

Ep #6: How Do You Know If and When You Have Enough to Retire?



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With Your Hosts

Dr. David Phelps and Evan Harris

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You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

Dr. David Phelps: Okay, it's David Phelps here with my good friend and colleague Evan Harris back on the Dentist Freedom Blueprint Podcast and today I want to talk a little bit about a subject that comes up, really, every day of the week, Evan, when we talk to our colleagues, the dentists, whether it's on the phone or in the office. That question is; How do I know that I'll have enough to retire?

Evan, how do you respond to that? Where do we go with that?

Evan Harris: I'm hearing that question more and more every day. I hear the joke that people's 401k have turned into a 101k, and I have doctors that would have retired years ago, but they feel that they have to work longer. Either their nest egg has been reduced or the value that they thought their home was worth, that they would sell and downsize, isn't quite what the home is worth today. There is just more uncertainty in the market place. When stocks were turning a 10% average they could bank on that, now they are maybe receiving a couple percent on a CD on a great day, and the stocks for them, a lot of times, are very up and down. Yes, that is a continual question that I hear.

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Just recently one of my clients called me into his office and said, "Evan, I need to talk to you," and I could tell it was something pretty exciting from the doctor's perspective, and I thought, "Wow, I wonder what it is." I sat down and he says, "Close the door, close the door," okay, I close the door and he said, "Evan, I discovered over the weekend that I can retire." I said, "Really?" I said, "Doc, you're only like 55," and he looks at me and he says, "Evan, What are you talking about? Are you crazy? I said I CAN retire. I discovered that I have the option to retire. I'm not going to retire, I'm getting the best I've ever been at dentistry. I've got my kids in school. I've got my wife doing what she loves to do. My practice is really thriving. I've worked too hard to stop practicing now."

I said, "Well, okay, what are you going to do?" He said, "Ah, that's the thing, I get to do whatever I want to do, whenever I want to do it." I said, "All right, are you cutting back?" He says, "No not exactly, but here's what I am going to do. I'm going to do the dentistry that I love to do, and the procedures that I don't love to do, I'm going to send to my specialist." He says, "I hate doing dentures. I don't like doing ortho, and I don't like doing endo, unless it's a really easy anterior. So, all of that - out it goes." Well, okay. He says, "And, I'm going to be able to take vacations when I want to take them, and I get to be able to build the practice on my terms."

I could sense the energy and I said, "Well does the team know?" He says, "No, no, I'm not going to tell anybody, I just wanted to tell you and, obviously, my wife knows, and I just wanted to just kind of celebrate because you talk about this and I know your dad was big into financial

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freedom and I just wanted to give you the announcement."

I said, "Wow, I appreciate being brought into that kind of, really, celebration." When I walked out of the doctor's private office I was talking to the staff and the staff said, "Hey, what's going on with the doctor today?" I said, "Well what do you mean?" They said, "We've never seen him so up, and the doctor's talking about putting together a bonus plan if we reach new production levels, and talking about all kinds of benefits. I don't know, it's like the doctor went to some kind of retreat over the weekend."

I got to watch month after month as the practice health got even better, and the growth and the production got even more. Of course, me as a supplier, I could know because they're purchasing more material. Doctor ended up equipping a treatment room that had been left for storage for all these years.

The reason I say that story is that given a doctor that didn't have to work and instead of just letting the practice go he had even more energy to create the practice of his dreams and the team was even more enthusiastic to help build that practice. Not because they have to, but because now they had the freedom to.

Dr. David Phelps: Evan, that's a great story and I think that the epiphany that that doctor obviously came to, and we want to talk about how he came to that in a minute, but that epiphany is such a key fundamental because the problem that most of us have as practicing dentists is, I think, we have the fear of do we have enough. We live in kind of a scarcity mindset. I know that I had the same

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thing for many years of my life. I wouldn't even give myself permission to think about doing anything differently than working X-number hours per week, and seeing X-number of patients. When you're under that weight of feeling like I haven't done enough, I have to keep pushing, pushing, pushing; when you get to that point and you have that freedom positioning that your doctor had, it changes everything.

