Part 4:

Cautious Green Sprouts in Dentistry’s Economic Garden

“Overall, Canadians’ concerns around inflation are holding steady with eight in ten (81%, no change) concerned that inflation will make everyday things less affordable… Moreover, seven in ten (69%, -1) are concerned that economic troubles will impact retirement plans and two-thirds (67%, -2) are concerned that they will need to delay future life plans like buying a home or starting a family… Canadians’ concerns are wide-ranging and span from their retirement plans in the future to paying for food and gas this week. Additionally, the cost cutting and re-budgeting measures that Canadians have undertook to help weather the financial storm are continuing.”
-Ipsos Poll, July 2023

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The American Dental Association recently posted that net incomes for US dentists declined in 2022 by 7%. On this side of the border, despite increases in staff salaries (which represent about 50% of a dental practice's costs), and rent/dental supply cost increases, it seems BCDA *Suggested Fee Guide* increases over the last two years have successfully countered the rapid rise in inflation – our incomes were basically static with a 1.1% increase in the average dentists' net in 2022.

With so much still unknown regarding the Canadian Dental Care Program (CDCP), there are still reasons for cautious optimism.

Early Positive Signs

1. The Express Entry federal immigration program will bring more certified dental assistants (CDAs) into Canada and jump start the shortage of trained assistants. There is cautious optimism wage increases for CDAs will start to moderate, and hygienists appear to be moving back into the workforce. For further context, the 2022 Dental Staff Salary Report is available on BCDA's Member Portal. ***(See Table 1 & Figure 1)***

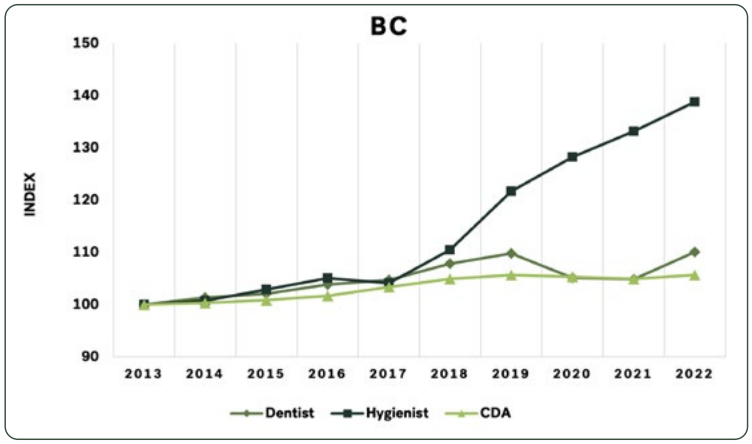
2. The CDCP is potentially a game changer, improving access to care for millions of Canadians. Uninsured patients can only afford about 50% of the needed dentistry that insured patients can afford. At the time of writing, CDCP details are unknown, but early indications are that it might be similar to the Federal Non-Insured Health Benefit (NIHB) plan (which the government has pledged to improve). This new demand will come at a time when uninsured patients are delaying dentist and hygienist visits. The February 2023 Abacus survey shows 33% of patients delaying dental visits, and 36% delaying hygiene appointments due to financial stresses.

3. Canada's population is increasing by about a million citizens a year, which will increase the supply of employees for all employers and increase gross domestic product (GDP).

4. Canadian banks are supporting citizens with debts or mortgages through these times of high real interest times by extending amortization periods, which is critical.

We're not out of the woods yet; I recommend all dentists focus on a *cost leadership strategy* (*the bridge*, spring 2023) for at least another couple of years.

Figure 1: ***Growth in the Number of Dental Service Providers***



Source: Impact Economics 2023

Challenges We Face

1. Current Bank of Canada (BOC) interest rates of 5%, and bank lending rates of 7+% will stay higher and longer through 2024, possibly into 2025. Inflation numbers are moderating, but core inflation increased slightly in July. The US Federal Reserve may need to increase another 25 or more basis points in future. High US interest rates are also likely to extend through 2023 and 2024; with global inflation also being persistent.

2. There is increased probability the US may orchestrate a soft landing without a recession, but other countries will not likely be as lucky. Canada, as a small open trading nation, is facing new problems – the big players (EU, USA, China) are subsidizing new industries for the future (protectionism, not free trade). Canada can't play that game; our GDP may shrink from "protectionist policies", as well as the BOC's efforts to reduce inflation to their target range. Both negatively affect dental demand. One new concern is China's extraordinary debt-to-GDP ratio (280%+) and slowing economy.

