

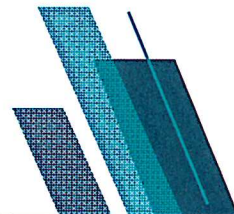


Financial Decisions the Dentists Must Get Right
AGD Annual Meeting 2016
Presented By: Charles Loretto

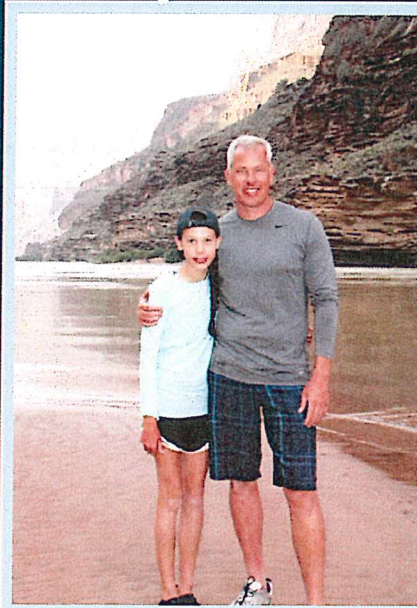
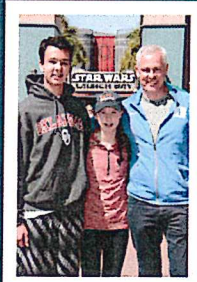
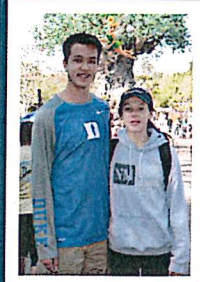
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Loretto Family



CHALLENGES FOR THE LECTURE

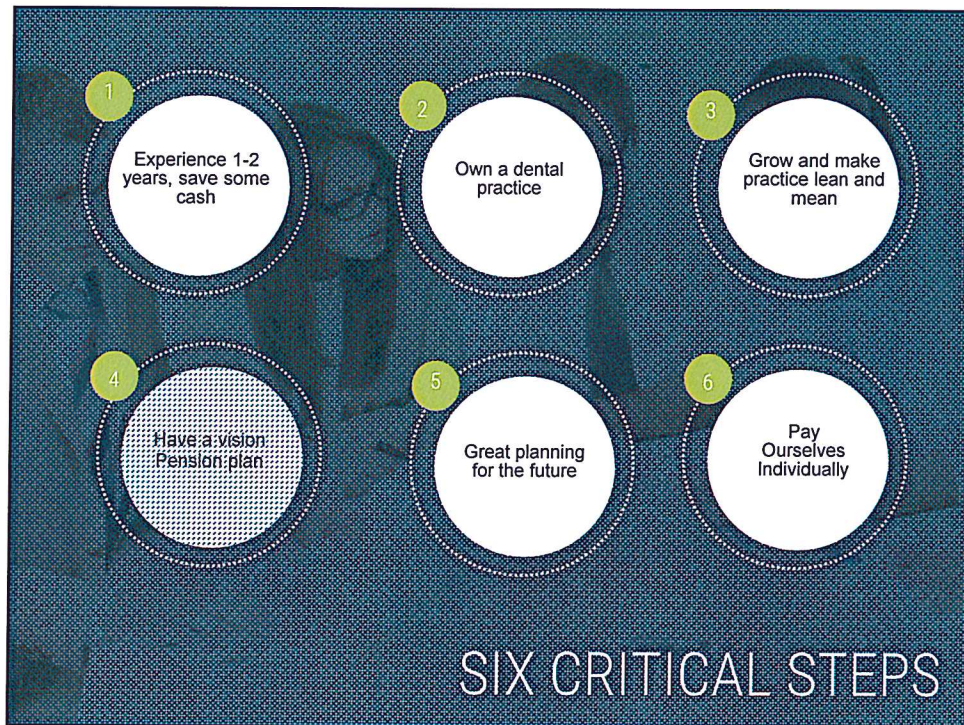
Are you aware of what you need to see?

Do you have a personal and business financial plan?

How do you rate your tax planning?

Who is the person in charge of implementing the plan?

Are you reviewing each business decision and seeing how one piece connects to the other?



