

## Chapter 1

### **STEPS TO RETIREMENT — 10 POINT PLAN**

Retirement is one of the most difficult and thought provoking experiences which you will encounter. This assumes that the retirement is planned and not an involuntary event, such as death or permanent disability. Often, retirement is not planned until approximately two (2) years prior to the proposed retirement date. This is a relatively short time period, in that it often takes approximately two (2) years to complete the practice transfer process in a complete sale. Completing the practice transition process where an associate joins the practice takes an even longer timer period due to the training and mentorship process. Ideally, the succession planning process should begin fifteen to five years prior to your anticipated retirement date.

To begin the retirement planning process, analyze the following: (a) whether you can afford to retire, (b) whether you want to retire; (c) what you will do with your time; and (d) whether retirement is partial or complete. Bear in mind that it is not necessary to completely retire. With a little planning, you can remain in the practice on a part-time basis so long as you can mentally and physically perform the work. If you plan to work for the purchasing doctor, negotiate the terms of your post-retirement employment simultaneous with the negotiations for the sale of your practice.

A situation routinely encountered is the doctor who chooses to retire and who has not reached "traditional" retirement age. Here, you may become burned out on dentistry as a result of the inability to control the stress of practice. As an alternative, you may choose to return to school and enter a specialty field. Possibly, you may think that a field unrelated to dentistry would be fulfilling. In reality, however, if you completely sell your practice, you will probably not find other opportunities more rewarding, both economically and personally, than dentistry.

If you intend to retire and find a position outside of private practice, try locating that position prior to the practice sale. Many selling doctors have been surprised by the difficulty in obtaining other employment after the practice is sold. Sometimes cutting back the hours and/or patient load, possibly with the assistance of an associate, may provide you with the time to find other employment or establish a business unrelated to dentistry. Also, you may find that a reduced work schedule and shared management responsibilities can reduce stress sufficiently to allow you to again enjoy dentistry and not retire.

#### **Six Point Plan For Retirement**

After the decision to retire is made, consider implementing the following plan to commence the succession process. The plan should be in writing and may be completed with the assistance of your advisor(s).

First, prepare a personal financial plan. This plan should be completed on a monthly basis and multiplied by the number of years of estimated retirement/the joint life expectancy of you and your spouse. Yes, you can and may be forced to live on reduced income(s). This means that decisions must be made to determine future expenditures.

Second, adjust the financial plan to reflect the changes in your life created by retirement, as well as for anticipated inflation and return on any investment(s). Additionally, all sources of income should be considered during your retirement, e.g., pension and/or profit-sharing plan distributions, Social Security, proceeds from the sale of the practice, deferred compensation payments, income from another position while in retirement, rental income and investments.

Third, determine whether your retirement is complete or partial and to what extent you need or choose to continue to work in the future.

Fourth, analyze the condition of your, your spouse's and any other dependents' health and the associated costs of health care. Whatever you do, be sure to maintain health insurance, as well as other necessary insurances.

Fifth, review and update your and your spouse's estate plans. Improper planning in this area can cost your estate substantial sums and can create long term family feuds, not to mention placing valuable assets within the control of those who may waste them or who you did not intend to receive the assets.

Finally, your adviser(s) should assess your practice succession options, make decisions and summarize, in writing, the terms and conditions of the anticipated sale of your practice or practice interest, e.g., sale of assets or stock, extent of seller assisted financing, terms, security, etc. This step also includes the valuation of your practice or practice interest. If you own the practice facility, the terms, conditions and timing of its sale should also be considered. However, the sale or eventual sale of the practice facility should be a separate transaction from the sale of the practice. Both can be accomplished simultaneously and you may not choose to do one without the other. The practice facility is an asset separate from the practice itself and your goals regarding one may differ from the other. Fortunately, those candidates who desire to purchase a practice or practice interest usually also desire to own the practice real estate. Generally, real estate financing is usually available to the incoming practice owner due to the nature of real estate as an asset.

### **Seller Assisted Financing**

Depending upon your succession options and the proposed date of your anticipated retirement, you should make the determination as to whether seller assisted financing is desirable, feasible, or necessary and to what extent. Typically, you should not be interested in providing seller assisted financing in a complete sale. However, potential purchasers may not have the ability to obtain bank loans or other financing sufficient to pay for the practice. To minimize this problem, the practice valuation should prove helpful to a lender to show, in quantitative terms and based upon historical results, that the loan for the practice can be repaid within a measured time period. From the purchaser's, bank, or other lender's perspective, you will be asked to provide some portion of the financing to ensure that you assist in the transition of patients to the purchaser.

