven most common mistakes dentists make with their retirement planning and advice for how you can steer clear of them.



This guide will help you:

1. Save money today by avoiding the most common financial mistakes made by dentists and specialists

2. Save time and money in the future by maximizing your wealth before retirement

Now let's dive into the do's, don'ts, and the steps you can take today for a better retirement tomorrow.

MISTAKE 1:

You Don't Track What You Spend

You can't fix what you don't measure. Tracking what you spend is key to achieving financial security and making sound decisions about your retirement.

MISTAKE 1: *You Don't Track What You Spend*

It will help you to:

- **Hold yourself accountable and live within your means.** Your spending shouldn't increase as your income increases over time. Instead, surplus income should be put toward retirement funds and investments.

- **Calculate your nest egg.** To do so, determine what your average spending has been for the past three years, including vacations and large expenses. To retire comfortably, your personal net worth should be 25-30 times your annual spending.

WHY? If you want to know when you can retire, you need to know what you spend.

MISTAKE 1: *The Fix*

1 Use an app to track your expenses.

Make sure you choose an app that will:

- Allow you to see exactly how much you're spending by integrating your credit card and bank transactions. The right app will automatically categorize transactions for you. For example, a dinner at Ruth's Chris Steakhouse would automatically be filed under the "Dining Out" category.

- Store historical data so you can review trends and identify expenses that can be lowered or redistributed.

2 Don't live out of your practice checking account.

Instead, deposit a specific sum into your personal checking account and use that as your monthly budget. Try to make it through the entire month without dipping back into your practice checking account. This will prevent you from overspending or splurging on unnecessary expenses.

> **"There is no dignity quite so impressive, and no one independence quite so important, as living within your means."**
>
> PRESIDENT CALVIN COOLIDGE

MISTAKE 2:

You Pay Off Debts Without A Strategy

If you're paying off your debts without a plan, it's time to create a repayment strategy.

MISTAKE 2: *You Pay Off Debts Without A Strategy*

Don't just choose a loan and go with it. As your taxes, income, and account balances change, so should your strategy for debt reduction.

MISTAKE 2: *The Fix*

1 Don't pay off debt too early.

Don't rush to pay off student loans, practice debt or real estate and put off retirement planning until all your debt is gone. As you've probably noticed, once you pay off one debt, another tenant improvement or piece of equipment replaces your paid-off debt with a new one. Falling into this cycle can prevent you from investing for years.

2 Refinance regularly.

Have banks compete to earn your business as your loans get smaller. You have the opportunity to take advantage of lower interest rates as your loan shrinks over time; the interest rate on a 5-year loan will be lower than that of a 7-year loan. Refinance your debt while remaining on your current term and lower your interest rate by either choosing another lender or asking your current bank to reconsider your current rate. Before you refinance, talk to a financial advisor or accountant who can help you understand factors like fees, prepayment penalties, and interest rate calculations.

3 Borrow against your liquid accounts to save money.

If you've built up cash and liquid investments, you can often borrow against those accounts at lower rates than you can get from a practice lender. Be sure you don't leverage your investment accounts too high and that you keep adequate cash reserves.

MISTAKE 2: *The Fix Cont.*

4 Diversify your efforts.

Maintain steady progress in several areas rather than focusing on one or two and neglecting others. Make regular payments toward debts, build up liquid investments, vacation regularly, contribute to your kids' college funds, invest money back into your dental practice, and maximize your retirement account contributions.

5 Take advantage of compound interest.

If you pay more into your investments rather than using those funds to pay off debt, you will benefit from the compound interest your investments accrue over time. This, in addition to the related tax deductions you will garner, is a major advantage of investing early. Plus, the longer your overall investment time frame is, the higher your expected return can be.

6 Gain investment experience.

The more seasoned an investor you are, the more secure you will likely be in retirement. If you start investing early, you'll endure both good (bull) and bad (bear) markets by the time you retire, and you'll see your money fluctuate throughout both. The benefit? You'll learn discipline and overcome the urge to pull your money out of the market when it takes a temporary dive. Being consistent through all market cycles increases the odds that you'll achieve high, long-term returns.

7 Maintain your liquid assets.

Aggressively paying down debt will save you interest, but it won't protect you in an emergency or help you take advantage of opportunities like purchasing a second location. What will come in handy in situations like these? Cash and investments that are easy to access. Build liquid investments so you have funds available when you need them.

