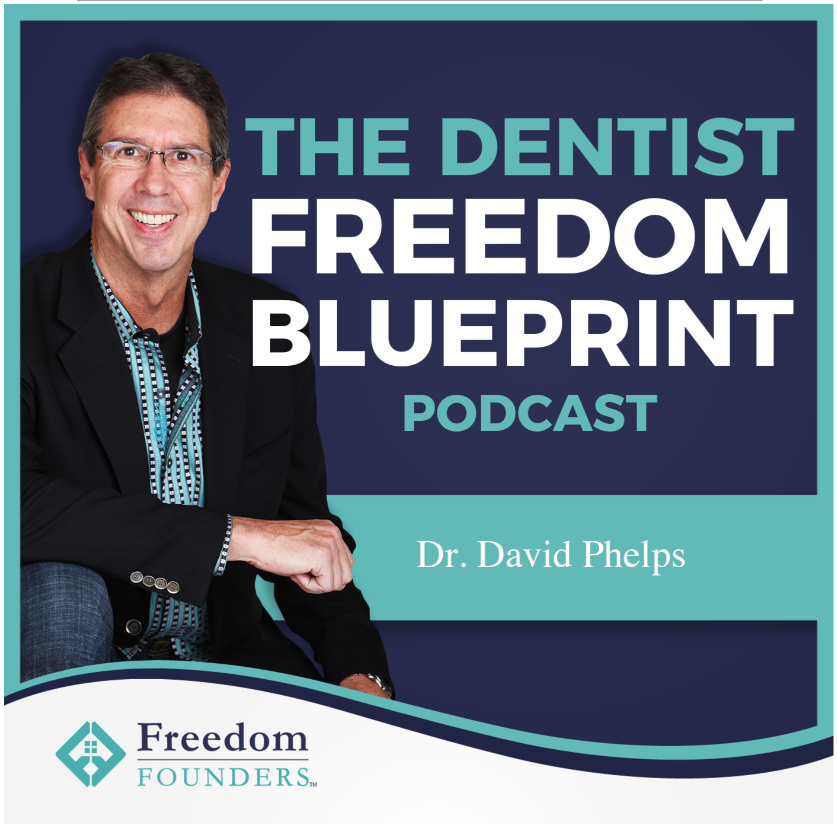
Ep #142: Kevin Monaghan - Creating Win-Win Associate and Partner Models



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Dr. David Phelps and Evan Harris

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Kevin Monahgan: How about you give somebody 50% equity and you hate that person in five years? Now what do you do? With ours you know exactly, if you don't like each other you have one of two options. You walk away and you know exactly how much you're walking away from.

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: Good day everyone. This is Dr. David Phelps with the Freedom Founders Mastermind community and the Dentist Freedom Blueprint Podcast. We're back today and I've got something I think will be very interesting for most of you to hear about today. With me today is Mr. Kevin Monaghan. Kevin, how are you doing sir?

Kevin Monahgan: Very good David, thank you.

Dr. David Phelps: Kevin, your group, your company, Intuitive Compensation group. This is what you call retain, inspire, reward. You're about creating incentives for business owners, partners, investors and key employees to work profit together. As it relates to my niche, my group, the dental industry, as you know it's very fragmented. We have today a lot of issues in the industry and we have corporate consolidators that are creating competition. We have a lot of millennials coming off schools with a lot of debt, we have a lot of private practice owners that love to hold onto that private practice model because they like the control they have there. Problem is there's burnout, there's decreased profit margin there. They're looking for, "How do I stay private but still have a model to allow me maybe to bring on other doctors, maybe these doctors who need a place to come in, be mentored and are not ready to pick up and buy a new practice.

"It's costly, they can't get the loans. I've got a practice here, I could expand capacity, I have unused capacity. How do I make this work?" We both know Kevin that the world, not just dentistry but the world of putting together business models that can grow and be sustainable is fraught with danger at every corner. Everybody thinks, "Well yeah, if I just bring that person in, in this case if I bring that young dentist in it'll work. I'll show them a great way and some day down the road we'll work out a buyout." That's full of danger and full of potholes, that way doesn't work. There's other plans where consultant transition advisors will talk about bringing in an associate trial basis and then letting them buy into an equity position. Again, they can work but again there's so many minefield there.

What you do is you've got I think some really great frameworks that I want you to bring out today and talk about some things that you're doing, not just ... In any industry where this can work. Kevin, I've given you a short intro. But let me just tell a little bit more, something else I found out about you today when I was just doing a little research is you played a role in the Office. What was that all about?