3. Canadians continue to be heavily stressed due to energy, food, and housing costs. Millennials (33%) are experiencing extreme stress from mortgage and other household debts. GenZ are slightly less stressed as most have not yet bought property, however rents have jumped significantly in all areas. Younger dentists in early- or mid-careers often have educational debt loads of $250k-$350k+, four to eight times more than Baby Boomer dentists in real dollars. ▶

Table 1: ***Hourly Staff Salary vs Inflation*** *Source: Statistics Canada; BCDA Wage Survey 2023*

	BC Consumer Price Index	CDA	Hygienist	Receptionist
2010 - 2017	9.8	11.1	2.2	8.0
2017 - 2020	5.8	14.3	9.0	4.5
2021	2.8	6.3	4.8	3.8
2022	6.9	6.1	5.5	4.6

Table 2: ***Power of the Last Dollar In***

Fee Guide Reimbursement	85%	90%	95%	100%	105%
Profitability: No Lab, Supplies=6%	79%	84%	89%	94%	99%
Profitability: With Lab, Supplies=6%	69%	74%	79%	84%	89%
Avg. Dentist Practice Profitability	34%	34%	34%	34%	34%
Last Dollar In **Increased profitability: No Lab**	**79%**	**84%**	**89%**	**94%**	**99%**

Note: In healthcare, the **power** of the **last dollar in** comes from adding one more procedure/hour, one more patient/day, or filling a short notice cancellation. Each working day in a dental office the heat, rent, lights and staff are all utilized; those costs are **sunk**. Any extra procedure has only a dental supply cost and/or lab cost. This table shows various levels of provincial *Suggested Fee Guide* reimbursements (some dentists charge below/above the guide; most charge at the guide).

When Canadians are worried about putting a roof over their heads and food on the table, dental visits paid for in discretionary dollars are easy to delay. This is particularly tough on young dentists with high debt loads.

Household disposable income (HHDI) dropped in 2022, may drop again in 2023, and possibly 2024, due to the winding down of provincial and federal pandemic financial aid. HHDI is heavily correlated to dental spending – a drop in HHDI means less demand for dentistry. Hence, the importance of millions of Canadians being covered by the new CDCP, creating dental demand to offset the drop in demand due to Canadians' financial stress.

The Sky Isn't Falling, but Where Might We Go?

Unlike many, I don't see doom and gloom with the new CDCP, although little is known about its design as I write this. Productivity increases, the profitability of "last dollar in", and filling the 15%+ of unfilled last-minute cancellations with new dental demand would help many dental teams.

BCDA, other provincial associations, and Canadian Dental Association are actively in consultation with our federal and provincial governments, collectively and individually. We will know most details by the end of 2023. Early signals by the government indicated the CDCP would not be better than an *improved* Federal NIHB plan; where the original NIHB covered between 85% an d 100% of common fees. Insured patients can afford about double what un-insured patients can afford in terms of needed dental care; this is an historic access to care win for Canadians.

Productivity and "Last Dollar In"

Services have four characteristics that are different from products; *perishability* is one of them. An unfilled hour of chair time can't be put back on the shelf like a product to be used at a later date; the unfilled chair time is like ice cream – the closer to the appointment time, the faster it melts. Thus, the importance of *last dollar in* for all oral health care providers, to increase productivity and access to care, especially new demand from the CDCP, if it fills unfilled appointments. While for the average dentist overhead is around 66% and profitability is 34%. The *last dollar in* can have a profitability of 94% with no lab fees and 84% with lab fees.

Currently, many Canadian and American dentists experience 15%+ short notice cancellation appointments they can't fill (e.g. patients who think they may have a respiratory illness, or those using it as cover for struggling to manage exploding daily living expenses). Consider the profitability of the *last dollar in* from 85% to 100% of our current BCDA *Suggested Fee Guide* if you fill one short notice cancellation with a new CDCP patient (*Table 2*). More importantly, if the *average* dentist increased their productivity from three to four procedures per hour; this would allow them to increase the number of needed procedures they provide by 33% and net income increases by 26%. This would ensure increased access to care at a time many uninsured Canadians are under historic financial stress.

In my next article, we should have many more facts to report, and more insights as to when we will get back to *normal* pre-pandemic times. Management skills count: The **most** efficient dentists produce **3.1 times** the net income as the **least** efficient dentists, for the **same** procedure load. Independent dentists can out-compete corporate dentists as most of the economies of scale and scope are at the plant (individual practice) level not the firm (group) level and are captured by two dentists sharing a three- or four-chair office.

It will continue to pay to invest in your business acumen through CE, college courses, a program such as the *Sauder Certificate in Dental Practice Management at UBC* (sauder.ubc.ca/dentist), or the CE programs in management sponsored by CDSPI through the provincial dental associations.

Hang in there everyone, all financial turmoil eventually ends. ■

The opinion(s) and/or perspectives raised in this article is/are not an official position of the BCDA.