



# FROM DEBT TO SUCCESS: A New Dentist's Path

BY LESLIE FRANKLIN

**W**hen it comes to earning income, six figures sounds great. Take, for example, a \$230,000 average annual net income for dentists who own their practice. But six figures can feel overwhelming when talking debt, as in an average educational debt at graduation from dental school of \$170,000 and an average loan of \$450,000 to buy a practice. No wonder more than half of all new dentists report that debt has affected their practice options after graduation.

The recent recession hasn't helped, either, but here's the good news: With patience, planning, and smart debt management, you can pursue your dream of owning a successful business.

## GAINING SPEED

Sepideh Malekpour, DDS, illustrates how it can be done. She started her dental career with hefty student loans, took on even more debt when she bought a practice, and yet today is running a successful operation and is well on her way toward paying off her obligations.

"I always imagined working for myself, but when I graduated from Creighton Dental School, I knew I wasn't ready to launch a business," she recalls. "I first wanted to build more confidence in my skills and pick up speed. Plus, I was worried about going further into debt for a practice loan because I already owed a significant amount for my education."

Joining a national dental franchise proved to be the temporary solution Dr. Malekpour needed. While there, she gained skills, speed, and confidence, and took advantage of the company's relocation allowance to experiment with living in Oregon and Arizona.

## TAKING THE PLUNGE

Three years after graduation, Dr. Malekpour learned that

Arrowhead Desert Dental in Glendale, Arizona, was up for sale and that the owners were looking for someone to assume their practice loans. It was decision time.

"Was I hesitant to take on more debt?" she asks rhetorically. "Absolutely! But I liked the office and the location, and I was ready to be in charge of determining what was best for my patients. I decided to take the plunge and think of debt as a necessary evil to get me there."

Dr. Malekpour ended up with three loans. The terms of the sale required that she assume two loans from the previous owners; a third loan covered the balance of the sale price. For the new loan, the lender required Dr. Malekpour to purchase life and disability insurance and assign the coverage to the lender as collateral. That way, if she were to die before the loan was paid off, the lender would be reimbursed out of the life insurance proceeds. Similarly, if she became disabled, the disability insurance would guarantee that the loan payments would continue to be made.

Because Dr. Malekpour is a member of the American Dental Association, she was eligible to take advantage of the ADA's group insurance plans for members. An ADA plan specialist recommended term insurance to satisfy the lender's life insurance requirement.

The specialist also suggested business overhead expense insurance (a type of disability coverage that reimburses a



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disabled dentist for certain practice expenses) to meet the lender's disability insurance requirement. He explained that premiums are relatively inexpensive and generally can be deducted as a business expense under current law. In addition, using business overhead insurance as collateral keeps a dentist's disability income insurance for its intended use—to replace personal income if disabled. Dr. Malekpour agreed with the recommendations, and the plan specialist helped her with the insurance applications and collateral assignment paperwork needed to close the sale.

"I didn't know I'd have to go through this process, but it went well," she says. "I'd recommend to other new dentists that they get help from a knowledgeable insurance expert like I did. Work with someone who can guide you through the technical aspects of using insurance as collateral for a loan and how to keep premium costs to a minimum."

### TIPS FROM EXPERIENCE

Dr. Malekpour shares a few additional tips: Gain experience before buying. Whether it's working as an associate, for a franchise, or in the military, hone your skills before leaping into your own practice.

Know what you can afford. Dr. Malekpour is a big believer in budgeting, saving, and living frugally. "I drove an old, old car for many years, and I didn't take expensive vacations," she says. "When I budget, I prioritize my practice expenses, my mortgage, and my student loan

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**The more control you have over your personal debt, the better position you'll be in to negotiate a practice loan at the most favorable interest rate and terms, counsels Mike Wilson, a Certified Financial Planner™ professional in Orland, Indiana. Here are eight tips Wilson suggests for taking charge of your debt.**

- Favor "good" debt over "bad" debt. Good debt is related to anything that increases in value over time—like educational or business loans. Bad debt does not typically result in an investment in yourself or your future—for example, running up your credit card to pay for an expensive vacation or taking out a loan for a chic new SUV.
- Follow the 28/35 rule. According to Wilson, aim to spend no more than 28 percent of your gross income (before taxes) on your mortgage payment or rent. No more than 35 percent of your gross income should be used for all personal debt payments, including a mortgage, car loan, student loan, credit card payments, and so on. "This rule of thumb has been around for decades, and it's still valid," he says. "If people had paid more attention to it during the recent recession, many would have avoided foreclosures and bankruptcy."
- Pay bills on time. Late payments hurt your credit rating.
- Apply only for the credit you need. Having a lot of credit cards can count against your credit score.
- Pay your credit card balance in full every month. Or at least pay more than the minimum due to keep interest costs as low as possible.
- Pay down debts with the highest interest rate first, instead of debts with the highest balance. You'll save more money in the end by eliminating costlier debts first.
- Consolidate educational loans when appropriate. It's more convenient to have just one student loan payment, but Wilson says to make sure the interest rate on a consolidated loan is not higher than you're already paying. In addition, look for a loan consolidation plan that gives you several repayment options with the ability to switch between them as your circumstances change. (For more information, visit [www.loanconsolidation.ed.gov](http://www.loanconsolidation.ed.gov).)
- Use insurance to manage debt risk. When you have life insurance, you know that the insurance benefit can help repay your debts if you die unexpectedly, rather than burdening your family with these obligations. Similarly, if you are disabled, a monthly disability insurance benefit can provide a source of income to help make your loan payments and cover other business and personal expenses, thereby protecting your credit rating.

*"The 2008 Survey of Dental Practice," American Dental Association. "Annual ADEA Survey of Dental School Seniors: 2008 Graduating Class," Journal of Dental Education, August 2009. Gavin Shea, Director of Partner Services, Matsco, January 2010. ADA Survey of New Dentists, reported on ADA.org, January 2010.*



## Debt

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payments. I've also saved money in an emergency fund in case something unexpected happens."

Refinance when it makes sense. Dr. Malekpour recently refinanced one of her practice loans to get a lower interest rate. "Even though we hear about tight credit in today's economy, the lender approved my loan application readily," she says. "I think that's because I have a good credit history, always make timely payments on my loans, and had already partially paid down the loan I wanted to

refinance." (She also pays more than the minimum on her student loans.)

Avoid prepayment penalties. One of the loans Dr. Malekpour assumed from the previous owner has a prepayment penalty. "I didn't have any choice because the sales contract required me to assume the loan," she explains. "But when I took out the new loan, I made sure there was no penalty for paying off the loan early."

Remove the collateral assignment as soon as possible. Last year, Dr. Malekpour repaid enough of one loan that the lender no longer required life insurance

as collateral. She immediately notified the insurance company to release the assignment. "I'll keep the insurance to protect my family," she says.

Use your insurance. Dr. Malekpour originally purchased business overhead expense insurance to meet the lender's loan collateral requirements. Turns out, however, she was able to use the insurance two years ago during a period of disability. "I was unable to practice for several months," she says. "The insurance benefit helped cover my loan payments, office rent, and the salaries of my employees."

Seven years after buying Arrowhead Desert Dental, does debt still bother her? "Sure it does!" Dr. Malekpour says. "I'll enjoy my practice a lot more when it's 100 percent mine and there's no debt hanging over my head.

"Owning a practice involves a lot of responsibilities, challenges, and stress," she reflects. "But I look at it like having a child—difficult to go through at times, but well worth it in the end."

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