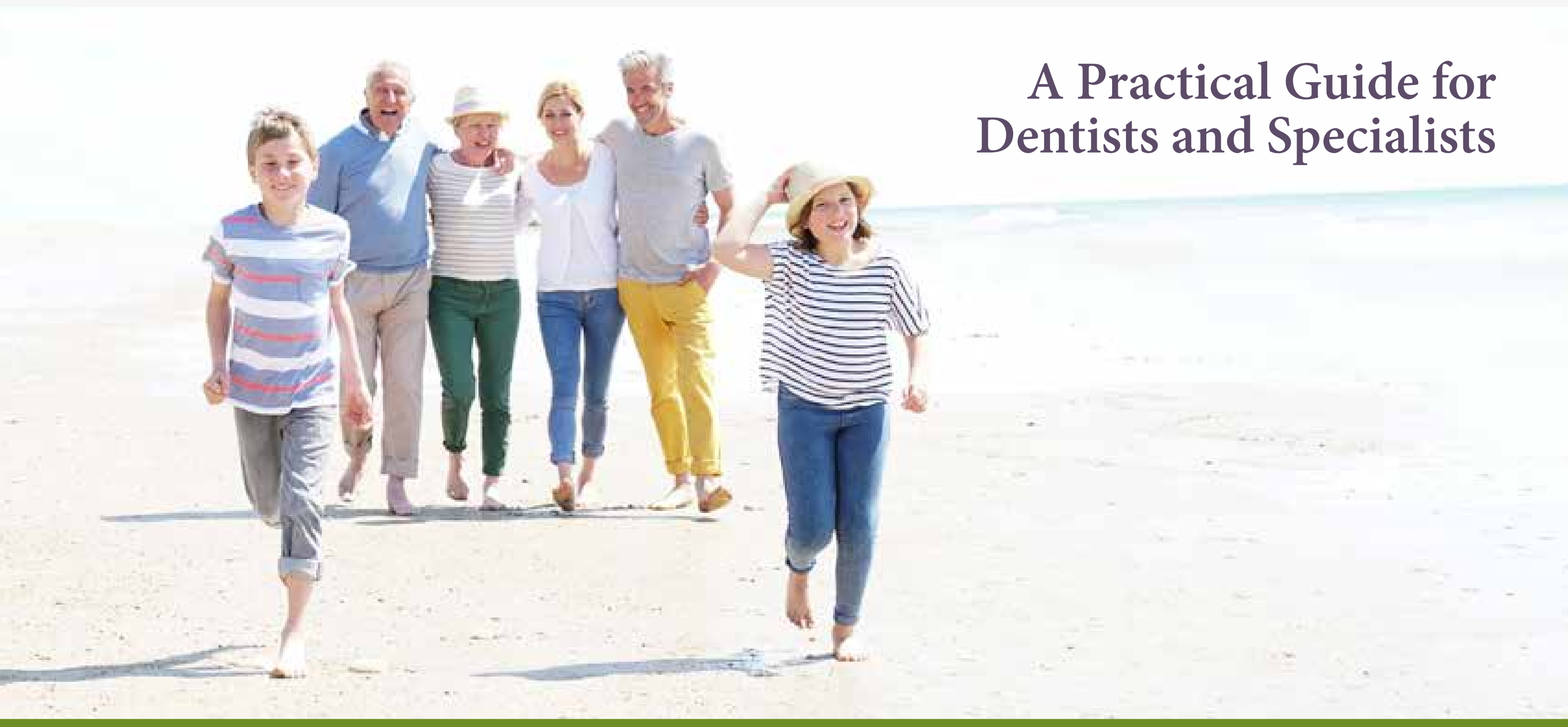
THE McGILL ADVISORY

5 Steps to *Financial* Freedom and Your Dream *Retirement*



A Practical Guide for Dentists and Specialists

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2020 Edition

5 Steps To Financial Freedom And Your Dream Retirement

Table Of Contents

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INTRODUCTION
Why Most Doctors Fail To Achieve Financial Independence

Fewer than 5% of dentists can afford to retire at age 65 and maintain their standard of living. That's why one of the biggest megatrends is that "70 is the new 65" when it comes to retiring from dentistry. ADA statistics reveal the average retirement age for dentists has risen from 65 to 69 over the last decade.

Why are so many doctors failing to reach their financial goals by age 65? They certainly didn't graduate from dental school planning to be flat busted at age 65! While they didn't plan to fail, they did fail to plan.

Developing an effective financial game plan requires satisfying three requirements. First, the plan must be in writing. While many doctors have great ideas, unless they are committed in writing they rarely get implemented. Second, both spouses must agree on the plan of action. Otherwise, many of the doctor's greatest financial ideas will end up vetoed over the dinner table. Third, wealth creation is not a one-time event, but rather a *continuous process*. Your plan has to evolve over time to accommodate changing market conditions, tax laws, technologies, new expertise, family composition, your age, and personal desires.

Doctors who fail to have an effective financial game plan suffer from many symptoms. While the average general dentist's overhead is 60% with a 40% profit margin, many doctors are netting only 10%, 15% or 20% as a result of excessive overhead costs. Even doctors with average to above-average profitability may be overpaying their federal and state income taxes by thousands of dollars annually. In fact, the average dentist is overpaying their taxes by over $15,000 each and every year!

Even for those doctors who have money left over after taxes, that doesn't necessarily translate into wealth. The reason: many doctors have mastered the fine art of both spending next year's income *and* paying last year's income taxes *this* year. So even with high levels of profit, they're still dead broke. Finally, most doctors are losing at least two percentage points off their investment returns every year, due to very common and preventable mistakes. While that may seem relatively insignificant, it's the difference of more than $1,500,000 over the course of the average doctor's career. That's real money!

To successfully reach financial independence, you must master five goals: **1)** increase your practice revenue; **2)** reduce your overhead; **3)** lower your taxes; **4)** cut spending and boost savings; and **5)** invest wisely. Unfortunately, fewer than 10% of doctors get an "A" on all 5 steps.

Over the past 35 years, we've developed over 500 strategies to help doctors reach their financial goals, providing financial security with less stress. With dentistry changing at the fastest pace ever, we're constantly discovering new approaches and sharing them with our members. Using these strategies, we've helped tens of thousands of dentists and specialists nationwide increase their wealth and achieve their financial goals at an accelerated pace.

This special report is meant to help you start that exciting process. To follow are just a small sample of some easy-to-implement strategies from *The McGill Advisory* newsletter—all supporting the five fundamental steps to achieving financial freedom! You'll receive dozens more such strategies over the coming months and years—with each issue of *The McGill Advisory*—as you join thousands of other doctor-members on the road to financial independence and the retirement of your dreams.

STEP ONE
Increase Your Practice Revenue

How Your Front Desk Can Convert More New Patients

If you're not as busy as you want to be, your knee-jerk reaction may be to ramp up your marketing efforts or managed care participation. In many cases, that's a costly mistake. Before spending any more marketing dollars, first determine how effective your front desk is in converting potential new patient calls into exams, and invest in training to dramatically improve these results.

Our recent doctor survey revealed that only 5% of dental practices across the country are operating at full (100%) capacity. Doctors who aren't as busy as they wish will normally boost the time, energy, and money spent on marketing, or worse yet, sign up for increased managed care participation to get the phone ringing with prospective new patients calls. While that's the right solution for some practices, it's treating the symptom, not the problem, for many others. That's because while the phone may be ringing "off the hook" with potential new patient calls, their front desk is flunking the sales process of converting those calls into actual new patient exams.

Tracking New Patient Calls

This area is the "last frontier" of practice building, largely because doctors are consumed by their clinical activities and have little idea of what's going on at their front desk. Good practice management requires that you track your practice's vital statistics on a regular basis.

Unfortunately, most doctors are "in the dark" about their front desk performance as only 5% track the number of new patient calls coming into their office each month. Thus, the first step in improving your front desk performance is to begin tracking the number of new patient calls. Once this is accomplished, you can compare the new patient calls to the new patient exams each month. Your practice's goal should be to convert at least 85% (and preferably 90%) of those calls into new patient exams that are actually scheduled and completed. If your practice is below 85%, it's likely costing you thousands of dollars annually in lost profits, so it's time to take action!

Recording the Calls

Do you know how your phones are being answered? There's no way to "inspect what you expect" unless you begin consistently recording all incoming phone calls, and review them on a regular basis. But isn't recording calls illegal?

No, not if done properly. When was the last time you called customer service at a large corporation and didn't hear: "Your call may be recorded for quality assurance purposes?" As long as you provide notice that the call is being recorded, and the patient provides implied consent by not hanging up, you're good to go.

You can buy the necessary equipment to record the calls on your own, begin reviewing them on a regular basis, and training your staff yourself. One of our clients, Dr. Alan Curtis, an orthodontist in Arizona, did so and achieved outstanding results.

Analyzing the Results

Many doctors are shocked by what they hear when they begin reviewing the calls. Front desk staffers whom they thought had excellent customer service skills were, in fact, short and sometimes rude to prospective patients. Some doctors are overwhelmed by the amount of negativity, as front desk staffers just keep saying "no" to patient requests. In other cases, staffers asked potential patients so many questions it sounds like a police interrogation. As a result, the patient is turned off and never bothers to book an appointment.

Training for Improvement

Knowing these disastrous results isn't good enough, says Amy Demas, an orthodontic consultant with OrthoYES. She's encountered three major front desk problems. First, most staffers never received proper training on the business fundamentals of customer service and phone skills and don't understand the reasons behind them. Furthermore, many front desk staffers don't know how to determine who the decision-makers involved in case acceptance are and how to properly invite them to attend the new patient consultation. Finally, most doctors don't know how to provide proper feedback and coaching to front desk staff. Demas notes that their well-intentioned efforts often backfire, decreasing staff morale and further damaging performance.

Getting Results

Training the staff requires teaching them the importance of improved language and customer service skills so that they actually implement what they learn. This leads to improved confidence and self-esteem for your team, which translates into higher conversion rates of calls into exams.

Increase Your Practice Revenue

9 Strategies To Transform Your Patients Into A Referral Machine

Competition is increasing from the growing number of traditional and corporate practices, making it harder than ever to attract the number of new patients needed to keep your practice growing. Before undertaking an expensive external marketing campaign, invest your time and attention internally by keeping your current patients happy, stimulating more referrals.

Your existing patients are the key to your ongoing success and continued growth. They can also be a gold mine for new patients, as ambassadors for your practice. Here are a few ways to "wow" them and encourage them to refer their friends, family, and colleagues to your practice.

Running a high-quality practice is critical before patients are willing to refer other patients to you. Since patients can't easily judge your clinical care, they evaluate your quality based on non-clinical factors, including their new patient experience and especially how they're treated by you and your staff. Here's how to improve their overall experience and generate more referrals in the process.

1. **Be on Time** – Delays are the number one complaint patients have about their dental experience. Making patients wait sends two negative messages that can drive them away—and cause negative reviews. First, that you have little respect for their time. Second, that your practice is disorganized. Moreover, these negatives can subtly undermine patient confidence in your clinical expertise, inflicting further damage.

2. **Listen** – Let patients explain their concerns first. Be sure to give them uninterrupted time to discuss any dental or health issues. Be an active listener: repeat back what you've heard to make sure you're on the same page before giving your diagnosis and recommended treatment plan.

3. **Educate Your Patients** – Describe the treatment options available to them and explain each option in layman's terms. Outline the negative consequences if the recommended treatment is not accepted. Patients need to understand the risks of ignoring your recommendations. Be sure to discuss not only the oral health implications, but also the potential negative impact on their overall health.

4. **Show and Tell** – A picture really is worth 1,000 words when educating patients about their dental needs. Use an intra-oral camera, digital x-rays, mirrors, etc. to show the patient their specific dental problem. Better yet, make sure your hygienist does the same and reviews the potential problem with the patient before you arrive for your exam.

5. **Pay Attention to Pain** – Thoroughly discuss the probability and severity of pain in advance of treatment. Put the patient at ease, because anxiety intensifies pain, and the fear of pain intensifies anxiety. You need to break that cycle. Arrange a signal for the patient to let you know if they are in pain. This will lessen their anxiety, even if they never have to give you the signal. A patient who thinks you are ignoring their pain, or are condescending to them about it, will likely move to another practice.

6. **Follow-Up** – The best way to demonstrate that you care about your patients is to call them following major procedures to see how they're recovering, and to what extent they may need follow-up care. Even if you're unable to reach them, the mere fact that you called and left a caring message speaks volumes about your concern for them and your quality of care.

7. **Show Appreciation** – Thank new patients for choosing your practice by sending thank-you letters after their new patient exam. Also, consider throwing an annual patient appreciation party with food, music, and contests. While it may not be appropriate for all practices, it can be a very effective practice-building device.