The *Keys* to Success

- Marketing directly to the patient, great website, great picture of your team, having a marketing budget
- Great phone skills at your office
- Nice updated, digital office
- Great customer service and zero tolerance
- Great case presentations from the best sales persons in the office
- CE for the doctor and staff annually
- Working with consultants when necessary for systems and operations development
- Having a clear set of financial goals for the office; update the team on a regular basis
- Personal Goals
 - What is your personal budget?
 - Are you and your spouse on the same page?
- Practice Goals
 - Do you know your breakeven?

FINANCIAL PLANNING ROAD MAP

Keys To Consider:

- Current age & future retirement date (age 30-65)
- Current liquid investments (0)
- Inflation rate (2.5%)
- Target investment rate of return (6% - 8%)
- Saving tax deferred
- Estimated lifestyle at retirement date (\$12,000 - \$15,000)
- Safe withdrawal rate over 30 year period (4.5%)

Example 1:



Chart illustrates an initial investment of \$70,000 at age 30 and includes annual contributions of \$70,000 thereafter. Returns are based upon an 8% return compounded annually on both the initial investment and annual contributions over 30 years. Market and economic factors can change rapidly, investments involve risk and clients can experience a loss. Actual results may vary materially from example.

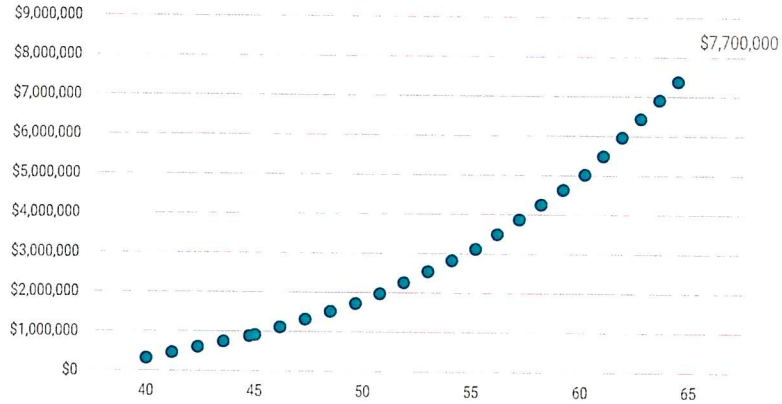
Example 2:

Target rate of return is 8% per annum

Tax deferred savings for 25 years

Current savings of \$300,000

Annual Contributions of \$70,000 Thereafter



This chart illustrates growth of savings based upon an initial one time investment of \$300,000 at age 40 and includes annual contributions of \$70,000 thereafter that earns an 8% return compounded annually over 25 years. Market and economic factors can change rapidly, investments involve risk and clients can experience a loss. Actual results may vary materially from example.

Example 3:

Target rate of return is 6% per annum

Tax deferred savings for 15 years

Current Savings of \$1,000,000

Annual Contributions of \$70,000 Thereafter

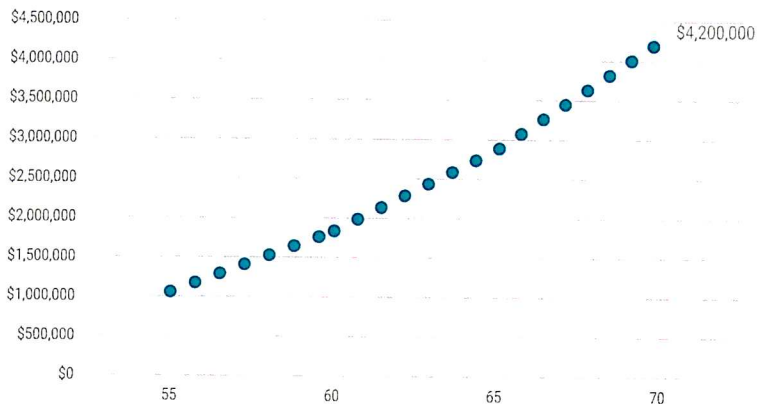


Chart illustrate growth of savings based upon an initial one time investment of \$1,000,000 at age 55 and includes annual contributions of \$70,000 thereafter that earns an 6% return compounded annually over 15 years. Market and economic factors can change rapidly, investments involve risk and clients can experience a loss. Actual results may vary materially from example.