MISTAKE 2: *The Fix Cont.*

8 Avoid the risk of foreclosure.

Don't pay off your mortgages or practice loans beyond the minimum monthly payment amount until you have enough money to wipe them out completely. A bank has greater incentive to foreclose on assets with substantial equity than it does on assets with ample debt, so protect yourself until you can eliminate your debt completely.

Prioritizing the elimination of personal and practice debt is not an effective financial plan for a dentist. Period.

Maintaining a debt rate of 15-20% of your income can enable you to retire sooner, as well as provide you with more liquidity and a higher-quality practice along the way.

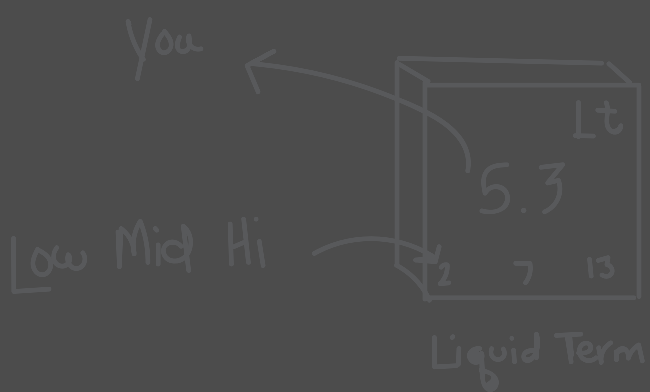
However, your debt rate shouldn't be more than 45% of your income, regardless of how much a bank approves you. Carrying a large amount of debt invariably increases stress and tempts you to make emotional financial decisions that are not in your best interest.

A balanced debt repayment plan will leave you debt-free before you retire and will help your nest egg compound long the way.

> **"What can be added to the happiness of a man of who is in health, out of debt, and has a clear conscious?"**
>
> - ADAM SMITH, FATHER OF MODERN ECONOMICS

MISTAKE 3:

You Don't Automate Your Investment Program



Having an automated investment program is a no-brainer: it prepares you for retirement without you having to think about it.

MISTAKE 3: *You Don't Automate Your Investment Program*

It's possible to become a millionaire just by automating your investment contributions each month. Here's how to get started.

MISTAKE 3: *The Fix*

Set up automatic monthly withdrawals from the account that has the highest cash balance (typically your practice checking account), and have those monies directly deposited into your retirement accounts.

Here are a few pointers for setting up an automated investment program:

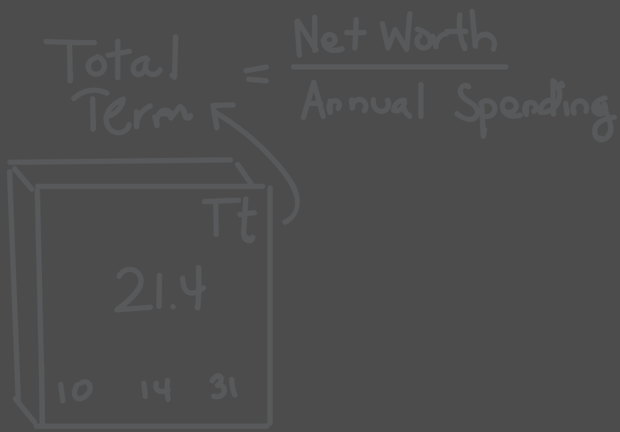
- **Invest a reasonable percentage of your income each month.** Invest 20-25% of your personal income, or more if your financial health is excellent.

- **Maintain a balanced pre-tax and after-tax mix.** Your deposits should be balanced between pre-tax accounts, like a 401(k), and post-tax accounts, like your emergency fund and retirement portfolio. Don't put all your savings into one basket; split your savings between these two types of accounts. The goal is to keep your tax rate as low as possible throughout your life. By having money in both types of accounts, you can control your income over time and potentially lower your taxes.

- **Be consistent.** Resist the temptation to turn off your automatic deposits when you need extra cash. Keeping a steady pace will make it easier to track your progress and estimate when you'll be ready for retirement. It will also keep you accountable; if you want to splurge on a swimming pool or a big vacation, you'll need to work it into your monthly budget and save for it over a period of time.

- **Be conservative.** Your core retirement savings should be generating predictable, consistent returns over time; it should not be used for risky investments. If you want to take on a high-risk investment, do so once you are well on your way to financial independence and make sure it's with a very small percentage of your overall retirement portfolio so you won't risk your future if a high-risk investment doesn't pay off.