8. **Survey Your Patients** – What do your patients want? You won't know if you don't ask. That's why an annual patient satisfaction survey is so important. Aside from providing important intelligence about your practice, it also engages your patients. However, it's only successful if you and your staff are willing to make the changes necessary, based on the feedback received.

9. **Ask for Referrals** – While you probably know this is effective, you're likely not doing it nearly often enough! Make sure you tell patients that they're valuable and appreciated, and ask for referrals any time a patient joins your practice, compliments you and/or your staff, or completes major treatment with a positive result. Use language like: "We love having you in our practice and would love to have more patients just like you. If you have friends, family members, relatives, or colleagues who need a dental home, we would be grateful if you would refer them to us."

Implementing these recommendations takes only a small amount of time, effort, and money. Yet, the small investment in these 9 strategies can yield supersized results, bringing in dozens more new patients each month. So, review them with your staff and get started today!

Increase Your Practice Revenue

3 Strategies To Build Your Practice By Targeting Your Existing Patients

Most practices continue to operate below their full capacity. While many are increasing marketing efforts to attract new patients, they're overlooking a valuable source of new business right under their nose. Below are three strategies to increase profits by boosting business from your existing patient base.

Our 2019 member survey revealed that while most practices were getting busier, they're still operating well below optimal (100%) capacity. Most doctors don't understand the huge opportunity cost involved when not operating at full capacity, since there's no check written for this "expense."

For example, consider the doctor who is currently grossing $1,000,000, but is operating at only 80% percent of capacity. If the doctor were able to operate at full (100%) capacity, collections would increase to $1,250,000. Of the $250,000 collections increase, usually 70%, or $175,000, would fall to the bottom line as additional profit, since usually only variable costs (lab, supplies, etc.) would be incurred on the extra production.

In response to the busyness problem, most practices are increasing the time, energy, and dollars spent on marketing. The average practice has increased its marketing budget to around 3% of collections now, and many specialty practices are spending significantly more.

Unfortunately, virtually all of these marketing efforts are focused on new patients, while overlooking their existing patient base. That's a huge mistake! Numerous marketing studies have shown that it's much easier and more cost-effective to increase business from existing patients than to create new ones.

You can't afford to overlook this potential "gold mine," offering a tremendous return with only a minimal investment required. Here are three strategies to take full advantage of your patient base.

1. **Reactivate inactive patients** – Many practices have hundreds, if not thousands, of patients of record who haven't been seen in the practice over the last two years. While some of these inactive patients may have died, moved away, or even switched to another practice, the vast majority are still out there with significant unmet dental needs.

   Appoint one staff member to contact inactive patients regularly (at least every six months), and invite them back to your practice. A simple email, and/or one page letter will do, advising the patients that you miss them, and informing them of new practice developments such as expanded procedures, flexible payment options, etc. that you now offer. Provide a specific staff member's name and phone number to contact in order to schedule an appointment. Follow-up with phone calls from this staff member to the extent necessary to recover these inactive patients.

2. **Follow up on treatment recommended but not yet accepted** – Doctors routinely perform extensive diagnosis and treatment planning during the new patient visit. Your practice likely has many patients with previously recommended, but unaccepted, treatment plans representing hundreds of thousands of dollars in potential production.

   Contact these patients by mail or email, to remind them about previously agreed upon dental needs, and inform them that your practice now offers flexible payment plans to make receiving high quality dental care more affordable. Your practice should allow patients to pay their portion of the fee in monthly payments of $150-$200 to dramatically improve affordability, provided these payments are either automatically charged to their credit card or automatically drafted from their bank account. Following up with these patients can dramatically boost treatment acceptance rates and help keep your schedule filled to optimal capacity.

3. **Boost case starts from patients in recall –** Orthodontists routinely see many younger patients who are placed into recall because they're not ready to begin treatment. In a mature orthodontic practice, the number of patients coming out of the recall system into active treatment should equal or exceed the number of patients going into the recall program, helping assure case starts are maintained at an acceptable level.

   Unfortunately, the recall system is a "black hole" in many orthodontic practices, with fewer patients coming out than going in. Doctors should schedule observation visits for these patients at least every six months in order to monitor their progress. More importantly, practices should be communicating with these patients periodically, providing valuable information about the practice and their future treatment, in order to keep these patients "in the loop." Finally, be sure to establish an estimated start date when patients go into recall, in order to develop an accountable system for tracking when patients should be graduating out of recall into active treatment.

Tremendous Return on Investment

Following up with patients who already know and love you involves a minimal investment of time and money. Yet, the payoff can be huge, with a return in the thousands, and sometimes hundreds of thousands, of dollars in increased production. So be sure to take action now.

INCREASE YOUR PRACTICE REVENUE

Are You Driving Potential New Patients Away?

Your practice is likely driving away some potential new patients. But how many and why? Since you likely know little about what happens outside the clinical area, you need outside help to uncover the hidden practice problems that only patients see.

If your practice isn't growing, your knee-jerk reaction may be to crank up an expensive external marketing campaign. Before spending more marketing dollars, first take a closer look at your practice. You may be able to achieve much better results at a fraction of the cost by having a third party examine your practice on an independent basis, and use the results to make needed corrections.

What you need is a patient's perspective. And yes, you can do patient surveys, but that only captures information from current patients, not those who were interested in your practice, but ended up elsewhere.

That's where secret shoppers come in, posing as potential new patients to surreptitiously gather information about your practice and their experience.

Several practice management firms offer secret shopper services. Talk to your colleagues and gather recommendations from them. Secret shopping services may be thorough, but they can also be expensive.

A less costly–and more customizable–approach is to hire a trusted friend or non-dental colleague to "shop" your practice. And we do mean hire; you want him or her to gather a great deal of information, so keep it professional. You need that shopper to report on every step in the new patient process, as well as their in-office experience. The more details you collect, the better. Remember, you want objective and subjective feedback.

Below is a checklist to get you started. However, be sure to customize this to your own practice, especially if you have specific areas of concern.

1. Your Website – Sometimes the first contact may be via an app or your website. So, be sure to ask the following:

- Did the site/app work correctly?
- What were your first impressions?
- How easy was it to set up an appointment?
- How long did it take to receive a response?
- Were all of your questions answered?

2. The Phone Call – How, and sometimes whether, team members answer the phone establishes how a potential new patient perceives your practice. Everything hinges on this first impression—from whether the caller becomes a patient at all, to how willing they are to accept treatment once they become a patient. You want to know:

- Whether the phone is answered at all
- If so, the number of rings before the phone is answered
- If the call goes to voicemail, how long does it take for the call to be returned?
- Receptionist tone and friendliness
- Length of time on hold
- Availability of appointments
- Receptionist's ability to answer questions about the practice—or find someone who can

3. Outside the Building – Patients often form an opinion on the quality of care you provide from the appearance of your building. As a result, you need to know:

- How easy or difficult was it to find the office?
- Was there ample parking available?
- Was the parking lot clean and free from debris?
- How appealing was the landscaping?
- Was the entrance clearly marked?
- If there's an interior entrance, were the walls well lit?

4. In the Reception Area –

- Did the receptionist smile, speak to you, and make you feel welcome?
- Was the new patient registration process easy, or at least clearly explained?
- Was the reception counter open and free from clutter?
- Was the reception area neat, clean, and comfortable?
- Was there information available regarding the services the practice offers?
- What sort of interactions did you have with the staff?
- How long did you wait beyond your scheduled appointment time?
- If the doctor or hygienist was running late, did someone let you know?
- How did the staff interact with other patients?
- Were the phones answered professionally?

5. In the Treatment Room –

- How long did you wait to be seen?
- Did the hygienist explain the cleaning process?
- Was the hygienist and/or assistant friendly and professional?
- Was the doctor friendly and professional?
- Was everyone dressed professionally, including the doctor?
- Did the doctor listen to your concerns and answer questions adequately?
- Did the doctor clearly explain your dental problems and present effective treatment solutions?
- Were the fee and payment policies clearly explained?
- Based upon your experience, would you return to this practice? Refer others?

Moving Forward

You may want to hire more than one secret shopper to get a more accurate picture of the patient experience. However, once you've gathered and analyzed all of this information, be sure to act on it.

The solution could be better training for your front office staff, more attention to your office and reception area cleanliness, improved phone coverage, or something else. However, until you get to know your patients' point of view, you can't assess what changes need to be made. Because you don't know what you don't know.

INCREASE YOUR PRACTICE REVENUE

Upgrade Your Office's Appearance To Stimulate Practice Growth

Patients assess your quality of care based on several non-clinical factors, including your office's appearance. Have you let your office appearance slip over time, damaging your competitive edge? If so, renovating your office will prove to be a great investment, improving patient satisfaction and retention, while increasing treatment acceptance and referrals.

Evaluate Your Office

Is your office bright, clean and attractive? Is it up-to-date and inviting? Does it have adequate size and comfortable seating for your patients? Does it have colorful artwork, attractive background music and smells, a fun water feature, and games to keep children occupied? Is parking readily available? Even the building entrance, landscaping, and neighborhood impact patients' perception of your practice and the quality of care you provide.

Unfortunately, you may have fallen into a common, but dangerous, trap by allowing your office's appearance to slip over time. The carpet and upholstery becomes worn, the walls get smudged, wallpaper starts peeling, the ceiling lights cast a yellow glow, and the plants may be dying. As the furniture becomes outdated and the office loses its crispness, patients receive negative subliminal messages. They subconsciously transfer these negative images to you and your quality of care. As a result, this often manifests itself in decreased treatment acceptance rates and a hesitation, or unwillingness, to refer new patients to your practice.

Since you're in the office day in and day out, you'll likely fail to recognize this negative transformation. You may be so used to your surroundings, and indeed might even appreciate some of the flaws as being part of the practice's "personality." However, what you don't know is hurting your practice!

If your office hasn't been updated in the past five years, it's time to bring in an interior decorator for a fresh look. He or she can serve as an impartial observer of your total practice environment, an outsider who has no idea what you've gotten used to. A decorator can bring to bear his or her professional experience to improve your office. The recommendations may range from an inexpensive "touchup" to an "extreme makeover," but obtaining these objective recommendations on a straight fee basis usually proves to be quite a bargain.

Implement Ideas for a Great Investment

But don't stop there! Spending the money to upgrade your office to first-class status is one of the best investments you'll make. In most cases, your practice can realize a 10-15% increase in collections each time you complete a major renovation of your office space. Usually, the staff is more motivated operating in an up-to-date space. Moreover, the patients receive a very positive subliminal message, creating a higher-value perception for your practice, and increasing patient satisfaction. This translates into increased treatment acceptance rates and boosts patient referrals as well.

So don't let your office's appearance hurt your practice. Obtaining recommendations from an independent professional, and implementing them, will prove to be a smart investment that can generate huge returns for your practice.

Increase Your Practice Revenue

Use Google Ads To Attract More New Patients

If you're constantly struggling to get your website on the first page of Google search results and need more new patients, consider a Google Ads campaign. While the process can be time consuming, if you do it right you can attract new patients, grow your practice, and outsmart the competition.

Google Ads is based on an auction system where you bid on certain keywords and key phrases so your clickable ads will appear in the search results. The more popular the term, the more it costs. You pay every time someone clicks on your ad, hence it's referred to as "pay per click."

To get started, sign up for the site at ads.google.com. You'll want to customize your ad, so if targeting the new patients you really want is important, keep on reading!

Keywords Are the Backbone

Selecting the right keywords is the backbone of your ad campaign, so let's cover that first. You want to stand out. "Periodontist," by itself, is probably oversaturated. But at the same time, you don't want to select an obscure term no one will use in their search. A patient is unlikely to search for "gingival sulcus."

That sounds like common sense, but you'll need more than that to pick the right combination of words. Do some research, and take advantage of the tools available to help you.

Use Google Ads' Keyword Planner (https://ads.google.com/home/tools/keyword-planner) to generate keyword ideas, identify ones to avoid, and get a sense of what your competitors are doing. Note that you'll need to register with a credit card to get started.

Here's how it works: You enter terms you think prospective patients are using to search for a dentist. Google and these other sites will show you similar, relevant terms. You'll see how often people use these words and phrases, how competitive the keywords are in Google Ads, and how much it costs to advertise with each keyword or phrase.

Also consider BuzzSumo.com and SEM Rush's keyword research tool (www.semrush.com/features/keyword-research). HubSpot offers a free trial of its tools at: https://offers.hubspot.com/free-trial-seo. These tools can also help you determine which keywords and phrases receive the most hits and which ones are overused.

