ADA American Dental Association®

Dental Practice Success™

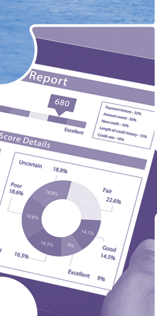
YOUR GUIDE TO A HEALTHY PRACTICE

Financial Foundations for the New Dentist

In 2019, the American Dental Education Association estimates the average debt per dental school graduate in 2019 was $292,150, up from $55,000 in 1990. 65% of graduates report having over $200,000 in debt. This is understandably a source of great stress for dentists.

But knowledge is power! Dentists need to have a financial plan that ensures they realistically manage the debt they have without sacrificing quality of life and still setting themselves up for future professional and personal success.

This publication was designed to help you understand some basic financial principles, alert you to major financial planning issues, and give you the tools to chart your path towards financial peace of mind.



Supplement to ADA News

KEY IDEAS | Personal finance

Financial independence starts with budgeting and saving

By Alex Macielak

You've worked hard to get here. Your academic studies are (or nearly are) behind you, and a rewarding professional career is ahead of you. Right now, you may have a student loan, personal loan, mortgage, or even credit card debt. You may feel overwhelmed by the level of debt or number of outstanding loans — especially when faced with the reality of starting salaries, training programs and life events. No matter where you are financially, smart budgeting and saving strategies can build a path to financial freedom.

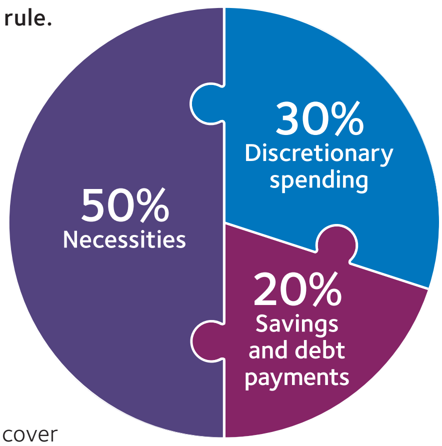
FIGURE OUT YOUR AFTER-TAX INCOME

Your budget should be based on your take-home pay (income minus taxes and other deductions), not your gross salary.

KNOW YOUR FIXED COSTS

Fixed costs are bills and expenses that don't vary from month to month, such as mortgage and other loan payments, utilities, etc.

Use the 50/30/20 rule.



Half of your income (maximum) should cover your necessities — essential expenses like groceries, utilities, rent and the minimum payment due on your debts.

Another 30% should cover discretionary items — personal lifestyle expenses that allow you to make some choices toward "living the good life" and living within your means.

The remaining 20% should go to savings, including contributions to retirement, extra debt payments, emergency savings and other investment or savings plans. You should make these payments and contributions after your essential expenses and before discretionary spending.

Because insurance can't cover every eventuality, having a financial cushion can help get you through an unexpected challenge, such as an urgent home repair, medical bill or job loss. How much cash you should have in an emergency fund varies, but most financial experts recommend saving enough to cover three to six months' worth of necessary expenses.

*See **BUDGETING**, Page 3*

BUDGETING, *Continued from Page 2*

PROTECT YOUR ASSETS AND YOURSELF WITH INSURANCE

No matter how well you plan, things happen. Make sure you protect your most important assets. Property, health and life insurance will add to your expenses, but they can save you a lot of money and aggravation if something goes wrong.

PLAN FOR YOUR FAMILY

A 529 college savings plan — officially known as a qualified tuition plan — is a tax-advantaged savings plan operated by a state or educational institution to help you save for future college costs. Most states now have at least one 529 plan available but they differ from state to state, so research these different plans before you invest.

HAVE A PLAN FOR EXTRA INCOME

Sometimes, unexpected good things happen. If you come into extra money — a raise, year-end bonus, tax refund or inheritance — put a portion of it toward paying down your debt.

UNDERSTANDING COMPOUND INTEREST

Compound interest is a marvelous thing and its magic means that your savings can account for much of the value that you will work for in accumulating assets for your retirement. But it's important to start saving NOW!

Over the years, interest earned on previously earned interest (compounded) can reach a sizeable amount.

