

Closing, Selling or Retiring from a Dental Practice:

*A How-To Guide for
Successful Transitions*

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**Planning for
the closing
of a dental
practice is
always
better done
sooner
rather than
later**

This document provides valuable information to be used in the event of closing a dental practice, retiring, selling it, or passing it on to heirs. It will also serve as a resource to a surviving spouse and/or family in case of the death of the dentist. No doubt it is a daunting task and any assistance to those responsible for completing the transition will be invaluable.

Planning for such an event is always better done sooner rather than later. Plan to retire while in the high earning years of the practice. Have a succession plan with associate(s) and partners in the practice. It is advisable for the practice major owner to meet with his or her spouse and/or children, or the person designated with the Power of Attorney, to review the data outlined below.

Checklists, Materials on File

This section includes a number of lists containing numerous items to assemble. These suggested materials should be prepared and ready to pass to the transition team or those responsible for the sale or closing of the practice. Have them on file and inform those who will need them where they are located.

1. List the names, addresses, and phone numbers with directions on how to contact these people in the event of an untimely death, when closing a business or at the sale of a practice:
 - Attorney
 - Accountant
 - Investment broker
 - Dental practice valuator
 - Local, state or other dental associations
 - Bank, credit union, or anywhere there may be a checking or savings account
 - Insurance agents (there may be multiple agents involved)
 - Life
 - Malpractice
 - Disability
 - Health
 - Dental
 - Liability
 - Home and auto
 - Practice, personal and staff personnel
 - Practice interruption
 - Other
 - Pharmacy
 - Physicians
 - Social security office
 - Drug Enforcement Agency (DEA)
 - Dentistry Examining Board under the Department of Regulation and Licensing in the State of Wisconsin
 - Landlord
 - Referring dentists

- Volunteer, non-paid work locations, organizations
 - Dentists from whom accept emergencies
 - Dental laboratories
2. Assemble all important papers into a single location, or identify where they can be found. Such documents include:
- Wills
 - Insurance policies
 - Investment documents
 - Checking and savings accounts
 - Federal tax returns for the last three years and all appropriate schedules
 - Tax ID number
 - Funeral arrangements
 - The names of the transition team
 - Purchase agreements
 - Property ownership documents
 - Mortgage or copy of lease agreements
 - Safety deposit box, number, key, bank (facility)
 - Employment contracts
 - Employee information
 - Practice structure (SC, LLC, C Corporation, etc.)
 - Balance sheet
 - Accounts receivable, aging information
 - Fee schedule
 - Legal information about any outstanding judgments or claims
 - Managed care documents/agreements with insurance companies or management companies
 - Dental laboratories used
 - Social Security / Medicaid card
3. Identify a transition team consisting of the following individuals. Be sure to include their addresses and phone numbers.
- Banker
 - Attorney
 - Practice valuator/broker (this person will screen potential buyers, devise advertisements, value the practice, and represent your interests during negotiations)
 - Person with Power of Attorney (personal representative)
 - Family members
 - Tax accountant
4. While thinking and planning for retirement or sale of a practice, take steps to:
- Maintain the practice through continually taking new patients
 - Appeal to the younger patient
 - Maintain a high level of proficiency and efficiency
 - Consider new technology

- Keep a high profile within the community
 - Have a facility that is pleasant, clean and orderly in appearance (take a walk through with an outsider's eye—consider changing paintings, wallpaper, light fixtures, etc.)
 - Keep excellent patient records
 - Hold down expenses
 - Maintain a steady, consistent staff
5. Assemble these policy and personnel records or identify where each can be found.
- Office personnel policy manual
 - Employee manual
 - Fee schedule
 - Information relative to staff members
 - Names, addresses, phone numbers
 - Employment history
 - Job descriptions
 - Payroll records
 - Time sheets
 - Worker's compensation records
 - Health insurance participation
 - Retirement plan documents and participation
 - Benefits and participants
 - Salary information
 - Certification or license documents
 - Affiliation with associations, volunteer clinics, other
6. Keep an inventory of dental equipment. This is extremely important when buying or selling a practice. It should include the following on each item:
- Description
 - Year of manufacture
 - Brand name
 - Model or type
 - Serial numbers
 - Warranty
 - Owners manual
 - Inspection record
 - Dental equipment supplier
7. Keep an inventory of office equipment. As the practice is evaluated, additional office equipment that is not included on this list can be added.
- Computer, printer, copier, fax, DVD, intra-oral camera, digital camera, etc.
 - Service numbers, service desk number
 - Serial number, age
 - Warranty
 - Repair history/maintenance record/maintenance agreement

