LEAVE IT ALL BEHIND

What’s Next
Successfully Transitioning Out of the Industry
Walking through the crowds at the 2017 Vision 21 Meeting was an energizing experience. It’s certainly an exciting time to be a part of the industry with so many options and avenues to take; it feels like the world is opening at an accelerated pace and dental technology is in the passing lane. Yet in a fair assessment of the Vision 21 crowd, it’s also safe to say that many of the attendees are nearing the end of their tenure within the profession. It’s no surprise to anyone that dental laboratory technology is comprised of an aging population.

Year after year the NADL surveys those within the industry and the statistics remain steady. The 2016 Materials and Equipment Survey reports that 1.2 percent of respondents are under the age of 25, 9.5 percent are between 25-34 years, 17.9 percent are 35-44 years old, 27.6 percent are 45-54 years old, 34.9 percent are aged between 55-64 and 8.9 percent are 65 and older. The median age is 50.

During the Vision 21 Meeting a random and informal poll was taken, casually asking attendees if they were considering retirement and if so, what the next step was. The most common response was rather surprising. Most responded along the lines of, “Oh, I haven’t gotten there yet” or “Someday I will but not now. Maybe you should talk to so-and-so, I hear he’s thinking about retirement.” It was an ironic game of pinball around the room with no true direction from anyone that was willing to commit to the idea of retirement and transitioning out of the industry.

This retirement uncertainty isn’t a new trend. A few years ago the NADL sent out a business exit plan survey. When asked how much estate planning has been done, the largest group of owners (28.7 percent) said “I haven’t even started.” Another 27.8 percent said “I have a tax-efficient estate plan which includes life insurance and the disposition of my business,” followed by “I have a will” (25.9 percent), “I have a living trust to avoid probate” (13.9 percent), and “I have a tax-efficient estate plan, but no life insurance and my business is not included in it” (3.7 percent).

When posed the question, how much longer do you expect to own and manage your laboratory? The vast majority of owners (69.9 percent) do not plan to retire for at least 7 to 10 years (or longer), with those farther from retirement more likely to be in smaller laboratories. Twenty-seven percent plan to retire or sell their laboratory within 1 to 6 years, and the remaining 2.7% are ready to retire now.

So while excitement about the future is elevated and the people clearly remain committed to the industry, it goes without saying that some steps do need to be taken into consideration as far as transitioning out. What happens after retirement? How can one best prepare? When should the process begin?

First is the obvious: money. How much do you need to save? What can you live on after retirement? How long will it last? The United States Department of Labor Employee Benefits Security Administration reports that fewer than half of Americans have calculated how much they need to save for retirement. Don’t be naïve; retirement is expensive. Experts estimate that one needs at least 70 percent of their pre-retirement income — lower earners, 90 percent or more — to maintain their standard of living when they stop working. Teresa Ghilarducci, a retirement planner, wrote an article, Our Ridiculous Approach to Retirement. In it she states, “To maintain living standards into old age we need roughly 20 times our annual income in financial wealth. If you earn $100,000 at retirement, you need about $2 million beyond what you will receive from Social Security. If you have an income-producing partner and a paid-
off house, you need less. This number is startling in light of the stone-cold fact that most people aged 50 to 64 have nothing or next to nothing in retirement accounts and thus will rely solely on Social Security.” The numbers ARE startling and can also be impacted by health, length of life, debt, the economy and many other elements that are difficult to predict. It is imperative to be financially prepared and as early as possible. Financial advice can be gained through an employer plan resources, social security website, financial advisor or Medicare.

The second point is a little less obvious. While financial health is the apparent ruler of the retirement timeline, just as much thought and preparation needs to be given to physical, emotional and relationship health. When considering physical health, keep in mind that while the mind may think, “Just work a little bit longer and save a little bit more” the body might have its own plans. Continuously gauge personal well-being and stress and its physical ramifications. Go to the doctor and get their advice. If working just one more year till retirement comes at too high a physical cost, that year of income is just not worth it.

As far as emotional preparation, retirement is stressful and can be scary. Most people have been working for approximately forty to fifty years. The thought of that pattern ending and moving into the unknown can be very foreboding. According to Maryalene LaPonsie, author of the article Boomers’ Secrets of a Successful Retirement, in late 2014, Ameriprise Financial surveyed 1,000 boomers ages 60 to 73 who retired within the past five years to determine how they’ve been managing since leaving the workforce. Sixty three percent of the respondents in the Retirement Triggers Research Report said they felt stressed about their decision to retire and 21 percent felt uncertain about their readiness. However, take good cheer that pre-retirement jitters don’t necessarily translate to an unhappy retirement. Only 25 percent of boomers say they still feel stressed now that they’ve settled into their new routine. While the idea of retirement is appealing, mostly to those who are still far away from it, when seeing the albatross up close it does overwhelm but it doesn’t have to stay that way. Take control by making active plans pre-retirement how to emotionally process this momentous life change. Some ideas are to start a hobby or after a retirement date is set, plan a trip to deter the monotony and tendency for stir-craziness. Break the accustomed patterns and welcome the new way of living.