> **Automated investment programs create more millionaires than any other system we've seen.** - THE DENTIST ADVISORS TEAM



MISTAKE 4:

You Buy Whole Life Insurance

Few personal finance subjects spark as much controversy as whole life insurance (also commonly referred to as variable life, universal life or equity indexed life insurance). B-list financial advisors launch book series around this concept and call it the "tax-free retirement method" or "infinite banking." Meanwhile, finance experts like Dave Ramsey refer to it as one of the worst financial products on the market. So, who's right?

MISTAKE 4: *You Buy Whole Life Insurance*

Dave is. Whole life is not a necessity and it should not be used as a method of meeting savings and investment goals. If you do decide to purchase whole life insurance, you should invest a very small amount. There are better methods, like the automated investment strategy we just mentioned, to accumulate for retirement while also protecting your family.

MISTAKE 4: *The Fix*

If you are considering whole life insurance, consult an independent financial advisor, not an insurance salesperson, before committing.

Here are three tips that will help you make smart decisions about your life insurance.

- Evaluate your term life insurance program annually to make sure you are keeping your family adequately protected and keeping costs down. A good life insurance program should equal at least 30x your annual spending, minus your existing personal net worth. Make periodic adjustments to your death benefit to stay within this margin.
- Whole life can benefit those with a personal net worth in excess of $10 Million and wish to pass money along to family or charity. If you fall into this category, consider whole life insurance at the latter stages of your career once your personal retirement planning has been completed. The death benefit that will pass to future generations or charities will have a more compelling rate of return than the current cash value of your policy.
- Some whole life policies perform better than others depending on both the type of investments the insurance company selects and how well they manage their expenses. Insurance agents have a great deal of flexibility around how to structure your policy, but its performance often depends on how large a commission the agent earns.

Remember, as your net worth increases, your need for life insurance decreases.

$$CAGR = \left(\frac{\text{Ending Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{t}\right)} - 1$$

MISTAKE 5:

You Squander Your Income on Overhead

The more your dental practice grows, the easier it becomes to lose track of how much you spend on payroll, marketing, utilities and supplies.

MISTAKE 5: *You Squander Your Income on Overhead*

Many dentists increase their overhead at the same rate their income increases, which means they don't reap any additional profits from that extra income. Don't let yourself fall into this category.

MISTAKE 5: *The Fix*

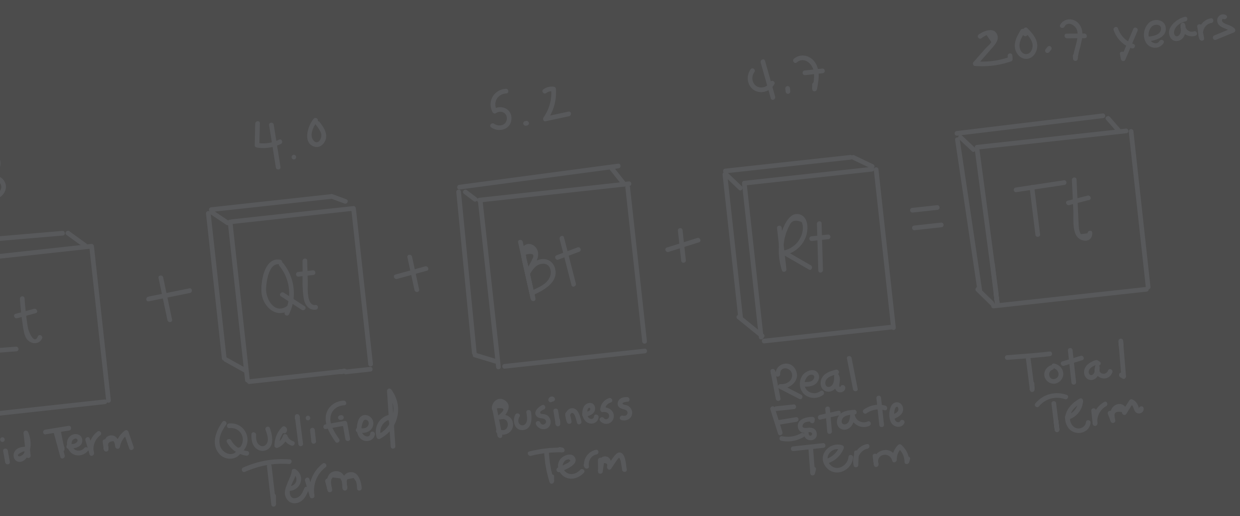
Track your expenses to ensure you're effectively managing the growth of your practice.

- Twice annually, analyze your expenses to determine if you can reduce some of your overhead.