Conversation with Dentist 1

- Husband Dentist – \$1.2MM collections, S-Corporation, \$140,000 officer salary, taking balance in distributions
- Overhead in practice is 55%, net benefit before doctor perks is \$540,000
- Spouse is on the payroll for \$50,000
- Goal is to have \$13,000 per month at age 67
- Simple Retirement Plan - \$25,000 annually
- Lease is up and currently paying \$7,100 in rent, 2,100 square feet
- New patients are 40 per month, working out of 5 ops, 3 doctor chairs, 2 hygiene chairs
- Doctor is 49 years old and the wife is 50
- Liquid for retirement is \$500,000
- 2 children, saved \$150,000 and the first kid has a partial scholarship
- \$50,000 in practice debt, \$200,000 debt on 1.1MM home, conservative tax planning up to this point
- State of California

Recommendations

- Increase salary in S-Corporation from \$140,000 to \$265,000 – will cost approximately \$3,760 in social security taxes
- Lower spouse's salary from \$50,000 to \$28,400 which will save \$3,304 in Social Security taxes
- Change the Simple Plan to a 401K Profit Sharing Plan and deduct/invest \$83,000 versus \$25,000 – which will save approximately \$26,000 in taxes
- Invest in a 401K Cross Tested Pension Plan which will run approximately \$2,500 to set-up along with an annual administration fee of \$2,500. There is an additional cost of roughly 3% (Safe Harbor) of pay over what the doctor is paying in the Simple. This increased staff costs to the pension plan of \$8,250 ($\$275,000 \times 3\%$)
- Implement a Defined Benefit Plan and contribute another \$50,000 into a plan thus resulting in another \$22,500 tax benefit. Cost to set-up the plan is approximately \$4,000 plus an estimated additional staff cost of another \$3,000 ($\$275,000 \times 1.1\%$).

Recommendations

- Consider at least 3,500 square feet or new office
- Cost may be \$1,500,000 for the new office
- Consider an associate to partner
- Best case is preparing for the practice to support an associate
- Minimize the college savings and paying down debt and significantly increase retirement contributions
- Review financial goals of nearly \$4MM needed for retirement
- Increased annual savings per year from \$25,000 tax deferred to \$130,000 annually tax deferred
- Create a plan based on how to transition the 1.2MM stock (dental practice)
- Consider cost segregation on the new office
- Review break-even on new office to determine what collections are needed to support the new office or associate

Recommendations:

COSTS:		BENEFITS:	
Increased SS Tax Dr.	\$3,760	Lower SS Tax Wife	\$3,304
Cost in 401K Plan	\$2,500	401K/Profit Sharing Deduction	\$26,100
Pension Admin. Fee	\$2,500	(\$83,000-\$25,000 x 45% taxes)	
Estimated Additional Staff Cost Over Simple Plan	\$8,250	Funding DB Plan	\$22,500
Cost to Start DB Plan	\$4,000	(\$50,000 x 45% taxes)	
Admin. Fee for DB Plan	\$4,000	Estimated Benefit	\$51,904
Staff Cost for DB	\$3,000		
Estimated Cost	\$28,010		

Other suggestions

- Finding an associate
- Potential consultant for flow and scheduling
- Review fee schedule
- Review of credit card merchant services

WHAT

DO

YOU

SEE?

Conversation with Dentist 2

- Not saving for retirement
- 5th year in practice and it did not grow in 2015
- Doctor is working 4 days per week in the office
- 8 new patients per month
- Hygienist is working 3 days per week
- Minimal web presence, minimal marketing efforts
- Overhead in practice is 70%

\$500,000
Collections

\$150,000
Net Benefit Before
Doctor Perks

\$100,000
S-Corp Salary

\$30,000
Spouse Salary

Finding the Money

Reinvesting in Yourself – Upgrading the Practice

Corporate salary for doctor and spouse set correctly:

- Salary effect under \$118,500
- Social Security Taxes – 15.30% (7.65% +7.65%)
- 2.9% Social Security tax between \$118,500-\$250,000
- Salary effect over \$250,000 married (.9%)
 - All depends on cash flow of practice and doctors personal circumstance
 - Ex: Collections 1M overhead is 60% salary to doctor would typically be set \$265,000 and spouse if under age of 50 would be set at \$21,300
 - Pension Plan deduction ranging from \$36,000 to \$300,000 per year depending on the doctor's income and age
 - Cost segregation study
 - Further discussion later
 - Timing of assets we depreciate (equipment, cabinets, practices we purchase etc.)
 - When to put a child on the payroll of a practice based on age of the child, cash flow of the practice and type of practice