Kevin Monahgan: My role was getting coffees, a very minor role. When I had started in my career I came into what I'm doing now when I was 21, 22 years old and I was too young, I didn't have the communication skills. I tried, I gave it a valiant effort but it wasn't going to work out in that industry. I left and I said, "I'm going to go chase a comedy dream, get some experience. You're only going to be young once, I'm going to be working a long time after that so why don't I go do something fun and chase it and hey, if it pays out in a comedy dream usually it comes with a really big check." So I said, "I'll give it three and a half years." I moved across the country, used the skill set that I had in talking to business owners or attempting to talk to business owners to land myself somehow a position on the Office when they had thousands of resumes coming in.

The art of the followup served me well and after eight months of calling that show I got an opportunity to come on there, worked real hard, they liked me. And so I was able to go run, get coffees, lunches and work my way up to the writer's room. It was a blast. I had a great four years but it's not fun living on close to minimum wage out in Los Angeles so gave it my three and a half years, wasn't going to make it and then I transitioned back into the business ironically in China. So Shanghai, China and found out working with American business owners overseas. This will probably relate to some of the dentists out there, but in China depending on your industry you had to have a forced business partner at 50-50% some of the times. That person may work out or they may not work out and our role was to come in and put compensation packages together where the American business owner and the Chinese partner would agree to it.

It might have had a very favorable aspect to the American business owner who is typically going to be there for ten to 15 years and then exits and return home or move on to other things. It helps with compensation packages and then to your point really helped with business owners when I came back home in that they have a lot of the same, for some of them it might be like getting a foreigner coming in and help and all of a sudden your business partners with them. How do you position that? That was the background story. The setup for any business these days is really going to be, you've got choices when it comes to, especially in the dentist industry, for that solo practice and we'll get into a little bit bigger practice but let's start with that solo practice person out there. You have a business, you're starting to get to 45, 50.

And you're saying, "You know what? I'm working really hard, I've enjoyed it but I have to transition now to be able to not work in the business anymore. How does that work, how do I sell this, how do I spend more time with my family and away from the industry while still growing it to hit my long-term goals? What do I do?" Plan B certainly comes in there. Where we step in is really that relationship between the dentist and the younger dentists that they're bringing on. If we have a 50-year-old dentist and he's bringing on a 30-year-old, fresh out of school, a 35-year-old and he wants to entice him to come into the picture we see one of two things happen. The first one is the promises. "Oh, if you come in here you're the only choice I've got, so one day it will somehow work out and we'll build this up and then we'll figure out what to do then.

"I promise you we'll give you a fair value and we'll work it out and it'll be easy." But we don't know what that environment looks like and certainly it can create tension along the way because if you're helping build a multi-million dollar business now you're looking at it going, "Hey, I have to buy this guy out in two years and it's doing really well. Now I've got to buy him out for a huge amount, he's going to want a big check. That one doesn't work. The same thing with if you bring in a business owner in too. There are a lot of companies that will help you get a loan to buy 50-50, so now you've got that China magic that I was talking about where now you own it 50-50 so you just gave up a lot. That can create its own tension and now that you've got somebody who's new who may never have ran a dentist practice before or have little experience.

You're going to get the same tensions longer-term which is, "I've got to buy that other 50% out. What does it look like, how does it play out?" These are the scenarios or the tensions that we get into and before we get into how we address that I'm going to bring in what I see happening in your industry which is dentists moving and consolidation and do you have to have three, four, 20 dentist practices in the future to be able to keep up. And there's a lot of land grabbing going on in that industry which is, I see a lot of people pushing towards, "I want to be one of the first people to be 2025 because I'm going to be very attractive to sell." But now you've got the problem of, "Well I need a dentist. How can he stay independent and how can I treat him entrepreneurially at his practice, because I've got 20," versus him wanting to just start his own practice.

How do I keep them there? I can't give away equity to 20 different dentists. I need things that I can put in place that help people retain them so they stay there, reward them without the pitfalls of some of the issues that we're going to run through in a second. And then how do I use it to leverage whether I'm going to sell that practice, whether they're going to buy that practice from me, whether I'm going to run that practice forever and what does that look like? Those are the issues that we see coming up. If I go back to looking at normal businesses, those are the things we see. We see people say, "I'll pay you a lot of money." That's great but it doesn't keep anybody, and somebody's always going to be in a position where they're doing better, it might only be for a year or two, to be able to throw money at them.