Let's go back ... The problem is that most doctors don't know when they get to that point. They can't give themselves permission because they don't know if they are there. The fear I think we have today, you mentioned earlier, is there's that turbulence in the market place. The economic uncertainty. We have inflation factors that are sitting there ready to run rampant. We know we're going to have higher taxes and interest rates go up. All these variables that we have no control over, so when do we know that we have enough at a certain age? Where do we go with that part, Evan?

Evan Harris: That's a good question. I'll share from this doctor's perspective I asked that of. I said, "How did you all of a sudden come down to this weekend?"

He says, "You know Evan, I always felt like I didn't have enough, and I figured well why don't I figure out if I have enough." The doctor says, "I could have been living this way last year, and more importantly, Evan, I could have been living this way coming out of dental school."

I said, "What do you mean? You had an inheritance or something?"

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He says, "No, it was that once I was on the path and I knew that I had the opportunity to be free, I would have already felt better" he said, "because, Evan, I never had the understanding of what it would take to be free."

I said, "Okay, so how did you do it?"

He said, "Well I listed out all of my assets and all my liabilities." To make that more clear - all the stuff he owed on, he had a mortgage on his house, I think his cars were paid for. He had dental school paid for, and he had just other small loans. Then he looked at his income and he compared ... He just looked at everything that was going out and everything that was coming in and he just took averages. He began to see what it was taking to be able to get what he wanted. Then he made a list of all of his wants and his spouses wants. They wanted to be able to fund their children's education, so they had different guesses on where the kids would go to school, and they did great research on what the tuition is today, and what the tuition would be when those children enter into college. They factored in lodging, room and board, all of that. They also wanted to take an around the world trip and they want to factor in how much that would cost, as well as what it would cost for the dental practice to be closed during that period of time. They picked all the juicy stuff that was exciting that they wanted to do, and they assigned dollar values to it. They also looked at what they currently had and then they looked into retirement, once the kids were out of college, once the ... the empty nest type of thing, what did they want to do with their activities and what would that cost. Then the very last thing was the monies that

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they have saved up, what were they going to be producing passively to fund that lifestyle.

The doctor shared that he had money in CD's that were earning less than 1%, and they had ... The majority of it he was lending, like what you and I do in our real estate, he was doing private lending and he was making about 10% on his money and that was accumulating, because it's compounding, and when he did the math, the amount that he was making from his investments would pay for his lifestyle costs. Then, selling his practice would give him, and he was conservative with the sale of practice, that would give him another chunk that would give him legacy money. He called that legacy money because he always wanted to pass things down or forward into the next generation.

He had that all numerically laid out and he realized at that day, he was completely free. He actually was free a year prior but he never realized that and that's what he was stating; I wish, or he wished, he knew that he was free because he would have already been experiencing that abundant much earlier.

Dr. David Phelps: Just figuring out that formula and doing the work and the exercise that he did, Evan, is a key. I think many doctors don't even get to that point, so, again, they stay on the treadmill just worrying about "well, will I have enough?"

Let's talk about the younger dentist who hasn't been out of school for very long, hasn't had a chance to earn a lot of income yet. Perhaps still has student loan debts, has some car debt, has, maybe, a house mortgage, maybe got into the debt game a little too much and feels like, "Well I have no place to go." What does he or she do?

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Evan Harris: I see a lot of that. I just had dinner with a whole new dentist society and it was a whole table of, I think 10, dentists and they were sharing the exact same thing. They had school loans, they had credit card debt, they had car debt, they wanted to buy a house and maybe didn't have a house yet, they wanted to buy a practice. It was described to me by one young dentist who bought a practice and I said, "How did you come to the realization of knowing that you wanted to buy the practice? How did you know it would work for you?"

The doctor said, "You know what? It's kind of like going to the mall. Do you ever go to the mall and you're trying to find a store?" He says, "There's two things that are a requirement to find that store." One is the directory, and the directory is that big kiosk and it has all the stores and the map, and they find the store." Then, he says, the most essential information is the red dot.

I said, "What's the red dot?"