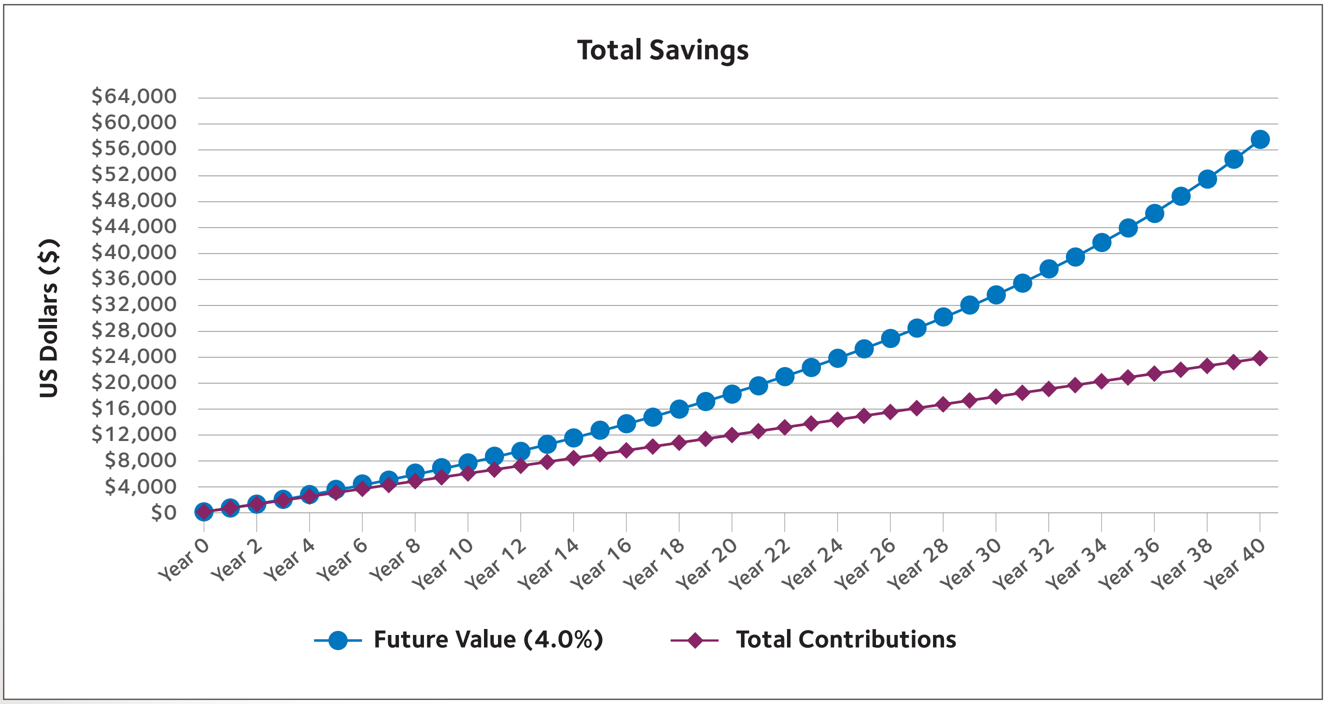
As an example, Dentist A and Dentist B both plan to practice for 40 years, retiring at the age of 66. If Dentist A saves $50 per month starting right out of dental school in a 401K or similar retirement account, after 40 years, assuming 4% interest (which is pretty conservative) they will have $57,015.31. Only $24,000 of that is in contributions.

If Dentist B doesn't save anything for the first 10 years of her career, but starts putting in $50 per month for 30 years, assuming that same 4% interest rate, they will have $33,650.96. **Those ten years without compound interest resulted in a difference of $23,364.35.**

Want to see for yourself? Visit **https://www.investor.gov/financial-tools-calculators/calculators/compound-interest-calculator**

A quick and easy way to determine the effect of compounding is to use the "Rule of 72." The "Rule of 72" determines the number of years it will take to double your money, or when borrowing — to double the amount paid. It works like this. The number of years required to double the money is 72 divided by the interest rate. If the interest rate is six percent, then 72 divided by six = 12 years for an investment to double. At nine percent, it takes eight years. How long will it take to double your debt? At an interest rate of 18 percent, which is the range of credit card debt, 72 divided by 18 is four years. ✦

Alex Macielak manages business development and partnerships for Laurel Road. He has over 8 years of experience in the student loan industry and has helped thousands of borrowers determine their optimal repayment strategy. Alex has a degree in Economics & Finance from Bentley University. Laurel Road is endorsed by ADA Member Advantage as the preferred student loan refinancing company for ADA Members.