And you'd be shocked, I've seen people leave for a $20,000 difference because they were thinking of change at the time whom, "I'll give you an extra $20,000 a year, okay?" It's as little as that. "I'll give you $100,000." Somebody's always going to be in a position to put more in there. Paying them is one thing, giving away equity, David I'm sure you see this a lot. Some of the pitfalls that can happen from it as well, is that something that-

Dr. David Phelps: Yeah. You've laid this out really well Kevin, and I think this is where the tension is in the marketplace. But where there's tension there's also opportunity. The tension is most private practice owners, and I'll say myself included because I am one and I've only learned about different business constructs because I've gotten outside the field of just dentistry. But most of us, we got into business in the first place because we wanted some control over our lives. We find out trying to have that control often times means we give up a lot of other things, but we want that control. So yeah, bringing in a financial partner and has a lot of a ... There's a lot of tension there. We can talk about the ability to handcuff somebody in with that but all the negatives that come out of that don't look so good.

Most of the time, whether it's an associate you're trying to hang on to and try to keep them there as you said by overpaying them if you can or whatever which doesn't work out. Or you try and bring in a financial partner and try to make that work. There's all kinds of issues there. So what happens is there's a stalemate in the industry and really the major place where these new young doctors who need a place to go, who could definitely fit into the private model, they're going to the corporate entities because the corporate entities are giving them some guarantees on how much they'll pay them. I'm not saying that's a great model for a lot of these young docs but it's almost like they have to go there because we on the private practice side have not built anything that we're confident about.

So when they have the conversation, if they even have the conversation with us as a private practice owner it's like, "Well we'll figure it out." These young doctors aren't that stupid, they've heard about that.

Kevin Monahgan: This is exactly what we see and especially it's no more apparent than in the dental space. Let me see if I can give ... I've re-brought up all the points that I bring up, we didn't get into profit sharing or revenue sharing but you've expressed enough frustrations that you know the upsides and the downsides to even that as well. Where we come in or how we're a little bit different is some of those guarantees or some of those items that they feel ... They're going to the corporate because the corporate's giving them guarantees. So we have solutions that help offer something that gives them that feeling of, "Okay, I'm working for something, I have something in my name." Let me give you an example of what I'm talking about here and I'm going to leave the dental industry to go to a national example first.

Let's take a look at Jim Harbaugh. Jim Harbaugh, he was recruited to the University of Michigan from the NFL to come and be their head coach. The nice thing about University of Michigan is their records were public. People speculated based on his age how they exactly structured it but it works something like this. He got $5 million in cash and $4 million into a life insurance policy. The nice part about this, let's say you have a partner and you're going to pay him. This is big money, but you have a partner. If Jim Harbaugh comes in and after two years, so he's got $8 million that was paid into a cash value life insurance policy and $10 million paid to him. If he leaves the cash value life insurance policy was funded with a loan from the University of Michigan. So Jim Harbaugh leaves and he goes back to the NFL then the University of Michigan has collateral against that loan.

It's almost as if, it wasn't 50-50 but it's 60-40 blend of, "I will put money away that's earmarked for you in some capacity." There can be promises around that, they can be in writing, they can be in handshake, they can be just giving them the whole thing. But you've got options as a business owner of what you want. And when it comes to dentists, they typically care about two things. One is control, or the second one is taxes. With control, this meaning cash value life insurance, the reason that people use cash value life insurance David is that it's got the guarantees around it. You can use policies where the cash value is guaranteed and the death benefit has guarantees around it. Let the business be your model, let any real estate that you're doing be your adventure or your work. This money is not for getting rich and it's not for getting creative.

It's for putting something in between two places where you're not going to be surprised of, "Hey, two dentists buy a commercial real estate building together, need a $200,000 roof repair, you owe me $100,000." There's nothing can come up like that in this scenario. People use it because it's boring and it's safe. Going back to the example, if you've got a dentist and you bring him on board you can put it all in your name. We see this in a father giving it to his son so his son wants to be a dentist, he comes in, he's going to be a dentist but we don't know if he's going to buy it. I don't know how big that practice is, it might be big and he may not be able to lead it. We see people own it on the company's books, and that's the control. We see people own it on the company's books in those family scenarios or very particular scenarios, sometimes very large payments would be held on the company for various reasons.