- Operating manuals
 - Software used, vendor, trainer
 - Furniture
 - File cabinets
 - Other, such as artwork, decorations, etc.
8. It is necessary to maintain specific data on the practice such as:
- Number of active patients
 - Dentist and hygienist production
 - Accounts receivable
 - Number of new patients per month
 - Referral source
 - Production per patient
 - Production per hour
 - Case acceptance rate
 - Collection rate
 - Number of fee-for-service vs. managed care patients
 - Income generated from both
 - Total numbers of hours worked: dentist, hygienist, assistants, office staff
9. Maintain on file the following compliance information:
- Hazard communication program
 - List of hazardous chemicals
 - MSDA sheets
 - Emergency action/fire prevention plans (required if you have 11 or more employees)
 - Occupational injury log (OSHA Form 101) or an equivalent, and Form 200 from previous 5 years
 - Medical records for employees having occupational exposure
 - HIPAA privacy policies and procedures
 - Exposure control plan
 - Anesthetic gas supplier
 - Badge monitoring service (nitrous oxide or x-ray)
 - Waste hauler for garbage and hazardous wastes

Putting these matters in order and talking to those who will be responsible for executing them far in advance of when they will have to be used is wise planning. Addressing these concerns will provide a certain feeling of accomplishment, satisfaction and confidence that everything is in order for a smooth transition. Set a few immediate goals; take small steps to address what may seem like a daunting task. But, keep the process moving so that your life-long professional achievement can be turned over to another generation with ease and grace.

A checklist of contacts, dates, and responses ensures that important issues are addressed

It's All in the Details

There are many details to be addressed and tracked as a practice is closed or sold, or upon the death of the dentist. Most of the people and entities have to be contacted quickly and repeatedly so a checklist of contacts, dates, and responses help ensure that important issues are addressed and followed up on. The following contains a list of those details that persons unfamiliar with many of the regulations or requirements of closing a practice will have to address.

Announcement of the Closing and/or Sale

Patients should be notified by the dentist who is planning to retire, close the practice or sell it. In the case of a practice closing, a newspaper announcement is generally sufficient. If a practice has to be closed rapidly, the dentist may need help to assure that patients who are in the middle of extensive treatment find a dentist who will complete the cases. In the case of an untimely death, the practice must be kept viable so it may be necessary to hire a temporary dentist. An active practice generally has a higher resale value.

In the announcement of the sale or closing of the practice, outline for the patient the means whereby they can obtain a copy of their records. Require a written request and the day when they can be picked up. Recommend how they can obtain a different dentist (word of mouth, yellow pages). Provide the name and location where inquiries and other matters can be directed after the closing date.

Helping Patients Find a New Dentist

Helping a patient locate and continue treatment could divert any allegations of patient abandonment. To properly transfer patients:

- 1) identify a skilled practitioner who will accept the unfinished case;
- 2) provide that dentist with necessary clinical information;
- 3) obtain patient consent to refer and transfer records
- 4) get some sort of confirmation that the patient actually continued treatment.

Patient Records

Patient records should be handled in accordance with state law. A copying charge can be made for duplicating and transferring records. Many dentists provide that service free of charge. The dentist cannot refuse to transfer records due to an unpaid balance. Originals should be maintained with the original dentist. Copies are sent only with the consent of the patient or his or her parent or guardian. A note should be made in the record as to who received the record, when it was sent, and what records were transferred. Records should be retained in accordance with state law. Records can be destroyed for inactive adult patients who have not been seen in seven years or at the expiration of the statute of limitation on contract and tort actions. Records of inactive minors can only be destroyed seven years after the child reaches majority (21 years plus 7 years, or 28 years of age).

Under current Wisconsin law, a health care provider, other than a community-based residential facility, hospital, hospice, home health agency, or local health department, who ceases practice or business as a health care provider or the personal representative of a deceased health care provider who practiced independently must do one of the following with respect to the patient health care records in his or her possessions:

- 1) Provide for the maintenance of the health care records by a person who states, in writing, that they will be maintained under the confidentiality and access requirements of current law.
- 2) Delete or destroy the health care records.

The health care provider or personal representative must send written notice to each patient whose patient health care records are to be maintained and must publish a newspaper notice that specifies where and by whom the records will be maintained.