As an example, assume there are four qualified potential candidates available to acquire your practice. In my experience, there are between two and five qualified candidates to purchase a practice at any given time. Assume that you are completely retiring from active practice and want the very best care for your patients. Of the four candidates, one does not desire to purchase your practice in light of the proposed selling price or for other reasons and two are willing to pay your asking price or the appraised purchase price. The first candidate can obtain 50% of the purchase price as a down payment and would pay the remaining 50% over five years from practice revenues. The second candidate can obtain 25% as a down payment and would pay the remaining balance over five years from practice revenues. The third candidate proposes to pay two-thirds of the proposed selling price for 100% in cash at closing. You think that the second candidate would be compatible with your patients and such candidate is the individual you would choose over the first and third candidates. Whom do you sell the practice to? Your decision in this matter would probably be based upon: (a) the degree of flexibility in your personal financial plan; (b) how much you don't like the qualifications of the first candidate; (c) the ability of the second candidate to repay you; and (d) whether you should lower the proposed selling price and obtain all cash. This part of the decision rests upon your ability or desire to reenter practice in the event of a purchaser default. This example is illustrative of the reality that the most suitable candidate to acquire your practice or practice interest may not have the sufficient ability to meet the terms under which you request to sell your practice or practice interest.

Generally, practices sell for higher values where some component of seller assisted financing is available than where it is not. Unfortunately, the pool of potential purchasers used to shrink significantly where the sale was contingent upon 100% purchaser financing. This has changed in recent years with dental lender financing, although I predict that seller assisted financing will return and relatively soon. From my experience, approximately 20% to 60% of the practice purchase price would be a down payment and the remainder would be financed by you for approximately five years. The alternative to obtaining 100% financing from a lender will be a reduced selling price.

If you are leaving the geographical area or will not otherwise have the ability to return to active practice, consider lowering the asking price of the practice, if necessary, and obtain all cash. Returning to active practice in the event of a default is not something to look forward to. When this occurs, it is generally only for the period of time to restabilize and resell the practice to another purchaser. You would also incur the expense of a lawsuit to reenter your practice and be assured you that the frustration would not be worth the expense, particularly if you are in a distant geographical location from your former practice.

By providing the purchaser with a component of seller assisted financing, you are placing yourself in a situation where it is possible that you would be paid only to the extent of the bank or other lender financing. It is therefore imperative that if you do provide the financing that you know the character of the purchaser thoroughly and complete the appropriate background checks. Time permitting, the purchaser could work for you as an associate or apprentice and you would serve a mentor.

Please note that the complete sale of a practice should be distinguished from the situation where an associate buys-in to your practice over a predetermined time period, while you remain in practice. Here, seller assisted financing is less of a risk than in a complete sale of the practice because you are still actively in the practice. Additionally, upon default, the associate should forfeit the previously paid amounts during the buy-in period, which should also occur in the complete sale.

When providing seller assisted financing, always obtain the same type and amount of security which a bank or other lender would require in approving such a loan. Remember also, that you are being asked to provide financing to the purchaser because of his or her inability to obtain financing sufficient for the purchase price. The personal guarantees of both the purchaser and the purchaser's spouse, if married, should be required. In many situations, the purchaser's parents and/or relatives should also be required to guarantee the payment of the seller assisted financing. In most instances, the purchaser is reluctant to provide his or her parent's or relatives' personal guarantees. However, either the purchaser's parents and relatives assume the risk of non-payment or you do. Therefore, if you are going to act as a bank or lender for the purchaser, require the security which a bank or lender would require.

Remember, if some portion of the sale of the practice is through bank or lender financing, the bank or lender would require the first lien on the practice assets you just sold, ahead of you. In the event of default, the bank or lender is paid before you. This should be unacceptable to you.

If seller assisted financing is provided, a provision should be included in the acquisition documents, whereby the restrictive covenants are null and void regarding the seller upon default under the promissory note for the amount payable to you.

Another provision should be included in the acquisition documents, whereby the purchaser is prohibited from practicing in a specified geographical area over a specific time period in the event of a default on sums owed to you. In effect, you prohibit the purchaser from relocating nearby your practice if he or she leaves your former practice prior to your complete payment.

If you own the practice facility in which the purchaser practices, be sure that you can terminate the lease with the purchaser's practice in the event of non-payment under any seller assisted financing.