Right and Wrong Keywords

Avoid using one-word keywords which are highly searched, such as "teeth" or "dentist." Consider phrases, such as "dentist near me" or "pain-free dentistry." Remember: Longer, more customized phrases get fewer hits, but you'll better target your potential patients.

As you're digging in, you'll hear the term "long-tail" searches. Long-tail keywords are longer and more specific keyword phrases. They're particularly common in voice searches. (Think about your own searches. If you are using a voice search, are you going to say "Restaurant," "Dallas," "Italian" or "Italian restaurant in Dallas near the airport?" The latter would be a long tail.)

Generally, there's less competition bidding on long-tail searches, so they're cheaper. In contrast, competition for rankings can be fierce for shorter keywords which are less targeted–but more costly. There will be less competition for "sedation dentist in Charlotte" than "dentist." But which will get the Charlotte doctor her patients more efficiently?

Wordstream has a helpful explanation and free tool: www.wordstream.com/long-tail-keywords.

Tip: Here's one long-tail keyword you absolutely need to bid on: your practice's name!

Negative Keywords

Just as there are words and phrases you want in your search, there are also ones you don't. You can tell Google Ads not to show your ad for any search containing certain words or phrases. Selecting the right negative keywords can save you money.

Say your name is Dr. Rose Flowers or Dr. Forest Greene. Dr. Flowers probably should have "florist" and "floral" among her negative keywords, while Dr. Greene should consider adding "trees," "camping," and "National Park" to his list. Here's why:

The searcher types in "flowers near me" looking for a wedding florist. Dr. Flowers' ad comes up alongside a local florist. Searcher accidentally clicks Dr. Flowers ad, driving up her Google Ads bill (remember, it's pay-per-click).

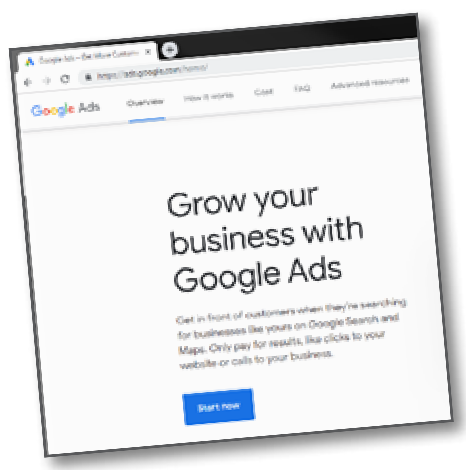
Here are more common examples:

- **Location.** If your practice is in a city that's likely to come up in several states—anything from Manhattan, Kansas to Springfield, Illinois—consider putting the other states in the negative words list. Or, you could just add every state (except those you serve) to the list. (Google Ads does let you target your ad to geographic locations.)
- **Get paid.** Words like "free," "cheap," and even "discount" and "Medicaid" are less than ideal for an ad campaign. Remember, Google Ads isn't about your placement in search results; it's about writing an effective ad.
- **Attract patients, not job applicants.** Dump those employment-related keywords, such as "jobs," "career," "application," "dental jobs," "dental assistant," etc.

As you plug ideas in Google Ads, you'll see suggestions that don't fit your business, such as "be a dentist." Be sure to add them to your negative words list. TechWyse, an internet marketing company, has come up with a list of 75 negative keywords that apply to almost any business: www.techwyse.com/blog/pay-per-click-marketing/75-negative-keywords-that-every-adwords-campaign-should-include.

What's Next?

Google does a decent job of walking you through and answering your questions. IF you feel confident, go ahead and set up the ad. If not, seek professional assistance from a marketing specialist.



Increase Your Practice Revenue

How You Can Make Practice PPO Decisions Profitably

By: Bill Rossi*

Managed care (PPO) participation and related discounts are rising substantially every year. And decisions to join or drop a PPO can impact annual practice profits by $100,000 or more! So avoid acting (or reacting) too quickly based on emotions. Rather, analyze the situation based on facts and get any help you need—before making these critical decisions.

Two successful practices in separate upper Midwest towns had similar demographics, and both faced the same dilemma. The hospital systems in their area had decided to provide their employees with dental coverage under a new PPO.

Impact of PPO Sign Up

The PPO kicked in beginning January of Year 1. Before that, both practices were peppered with questions from patients about whether or not the practice would be joining. Each practice had desirable patients (physicians, nurses, other hospital employees, etc.) on the plans, and naturally were nervous about potentially losing them. However, both practices also had many patients that they were already seeing out of network on this same PPO plan. Each practice ended up making a different decision, resulting in dramatic differences in their bottom-line profitability.

The first practice immediately signed up for the new PPO and saw their write-offs dramatically increase. Their collection percentage (total dollars collected divided by total practice production) declined from 93% to 86% in 1 year. So even though they produced $20,000 more per month during the next year, they actually collected $8,000 a month less! Over a year's time, that was almost $100,000 in reduced collections. Moreover, since the cost of treating these patients remained the same, this resulted in a drop in profitability in the same amount (almost $100,000)!

Practice #1 (Joined PPO)

Monthly Amount	Year 1	Year 2	Year 3
Production	$355,170	$376,586	$395,180
Collections	$330,131	$322,787	$360,488
Collections %	93%	86%	91%

The reason for the dramatic drop they experienced was the increased discounts on patients they already had! This was "collateral damage" they never anticipated. I advised them to drop the PPO, which they did by the middle of Year 2. Fortunately, by the next year, their collection percentage had recovered to 91%. If they had not taken this action, and remained in the PPO collecting 86%, they would have collected $20,000 a month less, with a related drop in profitability of over $240,000 annually. As you can see, the practice continued to grow, even after dropping the PPO.

The second practice took my advice to "wait and see." They knew that the option to sign up with the PPO would still be there later on. They also knew that if they signed up immediately they were guaranteed to suffer huge write-offs on their existing patients already on the plan. And since they were seeing plenty of these patients out of network already, they thought the same may be true for the hospital employees.

Practice #2 (Didn't join PPO)

Monthly Amount	Year 1	Year 2	Year 3
Production	$172,651	$188,106	$199,356
Collections	$160,277	$170,977	$181,538
Collections %	93%	91%	91%

As you can see, this practice maintained a collection percentage of 91%. The practice continued to grow, and they saved over $200,000 in practice profits annually by not jumping on the PPO bandwagon too quickly.

You see, insurance companies have a “chicken or egg” problem. They need providers to get businesses to sign up; yet they need businesses to sign up in order to get providers. Unfortunately, dentists are often too quick to sign up for fear of losing patients. That’s understandable, since no doctor likes to lose patients.

However, the insurance companies are taking advantage of this fear and that’s why there’s a race to the bottom with PPO fees actually declining. In effect, the higher-paying insurance company and noninsurance patients are subsidizing the ones that are costing you the most in write-offs.

The Moral of the Story

When it comes to making PPO decisions, it’s often better to be reactive than proactive. If a new PPO is coming to your area, or if a large employer in your area converts to a PPO, don’t immediately sign up due to the loss, (or fear of loss), of a few patient families.

Rather, take time to check things out. What are the out of network benefits of this particular employer’s plan? What percentage of patients do you already see out of network on this plan? What is the general momentum of the rest of your practice?

If you’re not sure what to do, ask for help. Investing a few thousand dollars in consulting advice may save your practice hundreds of thousands of dollars in lost profits from a poor decision.

** For more information on his firms managed-care consulting and other practice management services, visit www.advancedpracticemanagement.com, or contact Rossi at 952.921.3360.*

STEP TWO
Reduce Your Overhead

Top 30 Strategies To Maximize Your Practice Profits

Below, are our top 30 strategies to reduce overhead and boost your practice profitability for the coming year.

1. Increase visibility of managed care write-offs by revising your practice financial statements to begin with practice production. Thereafter, show the reduction for your production adjustments (including managed care write-offs) to determine your net collectible production. This will reveal if your practice profitability problem is actually a result of managed care discounts rather than overhead. Thereafter, show your practice collections. This will also demonstrate how effective your front desk is in collecting the true amounts (net collectible production) that are due your practice.

2. Rank all managed care plans you are participating in from top (best) to bottom (worst) by showing total production, write-off percentage (fee write-offs divided by production), and administrative hassles for each plan, in order to develop a "drop" sequence. Thereafter, plan to drop the worst managed care plans by going out of network after you have determined how to replace the potential lost volume through less costly marketing strategies.

3. Increase your practice busyness to operate at optimal (100%) capacity through purchasing a competitor's practice and merging it into your own. Contact your state dental society and obtain the names of all competitors practicing within a 3-5 mile radius of your current location. Thereafter, send a letter to them indicating your interest in purchasing their practice. Finally, notify local supply sales reps, dental society officers, and practice brokers of your desire to expand through purchasing another practice.

4. Send a letter/email to your existing patient base informing them of any new procedures offered, as well as flexible payment options designed to improve affordability, and invite them to contact your office to schedule an appointment. Make sure each letter includes a closing paragraph thanking them for being a patient, and asking them to refer their friends, family members, and colleagues to your practice.

5. Send a letter to your existing patient base in September of each year encouraging them to use their remaining dental insurance benefits before year-end. Be sure to include a closing paragraph thanking them for being a patient and asking them to refer their friends, family members, and colleagues to your practice.

6. Use personal phone calls from the doctor to improve quality of care and increase patient referrals. These should include follow-up calls after major procedures or surgery has been performed, the night before treatment is presented to increase case acceptance, and as a means to reactivate inactive patients.

7. Increase the effectiveness of your website by adding video testimonials from patients, parents, and referring doctors. This unique content will also improve your practice's search engine optimization (SEO) results. Also, increase patient conversions through boosting the number of positive online patient reviews for your practice.

8. Increase patient referrals by providing patients with a "9" or "10" customer service experience. Routinely ask patients for referrals (at the new patient conference, anytime they complement you, your staff, or your practice, and at treatment completion) and write thank-you notes and provide a small gift (gift card) to patients as a token of your appreciation for each referral. Create an incentive program for staff based on reaching the desired number of patient referrals each month.

9. Purchase new, expanded on-street or on-building lighted signage to improve the visibility of your office and boost new patient flow. Improved signage is a relatively inexpensive form of marketing that generates a high return on investment.

10. If your current location is not ideal, or you lack sufficient productive space, move to a new location as soon as practical to boost practice growth. Hire a commercial real estate broker to assist you in negotiating the purchase or lease of optimally located office space. Purchase the space if possible; if not, sign a long-term lease (10-year minimum with two 5-year options to renew, including an option to purchase and/or right of first refusal). An improved location, more attractive space, and expanded productive capacity usually generates a 10-20% increase in your practice production.

11. Specialists should increase emphasis on promoting their practice to staff of referring doctors through sponsoring continuing education programs for them, luncheons at their offices, and regular doughnut/muffin/bagel deliveries, along with practice business cards in order to increase referrals on a cost-effective basis. Also, provide your staff with business cards including their name and practice title to distribute in the community.

12. Assign one staff member to contact inactive patients and invite them back to your practice, and to follow-up with patients who have not yet accepted previously discussed treatment plans.

13. Track the number of new patient phone calls and compare it with the number of new patient exams monthly. Set a goal of an 85% conversion rate or better. Record new patient phone calls and monitor them to assess your front desk's sales ability, and provide ongoing sales training using an outside consultant to improve your conversion rates.

14. Track the total dollars of dental treatment recommended versus accepted in order to establish your current treatment acceptance rate.

15. Increase patient treatment acceptance rates by having the hygienist review the patient's intra-oral camera shot with them before the doctor confirms the need for treatment.

16. Increase treatment acceptance rates by allowing patients to pay their portion of the treatment fee at the rate of $150-$200 per month, contingent upon using an automatic charge to their credit card. Your practice likely has thousands of good patients who would accept needed treatment if they can pay for it on a monthly basis, but can't afford to pay $500 or $1,000 out-of-pocket right now.

17. Increase treatment acceptance rates by providing references and testimonials from satisfied patients. This will document the added value you are providing and help differentiate your practice from the competition.

18. Raise fees 3% across the board to help offset the impact of rising inflation.

19. Have an outside consultant review your insurance (CDT) coding to make sure you are billing for all services you perform—and at the correct fee. Many practices lose up to $500 a day through incomplete or incorrect coding.

20. Rank all employees from top to bottom based upon their effectiveness. Reduce staffing levels until you have one full-time equivalent (FTE) employee for each $170,000 of collections for general dentistry and $200,000 of collections per FTE for specialists. If necessary, recruit a star performer to replace a marginally productive or poor performer.