If the patient health care records are to be deleted or destroyed, the health care provider or personal representative must provide 35 days' notice to the patient before the deletion or destruction and must publish a newspaper notice.

Record Destruction

Professional shredding is advisable. A confidentiality agreement or HIPAA "Business Associate Agreement" should be signed with the shredding company. Insist on a certification of destruction. Do not burn patient records or radiographs. Recycling is not advised.

Managed Care Contract

If the practice participates in a dental managed care plan, consult with the contract to determine the length of time required when terminating the contract. Advance payments, or quarterly payments should be addressed by the accounting department.

Continuation of Hygiene Services

In Wisconsin, hygienists can provide services on those patients who are scheduled who have had an examination by the dentist within the last 12 months, is a patient of record for not less than 6 months, written or oral prescription has been made, and the patient or guardian gives consent to be treated when the dentist is not on the premises. If those conditions are not met, the hygiene appointments have to be cancelled.

Mutual Aid Agreement

A mutual aid agreement is a formal contract with colleagues whereby in the event of a sudden illness or death, the colleagues who have signed the agreement promise to temporarily cover the patients of the stricken colleague until either his/her recovery or until the time when a deceased dentist's practice is sold.

Unpaid Dentist Working Temporarily

As a courtesy, an unpaid volunteer dentist may work temporarily in the office of a deceased dentist in order to complete cases that need only a single visit. Payment for the service should be sent to the dentist's estate. If insurance is involved, it may be necessary that a letter of explanation be sent with the claim form to the third party payor indicating that the payment should be made to the dentist's estate.

Insurance Portfolio

Upon cessation of practice, all insurance policies, with the help of an insurance advisor, should be reviewed or terminated. Disability income, disability overhead expenses, professional liability insurance and practice interruption insurance should be terminated effective with the date of retirement. Paid premiums for periods extending beyond the date the policies are terminated will be refunded by the insurance company. To cancel policies, it is generally necessary to submit your cancellation request in writing. Keep all documents of cancelled insurance with important records so that they are easily accessible if necessary. After retirement, the dentist continues to be exposed to the risk of a professional liability allegation. The statute of limitation in most states may continue for many years.

Contact all the insurance agents to obtain details as to how to cancel and/or change beneficiaries of current policies. Refer to page one for a list of the various insurance coverages that the dentist and the business most likely has.

Contacting the Social Security Administration

At retirement age, or becoming disabled the dentist may apply for Medicare coverage or benefits from social Security. Telephone the administration office in the county in which you live.

A surviving spouse should contact the SS Administration about SS benefits if applicable and the nearest Veterans Affairs Office if applicable. These items may be needed: deceased's SS number, Veterans Affairs number, certified copy of the death certificate, proof of marriage or relationship (for heirs, the will of the deceased may be necessary).

Inform Local, State and National Associations

Call the state, local and national professional associations of which the dentist was a member in the event of any of the following: plans to retire or close the practice, whenever long-term illness occurs affecting a dentist's ability to practice and/or pay dues, or following his/her death.

This list can serve as a guide. Understandably, additions will have to be made depending on the type of practice, business and/or community involvement of the dentist. Spend a little time thinking through other details that can be added. Visualize what would be needed for a smooth transition. Then, communicate what you have done, and where the information is retained.

Maintaining high productivity and efficiency during a transition period is critical

Retain Adequate Staff and Provide for These Arrangements

Maintain High Productivity

As stated above, it is important to maintain high productivity and efficiency during a transition period. This is accomplished by continuing to accept new patients, especially younger patients. So often, the patient population grows old with the dentist. It is important to appeal to the younger patient to maintain a well-rounded patient base. Younger patients have needs that are different from the elderly and will increase volume and diversify in the type of treatment provided. This will give the practice a higher potential for profitability and value when selling.

Staffing Concerns

When retiring, closing or selling a practice or in the event of the untimely death of the dentist, adequate staff should be retained. Keep the staff somewhat informed of the plans. This will deter any insecurity and possible uneasiness regarding their jobs. If the practice is closing, as a matter of courtesy, or in compliance with the law, should one dictate otherwise, inform the staff 90 days or more in advance. This will allow for them to seek out new employment. Offer incentives which will encourage staff to stay until the last day. In the case of a sale of the practice, key staff will be indispensable in the transition from one dentist owner to the next. Make them part of the transition team that moves toward new ownership.

