**American Dental Hygienists' Association**

# Report to the ADHA Executive Committee
# On Various Dues Related Issues

**January 2009**

Prepared and Presented by

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## Introduction

Feedback from the five state branding initiative overwhelmingly indicated a need for ADHA to reconsider the quarterly payment plan as well as the whole dues payment structure. In President Bomkamp's July 2008 memo to the five states thanking them for their participation, a reported outcome was that dues research would be conducted that would focus on payment plan options, automatic conversion of graduating students, etc.

In the membership power point presented to the Executive Committee and the Board of Trustees this past fall, the topic of conducting dues research was discussed. In addition, this topic was thoroughly discussed with the Council on Member Services (CMS).

CMS supported the use of an outside consultant to evaluate certain processes and practices related to the assessment and collection of dues. The ADHA retained Andrew S. Lang, CPA, president of LangCPA Consulting, LLC, and a long-time specialist in the field of association finance, to act as an independent authority in this matter. His bio is attached to this report. Mr. Lang's report below addresses each of the issues which provides commentary and suggested solutions based on industry best practices.

## Preliminary financial insights:

In order to understand the condition of the organization so that we could make as valuable recommendations as possible, we studied ADHA's recent financial activity. We wish to share with you two key insights related to the dues issues that we hope you will keep in mind as you consider our report.

- ADHA is heavily reliant on dues income as can be noted from Appendix A "ADHA Major Sources of Revenue" which charts the organization's key revenue streams.

- The association has had problems in recent years earning a profit. The results of recent year's activity are quite evident in the graph in Appendix B. "ADHA Profit & Loss." While the 2007 and 2008 losses were planned and resulted directly from expenses for the masterfile and branding projects, if those expenses were removed the net income for both years would be less than $100,000 on gross income in excess of $6,500,000. The average net income for the three prior years was $300,000.

The combination of these factors puts considerable weight on questions related to dues and profitability.

The report outlines the following issues:

For Consideration for Strategic Planning and the 2010/2011 Budget:

1. Increases Based on Inflation
2. Payment Options
3. Billing Cycles
4. Graduated Dues for Young Professionals

For Future Consideration:

5. Membership Categories
   - Voting
   - Non-Voting
6. The Tri-partite Structure

## 1. Increases Based on Inflation

ADHA provides each of its members with a "bundle" of products and services. These include subscriptions to *Access* and the *Journal of Dental Hygiene*, discounts on continuing education and the Annual Session, and an interesting variety of other products, services and discounts. In addition, ADHA has numerous ongoing operating costs it regularly incurs simply to be able to function. These costs include everything from the cost to clean the offices, up to and including the cost to maintain the governance structure, and everything in between. All of these costs rise over time due to the effects of inflation.

With the cost to serve the members regularly rising due to inflation, in organizations where dues play an important role there is constant pressure to raise dues to cover those rising costs. However, increasing dues is among the most politically sensitive acts a board can undertake, and most are understandably reluctant to do so. This has led to a drive throughout the industry for developing non-dues revenue.

Unfortunately ADHA largely relies on dues to cover its expenditures (ADHA earned approximately 60% of its income from dues in the last fiscal year.). When dues-reliant associations fail to raise their dues to keep pace with inflation they are effectively trying to pay for more and more with less and less.

The U.S. Department of Labor's, Bureau of Labor Statistics (BLS) keeps track of the effects of inflation throughout the Country and in specific areas. ADHA's offices and employees are located in the area the BLS defines as "Chicago-Gary-Kenosha." To determine the effect of inflation on ADHA's expenses we studied the relevant chart, attached as part of Appendix C, and found that since the dues were set in October 1999 until the most recent available inflation figures (September of 2008) inflation has increased by more than 27.2%. In October 1999 the dues were set at $155 for an Active Member; as of September 2008 they are at $170. This is an increase of 9.7%.

If you compare these two percentages you will find that inflation for the area in which ADHA operates has gone up 2.8 times faster than dues. (See Appendix C for these calculations.) The effect has been that ADHA's dues income ($3,986,585 in

FYE June 30, 2008) has lost nearly $700,000 in purchasing power due to inflation since 1999.