On the other side we have taxes. Here's where dentists really like it, taxes. You can then put the cash value policy directly in their name so the nice part about doing that is you can put it in their name, you get to deduct it because it leaves you ... But now they have control of it. So there's the guarantees, you're putting money directly into it, they see the cash value that they've got. They've got the executive benefits. What's nice for a young dentist is, they usually have a lot of debt and there's usually disability and life insurance inside of your cash value life insurance. Meaning if you've got disabled some companies would continue paying that, the dentist who owns it is off the hook. When it's on the young dentist coming in name, that's great. The problem with that is he has control so a lot of times he has control with the cash value too and he can just leave and take that money. It's just like you paid him.

They do have contracts that you can put in place and say, "I'll hold that as collateral for ten years and then I'll release it to you." But when you put things in writing there's a lot more legal documents that have to go in place and there's less flexibility. It is what it is. Where we come into play is both of those scenarios, but then there's another one which gives the younger owner and the established owner a way to work together. What that is is just called a 162 leverage bonus. The way that that one works, let's say you bring on a doctor and you say, "Okay, I'm going to work for 15 years. I'm 50, you're 30 years old and I'm 50, I'm going to retire at 65. So I'm going to put $100,000 a year into this policy for you, or for us and that's going to be your guarantee. You know that it's coming in, I'm going to be paying that premium every year.

"When I pay it in there I get to the deduct it so you have to pay the taxes on it." Well that's a problem for him, where is he going to come up with it? The way to leverage bonus works is that you then take 50,000, loan it to him to pay the taxes on it and you use the collateral of the cash value inside that policy as the loan. So fast forward ten years and again you're going to have to run illustrations to get these numbers but humor me and let's go along with this. Ten years later you put a million dollars into it, you've got about $500,000 that you can use to ... That's your collateral. Then you're approaching retirement so now you've got options with it, just like with the example of Jim Harbaugh you win a Super Bowl, boom, offer you the loan. Now he's got the million dollars in cash and where it applies to your industry, or the dental industry a lot, is what's called the leveraged buyout.

Which is, "15 years later we got x amount of millions in here, I'll forgive the loan and what are you going to buy with all this money that you've got as a 45-year-old dentist? You buy the practice, it can be used as a downpayment, it can be used ... There's a lot of creative things we see in the dental industry but it really works well between two people because that younger dentist who wanted guarantees and was going to go to corporate has a vehicle between you two where he knows exactly what's his. You have the confidence to pay him more because if he leaves you get half of it back. You'd pay people more if you knew that if they left you could get some back. It works from a good basis on inside of life insurance, you don't have any taxation on the gains while it's in the policy. You're building that young doctor's wealth but you're also protecting him.

If he gets in and involved in the dentist or the Freedom Founders organization and he's buying real estate he's leveraging up. For his family's sake this instrument also provides a benefit where all of a sudden you know what? Don't worry about their loans, the free cash flow is now there for the family to use from whatever assets there. I used Freedom Founders because I know you guys are very good at helping people build that outside cash flow and so it would pay off the leverage, the family would have an income stream that wasn't dependent on that dental practice anymore. It's diversified, it's helpful for them.

Dr. David Phelps: Yeah. Let me just, I'm not sure everybody understands. Let's back up a little bit. We're talking about funding a cash value life insurance policy. In this case the example you gave was a thousand dollars per year times ten years so that's a million dollars which the-

Kevin Monahgan: Hundred thousand.

Dr. David Phelps: What's that? A hundred thousand?

Kevin Monahgan: You said a thousand dollars.

Dr. David Phelps: I'm sorry, a hundred thousand times ten, a million dollars. The salary gets to deduct that. In that scenario would that be considered ... Give us some definitions. When is a cash value policy paid up in so many years and how's the cash value build? So after ten years what's the typical so people that are listening have an idea what that looks like.

Kevin Monahgan: It depends on a lot of factors. The way that we set it up is you've got to tell us your story, we'll put those concept numbers for your situation together. The reason being is your young doctor could be a smoker, your young doctor could have diabetes, you could be overweight. All these things affect it, your age ... Then what we do is typically speaking there's a lot of types of insurance out there. We like the ones that are boring that have guarantees around the cash value and that have guarantees around the death benefit because you don't want this to become an issue. You can go into policies that depend on the stock market or interest rates or a blend of the two. Typically we say what can go wrong will go wrong and this is not one of those tools. You want your dental practice to be your ... You can control that.