21. Reduce labor costs by eliminating clinical staffing and minimizing clerical staffing on non-patient care days.

22. Discontinue automatic staff pay raises annually. Rather, implement a staff incentive compensation program through freezing salaries at current levels and providing a bonus equal to the following percentage of practice collections (less staff salaries previously paid): 25% for general dentists, 22% for pediatric dentists, 20% for periodontists, 20% for orthodontists, 16% for endodontists, and 16% for oral surgeons, computed and paid at June 30 and December 15 of each year. Allocate the staff bonus funds unequally based upon merit. Pay out the bonus in the most tax-favored manner possible, including tax-free contributions to staff members' HSA, medical

expense reimbursement plan (MERP), health reimbursement account (HRA), reimbursements for dependent care expenses, or a uniform allowance.

23. Launch a continuous improvement program in your practice by offering rewards for employee ideas to boost new patients, increase productivity and efficiency, reduce costs, and improve profitability.

24. Reduce staff health insurance costs by covering only full-time (not part-time) employees who are not covered under their spouse's plan, raising deductibles and/or co-payments, and decreasing the percentage of premiums paid by the practice to 50-75%, with the employee paying the balance through a cafeteria plan on a pretax basis. Consider switching to a qualifying high-deductible health plan (HDHP) to take advantage of tremendous tax savings through opening HSA's, providing maximum tax-deductible contributions of up to $3,550 for employee-only coverage in 2020 ($3,600 in 2021), and $7,100 for family coverage in 2020 ($7,200 in 2021).

25. Improve your practice by visiting non-competing colleagues outside of your service area in order to gain new ideas, while providing tax-deductible travel.

26. Match labor costs to time of day production by using part-time workers to cover peak demand periods (early morning and late afternoon), thus avoiding the need to add another more costly full-time employee. Many doctors have found the quality and productivity of part-timers to be much better than full-timers, and with lower pay and no fringe benefit/retirement plan costs.

27. Reduce credit card processing fees through utilizing Elite Payment Processing (www.elitepaymentprocessing.com or 877.330.3313) to cut processing costs.

28. Reduce accounting fees through utilizing an outside payroll service and reducing the number of payrolls to no more than twice per month. Use a third-party retirement plan firm (not your CPA) to administer retirement plans. Finally, prepare and code practice checks using QuickBooks in order to avoid duplication of effort and unnecessary accounting fees.

29. Contact Jason Ritchey of FuturePlan by Ascensus at 888.440.6401 for a complimentary retirement plan analysis to determine how to optimize contributions for your family while reducing staff costs to no more than 5-6% of pay.

30. Put one staff member in charge of ordering clinical supplies and give her a budget of 6% of the prior month's gross collections (7% for orthodontists). Provide an incentive bonus for them to maintain supplies within the industry average budget percentages. Also, negotiate a 2% discount for payment within 10 days. Since most doctors pay their vendor bills every 30 days, a 2% discount for paying 20 days early represents a 36% guaranteed annual investment return.

REDUCE YOUR OVERHEAD

How To Right Size Your Administrative Staff For Increased Profitability

Is your practice profitability suffering due to excessive front desk labor costs? Is it possible that your staff is doing the wrong tasks or doing them the wrong way? Or are you leaving dollars on the table because your front desk is stretched too thin? Below, practice management expert Bill Rossi* explains how to analyze your practice's front desk effectiveness and the steps to take to increase profitability.

Administrative Staff Benchmarking Ratios

As a general rule, total staff costs (not including payroll taxes, retirement plan contributions, or benefits) should represent approximately 26% of collections in general dental practices. The administrative staff's cost should be between 6-8 percentage points within that 26%.

Digging deeper, an in-depth study of our client practices revealed the following productivity averages, as well as those for more efficient practices (75th percentile), and those at the very top end (95th percentile):

	Average	75th	95th
Total Practice Production Per Administrative Hour Worked	$439	$550	$750
Practice Exams Per Administrative Hour Worked	0.86	1.00	1.45

As a general rule of thumb, an average practice needs one full-time equivalent front desk person for every $60,000 per month of dental office production. More efficient offices can average $75,000 a month in production per full-time front desk staffer, with maximum efficiency practices around $100,000. If your practice is operating below these benchmarks, you need to analyze the problem further.

Improving Front Desk Productivity

Possibly your front desk staff are tasked with duties that could be delegated, or perhaps they could increase their efficiency in performing certain tasks they should be carrying out. Consider the following ideas:

- Implement computerization in your operatories to allow patient billing, medical history, and electronic claims submission to be entered by the clinical staff directly involved with the treatment. This avoids costly duplication of effort, failure to charge out all procedures, miscoding of clinical procedures actually performed, while dramatically increasing the practice volume that can be handled by the front desk staff.

- Outsource your practice payroll using an outside payroll service. They can do it more efficiently.

- Increase use of payment by automatic bank draft and automatic credit card to reduce bad debt, increase case acceptance, and reduce front desk labor spent on billing and collection activities.

- Increase front desk efficiency by recording or tracking all potential new patient phone calls. Provide ongoing training to improve customer service to create the optimal patient experience, with a goal of converting at least 85% of all new patient calls into actual new patient exams.

- Have well-thought-out systems for continuing care and treatment follow-up that make good use of your digital communication and practice management software.

- Ask hygienists to help with the phones, especially in calling their patients that no-showed or cancelled.

Opportunity Cost for High Efficiency Practices

Maybe your practice is at the top end of these benchmarks and you're feeling rather complacent. Beware! While your practice may seem very efficient, there may be huge opportunity costs. Your front desk staff may be stretched so thin that follow-up phone calls are not being made, patients are not being properly scheduled, phone calls are not being answered, and insurance is not being processed on a timely basis, which could be costing you dearly.

You may not be aware of these problems because many good front desk staffers are very territorial. They don't want to tell you when they're not able to keep up with everything because they don't want anyone else around who "doesn't do things as well as they do." The problem here is that the practice is being limited by the capacity of the current staffers, no matter how competent they may be.

As a result, if you're at the top end of these ratios consider the possibility that you may be able to increase practice profitability by adding front desk labor. For example, if you hire a new part-time/full-time front desk staffer and can schedule five more recall visits per week that could translate into $2,000 of added production each week. This new staffer could also help you cover phones during lunch hours. Our research shows that not answering phones during lunch hours costs the average solo practice approximately four new patients per month. And they can make needed collection calls and follow-up calls to increase treatment acceptance.

And don't forget the advantage of having additional front desk labor so you can expand office hours and be more available to patients. Our research shows that having at least five clinical hours a week after 5:00 p.m. can significantly add to new patient flow.

Administrative staff labor matches up directly with hygiene productivity. So if you're trying to grow, you may need to add more front desk labor to fill the hygiene schedule for increased production. In many cases, if you spend an extra $1,000 in front desk labor, you may be able to get an extra $4,000 back in production! Not only will this help your practice grow, but it will also increase your profitability much more than if you try to save money by throttling back on your front desk labor costs.

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Reduce Your Overhead

Use This Pay Strategy To Motivate Your Staff For Practice Growth

In this tight labor market, what compensation package should you offer to retain key staffers? Your goal should be to motivate your staff to boost collections so that you can in turn provide increased compensation to them. Here's how to accomplish that while maximizing the perceived value to them.

Your Compensation Plan

Your practice provides a much greater economic benefit to your staff than simply the wages shown on their W-2. As a first step, you should communicate the total value of all wages and bonuses, fringe benefits, retirement plan contributions, and payroll taxes paid for each staff member using our Total Pay Statement available in The McGill Advisory Member Resource Center at www.McGillAdvisory.com/Forms.

Most practices are now following our long-standing advice to ditch across-the-board pay raises in favor of bonuses and other benefits. Our recommended strategy recognizes that it takes the doctor and staff, working together as a team, to bring about increased new patient calls, convert them into exams, and then have these new patients accept the treatment recommended, in order for practice collections to grow. The plan is simple, but highly effective: if the practice collections grow, the doctor and staff make more. If they don't, neither the doctor nor the staff receive increased pay.

The Bonus Plan

Specifically, we recommend that collections for the first six months of the year (through June 30) be multiplied by the industry average salary percentage for your practice's segment of dentistry as follows: general dentistry–25%; pediatric dentistry–22%; periodontics–20%; orthodontics–20%; oral surgery–16%; and endodontics–16%. From the industry average salary amount thus determined, subtract out the actual salaries paid for the first 6 months of the year. The excess represents the bonus pool available to be paid out in July. Then simply repeat the process in December using the year-to-date collections and staff salaries paid, including bonuses.

For example, if your general dental practice collects $1,000,000 during the first six months of the year, the industry average salary amount would be $250,000 ($1,000,000 x 25%). If the staff salaries actually paid out during this six-month period were $200,000, there would be $50,000 available for the staff bonus pool.

Allocate the Bonuses Based On Merit

Some doctors take the easy way out and simply distribute the bonus pool equally to each staff member. That's the wrong approach, since it rewards mediocre and poorly performing employees while penalizing your star performers who will likely leave for greener pastures elsewhere.

Rather, the bonus pool should be allocated unequally, based upon each staff member's relative contribution to the practice's success (merit). You should establish individual performance goals for each employee, and then tie their share of the bonus to their success in reaching those goals.

Customize the Bonus Payouts

The next step is to ask staff members in what form they would like to receive the bonus, in order to create the highest perceived value to them. Some may elect to defer part or all of their bonus into their 401(k) plan on a tax-deductible basis. Others may elect to have all or part paid out as a tax-deductible contribution to their Health Savings Account (HSA), provided they qualify. Practices that don't provide staff health insurance coverage can offer medical reimbursement through the highly popular Health Reimbursement Account (HRA), and use the bonus to fund it.

Other employees may elect to have the bonus paid out in the form of child care reimbursement, uniform allowance, auto allowance, home rental, or other form of tax-free benefit. This approach provides an advantage to the practice since there are no matching payroll taxes or retirement plan contributions on these payments, while the employee avoids unnecessary income and payroll taxes on the bonus amount.

And consider offering two other benefits that are growing rapidly in popularity. The benefit valued most by employees is paid time off (PTO) for maternity/paternity leave, or to care for sick/aging parents or other relatives, as we discussed last month. And here's another trendy perk that has skyrocketed in popularity recently—using the bonus to pay down a staff member's student loan or credit card debt. With student loan debt at record levels, Carhart, Fidelity Investments, and numerous other large employers are now offering this highly-popular benefit, since it addresses staffers' number-one economic need.

Adding these two new key benefits options can dramatically increase your staff's perceived value of their bonus. And that's what it's all about—finding out what your staffers value, and then giving it to them to motivate them to help your practice grow!

Reduce Your Overhead

How To Lower Your Supply Costs Without Going Corporate

For years, corporate dental groups (DSOs) have touted their ability to purchase dental supplies and equipment at discounted prices through volume purchasing as a huge competitive advantage. Now, you can enjoy the same or greater savings without "going corporate."

The California Dental Association (CDA) created The Dentist Service Company (TDSC) in 2015 to provide expanded services to help their 27,000 members become more profitable while remaining independent. In 2017, TDSC launched an e-commerce site, now offering over 40,000 brand name major manufacturer dental supply and equipment products, with savings of 20% or more off of manufacturer's suggested retail price (MSRP), due to their tremendous purchasing power efficiency.

By mid-2019, shoppers had realized collective savings of more than $4 million. The average dentist is reporting savings of over $9,000 annually, while enjoying free shipping and a 24/7 online shopping experience similar to Amazon. The website (tdsc.com) offers customized invoice comparison to confirm your savings, providing an excellent return on your state dental association dues investment.

Expanding Scope

CDA's tremendous success has made other state dental associations eager to join in. In November 2018, TDSC rolled out access to its shopping site to dental association members in nine other western states including Arizona, Colorado, Idaho, Montana, Nevada, Oregon, Washington, Utah, and New Mexico. Since then, TDSC has aggressively expanded the e-commerce site to dental association members in all 50 states.

Over time, TDSC plans to expand the array of dental supplies and products offered. The nationwide rollout dramatically increased the number of users, providing much greater buying leverage that should lead to greater savings in the future. While Amazon will continue to be a competitor, over time TDSC should gain a huge competitive advantage by harnessing the purchasing power of the vast majority of U.S. dentists, while keeping the savings in the pockets of their association members rather than Amazon shareholders.

STEP THREE
Lower Your Taxes

Top 50 Year-End Tax Planning Strategies

Here are our top 50 year-end tax planning strategies, so you can implement changes that can cut your taxes this year and the next.

1. Receive tax-free reimbursements under Section 139 for personal, family, living, and funeral expenses incurred as a result of a federally declared disaster, including COVID-19. Eligible expenses include any cost associated with maintaining your home as an office, related internet, cell phone, increased utility costs, purchasing office equipment, office supplies or other teleworking costs. Furthermore, childcare costs (unreimbursed from other sources) also qualify if the care allowed the employee to work while their children are home from school. Moreover, out-of-pocket medical costs not covered by health insurance, such as wellness and any PPE costs incurred, are also included. Finally, funeral costs for an employee, or employee's family member, are also included.

