The C&A
Advantage

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For Doctors Who Can Control Their Fees, a Sensible Increase That Gets Them to the Fair Level Where They Should Have Been In the First Place Can (1) Increase Your Annual Income While Reducing Patient Complaints, (2) Double The Eventual Retirement Nest Egg of a Young Doctor, and (3) Significantly Increase a Retiring Doctor's Practice Sale Price While Also Helping the Practice's Buyer:

[EDITOR'S NOTE: We realize that not all readers have the ability to set their fees. This is written for those who still have that control.] We often write and lecture about the importance of incrementally raising fees on a regular basis. Most doctors seem not to do it this way. They can go years without increasing their fees and then impose large raises all at once. First, they forego massive amounts of higher revenues during the intervening years. Second, new patients who joined the practice the year before are rationally upset by a large increase the year after they arrived. Third, many long-time patients will irrationally be upset because they only focus on the large, catch-up, increase and refuse to grasp how they got the benefit of intervening years of being undercharged. A policy of regular, incremental increases that keep your fees where they should be avoids all those problems and can make you very much wealthier - without any effort and without overcharging your patients.

The Most Important Thing to Understand - Revenue That Arrives Through a Fee Increase is Pure Profit and Requires No Effort: There is no extra overhead. There is no extra work to produce the income. At a recent seminar, we were asked to quantify the issues with examples. They will follow. But first, a few ground rules:

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How high can fees be set? The sky is definitely not the limit. The upper limit is the value of your services. To charge more is price gouging. Of course competition and third party payers can limit fees, but the comments in this Newsletter assume that you have the ability to pretty much charge up to the value of your services without losing many patients.

Notwithstanding the emphasis here on fees, do not obsess over money: If you must obsess over something, obsess over your patients. It's amazing how those doctors who focus most on what's best for their patients find that the money follows. We can't deny that doctors who focus first on the money won't also do well financially, but they tend to get less joy from practicing and tend to have far more stress. Our point is that while focusing first on your patients is the right priority, that does not mean that you should ignore the business aspects of your practice. As long as you are charging fees that do not exceed the value of your service, you are being fair to your patients. Plus, you are making enough money to invest back into your practice and be wealthy enough to enjoy a good life and be happy in your profession. **It does not get better than that!**

Limit Your Charity to Those Patients Who Need It - Do Not Unintentionally Give Charity to All Your Patients: We most definitely encourage giving to your college, professional school, and other charities dear to your heart. We encourage giving free or discounted services to your deserving patients. However, we do not encourage discounted services to all your patients by unwittingly charging less than fair fees for your services.

Example #1. How Much More Money Might You Have if You Increase Fees Incrementally Each Year Instead of Periodic Large Catch-Up Increases? Perhaps **an extra million dollars** of profit over a fifteen+ year period. Let's assume you increase your fees 3% per year. Alternatively, let's assume you increase your fees 9% every third year. The first method means you will charge fair fees, earn far more money and receive fewer complaints. That's hard to argue with.

In the example below, Drs. A and B each begin with practice revenues of $1,000,000. Dr. A raises her fees 3% yearly, while Dr. B waits three years and then catches up with 9% increases. Note that Dr. A's revenues are higher every year. Interestingly, their fees are not too far apart each third year when Dr. B finally institutes his increases. That may give him a false sense of comfort. But the cumulative difference **really** builds during those two year intervals when Dr. A's fees rise and Dr. B's do not (for example, see years 3, 6, etc.)

Small, fair, steady increases are definitely the way to go! To do otherwise is financial folly.