We would strongly suggest that dues should be increased given the importance of this revenue stream to the organization, and the failure to keep pace with prior inflationary increases. We do not believe that you can "catch up" in one single step as that would be too great an increase. However, both initial and subsequent increases appear essential.

Based on the political nature of decisions to increase dues, we recommend that ADHA consider an industry best practice which is to institute regular annual dues increases to keep up with inflation. This practice removes the inflationary dues increase decision from the political realm on an ongoing basis.

## 2. Payment Options

ADHA has previously offered payment options to its members which were highly valued by at least 10% of the members. Today such options are not being offered by the organization, yet a number of members have expressed a strong desire that they be re-instituted.

It is standard practice in the association industry today to have 100% of a member's dues payable on a single date. The reason for this is to simplify the accounting burden, which multiplies exponentially if members select multiple payment options.

We are pleased to report, however, that third party alternatives are available to ADHA that would allow the organization to again offer such options without the accompanying problematic accounting and collection issues…. though not without a cost.

One method would be for ADHA to arrange for a financial institution to work with each self-selecting member to have an automatic withdrawal from the member's account on a pre-set schedule. This option, termed automated clearing house (ACH), comes with charges for each transaction and requires disclosure of banking information from the member to the financial institution. Other similar options exist with such entities as Pay Pal ("Recurring Payments") and the like. Here again some pre-set agreement needs to be reached, and a fee will be charged per transaction.

If payment options of this type were made available and fees paid on an ongoing basis by the association, it would mean that ADHA would net less income. As a result it makes the most sense to have these transaction costs born by the members who elect to pay in this fashion.

In order to undertake this type of new offering a careful study would have to be made of the costs of doing business with the various financial service entities under consideration, the ease of doing business with them both for ADHA and for the members, and of course their reputation as good organizations to work with.

## 3. Billing Cycles

ADHA's has two current dues cycles, a July 1 summer cycle in which approximately one-third of the members currently participate, and a January 1 winter cycle in which approximately two-thirds of the members currently participate. Previously the organization had only a single dues cycle. We consider the existing structure to be unnecessarily complex and thus inefficient. The industry standard is to have a single date on which all dues are due.

Selection of the date should be set for the convenience of the members, and also so that the cash flows into the organization at a time of the year when the cash infusion is most useful. Based on the fact that the great majority of ADHA members are currently on the January 1 dues date it would appear most politically palatable to select that date. It would also make the accounting for the members who need to change-over easier. Finally, since the dues collection for that date runs from November of the prior year when the bills are sent out until March of the New Year, cash flows would be useful to the organization.

Arguing against the January 1 dues date are the facts that certain members prefer not to receive bills around the holiday season, and that student who convert to full membership prefer to pay their first full dues in the summer.

While we appreciate the pros and cons of each alternative, our greatest concern is that ADHA simplify the situation. Given the facts and figures we would recommend the January 1 date.

We recognize that there will be some difficulties in the conversion to a single dues date, but the process can be arranged to minimize the impact on those who need to change.
Careful and clear communication will be key to retaining those members who must convert – they need to understand that they will not be paying any more than they would have had to pay otherwise, and the transition must be made convenient. In addition, they need to understand that this is being done so that ADHA can operate more efficiently and as a result apply saved resources to adding more unique and valuable products and services for members… and then that promise must be delivered upon.

In closing we would be remiss if we did not mention the timing of this conversion. While we believe it is in the best interests of the organization to make this change, it would be a change that would affect fully one third of the members. Based on the current economic conditions and other potential changes recommended, implementation of a single dues date should be scheduled well in advance and timed not to conflict with other changes with a broad membership impact.

### 4. Graduated Dues for Young Professionals

We applaud the notion of encouraging the transition of student members into full Active Members. The practice of offering a student member a discount in their first year as a full member is not a typical practice in the association industry, but it is not unusual. Younger members starting out generally do not have the financial resources to pay full dues and should find the discount an incentive to join.

