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Are You Paid What You Are Worth?

Fee differentiation principles provide guidance for annual fee adjustments

By Kenneth H. Mathys, CPA, Dental Practice Advisors

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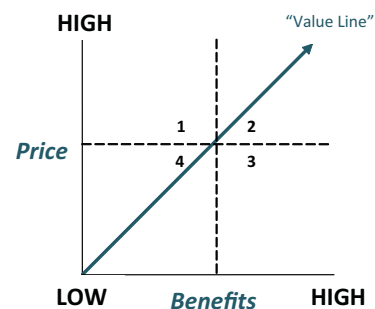
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Not feeling well? Is your stomach churning? Has your staff already made their pay increase expectation known to you? Is the perceived doom and gloom of the economy causing you fear of making any adjustments? You are not alone.

It's that time of the year. For many dentists it is time to tackle your most favorite task – determining your fees for next year. And as is the case virtually every year, you are just not sure how to approach the task.

Good judgment applied to a solid business approach will take most of the stress out of the process. The principles involved in setting dental fees are no different than setting prices for other businesses in other industries. Overall, your pricing strategy is an integral part of your marketing and financial strategy.

First, let's understand the most basic principle: Customers (your patients) will purchase a product when the perceived benefits are aligned with the cost. The "value line" represents what patients will pay for various levels of benefit. See the figure on right.



Your Key Task #1 is to determine what level of benefits (clinical quality, staff experience, breadth and depth of procedures, physical environment, technology) you will provide. Which quadrant are you operating in? Are you operating on the value line, or are you out of alignment? In the long run, you will naturally gravitate to quadrant 2 or 4, where your fees are in alignment with the benefits provided. Either your patients will force you there because your fees are too high for the quality delivered, or you will run out of money to fund an imbalance of benefits over price.

Your Key Task #2 is to determine how well you provide your level of benefits compared to your competition to calculate your "value differential." This involves an honest assessment of your strengths and weaknesses.

Key Task #3, also referred to as External Fee Differentiation, involves surveying your local market to determine existing fee levels and then applying your "value differential" to that average. If you supply a given benefit level better than your competition, then apply a positive differential; if you don't stack up as well as your competition, then apply a negative differential. There is no right or wrong answer here, the key is to align the price and the benefit level. You can operate anywhere along the "value line" and be a successful business.

Now it is time for your Key Task #4, also known as Internal Fee Differentiation. Hidden profit improvement opportunities exist within your fee schedule; however, most dentists don't take the time to find them. First and foremost, look at your base/posterior crown and bridge procedure fees in relation to your anterior and/or cosmetic procedures. Are they priced essentially the

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- Strategic planning
- Comprehensive practice exam
- Benchmarking and performance monitoring services
- Fee schedule review
- Dental team assessment
- Practice transitions

Tax Planning - It's Never Too Early to Begin

By Terri Rexrode, CPA, MST, Wipfli LLP

Although there are still a few months before the end of the year, there have already been three new tax laws. Despite added confusion created by these repetitive changes, the current federal income tax environment is still quite favorable. Now is the time to take advantage of the tax breaks that Congress has provided before they disappear. This article presents some tax-planning ideas to consider while you still have time to think about the best strategy for your individual situation.

Time Investment Gains and Losses

You should consider selling some appreciated securities, especially those you've held for over a year that would generate long-term capital gains. The maximum federal income tax rate on most long-term capital gains from 2008 sales is only 15%. Therefore, now may be a good time to cash in some long-term winners to benefit from historically low tax rates. Depending on how the November elections turn out, higher capital gains taxes in 2009 are a definite possibility.

Selling some loser securities can also be a good idea. The resulting capital losses will offset capital gains from other securities this year (including short-term gains from securities owned for one year or less). If capital losses exceed capital gains, the excess losses can be used to shelter up to \$3,000 (\$500 for Wisconsin) of your high-taxed ordinary income from salaries, bonuses, self-employment, or other income.

Take Advantage of 0% Rate Before It's Too Late

For 2008, the federal income tax rate on long-term capital gains and qualified dividends is 0% for taxpayers that fall within the 10% and 15% regular federal income tax rate brackets. This will be the case to the extent your taxable income does not exceed \$65,100 (married filing jointly) or \$32,550 (if you're single).

While your income may be too high to benefit from the 0% rate, you may have children, grandchildren, or other relatives who will be in one of the lower tax brackets for 2008. If so, consider giving them some appreciated stock or mutual fund shares that they can then sell and pay 0% tax on the resulting long-term gains. Gains will be long term as long as your ownership period plus the gift recipient's ownership period (before the sale) equals at least a year and a day. While the 0% rate is scheduled to be available through 2010, things could change as early as next year.

Warnings: If you give securities to someone who is under age 24, the Kiddie Tax rules could potentially cause some of the resulting investment income to be taxed at the parents' higher rates instead of at the gift recipient's lower rates. That would defeat the purpose. Also, if you give away assets worth over \$12,000 during 2008 to an individual gift recipient, it will generally eat into your \$1 million lifetime federal gift tax

exemption and your federal estate tax exemption (\$2 million for 2008; \$3.5 million for 2009).

Take Advantage of Generous but Temporary Tax Breaks for Businesses

Several business-friendly tax changes kicked in this year that make purchasing equipment and software in 2008 a wise tax idea for federal purposes.