Dr. A Yearly 3% Incr.	Year	Dr. B 3d Year 9% Incr.
1,000,000	1	1,000,000
1,030,000	2	1,000,000
1,060,900	3	1,000,000
1,092,727	4	1,090,000
1,125,509	5	1,090,000
1,159,274	6	1,090,000
1,194,052	7	1,188,100
1,229,874	8	1,188,100
1,266,770	9	1,188,100
1,304,773	10	1,295,029
1,343,916	11	1,295,029
1,384,234	12	1,295,029
1,425,761	13	1,411,582
1,468,534	14	1,411,582
1,512,590	15	1,411,582
$18,498,914		**$17,954,133**

Example #2. How a Young Doctor Can Double His or Her Eventual Retirement Nest Egg With No Extra Work By Getting Fees to Where They Should Be: We get the following question all the time: What is the "typical" amount in a retiring doctor's nest egg? While the curiosity is understandable, any "typical" number is irrelevant. Averages mean nothing for an issue this personal and this dependent on each family's situation. As admittedly irrelevant as it is, here is our answer: We frequently see doctors retire with one or two houses, no debts, and $2.5 - $4.5 Million of investable funds.

Using that as a retirement baseline ($2.5 - $4.5 Million of investable funds at retirement), let's take the example of a young doctor with $700,000 of revenues, 60% overhead, and fees that should be increased by 10% to bring them to where they should be. Under this example, her current (40%)

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practice profitability is $280,000. If her fees were increased by 10% to $770,000, she would earn an extra $70,000, raising her profit by 25% from $280,000 to $350,000. If we assume a probably-too-high tax rate of 50%, she would have an extra $35,000 of after-tax income to invest. Over a 30-year period, investing $35,000 per year at, say, 8% results in **an extra $3,964,912**.

Obviously, this is a rough example, but the lesson is clear. **You can work your entire career and retire with about half of what you might otherwise have had if you fail to set your fees at a fair and appropriate level.**

Why do doctors who have control over their fees tend to set them at well below their fair value? We will address that question below.

Example #3. How a Senior Doctor's Income and Practice Sale Price Can Be Increased While Also Helping the Practice Buyer: In appraising a practice, the value of the selling doctor's goodwill is largely determined by profitability. That's the case whether the seller is a sole practitioner selling his or her entire practice or a senior doctor retiring from a group practice. For example, when we value a general dental or orthodontic practice, we often start with the idea that the selling doctor's personal goodwill is worth about 125% - 150% of his or her average annual profitability for the last two years. That profitability would include such things as compensation, fringe benefits and other discretionary expenses. (Of course this has to be adjusted if there is something abnormal about those last two years.)

Let's assume our hypothetical seller produces revenues of $900,000 and, like the example above, has overhead of 60%, and fees that should be increased by 10% to bring them to where they should be. His current (40%) profitability equals $360,000. If his fees were increased by 10% to their appropriate level of $990,000 for the last two years of his career, he would earn an extra $90,000 per year - raising his profit by 25% from $360,000 to $450,000. He would have:

(A) Earned an extra $180,000 in those last two years,

(B) Increased the goodwill value of his practice by $112,500- $135,000 (125%-150% of the $90,000 increased profitability), and

(C) Helped his buyer by raising fees before the sale and taking that pressure off a young buyer, who, quite naturally, would find that harder to do than the seller.

Why Do Doctors Who Have Control Over Their Fees Tend to Set Them Well Below the Fair Value of the Services They Provide? We call this "pricing timidity." While we are not clinical psychologists, we do have a theory. As professionals, the interests of doctors and their patients are parallel. That is a warm and comforting feeling. The one time that their interests turn perpendicular is when the doctor decides how much to charge. We suspect this creates a sufficiently uneasy feeling that, perhaps even subconsciously, leads the doctor to charge below fair value to ease the discomfort. Regardless of the reason, to charge below the fair value of your services, when you have the ability to avoid that result, means you would work harder, make less each year, and retire with a smaller retirement income. No one benefits from that and it's wonderful that it's so easy to avoid!

Reiterating Some Valuable End-Of-Year Tax Moves That Were Originally Discussed in the November 15th Newsletter: Consider these to be particularly important with the strong likelihood that tax rates will fall in 2017. The basic premise is that we want to accelerate deductions into 2016 and recognize income in 2017.

