Money Matters

What’s on your mind?

Invest wisely and allay your concerns about financial independence during the credit crunch. Thomas Dickson

Not only do dentists face the constant pressure of keeping up-to-date with new techniques and equipment, meeting the ever-increasing expectations of patients and (for NHS dentists) negotiating with Primary Care Trusts, but there is also the challenge of choosing how to invest any disposable income.

Many dentists have seen their investments drop considerably over the last 12 months, leading in some cases to a reluctance to invest. However, dentists must remember that dental professionals do not invest in property, stocks and shares, bonds, gilts or other assets; they may find themselves with very little money at a time of life when they should be financially independent.

Save for the future

Because every dentist’s situation is unique, there is no one solution. Those dentists expecting a sizeable windfall from the sale of a quality practice, or an inheritance sum, need to realise that neither of these can be guaranteed, and that they, along with their peers, should be accumulating at least one-third of their net income in order to ensure that their future is provided for.

As a rule of thumb, dentists without an effective investment strategy need to consider their short-term, medium-term or long-term options. For a short-term saving, there are high-interest bank accounts. For medium-term investments, dentists should make sure the majority of their £7,200 maximum annual allowance for Individual Savings Accounts (ISAs) is invested. Long-term investment opportunities can include contributing to either the NHS or a personal pension.

Contrary to what some dentists believe, now is potential a good time to make an investment in the stock markets. There is always an element of risk, due to the market’s current volatility, but the old investment tenet of ‘buy low and sell high’ can always make short-term gains. For those dentists looking to save money for the future, there are high-interest bank accounts. For medium-term investments, dentists should make sure the majority of their £7,200 maximum annual allowance for Individual Savings Accounts (ISAs) is invested. Long-term investment opportunities can include contributing to either the NHS or a personal pension.

Stay or go?

In order to achieve a number of personal and professional goals, dentists often need to move into new premises or carry out extensive refurbishments. It might be that the dentist can no longer meet the demands of the patient base in the current building, or comply with government guidelines. In short, continuing success in many cases requires relocation to new premises or refurbishment of existing premises, but because of the credit crunch, some dentists are thinking twice about making this kind of financial commitment.

One issue is raising money, but it is still possible to secure finance with the right advice and presentation. The value of goodwill is still strong, and there is still a real demand for premises by a significant number of dentists and corporate bodies.

With regards to making a freehold investment, if the purchase of the property is intended as a short-term investment then now might not be the best time because second-hand properties in the current market are particularly difficult at the moment. However, there is still an argument to invest in property where there is no short-term pressure to sell – for example, when the dentist does not have to sell while the credit crunch is still baring.

Plan for the future

Financial planning should always be a priority for dental professionals, but in the current climate it is vital. The obvious benefit of having a plan in place is that it provides security and comfort in challenging times. Dentists who have done everything that could be done are able to face the future with more certainty, and are better placed to roll with the punches should a financial crisis develop.

The ability to earn money is of course a key factor in determining whether or not the dentist will achieve financial independence, and the ability to earn money depends on having a lot of business coming in and keeping all the necessary day-to-day tasks. For instance, a dentist who cannot sit out long periods due to back injury has a severely curtailed ability to perform many procedures important to diagnosis and treatment. A hand injury can effectively end a dentist’s active involvement in clinical duties, throwing his or her future into uncertainty. For these reasons, a comprehensive income protection strategy is important, as it will ensure that the dentist can still achieve financial independence even if he or she is unable to work due to health reasons.

Think of it like this: dentists insure their home and contents and their car, but what if they had a machine in the practice that printed several thousand pounds a month? Should they insure it? Of course they should, and they would, too.

Dentists without income protection who suffer an injury that prevents them from working are liable to see their whole plan for financial independence fall apart. Whether in practice or hospital-based, dentists without income protection should contact an independent financial adviser specialising in advising dental professionals, in order to discuss their needs.

Planning for retirement

Planning for retirement is not just about investing in a pension. It includes putting together a financial plan for the majorities of cases as they are an extremely tax-efficient form of long-term investment, especially for higher-rate taxpayers.

However, it does not suit everyone to invest in pensions as soon as the opportunity arises. Dentists recently set up in practice, or who have student debts to pay, might be better advised to make a success of their new business first, or even step onto the property ladder, before thinking about putting money aside for retirement.

This is not to suggest that making pension savings is reserved only for dentists settled into a successful career. Younger dentists, or dentists yet to pay off student debts, can always make short to medium-term investments, which carry the benefit of allowing the dentist to access the funds invested should they be needed. An Isa can be an advisable investment option, because if the dentist finds that he or she has overcommitted, the money can simply be taken out again.

Once a dentist is in a secure financial position and can afford to make regular pension payments to save for retirement, there are many reasons why he or she should start as soon as possible.

About the author

Thomas Dickson, director of Essential Money Limited, formerly a partner of MoneyWen- tists, has a wealth of experience in advising the dental industry. Beginning as a financial adviser, Thomas has recently launched Essential Money to provide expert independent financial advice that dentists throughout the UK can rely on. For more information, and to receive a free copy of The Little Book of Money, full of practical hints and tips, contact Essential Money on 0121 685 5060 or email thomas@essentialmoney.co.uk.

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