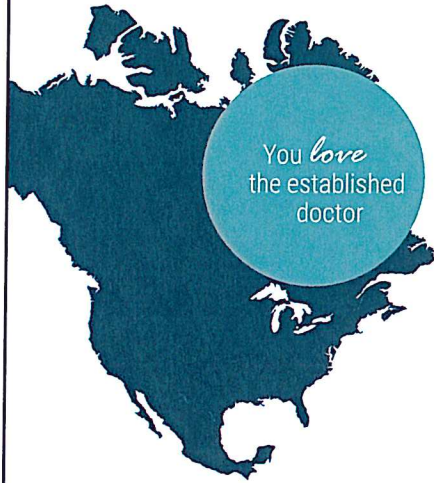
Finding the Money

Reinvesting in Yourself – Upgrading the Practice

- Bank notes for the practice are over 4.75%
- Multiple doctors working in one corporation
- Lack of insurance (disability, life, business overhead)
- Over paying accountant (Good range is \$6500 which includes bookkeeping, and corporate and personal return)
- Hygiene in a general practice is less than 25% of total collections. Hygienist are not producing 3 times their salary
- Recall systems for hygiene are not updated with a tool like Solution Reach or Demand Force
- Staff overhead is below 27% of collections (includes payroll taxes, 3% safe harbor)
- Low new patient flow and marketing dollars don't add up
- Credit card merchant services are at times up to 2.3%
- Transition plan is to sell at the end versus in stages
- Adding an op or equipment in the practice to improve efficiency

WHAT WE ARE TEACHING STUDENTS & RESIDENTS

Across the Country:



•Detailed plan of attack

850K Gross Collections
- min

1.2M Collections
- Ideal

55% Overhead
- Ideal

40 New Patients/month
- Ideal

25 New Patients/month
- min

100K Guaranteed
Salary + Incentive

2yr Partnership

PRIVATE PRACTICE SALARY EXPECTATIONS FOR GP'S & SPECIALIST

First year base salary based on our experience

- D4 - \$90,000 base
- AEGD, GPR, 1 year experience - \$110,000 base
- Ortho - \$130,000- \$150,000
- Pedo - \$160,000 - \$225,000
- Endo - \$175,000 - \$200,000
- OMS - \$200,000 - \$300,000
- Perio - \$130,000 - \$160,000
- Prosth - \$130,000 - \$160,000

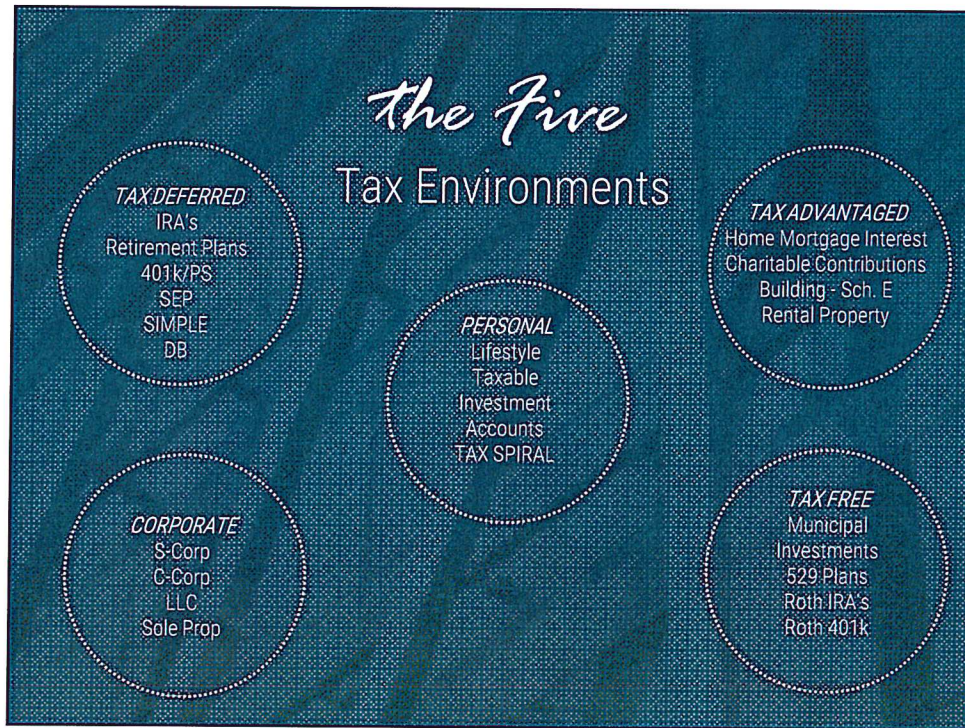
Growth of the Business When Bringing in a Partner :



