

David Chong Yen & Eugene Chu - Mind Your Financial Wellbeing

Chiraz: Hello and welcome to CDA Oasis. My name is Chiraz Guessaier. Today, we revisit the topic of financial wellness in particular for new graduates, new dental graduates. To explore the topic further, we have invited David Chong Yen and Eugene Chu, professional chartered accountants with extensive experience working with new and seasoned dentists. David and Eugene, it's always a pleasure to see you and to speak with you. Thank you for making some time for us and welcome to this Oasis conversation.

David: Thank you very much for hosting it and asking thought provoking questions as I'm sure you will.

Chiraz: I hope so. So, this is actually a series of conversations about financial issues facing new dental graduates. Can you tell us what we will be talking about in this series?

Eugene: I think the biggest financial issue most graduates have and the big elephant in the room is how do they handle their student debt. And I think it's important for us to step back and try to understand their debt and understand the repayment terms and sort of the terms and conditions of what they're facing. So, the three major debts that most new graduates have are one government student loans. So, these are every province has a different one. But when you apply for a student loan from the government, it's usually a mix of a federal portion and a provincial portion. So, depending on which province you're going to school will determine the different terms and payment plans for that particular product. At the federal level, they've actually made changes to the interest rate. And so now effective November 1st you're no longer going to be paying prime plus 2.5%, you're going to be paying just prime.

Eugene: On top of that, they've made the grace period for repayment has always been six months, but now it's interest free for six months. So, it's like the government says you owe me \$100. Previously it was, you don't have to pay me that \$100 in six months, but you have to pay me a hundred plus interest, say \$110 in six months. Now it's six months. You still only owe me that \$100. So, they're giving you more leeway in terms of the interest on being repaid a little bit later. On the provincial side, again, each province is different. If you're lucky enough, you might, if you're going to school in Nova Scotia, Manitoba, you could get 0% interest which is great. In Ontario, and it's not necessarily the case in Ontario, it's actually prime plus 1. So again, it varies and provincial portion, again, it represents about 30% of your student loan and they also have different grace periods.

Eugene: So, Ontario for example, does have an interest-free period. You have to pay back. You don't have to pay for six months, but they will accrue interest on that Ontario portion of the loan. And so that's important because it's going to lead to our next question, which is, you know, which loans to repay first? But let's go through the other types of debt you might have. So, you might also have a bank line of credit from a national bank like TD bank, RBC, Scotia, BMO, etc. Those banks typically charge at prime. So that's 3.95 right

now. And the tax, the interest is actually not tax deductible. That's a misconception. The only tax-deductible interest is the one from the government loans. So, from the Ontario government, federal government, provincial governments.

David: Yeah on those government loans, it's rarely you get the tax break. If you go to your tax specialists, they won't see it's a tax deduction. At the end of the day you get a tax break on the interest, you pay in respect of those government loans. Whereas with the banks, you know, the bank, be it Scotia Bank, Bank of Montreal, TD, Royal Bank, etc., you don't get a tax break on those, on the interest paid.

Eugene: And another important feature that you'd want to confirm with your bank is whether your loan is revolving or non revolving. Revolving means if you have extra money, you put in \$10,000 and you bring down your line of credit from a hundred to 90 and you need that \$10,000 a month later for whatever reason in emergency, you can take that money back out. So, with government and loans, once you pay it back, it's pretty much closed. Your loan balance will decrease, but you won't be able to access that money later. So if, you know, if you're budgeting accordingly and you know you have an expense coming up and you might want to look at whether you have room on your line of credit to take that money out in case you need it.

Eugene: And then the last sort of debt that most new grads have is credit card debt. That's what we consider a bad debt, right? So, they charged 20% or more. It's always prudent, and I would say this to everyone that you pay off the balance in full, never just make the minimum payment, even if you have to borrow from a line of credit, that's where that revolving feature might come in handy. Pay Off that credit card debt every month. Right? And so that leads us to the, basically how do we handle repayment of debt?

Chiraz: So, can I ask you the question Eugene and before actually I ask you the question, you've provided us with a very interesting resource table. We will include that in the post because I think it's very helpful for our viewers. So, based on this very valuable information, which loans should I pay first?

Eugene: Right. So, like I said, you want to pay your bad debts first which is the credit card, you want to get rid of that 20% interest right off the top. And whichever way you need to do that, borrow from mom and dad, borrow from the bank, borrow from whoever you need to repay that loan. After you take care of that, then comes the question. So as of November 1st, now that the government loans, the interest rates going down to prime and the bank also charges prime. But the advantage of the government loan is that you get a tax break on it. You'd want to pay off the bank loans first because you don't get a tax break on those bank loans. So, you pay off the bank loans first and then worry about the government loans afterwards. And that's effective as of November 1st. Until then, you're still paying 2.5 above prime until November 1st. So, keep that in mind.

Chiraz: So, I paid off my loans, I am ready or I am paying off my loans and I am ready to start my career. What can I buy first?

