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Trading your White Coat for a Sombrero: Options for Your Retirement from Dental Practice

It's the age-old story. Dentist graduates dental school and passes boards. Dentist opens up practice. Over the years, Dentist hires a few hygienists and maybe another dentist or two. Fast forward a few decades and a few hundred thousand teeth. Dentist wants to retire – maybe not this year, maybe not next, but soon.

The traditional approach would have our dentist sell his or her practice to an up and coming dentist and ride off into the sunset to golf, fish, travel, or sail the world.
But the dental industry is becoming anything but traditional. The practice of dentistry – both getting into practice and out of practice – is changing. Much like their medical counterparts, dentists are changing their approach to practicing dentistry (and retiring from dentistry) in new ways.

Many practitioners decide to remain solo for the duration of their career. Solo practitioners benefit from not only being their own boss, but being able to unilaterally set the terms and timing of their retirement. Unlike their counterparts who have partners, they don't need to get anyone's approval, notify anyone (other than their patients), or worry about negotiating buyout provisions when they decide it's time to hang up the white coat. However, with no dentists practicing alongside them, they have no obvious buyer for the practice, no certain purchase price, and no plan for future employment of their employees. What are a dentist's options in these circumstances?

Practices with two or more partners forgo some of the operational and financial freedom and discretion available to a solo practitioner. Decisions regarding practice operations are made together and one dentist's decision to retire affects the others both operationally and financially. Ideally, the dentists have an agreement in place in advance that addresses issues related to retirement or withdrawal from the partnership. These agreements usually include advance notice requirements and the specific buyout amount and payment terms for a retiring or departing partner. Unlike their solo counterparts, these dentists do not have to worry about finding a buyer. If properly documented in advance, the amount of money that will be paid out to them (either in a lump sum or over time) is predictable and calculable in advance of the decision to officially retire because the terms of the buyout have been pre-negotiated.

Whether you plan to pivot your dental career in a different direction or retire all together, succession planning for your practice can never start too soon. There is no one-size-fits- all approach to succession planning. The ultimate approach will vary from dentist to dentist, depending on the individual's personal objectives and financial goals. Nevertheless, every practitioner should consider the following issues as they contemplate his or her move to the next phase of life.

1. Buyout Amount. We are frequently asked by dentists in partnership arrangements: how should we calculate the buyout amount? There is no right answer, but it really comes down to a question of timing. When do you want to realize the value of your investment in your practice? Are you going to reap financial benefits during the lifetime of your practice (through substantial distributions or dividends of net profits or salary and bonuses)? Or would you prefer to have your equity interest in the practice grow over time and receive a substantial payout upon your retirement? We have seen buyout amounts for as little as one dollar and as much as six-figure amounts.

2. Payment Terms. Do you want to receive a lump sum at your retirement or are you willing and able to accept a promissory note that is paid out to you by the new owner over time? The personal income tax implications should be considered with your accountant and financial advisors.

3. Cash Flow. Is there sufficient cash flow in your practice to generate and sustain a purchase price that will meet your retirement needs? The cash flow position of your practice may affect how much a buyer is willing to pay you. Additionally, this question is particularly important if you are going to be taking a promissory note for part of the purchase price or buyout amount and be paid over time. Will the continued operations of the business and any patient atrophy after your departure be able to sustain the practice so that it can timely and fully pay you each month?

4. Tax Effects. There are many ways to structure the sale of your practice, but each way will have different tax implications. You should discuss with your financial advisors the potential tax issues and consequences of selling your business before you begin shopping for a buyer. This will make you a more informed seller as you prepare to negotiate the terms and conditions of the sale of your practice.

5. Source of Buyout Funds. For dentists in partnership arrangements, another question we always have to answer is: Is the practice going to buy out the retiring dentist, or are the other partners going to buy out the retiring dentist? Does the practice have sufficient funds and cash flow to do this? Do the individual partners?

6. Heir Apparent. Solo practitioners should consider the option of phasing-in a successor. Do you have enough business or potential for growth to bring on a successor dentist before you retire? Is there enough work to share between you for a period of time?

7. Transition Period. Do you want to continue to work in the practice as an employee (perhaps part-time, in between golf rounds) after you are no longer an owner? If you are a solo practitioner, the buyer may be amenable to this idea, especially if there is concern about patient attrition or if the dentist does not have much experience running his or her own practice. On the other hand, even the most inexperienced buyers may not want the prior owner lingering in the background every day and may prefer to weather the transition alone.

8. DSO Approach. New York law prohibits a dentist from retaining ownership in a practice in which he or she no longer practices. If you would like to continue to manage your practice after you retire or pass on management of your dental practice to your heirs after you pass away, you may want to consider forming a dental service organization ("DSO") to run the business aspects of your practice. Implementing a DSO approach to your practice is complex and can be costly up front, but in return, it can provide you with a great deal of flexibility and long-term investment and management possibilities even after you retire from the practice of dentistry.

The most important part of succession planning is doing it. Whether you bring on an heir apparent and phase out, turn over the keys outright and walk away, or keep a few toes in the water by implementing the DSO approach, your transition to the next chapter of your life will be more comfortable for you, your family, and your patients if thoughtful consideration is made in advance. It is never too soon to start the conversation with your family, colleagues, and legal and financial advisors.