He says, "The red dot is the You Are Here. If we don't know where our red dot is, it's not relevant where the store is, because we need to know where we're coming from to get where we want to go." Now this young dentist said, "I knew my red dot. I knew what my debt load was. I knew what I was willing to do, how many days I would work, the approximate amount of money I would earn. How I would be able to supplement my income from associating at another practice that was already busy," but he knew he wouldn't be earning any equity there, he just would be working for a time, essentially. He knew that he could start to transition, as he would build his practice, he could start to transition

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out of the associate-ship and into his full time practice. He knew what his expenses would be, his fixed expenses would be things like rent and just the basic insurances and things, then he had his variables which would be supply, lab, different ... maybe electricity if they're there they're going to use that more, and he had that laid out. He said, "This is my red dot, Evan. I know I need to make this much per month, and everything beyond that is profit." He says, "Once I get enough to be able to invest, I'll be able to have enough passive income to cover all my expenses."

He knew his red dot. That was a big thing to him.

My encouragement to anyone, whether they're 25 or 65, know the red dot. Know where they are today in relation to where they're trying to go.

Dr. David Phelps: The red dot analogy, I love that, Evan. That makes so much sense. To have that visualization that people can really relate to and it does make so much sense. You've got to know where you are before you can set on course.

Now we have a doctor that has the red dot. They've got that vision, they've got that road map. It's clear for them. The problem I see, and I know you see it too, is that many times we don't have the rest of the family on board; the spouse, the kids. There's that entitlement theory, you know. You're part of a doctor's family so you're supposed to have certain things, ... How do we get everybody on board so that we don't lose track of this goal with the red dot analogy?

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Evan Harris: Protecting the innocent here in all names, I recently had a client that couldn't pay his bills and produced an enormous amount ... well over a million dollars practice ... and a mature doctor and I, I just asked the question as a friend. I said, "Are things okay with the practice?" He looks at me and says of course, things are great. I said can I ask a personal question, where's the money going? If you're having trouble paying the bill, and he says "It's not me, it's my better half." I said, "You're better half? What's up?" He said she has a really, really expensive lifestyle and really expensive habits. Okay, and I said, like what? He said, "Where she likes to shop, what she likes to do, what she gives to the kids when I'm not around, and I end up getting the bill each month, and I'm not able to keep up."

We started talking about goals and where he wanted to take the practice. He wanted to remodel the practice. The practice was the same as when he bought it 20 years ago. He said, "Gosh, I want to get new carpet, new colors, new equipment," and he wanted it to have ... some really leading edge technology that he'd been wanting to have, but "frankly I can't do it because of the spending that's going on at home." We started asking some questions, saying what is your wife's goal? What does she want? He had laid out his goals pretty clearly. He looks at me and he says, "I've never asked. I've never asked my spouse what she wants." He says, "I'm going to do that this weekend."

That's what he did and his wife responded that she wants the kitchen to be remodeled. She wants to take a big trip to Europe because the kids are going to get older and go to college and she feels like it's the last

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family vacation they could possibly take. She went over a whole list of really spending things, not too much like feeling things or growing things, it was just all mostly trips and items and materials. He began to ask, "Why is it that you want the kitchen?" She said "So that they'll have dinner together because you are at the practice so late at night we never see you, but if we had a nicer kitchen I could bake better meals and we could have a better place to sit and talk and eat, and we'd have you home more often."

He asked, "Well if I came home more often, would you need this extravagant kitchen remodel?" It was like a hundred thousand kitchen remodel. She said, "Well, no I guess not. I just thought that's what it would take to get you home." He said, oh okay, and the big European vacation, is the concern that we won't have a vacation with the family once the kids grow up, what if we just take a vacation locally this year and every year until the kids are in college? She says, "You'd really do that? You'd take time out of your practice to do that?" He says, "Yeah, yeah, absolutely. I didn't really realize that time was really slipping away." She was "Yeah, that would really take care of my goals. What do you want?" He says "I'd like to build my practice even further, take it to the next level and be able to have the funding to be able to remodel and invest in technology so that I can be able to produce more in a way that I really enjoy, and be able to get back to the family because I really want to take that big vacation too, but I'd like my practice to pay for it, not debt to pay for it. If I get these certain technologies and these certain ways and have the patients see that we're not stuck in 1982, I think my office can be able to produce more for us to be able to

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earn more so that we can be able to take even more fun life style experiences together."