On the other hand, we believe it would be unfortunate if more than a single year's discount were being offered. First of all, either the student member will find the value equation sufficient to remain a member of the association, or they will not. It is ADHA's job to make membership worthwhile. The single year discount is your opportunity to prove the value; a series of years is unlikely to prove a point you cannot make in the first year. (It is important to note that since ADHA student members get the exact same benefits at a much lower price than Active Members, the value equation becomes more difficult to establish in the transition. As a result, reduced student member benefits are quite common in the industry.)

Secondly, the accounting challenges created by your current dues structure are considerable. Adding a declining, multi-year discount would create an undue burden on an already overtaxed dues accounting system, without, in our opinion, a commensurate benefit.

## 5. Membership Categories

According to ADHA's Bylaws, Article III, Sec.1. "Classifications of Members," ADHA has four categories of voting members and five categories of non-voting members. Dues of all members are set as a percentage of the "active member" dues which are discussed below. In the last fiscal year it cost approximately $164 to serve a member (see Appendix D, "Cost to Serve a Member"). The gain or loss per dues paying membership category based on the cost to serve a member and referred to in the materials below, may be found in Appendix E "Gain or Loss per Member Category."

Please note: In the dues categories below which do not pay full dues we suggest solutions that may result in a reduction in numbers of members. For purposes of this report we equate the loss of those members with the savings of the difference between the dues they pay and the $164 it cost to serve them. Practically speaking, some of the $164 can be saved (less printing of periodicals, less shipping, less staff required) and some cannot (governance, facilities, etc.).

**<u>Voting Members</u>**:

Active members: ADHA currently charges $170 for active member dues. With a cost to serve each member of $164 this means that the organization earns approximately $6 dollars of dues income in excess of related expenses for each active. This excess is, unfortunately, more than offset by all the other membership categories (except International) whose dues are set at a half or less of the active member's rate.

Life Members: While there are few of these members, and they have each been honored by ADHA, they pay no dues and thus cost the association $164 a year. We do not see a reason to change this category so long as it is awarded to a very select few.

Retired/Senior Members: These members pay only 25% of an active member's dues. The loss per Retired/Senior members is $121.50. ($164 - ($170 x 25%). As of October 20$^{th}$, 2008 there were 727 of these members, creating a total excess of costs over dues revenue of approximately $88,000.

There are several problems with this situation. First of all, the title "Retired" is something of a misnomer – the actual requirements to qualify for the 25% rate, per the Bylaws, does not necessitate retirement:

*Retired/Senior Members: Any active member who has reached the age of sixty-two (62) years and has been an active member for at least (1) 25 years, (2) 20 consecutive years, or (3) continuously from the date eligibility shall be eligible for* *retired/senior membership upon application to the executive director and accompanied by proof of qualification*

When these bylaws were originally written 62 was an established retirement age, today it is not. At that time this category made sense, today it does not appear to us to serve the best interests of the broader membership. In our opinion, if someone is active in the profession they should be paying active member dues; if they are retired some reduction is an industry best practice.

To extend a benefit of this magnitude to more than 700 members means that the younger active members are supporting older active members in a substantial way. To exacerbate the situation, many ADHA members are approaching the age qualification. Very soon their dues will drop drastically while the cost to serve them will not.

It is important for us to make clear that it is rare for us to find a professional association where dues are reduced based on attaining a certain age. Not only is it not industry standard, it is unique in our recollection. We suggest that you consider phasing out the age based aspect of this category.

On the other hand, it is industry standard to have a retired members status. However, to what extent an association "invests" in its retirees is a fundamental question. ADHA's future does not rest with its retirees; it rests with active members and those coming into the profession. A large investment in retirees is thus a questionable investment. Fortunately, solutions are available. Initially we would suggest that you increase the 25% level to something higher. Secondly, we would suggest that you consider reducing the variety and cost of the bundle of benefits that retirees receive. Most associations would like to have the dues paid in this category cover the cost of the benefits received.