- Track payroll by percentage. Add up payroll costs (excluding your salary) and divide that number by your collections. The result is the percentage of your collections you spend on payroll. Payroll is your largest cost, so monitor it closely and make sure the percentage stays within a reasonable range for your specialty.

SPECIALTY	GENERAL DENTISTRY	ORTHODONTICS	PERIODONTICS	PEDIATRICS	ORAL SURGERY	ENDODONTICS
STAFF TOTAL COMP *	**26.1%**	**20.2%**	**21.6%**	**24.9%**	**19.4%**	**19.9%**

- Monitor your profit by percentage. Look at your tax return and add your salary, your business profit, and any depreciation and amortization; the sum is your total income. Then divide this number by your collections to determine the percent of income that you retain (your profit). Watch your income closely during your career and don't let the percentage you keep decline unless you're building a large, multi-location enterprise.



MISTAKE 6:

You Lose Money in High-Risk Investments

Few things can implode your retirement like a high-risk investment gone wrong.

MISTAKE 6: *You Lose Money in High-Risk Investments*

Losing money that you can't afford to lose can put your practice in jeopardy, force you to delay your retirement, and strain your personal and professional relationships.

MISTAKE 6: *The Fix*

If you're contemplating a high-risk investment, here are some key points to consider:

- **Reach financial independence before taking on high-risk investments.** At a minimum, build up a broadly diversified portfolio of mutual funds, exchange-traded funds, stocks, and bonds until your personal net worth is 20-30x your annual personal living expenses. If you do experience any major financial losses, you'll be equipped to weather the storm.

- **Direct investments in other companies are more prone to mismanagement than traditional investments.** With less regulation and third-party oversight, private and direct investments are more likely to be mismanaged or subject to fraud. Choose investments that have a system of checks and balances in place, such as regular third-party audits and transparent financial reporting.

- **Concentrated investment means concentrated risk.** Don't put your whole nest egg into one basket. Never invest more than 10% of your overall portfolio into any one company or private investment, even after you've reached financial independence. Having a diversified portfolio helps you maintain financial security despite losses.

For the average dentist, losing just $100,000 in a bad investment is the equivalent of adding at least 5 years onto your working career.[2]

MISTAKE 7:

You Make Uninformed Financial Decisions

Are you making financial decisions based on a collection of unbiased data, a strong grasp of your financial health, and the wisdom of a trusted financial advisor? Or are you just winging it?

MISTAKE 7: *You Make Uninformed Financial Decisions*

You can't make sound financial decisions if you don't have a comprehensive view of your finances. The busier your practice gets, the harder it is to gather all that information. You can't do it all alone - and you shouldn't.

MISTAKE 7: *The Fix*

Get organized and get some help so you can maintain a holistic picture of your financial health.

- **Create a consistent, streamlined financial planning system - and audit it regularly.** Tracking all aspects of your finances is the first step to success. This includes debt, real estate values, practice values and overhead, retirement plans, kids' education, taxes, and more. Assessing each area of your financial health is crucial to maximizing your wealth, and it will likely require a partnership with a qualified financial advisor.

- **Get a second opinion before you make a big decision.** You're emotionally attached to your practice, your ideas, and, of course, your money - we all are. Before you make big decisions, talk to a financial advisor, trusted friend, family member, or level-headed colleague. They'll be able to offer insights that you may have missed and help you avoid making poor choices. Don't be hesitant to ask other people for advice - do it often.

Sources:

1. "The Dental Economics/Levin Group Annual Research Report." dentaleconomics.com. November 2014.
2. U.S. News and World Report: Dentist Salary Outlook. money.usnews.com.

What You Can Do Now for a Better Retirement Tomorrow

How many of these seven mistakes are you making?
And, more importantly, what are you going to do about it?

We've given you some basic fixes, but there's much more to talk about, isn't there? Do you know exactly when you'll be able to retire? Do you know how to grow your wealth most effectively?

Contact Dentist Advisors and we'll help you with the answers. We work with dentists and specialists to build systems to track both personal and practice finances. We are in the business of teaching you how to make smart decisions with your money.

Starting with a phone call, we will build a dashboard for you to organize all your financial information in one place. Using our proprietary Elements® for Dentists, we will analyze your finances in comparison to peers in your industry. Then we'll tackle one aspect of your financial health each month, and you'll never have to do any guesswork about your finances again.

LEARN ABOUT YOUR OPTIONS FOR BETTER RETIREMENT PLANNING

Book a free consultation at DentistAdvisors.com

or call (800) 890-8095