David: Very good question. So, the first thing that comes to mind is a car and at least in many of the new graduates' mind is a car. And the question is, should I lease or buy a car? And what we say is there's good and bad debt. Good and bad debt. What's good debt? Good debt is where one borrows money and uses the proceeds of the loan to buy things that rise in value. Bad debt is where one borrows money, uses the proceeds to buy things which will fall in value. Example of good debt. Good debt is where one borrows money to pay for continuing education courses, pay for certain instruments they may need to help them carry out their job. Bad debt is where one buys, borrows money and uses it to buy a fancy car. Why? Because you know, from day one, that fancy car is gonna be worth significantly less the minute you drive it off the dealer's lot. So, we're saying at the beginning, let's minimize bad debt and maximize good debt. Specifically, borrow money to take CE courses [that] you know you will need to help you serve your patients more effectively, right? And the other reason why you want to take CE soon after you graduate is that when you take time off work, when you are a new graduate, the amount of income you're foregoing is small compared to if you had 10 years experience, right? If you have 10 years experience, you miss one day at work, it's going to cost you maybe a couple of a few thousand dollars. You miss one day of work when you're a recent graduate, you know you're not going to miss that much money. You may miss 1000 bucks. So that's the other reason to take the CE courses as quickly as possible. And if you have to borrow, go out and do it.

David: The other reason why you want to do that is you're laying the groundwork so you can buy a practice in the future. Because when you buy a practice in the future, you need to repay the loan. And by having these CE courses in your toolbox so to speak, you can more efficiently, effectively repay the loan you took to buy the practice. Then you go to the car. Should I lease or buy a car? Well, I'm going to give it to you from this perspective. If you could have been driving a lot of kilometers each year, let's say much more than 24,000 kilometers each year and you're going to own a car for seven, eight years, you're probably better off buying the car and not leasing. A) you'll avoid any lease penalties because you drive a lot of kilometers and B) because you're going to be owning it for a long time, buying it makes sense. If you're going to be changing your car every three years looking to get a US high tech car, what type of gadgetry, then you might consider leasing. And if you're not going to be driving much kilometers, you might consider leasing. Regarding, you know, changing the car every two or three years, I would question why is one doing that because certainly it may not be a solid financial path.

Eugene: Another big purchase, a lot of new grads like to look at, and part of it is because their friends and their families are always looking at real estate, housing particularly. And they all, you know, they see these, the value of housing rising and they fear that they're going to be priced out of the market. And so, they come to us looking to buy a house when they haven't really even started their first job. Right? And so, the question is, when do I buy a house? And our response is always look to buy a practice [inaudible] establish yourself and have some stability in your life before you go and buy your house. Your house can become an anchor, so to speak, if you need to live in a certain area and

you can only find a practice or work in that area. So, you want to be as flexible as possible because as we said in other videos you might not be actually working and living in the city you think you'll be in. You could, it might make sense to move farther out, more rural where prices are more attainable, or the lifestyle is better financially.

David: Add to that, excellent point Eugene. Add to that is the fact that in some areas of Canada, especially in Ontario, many areas of Ontario, it's a vendor's market, meaning there are many more buyers than there are sellers, as far as dental practices are concerned. And so therefore we do recommend you get your fishing rod first, which is your practice, and then you can use your fishing rod/practice to get your fish, which is your nice home, your cottage, etc. And the other thing is in most places there are many homes to buy versus in some places there are a few practices to buy. So therefore, we recommend getting your practice first. And then getting your home later. And I'm going to address the other myth. And that other myth is, you know, when I rent a home, I'm just flushing money down the toilet. What many people are not aware of is that when you initially buy a home, especially if you have very little down payment, most of your monthly mortgage is going towards interest, not principal, i.e. not the loan repayment, but just interest. What we recommend is get your practice first. And once that's generating cash, you can use some of the cash generated from your practice to put down a much larger deposit on your home thereby taking out a lower mortgage thereby by incurring less interest.

Chiraz: Excellent points, I must say. So, in considering to buy a practice, what should I think as a new graduate? What should I be thinking about?

David: Well, the first thing you need to say to yourself is, and I ask clients to do this, visualize the end result and then work backwards. Let me give you some practical examples where that statement applies. So, let's say you wanted to be in a particular city, but there is greater opportunity to make money outside of the city. You keep that vision locked into your memory. You might initially buy a practice outside the city, build it up, build the equity in that practice, then a few years later, use the equity from that practice potentially to buy a second practice closer to the city where you want to live. And then the first practice you could potentially operate as an investor dentist. So that's where you visualize the end result but realize that you may not be able to realize that goal all in one step. And so, it may require two or three step process. So that's one example. So, look at end result and look at what your skillset is as well. If you, let's say are an internationally trained dentist and you have particular or Canadian trained and you have a particular clinical skill in a particular area, the practice you may lean towards maybe more focused than if you didn't have those particular skill set. Let's give you an example. If you are oral surgeon in a foreign country and now, you're a general practitioner in Canada, when you're looking to buy a practice in Canada, you might be more attracted to a practice where the vendors are referring out a lot of oral [surgery]. Or if you were an orthodontist, you might be looking for a practice where the vendor is referring out a lot of Ortho work.