2. Claim the Employee Retention Tax Credit for 100% of wages paid, up to a maximum wage of $10,000 per employee. This refundable tax credit is allowed only for practices that did not receive Paycheck Protection Program (PPP) funding.

3. Claim the refundable payroll tax credit for any sick leave or family leave required to be paid due to COVID-19 under the Families First Coronavirus Response Act (FFCRA).

4. Contact your CPA to maximize the 20% of qualified business income (QBI) deduction available under Section 199A for your practice and real estate. If your taxable income exceeds the 2020 phase-out level ($213,200 single/$426,600 married), implement strategies such as purchasing a business car, equipment, or other assets as described below, deferring income by postponing billing and collections, and accelerating deductions by prepaying rent, increasing retirement plan contributions, and boosting charitable contributions, in order to qualify.

5. Need a new business car? You can claim up to $18,100 in depreciation deductions if you purchase the typical passenger ("luxury") automobile. Even better, you can write-off up to 100% of the cost of a new or used pickup or sport utility vehicle (SUV) with a Gross Vehicle Weight Rating (GVWR) of 6,000 pounds or more, assuming 100% business use.

6. Going electric? Take advantage of tax credits of up to $7,500 if you buy a new qualifying electric vehicle. This credit is phased out once a manufacturer sells its 200,000th vehicle.

7. If you purchase new or used dental or office equipment, furniture, computers, or software, you can elect to expense (write-off) up to 100% of the cost as a 2020 deduction for immediate savings.

8. Did you upfit new office space or make leasehold improvements to your existing space? If so, alert your CPA to claim 100% bonus depreciation so you can immediately deduct the entire cost of these improvements.

9. Obtain a cost segregation study if you've purchased, constructed, or renovated an office building costing $500,000 or more after 1986, in order to reclassify some costs as non-structural for faster depreciation write-offs.

10. Did you use your personal residence and/or vacation home to hold business meetings, staff retreats, training or parties, board of director, shareholder, or retirement plan meetings which totaled 14 days or less at each property during 2020? If so, make sure your practice pays you the highest reasonable rent for the use of each property, and claims a deduction for the rental paid, while the income you receive is tax-free under Section 280A(g).

11. Looking to maximize tax-deductible retirement plan contributions (more than $126,000 annually)? Doctors over age 40 with a younger staff can now fund a combined "safe harbor" 401(k) profit sharing plan (with a 6% match) and cash balance defined benefit pension plan, to save thousands in federal and state income taxes, says actuary Jason Ritchey of FuturePlan by Ascensus (888.440.6401).

12. Looking for slightly smaller tax-deductible contributions ($126,000 or less)? Doctors over age 40 with a younger staff should use a 401(k) cross-tested (age-weighted) profit sharing plan, to maximize tax-deductible contributions for each doctor and spouse, while limiting staff funding costs.

13. Switch to a qualifying High Deductible Health Plan (HDHP) during your next open enrollment period, in order to potentially reduce premiums and qualify for tax-deductible Health Savings Account (HSA) contributions.

14. Doctors covered under a qualifying High Deductible Health Plan (HDHP) should make the maximum tax-deductible HSA contribution up to $3,550 for a single policy in 2020 ($3,600 in 2021) and $7,100 for a family policy in 2020 ($7,200 in 2021) to cover future medical expenses. Doctors and spouses age 55 or older can each make additional tax-deductible "catch up" contributions of $1,000.

15. Minimize or eliminate the 3.8% Medicare payroll tax on personal investment income by increasing retirement plan and IRA contributions, increasing salaries paid to employed children, gifting investment assets to lower bracket family members or charities, investing in tax-free bonds, and reducing capital gains through tax-free exchanges and harvesting capital losses.

16. Contact your tax advisor to determine if you can save taxes by electing Subchapter S corporation status for your practice effective January 1, 2021. In most states, doctors will be able to significantly reduce payroll taxes (including the 3.8% payroll tax on personal investment income) by taking a lower salary, with the remaining profit distributed as a dividend (not subject to payroll taxes). Subchapter S status can also reduce income and payroll taxes on the practice sale, and lower IRS audit risk and exposure. However, if you're unincorporated with taxable income less than $163,300 (single) or $326,600 (married), you'll likely find the Section 199A income tax savings from remaining unincorporated will outweigh the payroll tax savings from operating as an S corporation.

17. Defer taxes on capital gains from the sale of your stocks, real estate, practice and/or office building by investing the proceeds in real estate and/or businesses located in financially distressed areas, known as Qualified Opportunity Zones (QOZ).

18. Utilize a Section 1031 tax-free exchange to avoid federal and state income taxes on the sale of your office building or other real estate held for business or investment purposes, if you plan to reinvest the proceeds.

19. Have your practice pay and deduct all travel, meals, business car expenses, tax return fees, safety deposit box rentals, dues and subscriptions, continuing education, investment expenses, etc. If you paid these personally, have your practice reimburse you before December 31, 2020. Otherwise, these expenses are no longer deductible on your individual income tax return.

20. Increase tax-free income by having your practice pay all medical insurance premiums for you and your family. Medical insurance (including Medicare for doctors 65 or older) premiums remain 100% deductible for all doctors (C corporation, S corporation, unincorporated, etc.), even if no staff coverage is provided, since the Obamacare non-discrimination rules have not yet gone into effect.

21. Make sure your practice takes advantage of the Disabled Access Tax Credit of up to $5,000 annually for building improvement costs incurred to make your practice facility more accessible (e.g., expanding hallways, repaving

parking area, installing wheelchair accessible ramps, new ADA-compliant bathrooms, or adding new carpet or floor coverings), or for equipment purchased to provide services to persons with disabilities.

22. Make sure that your corporation fully utilizes the $15,000 expensing election under Section 190 for expenditures made to remove architectural and transportation barriers to provide services to persons with disabilities and/or the elderly.

23. Separate fully (100%) deductible travel, lodging, and continuing education expenses from meal expenses (normally 50% deductible) for tax reporting purposes. Additionally, make sure food and beverage expenses for staff meetings, functions, and outings, as well as those provided in-house for patients or prospective patients are classified as "office expenses" since they remain 100% deductible under Section 274(n). Unfortunately, entertainment expenses are no longer deductible.

24. Increase business deductions by purchasing artwork and business luggage through your practice with tax-deductible dollars. Maximize business-related dues and subscriptions to magazines, newspapers, and other periodicals paid through the practice.

25. Make sure all of your travel is business-related (continuing education meetings, consults with colleagues, board of directors meeting, etc.) in order to eliminate non-deductible personal travel costs. In order to document consults with colleagues, send a letter to your colleague confirming your visit, as well as a follow-up letter thanking her for the opportunity, outlining what you learned from your four hour in-office visit, and inviting her to visit your practice.

26. Deduct the cost of business computers and other office furniture and equipment purchased through the practice and used at home for confidential duties such as practice accounting, payroll, personnel, and other management matters.

27. Practicing as a C corporation? Reduce your taxable income to zero at year-end by paying a bonus to yourself and making retirement plan contributions, if appropriate. Retaining earnings in your C corporation makes sense only to the extent necessary to fully utilize existing net operating losses and the tax credits discussed above.

28. Pay all operating expenses for your business automobile through your practice and deduct the actual cost of operation, rather than the $.575 per mile rate in 2020. The auto expenses which should be paid through the practice include gas, oil, maintenance, repairs, taxes, tags, licenses, and insurance. Keep a log on a three-month basis and show any personal usage as income on your W-2.

29. Employ your spouse through the practice and pay him or her an annual salary of $3,000 (generally) in order to qualify the spouse for minimum Social Security benefits, the child care credit, as well as fully deductible practice travel and fringe benefits, while minimizing payroll taxes. However, if your family has two or more children under the age of 13, and child care expenses exceed $3,000 annually, increase the annual salary to equal the annual child care expenses, up to a maximum of $6,000 annually. Moreover, if your practice operates a SIMPLE-IRA retirement plan, increase the spouse's salary to $14,750 ($18,000 if age 50 or older), in order to qualify your spouse for the

maximum SIMPLE-IRA deferral of $13,500 ($16,500 if age 50 or older). If your practice sponsors a 401(k) profit sharing plan, increase your spouse's salary to $21,500 ($28,500 if age 50 or older) to qualify for the maximum tax-deductible deferral of $19,500 per year ($26,000 if age 50 or older). If your practice operates an age-based retirement plan (target benefit pension plan, cross-tested or age-weighted profit sharing plan, or defined benefit pension plan), pay the highest reasonable salary in exchange for your spouse's services in order to generate a larger tax-deductible retirement plan contribution for your spouse.

30. If you don't have a practice retirement plan, set one up on or before you file your practice tax return to qualify for a 2020 tax deduction. Make sure your practice utilizes the tax credit for small employer pension plan startup costs of up to $500 annually for the first three years of a new plan ($1,500 total credit).

31. Contribute an amount to your practice's retirement plan to guarantee you'll receive the maximum contribution allocation possible ($57,000 in 2020; $63,000 if age 50 or older), as long as at least 70% of the amounts are allocated to your family. If you're receiving less than 70% of the total amounts allocated, contact actuary Jason Ritchey of FuturePlan by Ascensus at 888.440.6401 to have an analysis performed to determine what retirement plan design will prove most cost-effective for your practice.

32. If you or your spouse operate a separate full or part-time side business, establish a separate retirement plan for the business and maximize tax-deductible contributions to it.

33. Fund non-deductible IRA contributions for you and your spouse of $6,000 per spouse ($7,000 if age 50 or older), to avoid the 3.8% tax on personal investment income. Establish these as tax-free Roth IRA accounts for married doctors with less than $206,000 of modified AGI, or as regular nondeductible IRA accounts otherwise.

34. Roll your taxable IRA amounts into your existing retirement plan (if permitted) to avoid income taxes on Roth IRA conversions.

35. Convert your regular IRAs (non-deductible contributions only) into Roth IRAs each year so all future earnings will grow tax-free.

36. Convert a portion of your taxable IRAs into Roth IRAs following your practice sale, in an amount equal to your itemized deductions, plus the 10% /12% tax bracket amount ($40,125 single or $80,250 married). If you don't take your Required Minimum Distribution (RMD) in 2020, consider converting a larger amount.

37. Employ children age 6 or older through your practice in order to fund college savings, private school costs, etc., on a tax-deductible basis. Each child can earn up to $12,400 tax-free in 2020 in exchange for services actually rendered, and earnings in excess of that are taxed at only a 10% rate on the next $9,875 and 12% rate up to $40,125 in 2020.

38. Establish and fund the maximum annual contribution of $2,000 per year to a Coverdell Savings Account (formerly known as Education IRAs) for each of your children in order to shelter investment earnings for future tax-free payouts to cover college and/or private school costs.

39. Establish a Roth IRA for each employed child and contribute an amount equal to their earned income, up to a maximum of $6,000 for each in 2020. While these contributions are non-deductible, principal can be withdrawn tax-free for college, and all future earnings will be tax-free when withdrawn after age 59½.

40. Reduce your income taxes further by shifting income-producing property (dental and office equipment, office building, etc.) into a family limited partnership (FLP), Subchapter S corporation, or limited liability company (LLC), set up on behalf of your children age 19 or older, or children who are full-time students age 19-23. This income will be taxed at their lower rates if their earned income equals more than half of their support.

41. Transfer appreciated property (e.g., stocks, bonds, or real estate) you plan to sell, to your children age 19 or older, or children who are full-time students ages 19-23, or to an FLP or LLC set up for their benefit. Thereafter, they

can sell the appreciated property and have the capital gain taxed at rates as low as 0% if their earned income equals more than half of their support, avoid the 3.8% net investment income tax and use these proceeds to fund educational costs.

42. Increase the rent charged to your practice for the use of your professional office building and/or equipment to the highest reasonable rate if this property is owned by an FLP, LLC, or Subchapter S corporation on behalf of your children age 19 or older, or children age 19-23 who are full-time students. This will increase the income shifted to their lower tax brackets if their earned income equals more than half of their support.

43. Have your FLP/LLC loan funds to your corporation for working capital or for capital improvement at a high interest rate (15%), or begin operating an in-house lab and/or records business, in order to shift additional income from your higher tax bracket to your children age 19 or older, or children age 19-23 who are full-time students. This will increase the income shifted to their lower tax brackets if their earned income equals more than half of their support.