That was an epiphany for him, that he had never really asked the other half and the other family members what they really wanted, and, more importantly, why they wanted it. That has been all the difference in his practice, and he did get to remodel his practice, he did get the technology, and he did boost his production. He loves going to work. His family is now benefiting from the increase in production and he's coming home, I think his commitment was 3 nights a week he will be home for dinner for sure.

Dr. David Phelps: Evan, I can relate so much to that because I was so guilty of being the hard-working dentist, like I know all of our docs are that are listening today. Focusing so much on that future, having enough, the fear of not having enough, trying to have security for my family, financial security, and thinking in my head when I get all of these things right, when I get it all ... enough amassed, that I will then start living my life and creating those memories. Our spouses, for the most part, they'd like a little balance, as you said. They'd like to have some things today to make those memories. We have got to discover what's in it for everybody that's around our inner circle in our family. I think that, case in point, that's what he did and he found out what really works.

Evan, we've got just a couple of minutes left here and there's one more category of doctor profile that I think is so important. We both know them. I talk to them every week. You see them every week. That's the doctor who's approaching late 50s or in their 60s and, by golly,

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things just haven't work out from their financial planning side. They've had some setbacks, they've made some mistakes. We've all done it. How do we help them? How do we speak to that doctor about having enough and not having enough time to accumulate what they need?

Evan Harris: Wow, that's a great question. I will touch on it in two separate areas. I don't think we have the time to really go into that because that's a big percentage of my population that I speak to. They are the ones that are the "Oh no, I don't think I have enough time." There's two areas that I see to be the best production for them.

One is the economic engine within their practice. There's a lot of hidden opportunities. I was with a doctor that we were just talking about their fee schedule and I have the database that tells me exactly what doctor's charge per zip code so I can do a custom fee analysis. I provided that to the doctor and I looked at the fees and I ... The fees of this practice, which this practice is kind of like a Nordstrom of dental, their fees were in the bottom 20%. Which means that the clinic down the street that had patients waiting up to two hours, was charging more for their services than this doctor that provided exemplary service. Sharing this with the doctor, he looks at me and says "I don't know how to feel about this." I said, what do you mean and he says "On the one hand, I feel like I have so much opportunity to be able to bring my fees up at least relatively close to where my peers are, but at the same time, Evan, I thought my office manager was increasing our fees each year. Turns out we haven't changed our fees for eight years and I've missed out on all that opportunity. No matter what I tell my patients they always feels like, oh a crown, how

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much? I just never realized that I had really fallen asleep at the switch. I had not followed through to make sure my office manager was doing that."

Instantly I ran a report which kept the frequency of each procedure, you know how many in-lays, on-lays, crowns, etc., and we could capture all the revenue that would be needed for him to be able to have the retirement he wanted when he was planning to retire. Yes, he could have retired earlier for sure if he had been able to be a little more on top of it, but this gave him a great runway to be able to go where he wanted to go. That was just purely the economic engine within the practice.

Just wrapping up, there's one other area that I would always have them look into. Where are they spending and investing. How are they making money on their money? This doctor that I was talking to had his money sitting in what some people call safe investments. They were earning less than 1%. So inflation, in my opinion, was just chiseling away at the money he did have and it wasn't growing. He was actually losing on the money that was saved. Finding something, like Warren Buffet talks about, invest in what you know and invest in who you know. If he could have found an investment that could return, that double digit return, that 10%, that would have changed his life as well. We introduced him to some techniques that could be tax efficient, and be able to have the earning that he needed to have.

Those are the two areas. I would say the economic engine within the practice and then how is the money working for him that he's already built up and saved.

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Dr. David Phelps: Evan, great topics today. We will definitely go deeper into some of them in future podcasts. If you're listening to us on iTunes, please go and give us a review. Let us know what else you would like us to cover. Give us feedback, question. We love your five star reviews.

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