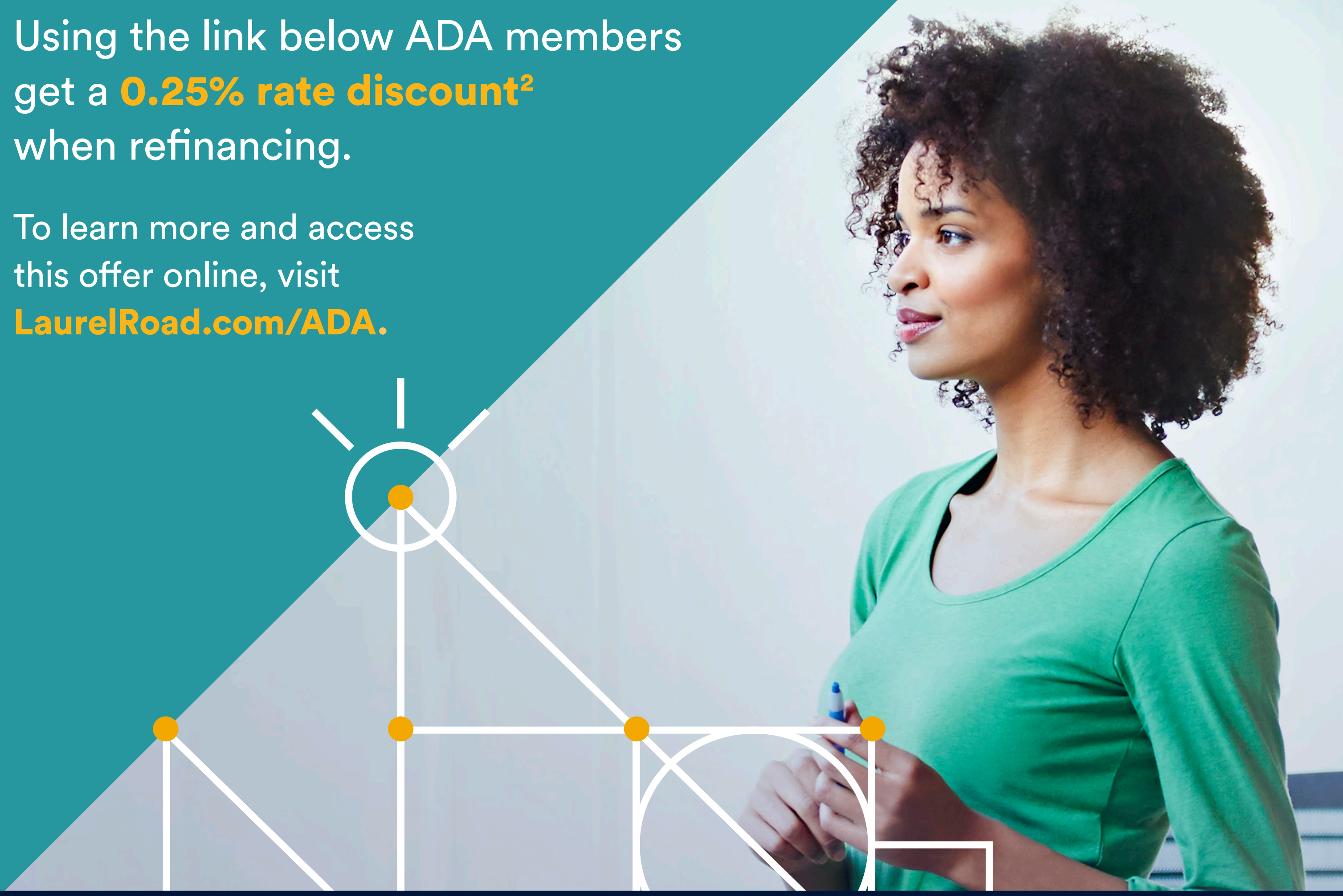


STUDENT LOAN REFINANCING

You could save thousands on your student loans[1]

Using the link below ADA members get a **0.25% rate discount[2]** when refinancing.