If seller assisted financing is required in order to sell the practice, the larger the down payment on the part of the purchaser, the better. The down payment and any additional sums paid to you as part of the seller assisted financing should be non-refundable to the purchaser in the event of default.

In summary, some component of seller assisted financing has been and will be significant in the sale of many practices. Where seller assisted financing is provided, you should: (i) know the character of the purchaser to whom the financing is being provided; (ii) obtain a substantial or appropriate down payment; and (iii) obtain the same amount and type of security which a

bank or other lender would require in approving any financing. Seller assisted financing is not something which you should be eager to provide. Although spreading income out over a number of years may be helpful, this should be weighed against the risk of purchaser default. However, if granted prudently, seller assisted financing can provide you with the maximum selling price for the practice, while providing a qualified purchaser with an opportunity which he or she would not otherwise have to acquire your practice, but for the financing.

### **Locating A Purchaser(s)**

A primary reason for hiring an associate into the practice is to have a ready purchaser available for its eventual sale. However, for a number of reasons, including the fact that some dentists simply do not wish to work with an associate in the practice, many practices do not have an associate in place at the time the practice owner is ready to retire. As a result, a purchaser(s) must be found and the sources of locating such an individual(s) are as follows.

Practice brokers can be an important purchaser referral source. Even though you or your practice will pay a non-deductible brokerage fee of roughly 10% of the selling price, it's worth it if you cannot otherwise find someone to acquire your practice.

Dental dealers should have the ability to provide you with a very strong source of candidates. In addition, dental dealers have traditionally been willing to match potential purchasers and sellers as a goodwill gesture at no charge to you with the idea that if a purchaser is found, then the purchaser will eventually purchase equipment and supplies from the dental dealer.

Local, state and national dental journals are a consistently valuable source of candidates as purchasers. Additionally, many state and local dental associations and fraternities have been attempting to perform referral services in hopes of increasing membership by providing additional services.

Local newspapers can serve as a source of locating candidates, as well as military journals, with regards to dentists or specialists returning from military duty.

Finally, your advisors; accountant, attorney, dental management consultant, banker or insurance agent may know the identity of a candidate to purchase your practice.

### **High Revenue Practices**

The practice producing revenues at a higher level than "average", e.g. \$1,000,000.00, may have difficulty locating a successor. One reason for this situation is that most potential purchasers cannot produce at the same level as a practice owner or seller who produces dentistry at a level significantly above the average within the profession. Therefore, the high revenue generating practice is more of a risk for a purchaser(s) than is an "average" sized practice. Additionally, a purchaser can usually achieve the required productivity level to pay for an average sized practice. As a result, high revenue practices usually sell for less than the "traditional" fair market value, which is declining at this time.

High revenue generating practices are usually most effectively sold by developing an associate(s) over time who later becomes an owner and who will buy-out the senior doctor or founder.

In certain situations, two purchasers may purchase a high revenue practice. Possibly a husband and wife could jointly make the purchase. The problem, however, is that the qualified candidate pool isn't that large to begin with and selling the practice to two doctors lowers the number of candidates. Of course, the more time the practice owner has to plan retirement, the greater the chance of locating and developing multiple purchasers through the associate or apprenticeship process.

Another difficulty in the high revenue generating practice is that the source of revenues are often generated from procedures that some potential purchasers are not skilled to perform, e.g., large crown and bridge cases, endodontic procedures, implants, etc. As a result, the associate mode is usually a sound environment from which to train someone for future ownership of this type of practice. Additionally, there is an advantage to employing an associate in this type of practice because the associate can perform routine procedures, which allows the practice owner to concentrate on specialty work, while training the associate over time.

Finally, if a purchaser could perform the same procedures as you, then such individual would probably already own his or her practice. For this reason alone, it is essential for high revenue practice owners to develop associates, or ultimately sell the practice for less than its fair market value.

### **Seller Due Diligence**

You need to know all you can about the individual who will replace you at retirement or other departure from practice. Probably every doctor wants the best possible care for his or her patients upon retirement. If practice philosophy, work ethic and technical abilities are inconsistent with yours, then there may be some problems. This is a phase of seller homework or due diligence.

If you are providing financing for any portion of the purchase price, you need to ensure your payment and you will need to know the incoming doctor very well. And if the incoming doctor will be training as an apprentice in an associate relationship, you may wish to know a little bit about that person prior to working together. Putting energy and effort in the interview process can save you much grief, money and time by finding the "right" doctor to succeed you.