Finally, we would strongly suggest that retired members no longer have voting privileges. It is only logical that decisions concerning the current issues and future direction of the ADHA should be in the hands of the active membership.

Members with Disabilities: These members also pay 25% of the active member's dues. As of October 20th there were 170 members with disabilities, creating an approximate $20,000 excess of costs over dues revenue. While we laud the practice of supporting the disabled in our community, it is not included in the mission of the ADHA. We would also like to point out that any discount for disabled members, much less a substantial discount, is exceedingly rare in the association community

This status was not originally created as a simple business decision, nor is it today. However, from a business perspective we would suggest that if you wish to offer a discounted membership rate for these members that you raise the dues or reduce the cost of the benefits received, or both, so that you break-even, or come considerably closer to breaking even. Meanwhile, should these members desire full benefits, we believe it would be appropriate for them to pay the same dues as Active Members.

Non-Voting Members

International Members: These individuals pay full dues. We commend this practice, but do want to suggest that any additional shipping costs are passed through to members outside the United States.

Student Members: These members are currently paying 26.47% of a full member's dues (a percentage whose history must be an interesting story.) As of October 20th 2008 there were 12,067 student members. This creates an annual loss of approximately $1,440,000 – an exceedingly large commitment of resources for ADHA especially given the current conversion rate of just over 20% of student members to Active Members.

Most associations provide discounts to students with the hope of attracting them as full members after they graduate. To have 12,000 student members as opposed to approximately 21,300 full members confirms the low conversion rate. Given these statistics the association may wish to consider reducing the elements or cost of the bundle of benefits the students receive. It may also wish to consider raising the rate to "shake out" those individuals who are not seriously interested in the profession.

While the task of this report is not to suggest dues levels, we would like to point out that even in these difficult economic times, most students should be able to find another $20. With a total of 12,000 of them this would raise $240,000. In addition, the increase would cause a number of less interested students to drop out – saving the association $119 each. Assuming that ADHA lost 1,000 of these less dedicated individuals, this would reduce the loss in this membership category by approximately $120,000. Together the additional income and reduced loss would result in a net increase in profitability in excess of $300,000.

Finally, it is worth noting that if a student receives ALL membership benefits for the current rate of $45 it will be very difficult to impress on them "the value" of being an active member when the very same benefits would cost them $170. Reducing student benefits is an industry best practice and certainly should be seriously considered by ADHA leaders.

Honorary Members: As with Life Members there are few of these members, and they have each been honored by ADHA, they pay no dues and thus cost the association $164 a year. We do not see a reason to change this category so long as it is awarded to a very select few.

Allied Members: It is not clear to us why these individuals are paying 50% of the standard dues. However, with only 47 in total, if the board feels after due reflection that there is sufficient benefit to ADHA and the broader membership, we see no reason to offer comment. In the spirit of cost reduction wherever possible, we certainly would consider a review of what they receive in their bundle of benefits.

## 6. The Tri-partite Structure

The Tri-partite system appears to us to add a variety of burdens to ADHA without an equal number of advantages. Structures of these types hark back to a time when current communication technologies weren't available and regionalization had a more profound impact on the needs of local members. They exist today in situations where they can be afforded financially and are politically ingrained. The will to change these structures often arises due to financial necessity. With the ongoing economic crisis in the country and ADHA's need to grow its financial strength, we would recommend that the organization's leadership seriously consider moving to a more efficient and effective structure.

One of the principle problems that ADHA has today is the need to provide substantial value to all of the dental hygienists who are its Active Members. The creation of these uniquely valuable programs takes funds. Our understanding is that many ADHA members do not believe that the organization is providing this unique value. It is our belief that inefficient practices like the tri-partite structure are draining the financial strength of the national organization, preventing it from developing and launching the types of valuable products and services that the members most need.

If a state can raise its dues at any time it feels the need to, some members in that state will certainly express the feeling that their dues are too high. The national must tread carefully so that it does not simultaneously raise dues and make the situation worse. With fifty states, the challenge in timing a national dues increase is substantial.