TAXES ARE MY EVIL:

Single Tax Payer Estimates 2016 Key Income Numbers	\$37,650 OR GREATER	25%
	\$91,150 OR GREATER	28%
	\$190,150 OR GREATER	33%
	\$413,350 OR GREATER	35%
	\$415,050 OR GREATER	39.6%
Married Tax Payer Estimates 2016 Key Income Numbers	\$75,300 OR GREATER	25%
	\$151,900 OR GREATER	28%
	\$231,450 OR GREATER	33%
	\$413,350 OR GREATER	35%
	\$466,950 OR GREATER	39.6%

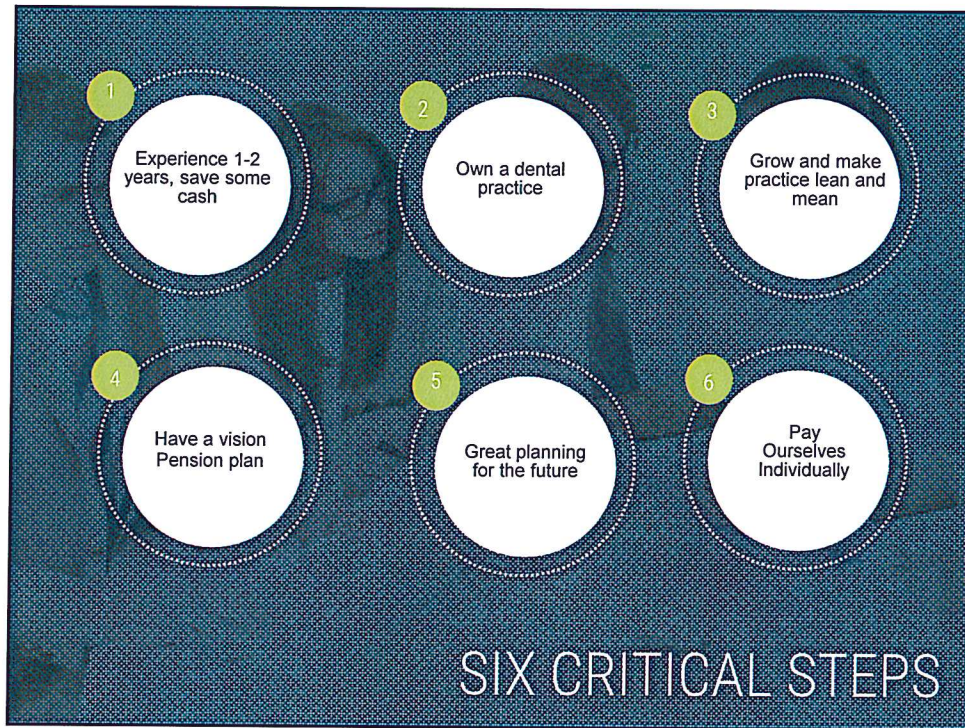
33% Federal + 5% State = 38% vs. 6.8%



PENSION PLANNING

Opportunity

Safe Harbor 401K Cross-Tested Pension Plan	
Salary Deferral Doctor 401K	\$18,000
Salary Deferral Spouse	\$18,000
Doctor Profit Sharing	\$35,000
Subtotal	\$71,000
Salary Deferral Doctor 401K over 50	\$6,000
Salary Deferral Spouse 401K over 50	\$6,000
Subtotal	\$12,000
Total for Doctor and Spouse (if over 50)	\$83,000
Cash Balance Plan	
Doctor Cash Balance Estimate	\$50,000-\$300,000
Potential Total of Both Plans	\$71,000-\$383,000



Contact us for a
Complimentary Review

Booth
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