

## Follow the Money

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I'm sure you've heard the statement, "Follow the money." It's been used in many situations. I thought it time we followed the money and saw where it goes. You might be surprised.

We'll start with the money coming into your office. We'll use \$1 and see the path it follows. That dollar walks into your office and is handed to your CA. Since it's handed to a CA, we must not forget certain expenses are involved long before that dollar walks in. Of course, those expenses are referred to as "overhead." What constitutes overhead? Everything it takes to get that dollar into the office, the expense for that office and the salary for that CA to be there to accept that dollar. Sounds like a lot, and in many instances it is. Many times it's too much.

What is a good overhead? Anything below 50 percent is great. Overhead can consume a great number of the dollars that come into your office. The ultimate goal is to get some of those dollars into your own pocket. For this exercise, we'll assume the overhead in your office is running at 50 percent. This means 50 cents are gone immediately to cover the overhead, which leaves us with just 50 cents. I have seen scenarios in which the balance is 25 cents or even 15 cents - not a good situation to be in.

Overhead can get out of control very quickly. The one situation I have seen that causes excessive overhead is having too many employees. This happens in a busy office when the CA complains to the doctor that there is just too much work for one person to handle. So, the doc hires another employee and now the workload gets split between two people. Does more work get done? Usually not. One way to cure this problem is to have job descriptions for each employee. It should cover every task they should be doing, even down to who answers the phone after how many rings, and who empties the trash cans and when. Every detail needs to be covered. If not, the employee list grows and grows, but no additional work gets done. I always say that when I go into an office and there are more CAs on their side of the desk than there are patients on the other side of the desk, there is a major overhead problem.

OK, so we now have our 50 cents left. So what do you do with it? Not much, because your partner now wants to be involved. This partner is not one who works in the office to generate more dollars. This one just wants a cut of every dollar you bring in. This one actually is a relative, but not your spouse or kids. It's "Uncle Sam," better known as the IRS. It wants its "fair share." The sad thing is that most people not only give the IRS its fair share; they give them additional dollars as well, and the IRS never complains when it gets too much. The complaints come when it doesn't get its fair share! We'll assume the fair share in this example is 25 cents to cover federal, state, city and any other local taxes. That's enough!

Now we are left with 25 cents. A dollar walked in the door and before you could put it into your pocket, 75 cents disappeared - gone, vanished, never to be seen again. Sad but true. It's amazing when you think about all the effort that goes into getting that dollar in the door and before you know it - poof - all that's left is just 25 cents.

So, if all that's left is just one quarter, what do you do with it? Well, before you start dreaming

about some exotic cars or trips, let's not forget there is another "overhead" to deal with. Rent or mortgage payments, food, clothing, insurance, car expenses, kids' education - the list just goes on and on. Now you have all of the "personal" overhead to be covered by that quarter. It takes a lot of quarters to cover that overhead and job descriptions won't help with this one! I'm tired just thinking about it. How much of that small quarter gets eaten up here? It can consume all of it and then some if you aren't careful. For this example, we'll say that 75 percent is needed to cover the personal overhead. That's 18 cents, which leaves us with just 7 cents of that original dollar to satisfy our dreams and our plans for the future.

Want to retire when you're age 50? Good luck! You've got 7 cents to get the job done. How about that education for your kids at that fancy Ivy League college? Will 7 cents do it? It's got to. I know this sounds like a horror story, but it's what happens in the real world. That dollar gets chopped up into a lot of pieces, and the piece you get isn't very large.

You have to do two things. Number one is to make sure you have a lot of those dollars coming into the office and make sure the overhead, taxes and personal expenses don't consume too much. The second task is to invest and use what's left very carefully. Can the job be done on just 7 cents? Yes it can, as long as you take the time to explore all of the options available to you. The goals you have might be large and the amount you have to work with might be small. However, if handled properly, the rewards will be abundant.

With the economy in a tailspin, you really need to pay close attention to those pennies you have left in your pocket. I am not preaching doom and gloom, but what I'm saying is that you need to be very careful and plan ahead. It's time to review your operations and make sure you're getting the maximum out of those 7 cents you have left out of every dollar.

#### Areas You Should Look At

*Insurance.* Make sure your coverage is up to date and use deductibles to keep your costs down. Some of your policies are business expenses, so you get a tax deduction for the premium. Do you have a list of all the expenses that qualify? If not, get one.

*Banks.* Do you have a lot of money sitting in the bank? You might want to move some to a money market account to maximize its earnings. When was the last time you spoke to your banker about all the fees you're paying? It's time!

*Cash.* Got any? Put it to work. Don't have any? Start a cash/emergency fund today.

*Credit Cards.* Have you called to get your rate lowered? Sixty percent of people who call get a rate reduction. What are you waiting for? They won't call you!

*Retirement.* Do you have a plan? You really need to take a good, long look at the nonqualified plan that puts more away for you and gives you a tax-free retirement.

What it all boils down to is that it's your money, and you need to know where it all goes and why.

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