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The Financial Lives of Dentists

Money may not buy happiness, but financial security goes a long way

Working with dentists for more than 30 years, our firm has seen over 1,000 files on their personal financial lives. There are many things that stand out that we can all learn from — particularly when it comes to who is financially successful and who is not.

We estimate that 70 per cent of dentists will fail to meet their retirement goals. Meaning they will have to spend less in retirement than they do today.

At the other end of the spectrum we looked at the 50 most successful dentists we have ever worked with and, at an average age of 62, their retirement nest egg was worth over \$5.8 million, excluding their home and cottage. And the most interesting finding among those 50 dentists — a disproportionate number of them practise outside the Greater Toronto Area.

According to the Ontario Dental Association's "2017 Population Per Dentist by Ontario Counties" report there are 9,823 dentists in Ontario. Of that figure, 6,264 practise inside the GTA, representing 64 per cent of the total number of dentists in Ontario. However, of the 50 most successful dentists we have ever met, only 21 dentists, or 42 per cent, practise inside the GTA.

Why the difference?

If you ask most of your colleagues how they are doing financially, they will usually respond with a reference to gross production: "we are steady;" "we are up on the year." Yet, a true measure of financial success is how much money from their billings they keep, not just after practice expenses but after lifestyle spending as well. This is the only figure that shows how much wealth they have accumulated and how much it has grown. The top 50 dentists mentioned above

saved \$5.8 million from their billings — not including their house or cottage. Very few dentists can say the same.

Perhaps the reason is the cost of housing. According to the Canadian Real Estate Association, the average home price in Toronto (they include Oakville) in April 2019 was \$842,606. Outside it was \$437,036, or close to 50 per cent less. Incidentally, we have never met a dentist in the GTA who lives in a house worth less than \$1.5 million. Housing is more expensive in the GTA and means more of the annual practice profits are used to pay the personal mortgage (and hence there is less to go into savings).

Another possible reason for greater financial success outside the GTA may be the better dentist-to-population ratio. According to the ODA's "2017 Population Per Dentist by Ontario Counties," outside the GTA, the ratio is 2,454. Within the GTA, the ratio drops to 1,464.

A warning

Like all Canadians, many dentists are experiencing difficult times financially. Canadians are carrying the highest level of debt on record. According to Statistics Canada, in March 2019, there was roughly \$1.79 of debt for every dollar of disposable income for Canadians, near an all-time high. All of this, while the economy is doing well. Should an economic slowdown occur, many of your colleagues could be caught between a financial rock and a hard place. Increased competition for patients combined with higher debt service could spell disaster. Our experience in working with dentists is that this is less of a risk outside the GTA.

The illusion of financial success in the GTA

One year ago, we met with a Toronto specialist in her mid-50s. At first glance this person is the envy of most Canadians. She owns a thriving specialty practice, a home in a highly desirable neighbourhood worth more than a few million dollars, expensive cars, and her children are thriving in university with one attending in the United States. Shockingly, she and her spouse have only \$800,000 in savings. Most would guess she is a multimillionaire. The bigger problem is that she is only able to save \$50,000 per year due to high family expenses. Currently, they spend \$30,000 per month after tax. We calculate that in order to maintain this lifestyle and be retired by 65 they will need to save \$617,000 per year. An unattainable goal.

Looking at two professionals in the same specialty in Eastern Ontario, the story is totally different. One is included in the list of top 50 dentists in terms of financial success. He is also in his mid-50s, lives in a dream home, has a nest egg of \$8.64 million, and saves more than he needs to every year. He is a picture of contentment and is financially independent. He is focused right now on reducing the number of days he works and taking two months off every year.

The other professional in the same specialty in Eastern Ontario is in her mid-40s. She and her spouse save two million per year and have already built a nest egg of \$8.9 million. Again, we can attest to the quiet contentment this couple enjoys in their lives. It took hard work to get here but that hard work paid off in financial security for these two Eastern Ontario specialists.

These examples do not prove that practising outside the GTA is more profitable and leads to a better life. There are many dentists and specialists in Toronto with more than eight million in savings. But in our experience, there is a greater probability of building financial security outside the GTA than within it.

Meet John and Judy, Toronto

Let's call one couple (the DDS is a general practitioner) who recently contacted us, in their late 50s, John and Judy. Their net worth is just under \$10 million, an amazing level of wealth by any measure. John feels successful and has been at the helm of all the financial decisions they have made.

Unfortunately, John and Judy are in financial trouble and they don't know it. Their home makes up half their net worth, and we have never seen a couple living in Toronto downsize.

With over one million dollars flowing into their hands annually, John and Judy can save only \$140,000 per year. That means their personal lifestyle costs are somewhere around \$450,000 per year after tax. At close to 60 years old, earning over one million dollars per year, John and Judy have only built up \$1.8 million in savings.

John and Judy have an accountant who is a friend and trusted advisor. They have four corporate entities through which they run their financial lives. John told his accountant that he wants to financially support his adult kids, so the accountant reorganized the corporations to meet John's request. John and Judy have 13 investment accounts managed by four different advisors. All of this creates a very complicated financial picture with many moving parts and strategies. As a result, John and Judy have no idea where their money goes or how the accounts are performing.

Furthermore, they owe money to their corporations. The accountant has been proverbially kicking the can down the road, and John and Judy have withdrawn more than they should from their corporations. This creates a very large tax liability.

People who enjoy spending \$450k per year and are used to a five-million-dollar home very rarely change their lifestyle.

If John and Judy retired by age 62, they would have to reduce lifestyle costs to \$300,000 per year. This is a large lifestyle to most of us but a 33 per cent reduction in spending for them.

How did this happen?

Throughout their lives, John and Judy have had all the makings of financial success: a great home, nice cars, a hugely successful practice. Their accountant friend created any structure needed to accomplish what John wanted and always gave them the impression they were doing fine. No one ever did the math as to what it all meant. How do all the moving parts in their financial life translate into achieving financial independence?

Now, John is going to have to work longer than his body wants him to. Dentistry is a physically demanding job, especially operating at the production-level John does. We regularly tell dentists to plan for financial independence by age 62 at the latest. We've seen too many people have to slow down after that age because of the toll the career takes on their body. John won't be able to.

In conclusion

We regularly find that wealth doesn't buy happiness. However, financial security goes a long way. Knowing that everything you are working for is creating financial security for you and your family can have a significant impact on your satisfaction in work and in life. An accurate measure of financial security is the wealth you build in your bank account, not what you drive or where you live.

In our next article for *Ontario Dentist*, we will focus on how John and Judy can turn their financial lives around, and what they need to do to achieve financial independence. 



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