



# Income/outcome?

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Financially speaking, how much of your **MENTAL FOCUS** and **energy** are committed to growing your income versus achieving a financial outcome? What do I mean by this?

An **income focus** is concerned with production, controlling overhead, increasing the number of new patients, or reducing income taxes, among a number of other income-based concerns. An **outcome focus** is much different. Financial outcomes are not necessarily more goal-based. Every dentist has a production goal or an overhead goal. Financial outcomes are related to wealth creation and are the ultimate goal for earning an income. Financial outcomes are legacy-based. Examples include providing a college education for children, achieving financial freedom, or survival in these difficult economic times.

Most dentists spend about 80% of their planning efforts to grow income and only about 20% to grow financial outcomes. This is unfortunate. The most financially successful dentists give equal time to planning to grow financial outcomes. The best ratio is 50:50. During these times, it is still important to not lose focus on financial outcomes. If you are in survival mode, the right outcome-based tools can keep you from being emotionally destroyed by financial setbacks.

① Dentists with a proper focus on financial outcomes always know where their money goes. This is important. If you are the slightest bit confused about where your money goes, you will never create wealth. Does your financial reporting discipline provide timely data and accurate data monthly? There are two major needs that your accountant may not have addressed to properly inform you of where your money goes each month.

First, your financial statements must be prepared on a cash basis. Your accountant likely prepares statements on an income tax basis. This is important for outside users and for your tax return, but it leaves you with no idea of where your money goes. Second, your cash-basis financial statements must be properly classified. Overhead classifications must be grouped properly to identify the proper alignment of income so you can see where your money goes monthly.

② Dentists with a proper focus on financial outcomes always know where their money should go. Your checkbook tells you where your money goes but this does not help with better financial outcomes. I have seen dentists with 35 subclassifications for dental supplies in their accounting system. This is not an outcome-based focus that

works. Knowing where your money should go is about the proper alignment of major financial priorities. Each financial priority must be accompanied annually with a goal and a benchmark that is reviewed monthly.

In a general dental practice, there are eight major financial priorities, each with benchmarks. Four are “above the line,” and four are “below the line.” The four “above the line” are **revenue** (production: 100%, adjustments: 2%, collections: 98%), **direct overhead** (staff: 27%, lab: 7%, supplies: 6%, facility: 6%, promotion: 2%), **indirect overhead** (accounting, continuing education, office supplies, insurance, etc.; total: 8%), and **Practice Operating Profit or POP** (total: 42%). POP is the key to all other financial priorities. If POP is smaller than 42% of production, you have a practice management problem. If POP is 42% or greater and you are unable to save 20% of your income, you will experience a personal financial management problem.

Below POP are the four personal finance priorities paid in the practice. Again, these should be reported on a cash basis to see where your money goes. The four are: **loan and lease payments** (to include interest and principal), **large purchases** (to include anything of a capital nature such as dental equipment that costs \$3,000 or more and is paid for with cash), **lifestyle expenditures** (to include salaries paid to family members, your insurance, and tax-related items such as a business automobile), and **legacy savings** (typically your portion of 401(k) or pension savings).

These four “below-the-line” priorities paid for by your practice should be combined with the same four priorities paid for at home: loan payments, large purchases, lifestyle expenditures, and legacy savings. One final “L,” **levies** (or income and payroll taxes), complete the five personal finance priorities that must be managed for a dentist to achieve maximum wealth creation during a career.

I believe maximum wealth creation is achieved by saving 20% of POP annually in a career. Dentists who cannot achieve this savings are not managing financial outcomes, and need to examine the proper alignment of loans, large purchases, lifestyle, and levies. It’s as simple as knowing where your money goes compared to where it should go. **DE**

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