To learn more and access this offer online, visit **LaurelRoad.com/ADA.**



At Laurel Road, we recognize the dedication it takes to be a dentists. That's why we've created an easy online experience with low rates, personalized service, and technology that makes refinancing student debt easier – so you can focus on the future, not your past.

laurel road

All credit products are subject to credit approval.

1. Savings vary based on rate and term of your existing and refinanced loan(s). Refinancing to a longer term may lower your monthly payments, but may also increase the total interest paid over the life of the loan. Refinancing to a shorter term may increase your monthly payments, but may lower the total interest paid over the life of the loan. Review your loan documentation for total cost of your refinanced loan.
2. The 0.25% ADA member interest rate discount is offered for applications from active ADA members. The rate discount will end if ADA notifies Laurel Road that borrower is no longer in good standing. Offer cannot be combined with other offers, except any discount for making automatic payments. The ADA member rate discount will not reduce the monthly payment; instead, the discount is applied to the principal to help pay the loan down faster.

Member FDIC

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KEY IDEAS Practice finance, Loans

Personal credit history is key to securing a practice loan

by Christine Olmstead Lopez

How can a recent graduate implement a sound financial plan for entering the world of private practice dentistry? Whether you intend to start your own practice or purchase an existing practice, you will likely require a practice financing loan.

The best rates and terms are available for borrowers with the best credit scores. A credit score of 750 or above is considered excellent, indicating a track record of debt repayment and signaling a lower risk to a lender. Lower credit ratings can adversely affect your ability to qualify for a loan. And if you are recovering from bad credit, it can take several years to build a high score.

Building and maintaining good personal credit now will help to secure your professional future as a dentist, potentially translating into a lower interest rate on your practice loan and netting you significant long-term savings.

FIVE WAYS TO DEMONSTRATE WELL-MANAGED CREDIT

For dentists who are just starting out, it's important to remember that lenders will look at the personal credit you've established to date. Your overall credit rating is based on a series of factors, including number of credit lines, debt utilization and — most important — on-time payments.

Here are five ways to ensure your credit score is top-notch:

1. Open a mix of different types of credit accounts, such as bank-issued credit cards, cards issued by retail stores, student loans and car loans, and maintain those accounts. Manage your debt load by borrowing only what you need and utilizing a portion of your total available credit. The general rule of thumb is to stay below 30% utilization.

2. Do not frequently open and close credit cards or apply for multiple lines of credit at once. Too many credit inquiries within a short time frame can negatively impact your rating. Furthermore, the longer the duration of your credit lines, the better your score.

3. Your payment history plays the biggest role in determining your credit score. Make all of your bill payments on time and, ideally, in full. In addition to credit card companies, some service providers like utilities and cell phone companies may also report late payments and collections to credit bureaus.

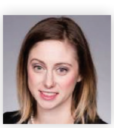
*See **CREDIT HISTORY**, Page 6*

***CREDIT HISTORY**, Continued from Page 5*

4 Stay in communication with your creditors. If you are struggling to make on-time payments, contact them to work out a repayment plan. If you are in a dispute with a creditor, continue making minimum monthly payments while working toward a resolution. A single late payment can appear for up to seven years on your credit history.

5 Monitor your credit. You can request your credit report, which contains a summary of your credit history as reported by credit bureaus, for free once a year at annualcreditreport.com. Check it regularly to make sure it is accurate and to guard against identity theft. If you find discrepancies, inform the credit bureau(s) in writing.

The decisions you make today can affect both your short- and long-term financial goals. Having well-managed credit will go a long way toward helping you secure dental practice financing to purchase or start a practice. ✦



A commercial banker since 2006 with BMO Harris Bank, which is endorsed by ADA Member Advantage for practice financing, Ms. Olmstead Lopez advises mid- to large-size practices, leveraging her background in commercial credit underwriting and structuring and providing industry-specific expertise and local market insight to add value, foster long-lasting relationships and — above all — helping dentists realize their vision for growth. Contact her at bmoharris.com/dentists.