Eugene: Financially also, you're gonna need money from the bank to buy a practice. And so if you still have that student debt, you're probably going to be less likely to get that money to secure it. Because as Dave mentioned, the premiums are very high on practices because there's a lot more buyers than there are sellers.

David: In certain parts of Canada, the premiums are much higher, certain parts, keeping in mind that, you know, this is the Canadian Dental Association, so we're speaking with audience from one end of the coast to the other end of the coast.

Chiraz: That's right.

David: Where it's a vendors' market, it's likely a premium would be paid. And the bottom line, if I'm a new graduate is let me get on my student debt down to about a hundred thousand. Let me hone my technical skills and then I can start embarking on a search for a practice; and let me try and stockpile some money just in case the banks won't cover all of the premium that I'm paying in respect of the practice I am buying.

Chiraz: So Dave and Eugene, basically it's not a good idea to buy a practice from the get go if you have high student loans, if you have debt, really it's not a good idea to go out and buy a practice the first day you graduate. Is that what I'm getting from you?

David: Well let me ask you that question this way. If you don't have clinical skills, that's the first thing we need to hone those clinical skills, right? So that's prerequisite number one, hone clinical skills. If you have the clinical skills; we have represented an experience where new graduates with the clinical experience go shortly after graduation and have been successful in buying their practice and improving the practice they bought. What the prerequisite is: you've got to have those clinical skills. And as important: effective communication skills. Because keeping in mind that you're in the people business, dentistry is a people business, and it helps to hone your clinical skills on an ongoing basis. The better your communication skills and clinical skills is the better practitioner you will be. But in most cases, we would say pay down your student and almost, which is going to take probably one to two years. And then after the student loans are down to about a hundred, then start your search and minimize your bad debt, i. e. don't buy the most fancy car and rather use some of the monies that go towards a fancy car in maybe stockpiling some cash in the event you have to inject some of your own money into the practice purchase.

Chiraz: We touched upon taxes because all the way through paying the student loan, getting the clinical skills required, what are the considerations that I need to have when I am thinking about taxes? How much should I be saving for taxes for example?

Eugene: You want to make sure you file your taxes during school. And when you file your tax, you get a piece of paper from the government, it's called a notice of assessment. On that notice of assessment, it'll show you how much tuition credits you have. So, if that number is large, say \$150,000 or more, than your first year tax bill after graduation is

likely going to be around \$7,000. But that doesn't mean that's the only amount of tax you'll pay in the future. So, once you use up those tuition credits, you probably want to save at least a third of your income for taxes' following year.

David: Now, it's a bit of a misunderstanding. Often times we encounter dental students who ask this question, which Eugene, will address, why do I have to file a tax return when I'm a student and I'm not making any money?

Eugene: So, the tuition credits have to be entered in the year that you paid for your tuition. So, if you don't file those tax returns, those tuition credits aren't going to show up on your notice assessment. They're not going to be filed with the CRA, so you won't get credit for them. In addition, filing your tax return if you're going to university or post secondary, you can claim rent that you pay when you have low income so you could get some money back just by filing your tax return. So, it's important to file tax to help you pay some for some textbooks or whatever.

David: Even if you have no income and you didn't pay any taxes, you file a tax return, there is a possibility you could get a tax refund.

Chiraz: Alright, so to sum up our conversation, because this is excellent and valuable information, the first thing you need to do if you are a new grad coming out of school is take care of your student loans. Thinking about buying a car, we would delay that gratification and we would actually think about honing our clinical skills, buying a practice, buying a house, and then thinking about buying a car. And when we're thinking about how much money we should be saving for taxes, we should still file for taxes and be good with the government even if we don't have any income, because that could give us a little bit of a tax break or a little bit of money coming back from the government. Did I get it right?

David: You summarize it very succinctly. One thing I might add is that sometimes, new graduates have no choice but to get a car. So, they don't have an option. They have to get a car. Why? Because often times great associate opportunities require a car, i.e. it's far from a city. In those instances, we're practical get a car, but you don't need a Rolls Royce. We're saying get something cost effective. You know, you say, Dave, what kind of budget am I looking at? I probably wouldn't be spending more than \$35,000 on the row for a car. And the reason simply is you'll get a tax break on the car if you use it in connection with your business, your associateship. Now I have to mention driving from your home to your practice and back is not considered a business, is not considered a tax deduction.

David: But if you go indirectly, for example, from your home to your accountant or lawyer or your banker, and then from the banker accountant, you go to your associateship, that entire trip would be considered tax deductible. Or if you go from your associateship and you take a CE course, maybe the crown and bridge study club, and then you go from associateship to the course and then from the course to home, that entire trip is tax



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deductible. At the end of the day, you may need a car. All we're saying is don't blow your brains out getting a hundred-thousand-dollar car when a \$35,000 car would suffice for now until you can do better,

Chiraz: Dave and Eugene, thank you so much for this conversation. I really appreciate you taking the time and speaking with us and giving us this valuable advice for our new graduates. I'm looking forward for our next interview. Thank you again.

David: Thank you very much. It's been a privilege.