44. Do not claim any college-age children as dependents on your federal or state income tax returns. Rather, have them pay for their college education and living expenses from their own funds, custodial accounts, or by taking distributions from your family limited partnership. Through this strategy, your children will become eligible to claim the American Opportunity educational tax credit ($2,500 a year during the initial four years), and Lifetime Learning credit ($2,000 educational tax credit during remaining years), not otherwise available to you due to your income level.

45. Increase charitable contribution deductions by making gifts of property, such as stocks, bonds, artwork, or real estate that have increased in value—in lieu of cash donations—to qualified charitable organizations. The full fair market value of the property is tax-deductible as a charitable contribution if held for at least 12 months and the gain is not subject to income tax— so you can hang on to your cash to pay down debt or invest.

46. Establish a donor advised fund (DAF) and make charitable contributions of appreciated stocks to it in order to receive an immediate charitable contribution income tax deduction equal to the value of the stocks gifted, while distributions to the charities of your choice occur in the future. This allows you to accumulate funds for future large gifts, pre-fund contributions during high tax years (practice sale) to be paid out in low tax years (retirement), and facilitate planning to avoid estate taxes.

47. Install a solar power system (home or office) to cut energy costs and claim the maximum federal income tax credit (IRS Form 5695) equal to 26% of the cost in 2020 and 22% in 2021.

48. Defer income into 2021 by delaying billing and collection activities in December.

49. Accelerate your personal tax deductions into 2020 by paying any state estimated income tax payments due in January before year-end; if incorporated, increase your state income tax withholding on your corporate salary or bonus before December 31. Also, prepay your home mortgage payment due January 1, and pay all real estate and personal property taxes due before December 31, 2020. However, itemized deductions for state and local taxes are limited to no more than $10,000 annually.

50. Use the following strategies to minimize the impact of the $10,000 cap on your state and local tax deduction: unincorporated doctors should deduct property taxes on their office building and equipment on Schedule C; incorporated doctors who lease their office building to their practice should deduct building property taxes on Schedule E. Own a second home? Consider converting it into a rental property so that you can deduct the related property taxes on Schedule E. Property taxes on farm and timberland should be deducted on Schedule F, and raw land on Schedule A-Line 6.

Lower Your Taxes

How To Get The Biggest Savings From The New 20% Section 199A Tax Deduction

Section 199A provides an extra tax deduction equal to 20% of the combined qualified business income (net profit) from all practices and other businesses you operate. Unfortunately, Congress limited (and in some cases eliminated) this deduction if your income is too high.

The deduction is phased out for single doctors with taxable incomes beginning at $163,300 for 2020 and eliminated at $213,300 of taxable income. For married doctors, the phase out begins at $326,600 of taxable income and is eliminated at $426,000 of taxable income (the income threshold). Accordingly, you get NO (zero) deduction if your taxable income exceeds $213,300 if single, or $426,600 if married, in 2020.

The IRS recently issued final Section 199A regulations covering a multitude of previously unanswered questions. If your income is too high, especially if it's slightly above the income threshold set forth above, you can use the following 8 strategies to qualify for the largest deduction possible under the final rules.

Be sure to discuss these strategies with your CPA.

1. Increase retirement plan contributions – Increasing contributions to your existing retirement plan reduces your taxable income. Doctors operating a cash balance or other form of defined-benefit plan have even greater flexibility to create larger deductions that can drop them below the income limit. In these plans, the actuary provides the doctor with the recommended contribution to stay on course each year, as well as the minimum and maximum contribution levels. As a result, the doctor may be able to fund a contribution amount between these levels that is large enough to drop his taxable income below the limits, thus qualifying for the Section 199A tax deduction.

If you don't have a cash balance plan in place, ask your retirement plan administrator for a proposal to see if it will prove cost-effective for you.

2. Fully fund your health savings account (HSA) – If you're covered under a qualifying high deductible plan (HDHP), you can make tax-deductible contributions of up to $7,100 in 2020 ($7,200 in 2021) for family coverage which will further reduce your taxable income. You can also contribute an additional $1,000 for each spouse age 55 or older.

3. Optimize your depreciation – While the current tax law allows you to elect to expense up to $1,040,000 of purchases of new/used equipment, business cars, and/or leasehold improvements each year, you may be better off not claiming the entire deduction in a single year. By limiting your depreciation deductions to just the amount needed to get below the income threshold and deferring the excess deductions to future years, you may be able to stay under the income threshold for several years, qualifying for the maximum Section 199A tax breaks.

Have you built or purchased a new office building since 1986? If so, consider a cost segregation study to accelerate depreciation deductions on your office building, which can also lower your taxable income over the next 5-7 years.

4. Employ your children through the practice and pay them the highest reasonable salary for their services – Each child can earn up to $12,400 in 2020, free of federal income taxes, thanks to the increased standard deduction. Meanwhile, your practice can deduct the salary paid, reducing your taxable income.

5. Convert additional personal expenses into legitimate business tax deductions – Expenses such as auto, travel, health insurance, telephone, cell phone, business meals, etc. can be deducted through the practice if properly structured, reducing your taxable income.

6. High interest loan to parents – Need to provide support for a lower income parent or other relative? Chances are they have some cash and other investments yielding paltry returns (2% or less). Do everyone a favor and have your practice borrow the maximum amount from them in exchange for a high interest rate (15%) promissory note. For example, the practice could generate an interest deduction of $15,000 on a $100,000 loan, reducing your taxable income, while your parent or other relative receives much needed support and pays little, if any, federal income taxes on the interest earned.

7. Revise your investments to minimize taxable investment income – Moving personal assets out of taxable bonds and into individual stocks or tax-free bonds will reduce your taxable income. Likewise, you can eliminate capital gains on the sale of real estate using a Section 1031 tax-free exchange.

8. Bunch charitable contributions – The current law increased the standard deduction to $12,400 single; or $24,800 if married in 2020. If your total itemized deductions [home mortgage interest, state and local taxes (up to $10,000 maximum) and charitable contributions] are near or below these levels, you can save taxes by bunching charitable contributions in a single year, and then claiming the standard deduction in future years. This not only generates more tax deductions for you over time, but can also reduce your taxable income below the limits set forth above in order to qualify for the Section 199A tax deduction.

For example, a tax and business planning specialist with John K. McGill & Company, Inc. had advised one client to contribute $80,000 of appreciated stock into a donor-advised fund to accomplish this result. This reduced the doctor's taxable income in 2018 from $426,400 to below the phase-out limit, qualifying him for a partial Section 199A deduction, and providing total tax savings of over $38,000. Meanwhile, the $80,000 contributed to the DAF will be paid out to the doctor's favorite charities over the next five years.

What Salary to Take?

If you're able to reduce your taxable income below these levels to qualify for a Section 199A tax deduction, you may be able to further increase your tax savings through taking a lower salary and larger S corporation distributions. This will increase your related practice profits, as well as the potential 20% tax deduction. Furthermore, this will also reduce the federal and state payroll taxes levied on your salary. Before taking any action, make sure that the lower salary level represents reasonable compensation for your services and will not be offset by increased staff retirement plan contributions.

Brad A. Kucharo, CPA, CFP®, a tax and business planning specialist with John K. McGill & Company, Inc., had advised one of his clients to drop his salary from $275,000 annually to $200,000, cutting his payroll taxes. Furthermore, this increased his practice profits by the same amount ($75,000) generating a larger Section 199A tax deduction! Since the doctor has a 401(k) cross-tested (age-weighted) profit-sharing plan and enjoys a 12 year age advantage relative to his staff, he was able to still receive the maximum annual contribution allocation under the plan ($55,000 for 2018), with no increase in his staff funding costs. As a result, the doctor will enjoy income and payroll tax savings of $5,775 per year.

For information about personalized tax and business planning services offered by the specialized advisors of John K. McGill & Company specifically for dentists and specialists, call 877.306.9780 or visit:

WWW.MCGILLHILLGROUP.COM/PLANNING

STEP FOUR
Cut Spending And Boost Savings

Top 25 Strategies to Cut Spending and Build Your Wealth

Most doctors aren't on track to reach financial independence. For most, it's due to excessive personal spending which jeopardizes their ability to save what they need to achieve financial security in retirement. Here's how to correct the problem and get back on the road to financial freedom.

A J.P. Morgan survey once revealed that only 26% of Americans were financially prepared for retirement, despite rising stock market and real estate values. For most, the culprit is excessive personal spending. Fortunately, reviewing your personal spending and taking action to cut it can prove quite profitable. For example, reducing your personal spending by $2,500 a month will reduce the assets required at retirement by $811,500! More importantly, it frees up an extra $2,500 monthly for you to save and invest. Here's how to make it happen.

1. Take an x-ray of your financial life by tracking your personal spending using Quicken, QuickBooks, or Mint. You'll likely find your spending 30-40% more than you thought. That's the shock therapy you need to jumpstart the necessary financial changes discussed below.

2. Painlessly reduce spending by 20-30% by putting your credit cards away and paying with cash to eliminate impulse spending.

3. Sell non-performing (negative cash flow) investments and use the proceeds and your low-yielding cash to pay off higher interest rate debt to provide a higher (and guaranteed) investment return and eliminate the related monthly payment. Maintain access to cash for emergencies using a home equity line of credit, personal investments, Roth IRAs, and HSAs.

4. Low on cash? Consolidate higher interest rate personal, credit card, and practice debt with your existing home mortgage, and refinance into a 15-year fixed-rate mortgage, to reduce interest rates and related monthly payments.

5. Don't have enough home equity to pull it off? Negotiate with at least 3 banks to consolidate your practice debt and lower your interest rates and related monthly payments.

6. Approaching retirement? If so, consider downsizing by selling your personal residence and using the equity to purchase a less expensive home debt-free. In addition to eliminating your mortgage payment, you'll likely save another $1,500 monthly in reduced property taxes, insurance, utilities, repairs, and maintenance.

7. Reassess your life, disability, business overhead, and long-term care insurance needs and reduce coverages (and related premiums) by taking into account your existing investments which can be used to partially self-insure.

8. Purchase annually renewable term for the life insurance coverage amount you need through the ADA (www.ada.org). Avoid the costly accidental death rider, waiver of premium rider, and child insurance coverages that you don't need. Once the proper coverage is in place, drop your existing life insurance policies for substantial premium savings and to gain access to the cash surrender value in any whole life/universal policies.

9. Reduce disability insurance premiums by 25-50% by switching coverage to the ADA which contains an "own occupation" definition of disability, provides up to $15,000 monthly coverage, with benefits now payable to age 67 (most private plans stop at age 65), and extend the elimination period to 180 days. Once this coverage is in place, drop existing disability insurance policies for significant premium savings.

10. Eliminate business overhead insurance coverages if you have an associate, partner, or Mutual Assistance Agreement with local doctors to provide coverage in the event of your illness or disability. Otherwise, obtain coverage through the ADA in an amount equal to 50% of your normal monthly overhead expenses, since variable costs will be eliminated if the practice is shut down due to your illness or disability. Thereafter, drop your existing coverages for significant premium savings.

11. Reduce auto and homeowners insurance premiums by shopping coverages annually. Trim auto insurance premiums by 15% through boosting deductibles to $1,000 and increase homeowners deductibles to at least $2,500 to cut premiums by as much as 30%. Take advantage of multi-policy discounts by consolidating auto, homeowners and personal umbrella coverage with a single insurance company and ask for all available discounts. You can compare quotes from multiple insurers at www.insurify.com.

12. Take advantage of growing older by claiming age-related (over 55) discounts for retailers such as Banana Republic, Kohl's, Ross, Stein Mart, and others, as well as restaurants, cruises (Carnival Cruises and Royal Caribbean), and hotels.

13. Use cashback websites such as shopathome.com and Rakuten.com (formerly Ebates) to earn cashback (5-10%) for your online purchases.

14. Purchase gift cards at a discount of up to 30% through websites such as GiftcardGranny.com, GiftcardBin.com, and Cardpool.com.

15. Save up to 50% on small appliances and electronics by purchasing certified refurbished items through manufacturers or authorized dealers. Warranties protect you for 90 days to 1 year, or longer if purchased from the manufacturer.

16. Find the lowest price for retail purchases using free price checking apps such as ShopSavvy, PricePirates, and Scanbuy to double check prices before purchasing.

17. Don't check out at a retailer until you have checked their website and retailmenot.com and couponcabin.com for discount coupons, promotional codes, and perks such as free shipping before you buy. Also, install Honey (joinhoney.com), a browser plug-in that automatically searches for the best discount price codes at check out.

18. Purchase luxury goods for at least one-third less than estimated retail using the therealreal.com to find consignment men's, women's, and children's clothing, jewelry, watches, handbags, home décor, and more representing a multitude of designers. Receive an instant credit of $25 towards your first purchase for signing up.