**Have You Structured a TAX-EFFICIENT Transfer of Ownership?**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>32%</td>
<td>Don’t know there are ways to legally reduce taxes</td>
</tr>
<tr>
<td>29.3%</td>
<td>Aware but have not implemented anything</td>
</tr>
<tr>
<td>22.7%</td>
<td>Have already implemented a professional transfer strategy</td>
</tr>
<tr>
<td>9.3%</td>
<td>Have a strategy, but it’s not yet implemented</td>
</tr>
<tr>
<td>6.7%</td>
<td>Don’t think tax savings will offset additional legal and accounting fees</td>
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Source: NADL business exit plan survey
Relationship status also needs to be carefully evaluated and preserved. Just because one partner is ready to retire that doesn’t mean that both have to. Talk. Plan. Together. Retirement will impact both parties in a relationship no matter the manner in which it is approached and has the potential to substantially increase overall relationship satisfaction, but also has the same potential to damage with the impact of emotional and financial stress. Just as with any other element introduced into a relationship such as buying a house or having a child, retirement is no different. It is a major life change and should be addressed and agreed on together in order to guarantee a successful partnership long into the years of retirement.

While steps for retirement planning are generally the same for everyone, the dental laboratory technology profession poses some challenges that need to be addressed. For many laboratory owners, it’s not just about when they are ready to retire, it’s about determining the future of the laboratory and their employees. It’s about tax implications and selling versus passing the lab down to the next generation, or both. The NADL Exit Survey asked respondents, have you structured tax-efficient methods for the transfer of ownership of your laboratory? The largest group (32 percent) selected, “I didn’t know there are ways to legally reduce taxes,” though owners of small laboratories (44.2 percent) were much more likely to choose this response than owners of medium (21.1 percent) or large (7.7 percent) laboratories. The next largest group (29.3 percent) knows ways to reduce taxes when they sell, but haven’t implemented them yet. The third largest group (22.7 percent) selected, “I have a comprehensive tax-efficient transfer strategy implemented by CPAs and attorneys,” with this choice much more likely among owners of large laboratories (61.5 percent) than owners of medium (21.1 percent) or small (11.6 percent) laboratories. Another 9.3 percent “have a comprehensive tax-efficient transfer strategy but it hasn’t been implemented yet” and 6.7 percent “don’t think the tax savings will compensate for the additional legal and accounting fees.”

Harold Burdette, Jr., CDT, owner of Burdette Dental Lab in Birmingham, Ala., and past NADL president, was one of those surveyed at the Vision 21 Meeting that had more concrete ideas about his
pending retirement. He has actually experienced both sides of the equation as he purchased his laboratory from his father. Back when his dad retired, they structured a buy/sell agreement. The company was valued at the time of the appraisal and that was the buy out price, no matter if it took years until the actual buy out and the company was actually worth more. Selling arrangements have gotten a lot more complicated since then. For his retirement plans, he spoke with attorneys and saw that there are too many tax ramifications for both parties if he sells the lab to his son-in-law, Chris Waldrop, CDT, so he is planning to leave the company to Waldrop in his will. He is planning on officially retiring when he hits 70 years of age but at this point Waldrop has already assumed much of the management of the lab.

This wasn't a decision that was reached without careful consideration. In today's environment it is due diligence to pursue all options, including selling to an investment or private equity corporation. Burdette went down the road with several lab groups and strongly suggests all owners do so, even just for the educational factor.

“All of these organizations have a different niche and they all want to hold a certain percentage of your money,” said Burdette. “They want you to pay over time, in essence, to finance your own buy out. The only reason to sell is to get rid of risk, but as long as you are still holding onto paper you still have risk and have to worry about it for however long you hold onto it and risk translates into stress. If you take this route you have to be a good negotiator and that includes being willing to walk away. While I decided to hold off on selling I know that the future of the laboratory industry may dictate another decision for my son-in-law. My grandkids once asked what I was going to do with the laboratory. I said I was going to leave it to their dad when I died. They said, ‘you know our dad will sell it.’ My response, ‘I’d be disappointed if he didn’t.’ ”

While Burdette seemed comfortable and content with thoughts of retirement which will include more travel and family time, there was still a sense of uncertainty in his voice when discussing post-retirement. He worries that he might get bored and that he might not be ready for the transition, but also acknowledges that he can still maintain part of his lifestyle by attending meetings and networking with colleagues. A common expression heard at the Vision 21 Meeting is that the industry and those in it have become a family that many are unwilling to leave. And that's another option to keep in mind as well; maybe it doesn't have to end.

Terry Knueppel, of Dental Arts Laboratories, Inc., in Peoria, Ill., is eighty-one years old and has clear intentions of not transitioning out. He still goes to the lab every day for almost all day.

“This is my family,” said Knueppel. “I love being here and I love the people that I work for and with. I listen to people making decisions and if I can add something I do but at this juncture the people that run the business run the business. I learned while working for my MBA at Kellogg School, Northwestern University, "surround yourself with qualified-talented people." I have been successful in that single concept. We have wonderful staff with great leadership and run a nice operation. Retirement? Not for me. I don’t plan on doing anything different.”

Deciding when and how to retire is a personal decision that needs to be carefully weighed out. It also doesn't have to be all or nothing. A great option is to ease into the idea of retirement slowly and take each decision as it comes and as it feels comfortable. Although people may have different retirement timelines and expectations, most agree that the dental laboratory industry is a good industry that many have invested their lives into. It will certainly continue to give back and pay dividends on that investment for those who are ready to transition out. JDT

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