Dental Practice Expenses Much Higher When Owner Salaries Accounted For

Authors: Bradley Munson, B.A.; Adriana Menezes, B.S.; Marko Vujicic, Ph.D.

Key Messages

- Traditional estimates of dental practice expenses have not included owner dentist salaries as a practice expense.
- When owner dentist salaries are included as a cost, practice expenses average about 90% of gross billings.
- Taking into account the actual collection rate on gross billings, practice expenses (including owner salaries) are, on average, about 97% of gross billings collected.

Introduction

The American Dental Association’s Health Policy Institute has commonly reported data on average dental practice expenses as a percentage of gross billings, and historically the value has been around 60%. This figure has often been quoted in debates about target minimum provider reimbursement levels within Medicaid programs. A critical shortcoming of this measure is that it does not include owner dentist salaries as an expense. This measure requires careful interpretation, as it artificially inflates profit margins in owner-operated dental practices compared to businesses where chief executive officers’ salaries are counted as an expense. Traditional measures also ignored the differences between gross billings and actual receipts collected – i.e. the collection rate. In this research brief we compare three measures of practice expenses and discuss the policy implications of these measures.

Data & Methods

We rely on historical data from the American Dental Association’s Survey of Dental Practice. This annual survey is conducted on a nationally representative random sample of 4,000 to 17,000 dentists in private practice. According to the most recent data available, 91.7% of
practicing dentists in the United States are in private practice. The response rates to the Survey of Dental Practice varied from 17–50%. The most recent year for which data are available is 2011. The survey oversampled specialists to ensure an adequate number of responses for statistical analysis.

We defined gross billings as the total amount of fees charged for dental care during a calendar year. The traditional measure of expenses is total professional expenses, excluding salaries of owner dentists, as a percentage of gross billings. For the new measure, expenses included salaries of all owner dentists in the practice. The new measure was limited to incorporated owner dentists. We adjusted our calculations to account for changes in the structure of the survey questions over time.

In addition to comparing expenses to gross billings, we compared expenses to gross receipts actually collected during the calendar year.

**Results**

Figure 1 shows the three measures of practice expenses. The average expense percentage excluding owner salaries is about 60%. The average expense percentage including all owner salaries is about 90%. Taking into account the collection rate, the average expense percentage rises to about 97%. There has been a slight decline since 2006 in the latter two measures of practice expenses.

There is, separate from expenses, the related issue that the average percentage of dentists' billings successfully collected within a calendar year was 94.5% in 2006 and decreased every year, reaching 91.8% in 2011.³

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**Figure 1:** Practice Expenses as a Share of Gross Billings, 2006-2011

Source: American Dental Association, Health Policy Institute, Surveys of Dental Practice.
Discussion

The commonly reported dental practice expense percentage of 60% which excludes owner dentist salaries, if taken out of context, could lead to a mistaken perception about what it costs to operate a dental practice. It does not take into account the value of the practice owner’s time. Since more than 80% of active private practitioner dentists in the United States are practice owners, the traditional method underestimates the true cost of operating a dental practice. As a measure of practice expenses excluding owner labor costs, of course, it remains valid.

Comparing dental practice expenses (including owner salaries) to gross billings actually collected, we believe, provides the most informative measure of dental practice expenses. Accounting for collection rates is particularly important since they have been falling steadily since 2006.
References


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