Some valuable employees still may leave before the last day. But, it is essential to maintain a vital practice until the last day so it may be necessary to use temporary employees.

Some temporary employment agencies have support staff that can be obtained on short notice. However, it is prudent to contact an agency in the local area where the practice is located prior to when their services are needed to arrange temporary help for when they are needed at a later date. Not all agencies include trained dental assistants, hygienists and dentists in their pool of workers, so be sure to seek out an agency that does. Other sources for temporary help can be found in the telephone directory, through the dental association classified ads, or on the recommendation of a colleague.

There are several additional reasons for keeping the staff up to the closing day. There will have to be sufficient staff to follow up on insurance inquiries, address patient concerns, provide assistance to patients in finding a new dentist, make collection efforts so there is no financial loss, and finally, to lessen the stress on the part of the dentist or the surviving spouse or personal representative of the dentist, who, without staff would have to manage all of the above alone.

For those planning on retiring, consider keeping the business checking account open for several months in order to process late transactions and collections.

Appreciation

Over the years, many persons, businesses, specialists, and colleagues have supported and contributed to the success of the dental practice. Small

expressions of appreciation may be appropriate such as thank you cards, flowers, candy or other modest gifts. Staff should be included in the expressions of appreciation.

Financial Considerations for Staff

Severance pay could help ease the financial stress that a team member may experience while seeking another job. The amount of the pay can be based on the years of service or some other method suggested by your accountant. Appreciation can also be conveyed by offering to write letters of recommendation or making a referral to a colleague.

Some time prior to the last day, discuss with staff continuation or termination of benefits, final paycheck arrangements, details regarding retirement benefit plans, and health insurance continuity.

Security

In anticipation of its potential use, give a spouse, trusted business partner, or advisor the written authority to write checks and access to the safe deposit box of the practice. A signed card on file at the practice's bank is required. Upon the untimely death or long-term illness of the dentist, the spouse or agent of the dentist can pay bills so that there is no business interruption.

Consider whether to change the external door locks, entry security code, and computer passwords. It may be necessary for the spouse or agent of the dentist to physically open and close the office each day. The surviving spouse will have to protect the interests of the practice as well as his or her own. Be sensitive to the feelings of others, but exercise good judgment in this regard.

Some key and long term staff who do not know the spouse or agent may take offense at the sudden takeover of leadership. Under the circumstances, responsibility has to be assumed for making at least some of the decisions. However, in times of crisis, most everyone is looking for leadership—so assume it!

Materials and Supplies

Account for these materials and supplies:

- Prescription pads
- Partially used or empty cylinders of anesthetic gases (nitrous oxide)
- Backup computer files
- Casting gold
- Signature stamps
- Cash
- Business stationary
- Diplomas
- Professional licenses
- Business records
- Patient records

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smooth
transition**

The surviving spouse or the dentist's personal representative should do the following in the event of a dentist's long term illness or death or until the practice is closed or sold:

- Immediately hold a staff meeting to relay what is known about the dentist and to make plans and assign responsibilities.
- Determine what will be said to patients about the dentist.
- Develop a protocol or use the one already in place that describes how emergencies and/or scheduled patients are referred to other dentists in the owner's absence.
- Do all the banking and check-writing.
- Allow only your name on all bank accounts. Take the time to change them.
- Request final bills from suppliers. Examine each bill closely.
- Be suspicious of new bills from a vendor, of a staff bonus that cannot be verified, or of an unaccounted for expense.
- Ask the accountant for an audit so the debts and credits of the practice are known. Liens could tie-up the sale of the practice and/or make a potential buyer disinterested.
- Collect the keys and change the passwords so that only you control access to the building or office suite and to the computer.

Release and/or Delivery of Dental Appliances

Release or delivery of new or repaired dental partials, dentures, crowns, etc. directly to patients is not advisable. This would require a dental license. But, ask the patient for a name of another dentist to whom they can be sent. Another option would be to seek out a volunteer dentist to come into the office to handle these matters. The local dental society may help in locating a temporary dentist.

The professional's life's work and achievements are bound up in the practice. The above lists and recommendations can help to ensure that when the practice is sold or closed, it will be in the "best health" possible. Set goals, then plan, plan and plan some more for the time when the passage from full time professional duties to retirement takes place, the transition will be as smooth and as painless as possible.

Transition Errors to Avoid

Practice transition errors can also have negative results on the retirement financial security of the selling dentist. There are some transition errors that are frequently made. Using an experienced practice transition advisor can ensure that a fair compensation package is developed and a smooth transition can take place.