KEY IDEAS | Practice finance, Loans

Securing practice financing: 7 keys to understanding the process

by Christine Olmstead Lopez

The process of securing a loan to purchase or open a new practice can seem daunting. But if you're prepared, it doesn't have to be.

Associates who might be ready to step out on their own are often concerned about taking out a loan given the amount of student loan debt they might be carrying. However, student loans do not preclude a dentist from obtaining practice financing. Keep in mind that borrowing money to acquire a practice can be viewed as an investment in your future.

INITIAL QUESTIONS TO CONSIDER

As part of the application process, a discussion with your lender will help you both better understand your financing needs, available options, short- and long-term goals and gather key information, such as:

- Do you have a solid credit history? Is your current financial condition favorable for acquiring a practice?
- How much of your savings do you want to invest in the practice?
- Is the practice you're looking to acquire a good fit?
- What is the patient base and the staff profile of the practice you're looking to acquire?
- What's your timeline for making an acquisition?
- What types of credit are you going to need to complete the transaction?
- Do you have near-term personal needs, such as the desire to purchase a home?

*See **FINANCING**, Page 7*

FINANCING, *Continued from Page 6*

The answers to these questions will help the lender understand your full financial picture.

DETERMINING A LOAN THAT'S RIGHT FOR YOU

When you're acquiring a practice, banks typically offer a fixed-rate term loan. How long you want to keep the debt is a key factor in structuring the loan. You will want to gauge whether you are comfortable either maintaining a certain level of debt and putting your excess cash aside to build a reserve or paying down the debt as quickly as possible with your cash flow.

You may also have debt considerations beyond the term loan. It's common for a practice owner to secure a modest line of credit for day-to-day operating needs. You can draw from a line of credit (up to a predetermined maximum amount) when needed and pay it down periodically, paying interest on the amount you borrow.

Also, if you're purchasing real estate as part of the transaction, you'll need to consider the loan structure on that as well. Real estate loans amortize over a longer period of time — typically 20 years — and may require you to provide a certain amount of cash equity.

OTHER CONSIDERATIONS

The earlier you include a bank in the process, the easier it will be for the lender to help secure everything you need. That includes bringing in other experts to help complete an acquisition — such as a practice valuation specialist who understands the different aspects of a practice and can make recommendations on how to improve efficiency.

Securing a loan can be a smooth process if you include your bank in the process as early as possible. Be prepared to answer key questions about the practice, your finances and your goals, which will help ensure you have a positive experience. ✦