One solution to this problem would be to legislate in what circumstances a state can raise its dues. We believe this would be extremely difficult to accomplish politically. Another alternative used by many associations is to simply have the states collect dues for themselves and their local units. In this way the national would be free to pursue the dues increases it believes are best suited to its economic condition and fulfillment of its mission. The problem with this solution is that it would require the creation of a great many dues collection processes as the states take on the role.

Some associations are taking the matter a step further. With today's technology and relatively homogenous society they are restructuring and going either to a "national only" structure, a "national/local "structure, or a "national/super regional/local" structure. All of these structures should save truly significant sums. State level issues can be dealt with quite effectively from a national or super regional office, locals can be very well supported by staff at either level, and individual members can be provided better products and services through the savings.

Based on the paucity of state staffs, and the apparent need to maintain the locals, we would suggest that the "national/super regional/local" structure might be a logical progression. This type of structure combines states into logical regional groupings, combines the state level governance structures into regional ones, and centralizes state-level management requirements. In addition to enhancing efficiency and cutting costs, a natural end result would be a single level of dues charged and collected at the national level.

In closing, we would also like to mention that should the organization decide to maintain its tri-partite structure, ending reciprocal or binding dues structures in favor of allowing every member to decide individually if they wish to join any or all of the organization's substructures is considered to be a "best practice." The potential impact on ADHA would have to be studied by those who are expert in these specific conversions, but times of economic challenge encourage reassessment of decades-old practices.

## In Closing

The current leadership of ADHA has a variety of opportunities available to it to strengthen the organization. Our advice would be that the available changes be prioritized in light of the current circumstances – What will be best for the long term interests of the members? What will be best for the bottom line, allowing ADHA to create more of the unique services and products our members need now? None of the options for change will be without their opponents, and yet failure to change would be a disservice to the ADHA community.

Andrew S. Lang, CPA - BIO

Andrew Lang is President of LangCPA Consulting, LLC, a firm located in the Greater Metropolitan Washington Area specializing in creative solutions for nonprofits. Andrew is a nationally recognized expert who has dedicated his thirty-five year career to helping nonprofits improve their practices in order to be able to better serve their members and fulfill their missions.

Andrew's has a variety of specialties based on his unusual combination of a strong financial background, his expertise as a communicator and his absolute dedication to ethical behavior He is best know for his ability to identify and implement additional revenue opportunities, including rationally raising dues and smoothly adjusting pricing. He is also very well known for assisting nonprofits in making difficult decisions when challenging financial or operational issues require a truly independent third party. Yet another specialty involves his ability to re-design financial communications for increased comprehension by non-financial individuals.

While Andrew has been pleased to consult with both large and small nonprofits during his career, among the better known organizations he has served are the National 4-H Council, the American Institute of Certified Public Accountants, The American Society of Association Executives, The United Way, the American Nurses Association, Goodwill Industries International, the National Association of Counties, and the National Science Teachers Association, to name just a few.

Andrew's professional teaching and writing include educating thousands of nonprofit executives and volunteers, writing hundreds of articles, and authoring or co-authoring nearly a dozen texts. His recent work in these arenas includes authoring newest edition of *The Financial Responsibilities of Nonprofit Boards*, 2008, BoardSource. Andrew also created and presents the top two financial courses for the American Society of Association Executives, *Financial Management for CEOs*, and *Maximizing Non-Dues Revenue.* Andrews's articles most frequently appear in association industry publications such as *Associations Now* and Association *Trends*.

Andrew has been quite active in organizations serving the nonprofit community. He served eleven years on the American Institute of CPA's (AICPA's) Annual Not-for-Profit Industry Conference Planning Committee, the last three years as chairman. He has also been on numerous professional committees such as the AICPA Governmental and Not-for-Profit Expert Panel and the ASAE Finance and Business Operations Section Council. In 2008 Andrew was appointed to the Board of Governors of the Greater Washington Society of CPA's for a three year term.