You have a lot more control over the things that you know such as owning your building or running a dental practice. You don't want your life insurance to be a surprise in your life, especially between two partners or that relationship. The insurance is typically ... It's not a vehicle that is going to knock your socks off unless you give it time. It's as if you were, to relate it to real estate it's as if you bought a commercial building and you have to take out x amount of dollars to put in and your break even analysis is after your ten. If you can go into those types of numbers it would look something like that and the longer you have the better it is. Insurance is a horrible short-term vehicle, a fantastic longer-term vehicle. Between these types of plans the design is important. You have somewhere you want me to pump cash into these things and have it ready in a few short years?

If it's less than a year or two the answer's always going to be, it's very difficult to do anything with insurance. Let's look at other vehicles. Unless you're looking at either just selling a practice or reopening or loans, but insurance takes a little bit of time. Where we see it is really that younger dentist that's in there and that dentist who has a ten to 15 year runway. We also see it in that dentist who's going from three offices to 20 offices and he needs something in place to treat each dentist like an entrepreneur in their own place where they have some guarantee and they have a carrot over their head saying, "Hey, if I get this up to X amount or we look at selling this thing there's an opportunity for me to get that collateral that you hold over them forgiven, or forgiven and bonused on the tax."

The dentist has two carrots to work with that gives them that kind of guarantee.

Dr. David Phelps: So the cash value, and there's a certain amount of cash value in a whole policy, how is the owner able to access that?

Kevin Monahgan: Good question, yeah. Typically it's a contract between you two. When we put these things in place the guarantees are that they'll be there. But they're held usually, you can't go in without the owner's permission. Depending on the structure you can do it where you give them full access and they can have access to it. But typically speaking we put a contract in place between you two that says, "Hey, this is going to be held here. You can't touch it until both of us say it's okay." These are where we start getting into the different structures. There can be handshake agreements in place, these things can be in writing. "I need this in writing otherwise I'd never agree to it." That changes the dynamic. Usually people know that if they can recoup something and on the other side they can use it as a reward but they have something between them.

People are willing to put more money into it because they know they have outs in the future compared to committing to something for ten years later when we don't know how life's going to develop. We always help guide people through which ones would for your situation be worth considering. Here's what the numbers would look like and then really where we come in is helping the two owners balance, this is good for the owner, this is good for the employee that's coming in, here's something that works together and why. We get into a lot of the why and what's important to that person and then we have to review it because what's important to people changes over time as well. We have to have something that's flexible to adapt to anything.

Dr. David Phelps: That's the tough part about anything in life isn't it Kevin, is people come into what they perceive as a great opportunity to build something together for the future. On the outset everybody's friendly and it's all good, it's all good. Where any of us get into trouble is that we don't know about what can come up. Circumstances change and so with your experience you've seen it all, you can project down more. She said, "Having a flexible construct that allows still for both people to be working together and not adversaries. The adversarial element that develops is what causes things to blow up.

Kevin Monahgan: Right. You're exactly right. How about you give somebody 50% equity and you hate that person in five years? Now what do you do? With ours you know exactly, if you don't like each other you have one of two options. You walk away and you know exactly how much you're walking away from. Boy, if I walk away that dentist is getting 60% of this back. It's going to drive me nuts but I gotta go. And so the dentist has the confidence to do this because he gets ... It's not like equity, we're now at ... Well I'm never going to buy you out and now, what if the tax laws change in the future and it makes more sense to give equity distributions than it does salary?

Dr. David Phelps: You're stuck.

Kevin Monahgan: You lost that because now you're depending on him for anything. With this one if there's a problem you walk away you know exactly what you're walking away from or you have a problem, now you've got a $100,000 pool here to be nice and fix it and work at it. The incentive is there, you know where you stand and that's the part when I hear of, we've got younger dentists going to corporate because they like the guarantees around it, man when I ... Knowing that they have a pool that's just theirs and that they have something to work for gives them that aspect. A lot of times we see dentists are coming in with some of the biggest risk because of their loans. It might even be student loans, they might even take out a loan to buy into it a little bit. A lot of times too on this benefit we're looking at this ability to have student loan writers.

So if something does, car accident, something does happen these things are taken off of their plate as well. These are things we bring up during the process as well. What it really does is there's a magic number that's not too ... It's not going to kill the main dentist especially because a lot of times when we work with people who coach dental practice or help them this money that you're committing is short-term. It's one or two years because by the time you implement another younger dentist into it his cash flow is covering this thing and providing you with extra money to do what you want to do. It's not too intrusive for the owner and the younger dentist is getting what he likes which is, "I want some guarantees when I come into this business." This gives it to him, it helps build his wealth for him.