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KEY IDEAS | Student loans

Student loans: Explore options and plan for long-term success

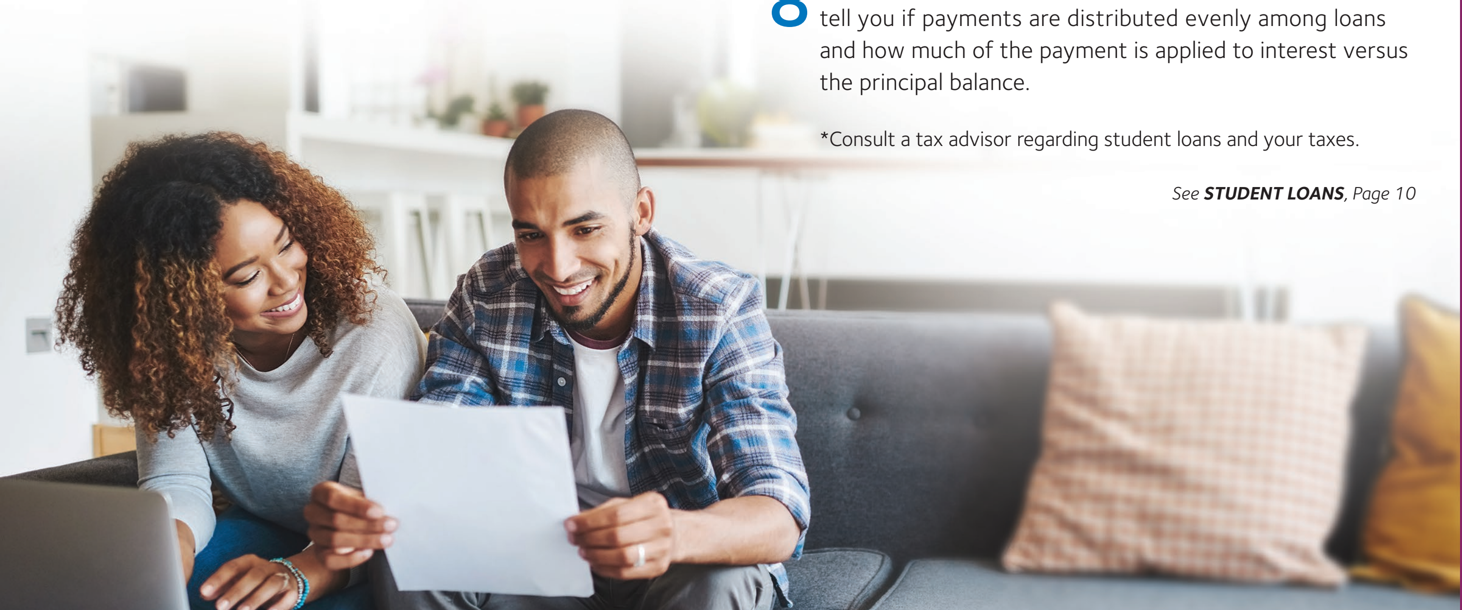
By Alex Macielak

Dentists graduating from dental school in 2019 owed on average about $292,169, in student loans, and about 65% of those dentists carry loan debt in excess of $200,000, according to the American Dental Education Association.

According to a 2017 report by American Student Assistance and the National Association of REALTORS, 76% of respondents reported that student debt impacted the purchase of a home, 65% delayed buying a car, while 55% delayed starting a family and 41% delayed getting married due to debt. Other student debt facts:

- About one-third of adults under age 30 carry student loan debt, according to the Pew Research Center.
- 44 million Americans owe nearly $1.6 trillion in student debt, according to Student Loans Owned and Securitized, Outstanding; Economic Research; Federal Reserve Bank of St. Louis.
- Student loan debt now ranks second behind mortgages, according to the Federal Reserve Board, 2020.

While these statistics are alarming and are part of a national trend related to financing education, they underscore the importance of proactively managing student loans to build a positive credit history, raising your overall credit score and evaluating available options to help ease the financial stress often associated with indebtedness.



MANAGING STUDENT LOANS

Here are eight tactics to help you manage your student loans:

1. **Be strategic about your payments.** Pay off your loans with the highest interest rates first to reduce interest accrual.
2. **Make payments affordable.** Contact your lender if you can't make a payment. There might be a repayment plan that works for you.
3. **Make on-time payments.** If you make a late payment, it may result in late fees and/or negatively impact your credit score.
4. **Pay interest while in school.** Some loans accrue interest while you're still in school. Make interest-only payments to prevent the balance from ballooning before graduation.
5. **Enroll in automatic payments.** This helps ensure your payments are punctual and some lenders offer rate reductions for customers who enroll.
6. **Understand interest.** Use this formula to calculate your daily interest: Annual Interest Rate × Current Principal ÷ Days in the Year = Daily Interest.
7. **Look into tax deductions and credits.** Eligible student loan borrowers filing individually can deduct up to $2,500 on their federal taxes every year, depending on their income.*
8. **Understand where payments go.** Your loan servicer can tell you if payments are distributed evenly among loans and how much of the payment is applied to interest versus the principal balance.

*Consult a tax advisor regarding student loans and your taxes.

*See **STUDENT LOANS**, Page 10*

STUDENT LOANS,
Continued from Page 9

FEDERAL INCOME-DRIVEN REPAYMENT PLANS

Income-based repayment (IBR)

An income-driven repayment plan with monthly payments set at 10-15% of discretionary income. As income rises, monthly payments increase only up to the 10-year standard repayment amount. Depending on loan origination date, any student loan debt remaining after 20-25 years of repayment will be forgiven.

Pay as you earn (PAYE)

An income-driven repayment plan with monthly payments set at 10% of your discretionary income. As income rises, monthly payments increase only up to the 10-year standard repayment amount. Any student loan debt remaining after 20 years of repayment will be forgiven.