1. Accelerate Expenses: Cash-basis taxpayers can pre-pay 12 month's worth of certain business expenses under IRS regulation 1.263(a)-4(f). These include lease payments on office space, business vehicles and other equipment as well as business and malpractice insurance premiums. If you can afford to prepay a year's worth of office rent, discuss this in advance with your landlord to avoid a misunderstanding. You don't want the check returned to you. Ideally, you will mail the check on Friday, December 30 or Saturday, December 31, and the landlord won't receive it until early January. This will make the payment deductible to you in 2016 and taxable to the landlord in 2017. (Checks received in 2016 but not deposited until 2017 are considered income in 2016 - not 2017!)

Also, buy new business equipment, furniture, computers, etc. in 2016 and qualify for the

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$500,000 Section 179 tax deduction ($25,000 first-year deduction for heavy SUVs).

2. Delay Income Recognition: If you can do without the income for the final few weeks of the year, **delay all remaining December billings until 2017**. Again, if you receive the payment in 2016, it is 2016 income. It doesn't matter that you sit with un-deposited checks and wait to deposit them until early January.

U.S. District Court in Texas Blocks the New DOL Overtime Rules That Were Supposed to Have Gone Into Effect on December 1, 2016: Recall that these new rules intended to give lower-earning white collar (management-type) employees overtime pay if they worked more than 40 hours per week. Unlike traditional employees, who are always entitled to overtime pay, the Fair Labor Standards Act exempts white collar employees from overtime if they earn more than $23,660 per year. These new regulations would have raised that threshold to $47,476, which was forcing employers to reduce these employees' hours or increase their salary to the $47,476 threshold.

This would have really helped unionized employees, but would be unusual in the dental practice, where the doctor is the only one who typically meets the definition of an exempt management-type employee. But if this were to apply to you, the good (albeit very late) news is that the federal court has temporarily blocked the new rules from going into effect on the grounds that the DOL exceeded its authority to amend the Fair Labor Standards Act in such a dramatic way. The new rules are now in limbo, and with a new administration in Washington, there's a good chance that they will not be enacted.

Be Careful When Loaning Money to Your Corporation: IRS often takes the position that money loaned by a shareholder to her corporation is really a part of her capital contribution and not a loan. This could be very important, because if the IRS treats the loan as a part of the capital contribution, the repayment will result in taxable income. We prefer that all loans by shareholders to their corporations be repaid during the year of the loan and that they definitely be repaid by the corporation's year end, so the loans do not appear on the corporation's balance sheet. If the loan is to be repaid over a longer time, then it should be documented in writing with a stated interest rate and payment dates.

"On Vacation" vs. "At a Seminar" vs. "Is Not Available": Patients should be informed that "The doctor is not available for an appointment on that date" rather than being told "The doctor is on vacation on that date." Patients are not impressed with "The doctor is away attending a course," as they have read too much about doctor conventions at resort locations. When the doctor is away from the office, the receptionist should say "The doctor is not available" and suggest an alternate date for service. The sound of the word "unavailable" when you are booked solid or out of the office keeps it ambiguous and avoids further discussion.

Malpractice Insurance is Inexpensive for General Dentists Working Part-Time: If you sell your practice but want to keep practicing on a part-time basis, you will certainly need to maintain your malpractice insurance. Call your carrier and explain that you are dropping to part-time. They may have you complete a part-time supplement where you stipulate that you don't expect to be working more than 20 hours per week. If so, you can expect your insurance costs to fall below $1,000 per year.

The House Overwhelmingly Passes a Bill that Would Bring Back Medical Expense Reimbursement Plans (MERPs): The MERP is a terrific employee fringe benefit that reimburses employees for their out-of-pocket health care expenses, including insurance premiums, up to a certain amount per year, as defined in the plan. The reimbursements are deductible to the employer and tax-free to the employee. MERPs all but dried up in 2013 when the IRS and DOL, seeing them as a threat to Obamacare, outlawed them in practices that didn't already offer group health insurance plans. The MERP would be treated as a group insurance plan, and for a number of reasons would fail to comply with all of the bureaucratic requirements, triggering $100 per day/per employee fines.

The new House-passed bill (H.R. 34) would eliminate these impediments for employers with less than 50 full-time employees. This is good news, though it remains to be seen whether the Senate takes this up during the lame duck session.

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