19. Don't spring for the latest iPhone 11 Pro Max at a whopping price tag of $1,080 and up. Rather, reap huge savings by going with a slightly older model. For example, the iPhone X was recently marked down to only $599, with even lower prices available on the iPhone SE.

20. Buying a car from the dealer? Go online to Edmunds.com, KBB.com, and truecar.com to find the lowest price you should pay based upon the make, model, options, and condition of the vehicle.

21. TV footage from Hawaii showing molten lava destroying everything in sight has had tourism reeling in the Aloha state. As a result, you can find a slew of airfare bargains for half-price or less. Check out Airfarewatchdog.com for flights from the East Coast for $400 or less and from the West Coast for less than $300.

22. Nab a last-minute hotel room at prices as much as 70% off at hoteltonight.com. Using a hotel rewards credit card? You may be eligible for a free night's stay each year at their property, including Starwood, Marriott, Hyatt, Hilton, and more!

23. Check out AutoSlash.com for details about current car rental coupons, discounts, and promotions. Also, be sure to ask for rental car/hotel discounts for organizations that you belong to, such as AAA, USAA, and AARP, as well as warehouse clubs. Travel websites such as Expedia, Priceline, Kayak, and Hotwire will also help you score the lowest possible car rental rates.

24. Call your credit card company and request lower interest rates and/or a waiver of late fees in order to keep you as a customer.

25. Add up all these monthly spending reductions and put your future financial success on autopilot by establishing a monthly automatic draft from your personal checking account for the total savings amount so it can be immediately invested for your benefit.

Cut Spending and Boost Savings

Are You Getting The Best Results From Your Retirement Plan?

Group Practice Complexity

A growing number (34% in our latest retirement plans survey) of doctors are now practicing in groups of two or more doctors, making efficient use of retirement plans even more complicated. While current retirement plan rules allow each doctor to be placed in a separate class to provide maximum flexibility in contribution levels, only 54% of group practices are taking advantage of this. The remaining 46% are costing themselves dearly through lower retirement plan contributions and excessive federal and state income taxes.

Likely, this is because these practices are using standardized "off the shelf" retirement plans. These plans are the "corporate dentistry" of the retirement plan world since they promise a lot, but deliver very little. You deserve a customized practice retirement plan analysis to make sure that you're in the right plan and that it is designed correctly to deliver the maximum benefit for each doctor and his or her family, while limiting staff funding costs to a reasonable level.

Doctor Contribution Levels

As a result, 56% of doctors are not receiving the maximum contribution possible under their plans. Only 44% of responding doctors received total contributions equal to the defined contribution maximum of $57,000 (if under the age of 50) or $63,500 (if 50 or older) in 2020. In order to achieve this contribution level, while minimizing staff funding costs, you should maintain a salary of $285,000 annually, and take advantage of the favorable plan design features discussed below.

Boosting Contributions Through Spousal Employment

75% of doctors in our survey followed our recommended advice to employ their spouse in their practice. And 90% of those doctors reaped the maximum tax benefit by including their spouse in their retirement plan and making tax-deductible contributions on their behalf. Aided by favorable tax law changes, a spouse can make tax-deductible salary deferrals of up to $19,000 to a 401(k) plan if under the age of 50, and $25,000 if age 50 or older. Most doctors were achieving this funding level for their spouse, as 30% of doctors were funding a $10,000-$20,000 contribution, another 32% were contributing between $20,000-$30,000, and another 18% were contributing $30,000 or more on behalf of their spouse to their retirement plan.

In the example shown later, the 52-year old doctor receives the maximum contribution of $63,500 in 2020 under a traditional 401(k) plan, while the 52-year old spouse receives a contribution of $31,624, based upon the employee ages and salaries shown. Their combined contribution of $95,124 represents 83.66% of the total contributions allocated of $113,704, while staff funding costs are $18,580, or 16.34%. Funding at this level provides annual tax savings of over $51,000 for a doctor in the combined 45% federal and state marginal tax bracket.

Salary Deferral Type

Doctors using 401(k) plans have two choices in making salary deferrals. 84% of doctors followed our recommended advice to use regular tax-deductible salary deferrals. Unfortunately, 16% made non-deductible Roth deferrals. For a 50-year old doctor in the 40% tax bracket, a $26,000 Roth salary deferral results in $10,400 of extra federal and state income taxes. While we recommend building Roth accounts, they should be funded when the doctor is in the lowest, rather than the highest, tax bracket.

Advantages of Class Allocation Plan Design

It's often possible to generate a larger tax-deductible contribution for the doctor's spouse, while also reducing staff funding costs, if there's at least a five-year age disparity between the spouse's age and the average age of the staff. This can be accomplished by amending and restating the doctor's plan as a 401(k) class allocation/cross tested profit-sharing plan, which takes into account employee ages as well as salary level.

If there is at least a 20-year age disparity as shown later, it's possible to make tax-deductible contributions of as much as $63,500 on behalf of a spouse age 50 or older ($26,000 salary deferral + $37,500 profit-sharing contribution), provided that the spouse's salary is increased to at least $55,000 annually. Moreover, staff funding costs can be reduced dramatically, dropping from $18,580 to $12,136 in the example. While subject to nondiscrimination testing, achieving these results for doctors is possible.

Other Measures to Control Staff Funding Costs

More doctors are taking advantage of federal tax law changes and efficient retirement plan designs to control staff funding costs. The vast majority (71%) were contributing only 0-5% of pay on behalf of the staff. Another 21% were funding contributions of 6-10% of staff pay, while only 8% were contributing above 10%.

In a tight labor market, staff usually appreciate market-rate contributions in the 0-5% range. Contributions above that level receive progressively lower appreciation levels. As a result, you're better off limiting retirement plan contributions and using the excess funds to provide other benefits that your staff will more highly appreciate.

In that regard, virtually all doctors (84%) require employees to be age 21 and have one year of service before being eligible for the plan. While it's illegal to exclude all part-time employees from your retirement plan, 76% of doctors properly exclude those who have never had 1,000 hours of service in a year (roughly 20 hours a week) from participation. Some doctors (8%) also excluded certain classes of employees from participation (e.g. associates) to hold down costs, and maintain plan provisions minimizing contributions for terminated employees (29%).

Using age, as well as salary, to allocate contributions in defined benefit plans and 401(k) cross-tested plans was the most effective strategy to control staff costs, used by 42% of doctors. Another 23% reduced costs by requiring employee contributions, using a SIMPLE-IRA or 401(k) plan.

Maximizing Contributions Using Combination 401(k)/Defined Benefit Plan

The last column in the chart below shows the phenomenal tax benefits which can be achieved for doctors who have a significant age advantage relative to the average age of their staff (10 years or more), through using a combination defined benefit pension plan and 401(k) profit sharing plan. In this example, the doctor receives a combined contribution allocation of $215,832 from the two plans, while her spouse receives $85,850, for a total of $301,682, or 94.75% of the total contributions allocated. Meanwhile, staff contributions are limited to only $16,724 in this example, or less than 6% of the total. Funding at this level allows the doctor to reach her retirement goals quickly, while saving over $143,000 annually in federal and state income taxes, based upon a combined 45% tax bracket.

Before implementing a defined benefit plan, be sure to consider the disadvantages. Since contributions are required (not optional) each year, your practice must have stable cash flow in order to fund contributions at this level. Moreover, doctors should make sure that their retirement plan and financial advisors are highly experienced in these types of plans. There's a greater degree of responsibility and liability, so make sure you have an experienced actuary and investment advisor. Since administrative and actuarial costs can run $5,000-$10,000 a year, make sure you can fund contributions of at least $120,000 annually to make operating two plans cost-effective. However, if you have available cash flow, this represents the most cost-effective way to save for retirement, while dramatically reducing your federal and state income taxes.

Generating Bigger Tax Savings With Retirement Plans in 2020

Name	Age	Salary	Traditional 401(k) Profit Sharing*	Class Allocation/ Cross Tested 401(k) Profit Sharing	Combination Cash Balance Defined Benefit/401(k)
Doctor	52	$285,000	$63,500	$63,500	$215,832
Spouse	52	$57,000	$31,624	$63,500	$85,850
Employee 1	21	$30,000	$3,013	$1,968	$2,712
Employee 2	23	$32,000	$3,214	$2,099	$2,893
Employee 3	27	$28,000	$2,812	$1,837	$2,531
Employee 4	38	$28,000	$2,812	$1,837	$2,531
Employee 5	40	$35,000	$3,515	$2,296	$3,164
Employee 6	45	$32,000	$3,214	$2,099	$2,893
Totals		**$527,000**	**$113,704**	**$139,136**	**$318,406**
Annual Tax Savings (45% bracket)			**$51,167**	**$62,611**	**$143,283**
Doctors Family Percentage		**64.90%**	**83.66%**	**91.28%**	**94.75%**

STEP FIVE
Invest Wisely

How to Invest to Reduce Risk and Taxes

Most investment advisors will help you determine the proper asset allocation between your stocks, bonds, etc. based upon your age and risk tolerance. Then they utilize identical asset allocations to invest your personal, retirement plan, and IRA funds. Below, we discuss why this "cookie-cutter approach" can cause you to pay excessive income taxes and assume unnecessary risk in this volatile investment climate.

Reducing Taxes With Proper Asset Location

While you may have an optimal overall asset allocation (i.e., 70% stock/30% bonds), you should use different asset allocation percentages among your retirement plans, IRAs, and personal after-tax accounts. This approach, illustrated in the example below, can help maximize your after-tax investment returns.

Several factors favor investing your personal funds mostly in individual stocks. This allows you to take advantage of the 15%/20% maximum federal tax rate on the long-term capital gains and dividend income generated by the stocks. Furthermore, you'll realize no capital gains until the stocks are actually sold. In fact, capital gains taxes can be avoided altogether if you hold the appreciated stock until date of death, or make gifts of the appreciated stocks to charities and receive a charitable income deduction equal to the full fair market value of the stock gifted, with no tax on the unrealized appreciation. Furthermore, you can sell stocks that have declined in value in order to realize capital losses. These losses can then be used to offset other capital gains, including those from the sale of your practice and/or office buildings, with any excess deductible against other income up to a maximum of $3,000 annually.

Registration	Tax Status	Account Balance	Amount in Stocks	Amount in Bonds
Cash Balance Plan	Tax-deferred	$200,000	$80,000 (40%)	$120,000 (60%)
401(k)	Tax-deferred	$400,000	$240,000 (60%)	$160,000 (40%)
Roth IRA	Tax-free	$100,000	$80,000 (80%)	$20,000 (20%)
Personal After-Tax Account	Taxable	$300,000	$300,000 (100%)	$0 (0%)
Total Portfolio		$1,000,000	$700,000 (70%)	$300,000 (30%)

You can optimize your after-tax investment return by placing bonds, whose interest payments are taxed at ordinary rates of up to 37%, in tax-deferred retirement plan and taxable IRA accounts, where the ordinary interest compounds tax-free. Moreover, holding more bonds, and less stocks, in retirement plan accounts avoids converting dividend and long-term capital gains (taxed at a 15-20% maximum rate) into ordinary income, taxed at rates of up to 37%, when withdrawn in retirement.

John McGill consulted with a new tax and business planning client who had $4 million in investments, split evenly ($2,000,000 each) between his personal after-tax account and retirement plan account. Since his age and risk tolerance called for 50/50 asset allocation between high-yield bonds and stocks, his investment advisor had invested each account identically. What a mistake! As a result, he was reporting $70,000 of taxable interest income annually on his personal return, forcing him to cough up almost $30,000 a year in added federal and state income taxes.

Mr. McGill recommended a drastic change to slash his tax bill—selling the taxable bonds in his personal account and using the proceeds to buy stocks, and selling the stocks in his retirement plan account and using the proceeds to buy taxable bonds. While his overall asset allocation remained 50% stocks/50% bonds, his personal tax bill was slashed by over $24,000 a year! How so? The $70,000 of interest income taxed at a 40% tax rate was removed from his personal return and replaced with approximately $20,000 of dividend income which was taxed at a maximum rate of only 20%. Meanwhile, taxable stock gains were eliminated by using appreciated stocks to fund the doctor's charitable contributions in lieu of cash, and using the doctor's cash to purchase new stocks with a higher cost basis.

Reducing Risk for Defined-Benefit Doctors

Maintaining a tax-efficient asset allocation is even more important for doctors funding defined-benefit plans where the goal is to reach a specific asset accumulation by the doctor's normal retirement age (NRA), which is typically 62-65. The plan's actuary determines your required annual contribution based upon the number of years left until NRA, as well as a conservative assumed investment return (around 5%).