Revised pay as you earn (REPAYE)

An income-driven repayment plan with monthly payments set at 10% of your discretionary income. As income increases, monthly payments are always set at 10% and can surplus the federal 10-year Standard Payment Plan amount. Under this plan, any student loan debt remaining after 20 years (if all loans you're repaying under the plan were received for undergraduate study), or 25 years (if any loans you're repaying under the plan were received for graduate or professional study) will be forgiven.

*Other income-driven repayment plans may be available on federal student loans. Visit studentaid.gov for more information.

PAYMENT OPTIONS

You also have a number of ways to repay student loans.

Direct consolidation — Creating a super loan by consolidating federal loans into one is a viable option for some borrowers. Typically, the new loan has a fixed interest rate based on the weighted average of the interest rates of the consolidated loans. Repayment terms vary from 10 to 30 years based on your total educational debt. Consolidating certain non-Direct federal loans may also give you access to additional federal income-driven repayment plans and Public Service Loan Forgiveness. Keep in mind that the loan term you consolidate into could have an impact on your monthly payment. If you are not consolidating to get access to these federal benefits, then the consolidation question likely comes down to convenience, interest rate and how important the terms of your existing loans are to you.

For more information, go to the Federal Student Aid website at StudentAid.gov/repay.

Plans based on your income — Income-driven repayment plans allow you to reduce monthly payment amounts for federal loans according to your income - typically a portion of your discretionary income. Repayment periods generally range from 20 to 25 years. Eligibility depends on your graduation date and when loans were dispersed.

Other repayment considerations include:

- Interest typically continues to accrue, so this option could be more expensive to repay over the life of the loan.
- Even if a loan amount is forgiven, it may be taxable.
- Monthly payments are set according to your federal tax return.

For more information, go to the Federal Student Aid website at StudentAid.gov/idr.

PUBLIC SERVICE LOAN FORGIVENESS

Borrowers working in public or non-profit sector jobs can have loans forgiven after 10 years of service. If you are employed in certain public service jobs, such as at a not-for-profit hospital, and have made at least 120 qualifying payments on a Direct Loan, the remaining balance may be forgiven.

In most cases, debt forgiveness under the Public Service Loan Forgiveness (PSLF) Program is only an option if you use an income-driven repayment service such as Income Based Repayment (IBR), Pay As You Earn (PAYE), or Revised Pay As You Earn (REPAYE), as payments under the standard 10-year repayment plan would result in the loans being paid off at the time of your debt forgiveness qualification. For those who qualify, the PSLF Program can be invaluable in relieving a good portion of your debt.

For more information, go to the Federal Student Aid website at StudentAid.gov/publicservice.

REFINANCING FEDERAL AND PRIVATE LOANS

Refinancing entails having a private lender paying off your existing loan(s) and issuing you a new loan at a potentially lower interest rate. If approved, you be able select your desired repayment term from available options. If you're able to lock in a lower interest rate, this could save you money over the life of the loan. As a borrower, you want to balance lower rates with terms and payments that are the best fit with your budget and income.

Refinancing is not federal consolidation

Consolidation simply combines two or more loans into one loan with one interest rate. When federal student loans are consolidated into a Direct Consolidation Loan, the new interest rate is based on the weighted average of the original loans' rates. Consolidation does not likely offer any interest

See ***STUDENT LOANS***, *Page 11*

STUDENT LOANS, *Continued from Page 10*

savings, and private student loans cannot be consolidated with federal student loans. The key benefit of refinancing is the potential to save thousands of dollars in interest over the life of the loan.[1]

Student loan refinancing may allow individuals to take advantage of low interest rates and potentially reduce the total amount owed over the life of loans. In addition, refinancing allows borrowers to change the terms of their loans, creating a plan that fits their circumstances.

Please note, you will lose certain benefits associated with federal loans if you refinance, such as access to income-driven repayment plans, forbearance and deferment options and loan forgiveness. For more information, go to the Federal Student Aid website at StudentAid.gov/h/manage-loans.

Eligibility

While each lender has its own specific qualification criteria, the key factors in determining eligibility and rates typically include your credit profile, total monthly debt payments and income. Those who are in good financial standing, demonstrate a strong career trajectory, have good credit scores, and have shown they are responsible with other debt and monthly budgeting are more likely to be approved. ✦

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