RBC Royal Bank

The wealthy dentist ... for a lifetime

Your dental career/practice is thriving. With annual revenues like these, a profitable career and comfortable retirement is a no-brainer.

Or is it?

Particularly against the backdrop of today's uncertain economic landscape, an increasing number of dentists are beginning to take a more critical look at the long-term prospects for their financial situations.

"Too often, we hear from older dentists who are hanging onto their practices longer than they'd like to because they can't afford to retire," says David Bazak, Vice President at RBC Royal Bank. "They've built up exceptional value in their practices by developing loyal and profitable patient rosters. They've made excellent incomes throughout their careers, and they're shocked to find themselves working well into their retirement years. And in too many cases it's because they didn't go through some basic financial planning exercises."

There's an old financial planning maxim that says, "It's not how much money you *make* that matters. Rather, it's how much you *keep*." And when it comes to dentists, there's a lot of truth in that saying. Along with a dentist's healthy income are the expenses associated with running a practice and, in many cases, maintaining an affluent lifestyle. "Unless you have a sound financial strategy in place, you may find yourself spinning your wheels and making little financial headway year over year," says Adam Melo, a Financial Planner with RBC Royal Bank.

Whether you're just starting out, you have an established practice, you have been associated for many years or you're approaching your retirement years, there are some practical and virtually painless steps you can take to continue to build equity in your practice while keeping more of the money you're making and exercising greater control over your financial destiny.

The early years

You're getting established in your career and developing an impressive clientele. Perhaps you have a position in another dentist's office or you've just made the leap to your own practice. While these early years can be quite lucrative, they can also be incredibly expensive. In addition to the expenses associated with running a business, maybe you're test-driving new cars or thinking of purchasing a home. Perhaps there's a wedding on the horizon or the remnants of a student loan to pay off. Getting an early start on proper financial planning is key. Unfortunately, too few dentists take advantage of this opportunity early in their careers.

"The most common complaint I hear is "I can't save because there's nothing left over at the end of the month," says Melo. "But by making some small adjustments to their expenses and saving practices, anyone can find money to put aside."

One of the most powerful tips is to pay yourself first. "Instead of waiting to see what's left over at the end of the month, set up an automatic payment program into an investment account. You'd be amazed at the difference a few small, short-term adjustments can make over the long term."

The peak earning years

"I'm constantly amazed at the number of dentists who run their own practices who don't have any sort of retirement strategy in place," says Melo. "They're busy professionals with very full lives. It's simply not on their radar."

In these prime earning years, however, there are some key things dentists should be doing to minimize taxes, mitigate financial risks and accumulate wealth.

"One of the most effective steps to help minimize taxes is to open an Individual Pension Plan (IPP) within the business," says Melo. "This can be a very powerful way for high-earning professionals to augment their savings beyond RRSPs. There can also be a number of significant tax benefits for the company and the employee — both before and after retirement."

If you own a practice, whether you're in an expansion phase, acquisition phase or stable growth period, it's important to develop a sound strategy for earmarking funds from the equity you've established. For example, there can be some attractive tax advantages associated with taking equity out of your practice through bank financing and using the proceeds to pay down your personal debt obligations that aren't tax-deductible.

"Another strategy might be to use proceeds from the business to fund a savings plan while leaving ample money left over to fund the type of lifestyle your income allows you to enjoy," says Melo.

The pre-retirement years

When asked about the financial planning gaps he sees with dentists late in their careers, Melo is quick to respond. “There are three common gaps. Estate planning, succession planning and retirement planning.”

“Retirement can last 30 years or more. A large percentage of dentists in their pre-retirement years simply aren’t prepared to fund that kind of retirement,” Melo says.

As they approach the end of their career, dentists should ensure they have a will, power of attorney agreement and succession plan in place. “All of these things can have significant tax implications,” he says. “The idea is to handle each of these pieces in the most tax-efficient way to retain as much of their hard-earned revenue as possible.”

Many dentists Melo meets with say they’re planning to fund their retirement by selling their practice and downsizing their home. “That’s a common response, but it’s not a real exit strategy,” he says. “It’s risky to rely solely on those two things for retirement.”

The importance of creating a plan

The earlier you start developing your financial plan, the better. Having said that, it’s never too late to start. And just as your patients rely on you for your dental expertise, it’s wise to engage the insights of a professional — someone who has a track record of working with dentists and who’s familiar with their unique circumstances, challenges and objectives.

There are a number of practical strategies for dentists to minimize taxes and accumulate wealth without taking on excessive risk. One of the key steps along the way is to begin placing as much emphasis on your personal finances as you do on your professional finances. You need to make the time along the way to put a holistic, sound financial plan in place.

To learn more about our financial services for health care professionals, please visit us at **rbcroyalbank.com/health-care-prof.**

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100841 (09/2012)