So if he's going out and buying real estate he's got an insurance policy that covers his family. But he's also got a growing pool of wealth that's known between the two dentists that might be used to buy it out one day or to reward him one day so he can get behind it as well. On top of it it covers him and his young family, disability benefits and life insurance benefits that we walk through with them as well.

Dr. David Phelps: Would you guess how often what you're talking about in building these structures are being used in our industry specifically today? Do you have any guess? Because it's something that, and I'm out there quite a bit and I know a little bit about life insurance but not nearly to the point you brought up today. I think most of my colleagues, again, same thing. We look at insurance as a whole life versus term and how do you pull all this stuff together? So what level do you think this is operating in our industry, any guess?

Kevin Monahgan: From my experience it plays well in the dental market. The leverage bonus which is the one that I like really took hold 2012-ish, is when you saw it start to spike its head. The bigger issue is really the media. Again, I got lucky that the University of Michigan when they did it with Jim Harbaugh is doing it. What I see when I returned to the US in 2014, what I've seen is in our industry a lot of people ... The average age of an advisor or somebody who does this is now 58 years old an they're sitting back. They have their connections and they're not going out and teaching people about this, they're not going out there and doing seminars on it. They are waiting for it to come in and you see this across all business. It's probably about 20% of insurance, I'm making a guesstimate but it's probably about 20% of insurance overall that goes into it.

These are very specifically designed so we have a design team that helps us come up with how to pool these. These aren't the normal life insurance policies that you hear on the radio or that you think of that you pay into a hundred or that you're paying all this money where it's a blend. We're putting very specific purposeful dollars that come together for two dentists in a, one day we're going to use this to buy out. Here's what the numbers look like, one day ... And usually speaking we're looking at pushing more money in the front to make the insurance costs go down in the longer-term and that benefit starts to play out, still takes it ten years but it ... Most people don't care about that. They care about the tool between them that is protecting them and that is working as a bonus concept between two people that avoids giving them equity, avoids that, "I don't have any guarantees."

That's where I see it really playing out is promises. People coming in, "Maybe one day it'll work out but we don't have anything down." This puts money behind it and it's safe and it covers everybody. If you have two partners and let's say one partner wants to buy out the other because one's older, it's nice to use these vehicles because you know if that partner doesn't make it to 65 we're still getting there for my family and your family. Then we only allocated 10% of what we're doing to this, the other 90 went into the Plan B, the buying other stuff. It's usually not cost prohibitive where you're reinventing the wheel and going all in on this. It's just a tool to work between two people that has knowns on exiting it, it has knowns on, "Here's where we're getting to and we can work together to achieve whatever's important to us."

Dr. David Phelps: Kevin, really well said. Kevin Monaghan with Intuitivecompensation.com. You can also reach Kevin at Kmonaghan, and that's M-O-N-A-G-H-A-N@financialguide.com. Kevin, you really brought some great frameworks here to the discussion, I think things that most of the people in our industry are not aware of. I think putting together a structure or financial partnership that can actually build out and have those guarantees, again we're missing the mark in dentistry today. There's opportunities in all this tension and I think we've got to as an industry look for the opportunities to put these things together and make them work. I would encourage people to reach out and learn more about what Kevin's doing and see if it's something that might be something you'd like to at least look into with more depth. We've covered a lot in a short time.

I know there'll be questions on this, walk me through this. Do you invite people to reach out to you and set up some opportunities to do a little bit of initial consulting to see if there is something that they could go deeper with Kevin?

Kevin Monahgan: Yeah. The way that we set it up is this. If you call 187770-LEARN, that's 7053276. If you call that number and get on our schedule we're designed to tell us your story, tell us what you're relating to and that will allow us to very quickly, within 24 hours put some concept numbers together for you and say, "Hey look, based on our conversation and your situation here's what something might look like for you guys and we think it might work." Or, "You know what, it's just not going to be able to fit." We have it set up so that if you relate to something we talked about today and you think it might be applied call us up, get on our schedule. 15 minutes, tell us your story and we'll put some concept numbers behind it so you can start relating to how it might benefit you and we'll tell you if it's going to be a good fit and what that process looks like from there. And you get to see the concept pretty simply.

Dr. David Phelps: Kevin, thank you so much for your time today. It was really good talking to you and sharing this with our audience.

Kevin Monahgan: You too David.

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