Roger K. Hill, A.S.A., writing in the February and June 2005 issues of *The McGill Advisory*, outlines a number of costly practice transition errors to avoid. They are

covered below with some elaboration by this author. Some recommendations on how to counter the errors are also included:

- 1) **Lack of Pre-Transition Financial Planning.** First and foremost, the senior doctor should determine if he or she is financially and psychologically ready to begin the transition process. First, determine if the seller can financially afford to sell. Psychologically, plan for retirement so that the seller is not only retiring from something, but retire to something. Wise advice is for the dentist or business owner to pursue activities prior to retirement so that after retirement, the person can maintain their sense of importance and the quality of life to which they are accustomed.
- 2) **Transition Planning Begun Too Late.** Most doctors underestimate the time it will take to have a successful transition. According to Hill, the process entails determining the optimal type of transition based upon the doctor's unique circumstances, recruiting a candidate, and establishing a pre-closing associateship. Or in the case of a practice with a partnership, a buy-in agreement with a Letter of Intent containing financial incentives that reward compliance and penalize a breach is necessary. The seller as well as the buyer must have confidence that the sale will go through. This process may take as long as 4-5 years.
- 3) **Transition Planning Done Solely by the Doctor.** Issues such as the practice valuation, setting the price of the practice, tax implications, legal aspects, psychological implications, compensation issues, etc. are all sufficiently complicated that a third party is necessary to assist with handling these matters. Don't do it alone.
- 4) **Unrealistic Expectations.** Hill says, "Too many practice transitions fail because of unrealistic expectations on the part of the seller and/or buyer". Most of these unrealistic expectations revolve around either the practice valuation or compensation. It is advisable to get a realistic valuation before beginning the process and then both the buyer and seller meet with the consultant to discuss their individual expectations. This will keep expectations realistic and clear.
- 5) **Failure to Define the Deal Upfront.** So as not to fall into this error, define the deal:
 - hire a professional transition consultant to assist with the deal
 - get a firm commitment from the senior dentist
 - commit to a thorough analysis of the doctor's financial condition
 - analyze the selling doctor's needs and expectations
 - do a practice valuation
 - determine the size and growth potential of the practice
 - determine the period of time the selling doctor will continue to work after the sale, if at all
 - discuss the buyer's needs and expectations
 - agree on the valuation date
 - determine if a pre-closing associateship is needed, and

**Your practice
is your
life-long
professional
achievement
that you will
turn over to
the next
generation
—what a
privilege!**

- define the length of time of the associateship
- draw up a document for consideration containing the major conditions of the sale
- set a date for the signing of documents

- 6) **Negotiate an Unfair Deal.** Nothing will cause a deal to fail more quickly than if either party believes that the agreement is unfair. Price, terms, conditions, demands, compensation package all have to be reasonable and realistic. An excessive package or a compensation package perceived as being too low can halt the process. A professional transition advisor can assist in keeping the conditions fair and acceptable to both parties.
- 7) **Pre-Transition Decline in Practice.** Every effort should be made to keep the practice vital and productive. A declining practice reduces the dentist's income, the practice value, and the prospects for a sale. Pursue new patients, attract young patients, make fee increases standard every year, put a marketing plan in place, analyze the procedures that are most productive and capitalize on them, keep a high profile in the community, keep excellent records, maintain a consistent staff, make some upgrades to the facility, and control overhead.
- 8) **Outdated Fee Schedule.** Often, dentists are hesitant to raise their fees. As a result, the practice is missing potential income and the overall value of the practice may be affected. It would not bode well upon the sale of the practice to have to immediately raise fees. That may have a detrimental affect on current and future patients. Fees should be adjusted annually as a matter of course to ensure optimal profitability and cash flow.

Conclusion

Plan, plan and plan some more. Start early; build relationships with dental students; be a mentor; participate in an internship or externship program; and talk to dentists who have retired to find out what they learned from their experiences, what they would have done differently and who helped them on the way.

Set goals. Set a few *immediate goals* that can be accomplished in a short period of time. Set *long range goals*, identifying what is to be accomplished and by when. Set *check points* along the way to assure you are staying on course. Your practice is your life-long professional achievement that you will turn over to the next generation—what a privilege! Look forward to the next milestone in your life. With proper planning and goals, there can be a smooth transition from your full time involvement in the practice to your retirement.

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