Some overaggressive defined-benefit doctors learned a painful lesson after the recent stock market correction decreased the value of their defined-benefit assets at year end. As a result, the actuary informed them that they must make a large contribution in order to get back on track for meeting their plan's asset accumulation goal at NRA. Unfortunately, this required, large make-up contribution occurred when they could least afford it, since their practice's collections had slipped due to the stock market decline.

You Win, You Lose

If you invest your defined-benefit funds aggressively in stocks, and those stocks appreciate significantly, it increases the value of the plan assets. Since the plan is based upon achieving a specific asset accumulation at NRA, the increased account values will require you to decrease, or even stop, tax-deductible contributions. As a result, you can end up paying excessive federal and state income taxes unnecessarily.

If you had simply invested in these stocks through your personal taxable account as recommended above, you could have reaped all the appreciation in value. And through investing the bulk of your defined-benefit plan assets conservatively in bonds, you could have continued tax-deductible contributions to maintain your tax savings. This approach paid off well in the fourth quarter of 2018 as the Barclays Aggregate Bond Index generated a positive return of 1.6%, while the S&P 500 dropped by 14%.

So, make sure you have an investment advisor that understands how to invest each account differently in order to minimize your taxes and cut your financial risk, while maintaining your desired asset allocation. This will help you maximize your after-tax investment returns and sleep better at night with increased peace of mind.

Invest Wisely

Top 10 Investment Planning Decisions As You Approach Retirement

By: Brett S. Miller, CPA, CFP®*

You'll face more financial investment decisions in the five years preceding retirement than any other time in your life. And since most involve huge dollar amounts, getting these decisions right can add substantial amounts to your retirement nest egg, while mistakes can easily force you to postpone retirement or accept a lower standard of living. Since selling your practice and transitioning to retirement is a one-time event, you don't have the opportunity to learn from your mistakes. Below we discuss the key investment issues you must master to "be prepared" for retirement.

Be Financially and Emotionally Ready to Retire

The biggest question in your mind is probably how much (financial assets) you'll need to retire. Your "number" depends on four factors including longevity, tax rate, and investment returns. Your spending level is the final and most important factor, and the only one you can control.

In order to accurately determine the assets needed, you'll need to project your spending needs in retirement. This is based on your current spending level less non-continuing expenses (mortgages paid off, children's education costs, etc.) and then adding back in practice-paid "perks" that will continue, to arrive at your projected spending level in retirement. Based on this projected spending level, you can then determine the liquid assets needed at your projected retirement date.

Once you've reached your "number," it doesn't necessarily mean you're ready to retire. While you may be financially ready, you also need to make sure that you're psychologically and emotionally ready to retire. So, make sure you have some something to retire "to" before you retire "from" dentistry. This could be a new career, part-time employment, pro bono dental work, teaching, volunteering, or ministry options. Also consider maintaining part-time employment with the practice following the sale. This will provide sufficient time to explore viable options for life after retirement to maintain your sense of purpose.

Examine Your Asset Allocation and Fees

As you approach retirement, it's critical to review your investment portfolio to make sure it's neither too aggressive nor too conservative. Normally, doctors need to make their asset allocation more conservative as they grow older and approach retirement, since they have fewer years to recover from potential losses.

However, recently we've observed more doctors who are invested too conservatively as they approach retirement, with insufficient long-term growth investments. While their caution is understandable, you need to ensure your investments not only provide for your immediate retirement income needs, but also provide the long-term growth necessary to maintain purchasing power against inflation for the 20-30 years or more you may spend in retirement. Since each doctor's circumstances and risk-tolerance are different, be sure to review your asset allocation with your investment advisor to assure the proper balance.

Monitoring investment fees and expenses becomes more important in retirement, as you shift from being a net accumulator to a net spender. The long-term drag of excessive costs erodes your capital needed to provide income in retirement. As such, you should analyze all investment fees and expenses including those paid to advisors, custodians, mutual fund fees, and transaction costs. You should also compare your investment returns (net of fees) relative to the appropriate benchmarks and indexes to determine how you're performing.

While fees are important, what's more critical is the value of the services you're receiving in exchange for the fees paid. Your advisor should provide all of the value-added investment planning services mentioned in this article to justify their compensation.

Plan Social Security Elections

Your goal should be to maximize the after-tax Social Security benefits for your family, expressed in terms of today's dollars (present value). The three critical variables involved are the amount of benefits received, the percentage of those benefits that will be taxable, and at what rate they will be taxed.

There are over 100 different Social Security filing strategies available. For example, doctors can delay receipt of benefits past normal retirement age (66), and receive an 8% annual increase in benefits for each year of the delay until age 70. Other lesser-known opportunities are available to increase the family's Social Security benefits by filing on the earnings record of a spouse, former spouse, and/or deceased spouse. Unfortunately, the rules are quite complicated. We use specialized software to calculate the optimal claiming strategy, based on your unique circumstances, including your and your spouse's age, earnings record, life expectancy, and taxable income level. Before the first spouse reaches age 62, make sure your financial advisor reviews your Social Security options and develops a game plan to maximize your family's after-tax Social Security benefits.

Run Retirement Income Projections

Before selling out, make sure you run detailed retirement income projections to age 100, to make sure that your money lasts longer than you! This should include a year-by-year projection showing the annual income needed to maintain your family's personal living expenses, and which assets will be tapped first to provide that income. These projections provide a snapshot to help you understand your sources of retirement income, how expenses will change in retirement, and the ongoing impact of your investment returns on how long your money will last.

Leading up to retirement, these projections provide tremendous value by facilitating a dialogue to make sure that you and your spouse agree that all financial decisions are covered and the assumptions are reasonable. These assumptions can be stress-tested against historical results to determine the future probability of success in retirement. When used correctly, retirement income projections will build confidence in your successful practice transition and provide much-needed peace of mind. Once retired, they provide a benchmark for monitoring your progress each year. This creates opportunities to make adjustments with your advisors annually to make sure you stay on track.

Explore Final Retirement Plan Contributions

The sale of your practice creates a unique tax planning opportunity. You'll typically face a large one-time income tax bill when you sell out and receive the practice sale proceeds in cash. Instead of holding on to this cash to pay the taxes and the first few years of retirement living expenses, you should use a portion of the proceeds to maximize tax-deductible retirement planning contributions, slashing your income taxes, while providing long-term investment benefits.

Your investment advisor, along with your retirement plan advisor, can prepare a cost-benefit analysis of funding additional retirement plan contributions. If these prove beneficial, the added contributions can not only cut the taxes owed on the sale, but also help rebalance your portfolio to achieve the desired overall investment asset allocation heading into retirement.

Prioritize Retirement Plan Distributions

At retirement, a fundamental shift will occur in your investment cash flow. Previously, you've been focused on maximizing cash savings (inflows) on a tax-efficient basis. Once you've retired, you must shift gears and determine how to begin taking distributions (outflows) in the most efficient manner. The source, amount, and timing of these distributions will have a material impact on your taxes and long-term investment returns, both of which must be proactively managed to make sure that your funds last longer than you do.

Normally, your assets available to fund retirement will fall into three tax categories: tax-deferred assets (retirement plan/ IRAs), tax-free assets (Roth IRAs and Health Savings Accounts), and taxable personal assets (stocks, bonds, mutual funds, real estate, etc.). Distributions from each asset category have different tax implications and must be managed effectively by your investment advisor to assure you have the income needed in retirement, while paying the least amount of taxes over your lifetime. Further complicating planning is the fact that Required Minimum Distributions (RMDs) must be taken from retirement plans and IRAs once you reach age 72. These RMDs force the distribution of an IRS-determined percentage of assets each year and are taxed as ordinary income.

You should meet with your investment advisor to map out your optimal distribution strategy based on your asset totals. As a first step, you'll need to determine your monthly spending needs in retirement and then subtract off Social Security, pensions, and other monthly retirement benefits to determine the remaining amount to be funded from your retirement savings. A savvy investment advisor will be able to project your current, as well as future, investment income to determine the optimal source of assets to draw from, and in what order, to achieve the lowest taxes in retirement.

If you haven't reached age 72, taxable assets, including the practice sale proceeds, should be tapped first to keep your taxable income low and create an opportunity for favorable Roth IRA conversions at low tax rates. If you are already taking RMDs, you'll likely need distributions from all three categories to satisfy the RMD requirements while minimizing other taxable income, to avoid being pushed into higher tax brackets and paying the dreaded Medicare surcharge.

Automate Monthly Cash Flows

Once you've determined the priority of assets to tap to meet your spending needs, you next need to automate these cash outflows. Establishing automatic monthly distributions in retirement can yield several benefits.

First, taking regular monthly distributions avoids market timing issues, removing emotion from your investment decisions. This avoids agonizing decisions over which investments to sell first, allowing the distributions to continuously rebalance your investment allocation each month, assuring you maintain the proper risk allocation throughout retirement.

Automating cash outflows also creates accountability for your retirement spending. One of your greatest risks is overspending in the first few years of retirement. By establishing automatic monthly cash outflows equal to your agreed upon monthly spending amount, we've achieved a very high success rate in preventing this. We typically send you the agreed upon amount on the first day of each month and tell you to "quit spending" once the money runs out! This monthly distribution amount should be reviewed with your investment advisor annually to make sure you stay on track with your Retirement Income Projections.

Maximize Your Savings from Roth IRA Conversions

As previously discussed, you should live off your practice sale proceeds first, since they've already been taxed. That means in the years following the sale, you'll have little, if any, taxable income. This provides a tremendous opportunity to convert a portion of your traditional IRA into your Roth IRA. While these conversion amounts will be taxable, you can take advantage of the lower tax rates to move funds into your Roth IRA for tax-free growth. This will reduce your taxable IRA distributions in retirement, allowing you to reap potential savings of hundreds of thousands of dollars in retirement and create years of tax-free growth for you, your spouse, and your children.

Execute Form SSA to Avoid Excessive Medicare Premiums

Uncertainty about your future healthcare costs is likely one of your top concerns as you enter retirement. Fortunately, being proactive can substantially cut your Medicare Part B premiums in your first two years of retirement. These Medicare Part B premiums are based on your Modified Adjusted Gross Income (MAGI), but what may surprise you is that this figure is pulled from the tax return you filed two years prior. For example, if you retire on December 31, 2020, your 2021 Part B premium would be based on your 2019 tax return income.

To avoid overpaying Medicare Part B premiums for two years, we recommend filing Form SSA-44, Life Changing Event, with your local Social Security office when you retire. This form recalculates your Part B premiums based on your new (and much lower) income in retirement. If executed correctly, this strategy can save up to $295 monthly per spouse for the first two years of retirement. This can save a total of $7,000 for each spouse, or $14,000 for a married couple!

Cut Taxes and Establish a Legacy Using a Donor-Advised Fund

In the year of your practice sale, you'll likely report the highest income and pay the most taxes in your life. We recommend slashing your tax burden by establishing a donor-advised fund and making a large contribution of appreciated stock to it in the year of the practice sale.

For example, bunching five years of charitable deductions into the year of sale generates the maximum tax savings since you're in the highest tax brackets. Doctors using this approach can enjoy another round of tax savings, thanks to the current law. Since you'll likely have your home mortgage paid off, and state and local tax deductions are limited to no more than $10,000, you'll be able to claim the increased standard deduction ($24,800 for married doctors) for the next four years even though your actual itemized deductions are less. Meanwhile, you can direct the donor-advised fund to dole out contributions to your favorite charities over your retirement years.

If you're interested in creating a future legacy, you can make even larger contributions of appreciated stock and/or real estate that can fund continue charitable gifts for many years to come. This allows your family to continue charitable contributions in retirement with the peace of mind that they are not cutting into your retirement income.

** Brett Miller is a Partner in Charge and Wealth Advisor at McGill Advisors, a Division of Brightworth. McGill Advisors specializes in providing value-added investment management services to dental professionals on a fee-only basis. For more information on their services, call 866.727.6100. Disclosure: Past performance is not an indication of future investment results. Investors cannot invest in an unmanaged index.*

About The Publisher

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John is a nationally prominent tax attorney and CPA who has specialized in consulting exclusively with dentists and specialists for more than 30 years. He is President of John K. McGill & Company, Inc., Editor of *The McGill Advisory* dental business newsletter and shareholder in the law firm of McGill and Hassan, P.A. He graduated with honors from Erskine College and holds both a Master of Business Administration and law degree from the University of North Carolina at Chapel Hill. He formerly worked with the Office of Chief Counsel, the legal branch of the Internal Revenue Service, in Washington, DC. He is a member of the American Bar Association and the American Institute of Certified Public Accountants.

Mr. McGill leads a team of experts who offer customized Tax and Business Planning consulting and have developed comprehensive financial gameplans to help over 1,700 doctors achieve financial independence. The team also offers Planning for Retirement consulting *(for doctors at least 55 years old and within five years of retirement)*.

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