- **Bigger Section 179 Deduction:** Your business may be able to take advantage of the temporarily increased Section 179 deduction. An eligible business can often claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions. For tax years beginning in 2008, the maximum Section 179 deduction is \$250,000. This is reduced to \$130,000 in 2009.
- **50% First-year Bonus Depreciation:** Above and beyond the increased Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software acquired and placed in service by December 31 of this year. This generous provision will expire at year-end unless Congress takes further action.

Watch Out for the Alternative Minimum Tax

While many recent tax-law changes have been helpful in reducing your regular federal income tax liability, they don't reduce the odds that you will owe alternative minimum tax (AMT). It is critical to evaluate all tax-planning strategies in light of the AMT rules.

Conclusion

This article is meant to give you just a few ideas to start thinking about tax planning for 2008. Please don't hesitate to contact us if you want more details on how these strategies may apply in your particular situation. ■

Terri Rexrode is a manager in Wipfli's Health Care group. For more information, please contact Terri at 920.662.2831 or trrexrode@wipfli.com.

2008 Fee and Wage Survey

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Watch for your survey mailing for more details or contact us at feesurvey@dentalpracticeadvisors.com.

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Job Descriptions: The Unsung Hero of Effective HR Management Practices

By Julia Johnson, Wipfli LLP



When faced with the task of developing job descriptions, many individuals view it as mundane, administrative, and not a task that they look forward to doing. However, comprehensive job descriptions are a critical foundation for effective human resource management practices.

Job descriptions serve as crucial tools in coordinating role and responsibility among multiple positions within the practice and assist in achieving practice goals and objectives. Job descriptions are directly linked to nearly every human resource activity, including but not limited to: organizational structure, recruitment and selection, performance management, compensation, training and development, and compliance with applicable federal and state laws.

Let's consider the absence of job descriptions. In the absence of a job description, it is difficult to identify the skills and experience needed for a position. Therefore, a miss-hire could result because we didn't screen the resume, conduct telephone screens, or leverage the interview process effectively. In the absence of a job description, it is - difficult if not impossible - to evaluate the performance of employees because it is hard to determine if they are doing the things they should be doing to positively impact the practice. In addition, accountability in the absence of clearly specified expectations is a moving target, and it can be difficult to establish fair and competitive pay rates. Determining compensation on the basis of job title can be problematic without the added benefit of outlining essential job functions and can lead to misalignment of pay practices.

When developing job descriptions, it is important to have a champion assigned to the project. The project champion is responsible for gathering information, consolidating information

into job statements, using consistent language, and preparing final documents. The project champion should also be

charged with the responsibility of evaluating the appropriateness of tasks being performed by each position to ensure proper alignment of duties. Champions can gather information by issuing a questionnaire, interviewing, or directly observing employees performing their jobs. In most cases, a combination of information gathering techniques is suggested.

Components of a well-developed job description include:

- Job title
- Reporting relationships
- Exemption status
- Position summary
- Essential duties and responsibilities
- Secondary duties and responsibilities
- Work relationships and scope
- Knowledge, skills, and abilities
- Performance dimensions
- Working conditions
- At-will status disclaimer statement
- Date of development
- Employee acknowledgement

Writing job descriptions can be an overwhelming responsibility. However, when effectively written and utilized, they serve as powerful tools to assist in managing your practice's most important asset—people. ■

Julia Johnson is a manager in Wipfli's Consulting group. For more information, please contact Julia at 920.832.2410 or jajohnson@wipfli.com.

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same? They shouldn't be. Anterior and cosmetic procedures require much more skill, a high-end lab partner, and involve more remake and reputation risk than posterior procedures, therefore, they should be priced significantly higher. They carry much higher value in your patients' minds, and they are willing to pay significantly more for them.

In summary, you can ensure that your fees are appropriately set for the long term by:

- Knowing your value
- Communicating your value
- Demonstrating your value, and
- Pricing your value

Need help with this process? Your dental professionals at Wipfli can assist you.

Ken Mathys is founder and president of Dental Practice Advisors, LLC. For more information, please contact Ken at 920.347.2990 or kmathys@dentalpracticeadvisors.com.

Annual Fee and Wage Survey

By Shawn Mathys, CPA, Wipfli LLP

This is the time of year when many practices face two key decisions: setting fees for the new year and managing staff pay raises. Because your fee schedule is a key revenue driver and staff wages are your single highest overhead expense, you want to get them both right to meet your bottom-line profitability goals.

The first step is to gather the information you need to make informed choices. You'll want to understand the market in your area so your fees will reflect the overall quality and value offered by your practice relative to your competition. Wage rates should reflect the skill and experience of your team. Our dental fee and wage surveys can provide valuable information to help you get started in this process.

Fee Survey Report With Volume Impact

The annual Fee Survey Report facilitates fee comparisons to help you understand the market, and the Volume Impact Analysis is customized to your practice to ensure that you are focused on the top procedures which drive 85% of your revenue.

Staff Wages

Our staff wages database tracks dental team wages by position and provides average, median, minimum, and maximum hourly pay rate trends to help you design a compensation strategy to attract and retain the right team.

For many dentists, the annual fee and wage setting process is one of the most difficult and unnerving tasks undertaken. Our dental practice management services are designed to provide you with the up-to-date and comprehensive information you need to set your fees and wages with confidence. Call one of our dental practice specialists to find out how we can help. ■

Shawn Mathys is a manager in Wipfli's Dental group. For more information, please contact Shawn at 920.662.2854 or smathys@wipfli.com.

To learn more about Wipfli, please contact a dental practice specialist at 888.940.1016.

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