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Compensation and Expense Structures in Group Practices

The compensation structure is the most interesting thing in a group practice (at least for me). In this article I offer a few compensation structures for your consideration. Read on, friend, if eat-what-you-kill sounds like your cup of tea.

The Simplest Compensation Structure. Here it is: Each doctor keeps his or her own collections, and pays a percentage of group expenses based on the percentage of his or her collections as against the group's total collections. You can use collections in this structure or any other measure of productivity (but collections are the simplest).

Frequently in life, the simplest is the best. This structure is eat-what-you-kill, because that's as simple as it gets. A collateral benefit of this formula is that lesser producing doctors pay less in expenses, which makes it easier for doctors with small practices to stay in the group (e.g. a young doctor or one in semi-retirement).

Compensation Structures with More Variables. Simple might not be fair. For example, in the above formula, you allocate expenses based on collections, which might or might not correlate with actual usage of group resources (e.g. PA usage). Many practices prefer to allocate compensation directly to those producing it, and allocate each expense to the doctor incurring it. In fact, some specialties require more staffing and other resources, but generate a lesser proportion of collections than other specialties.

The question is, how to get a more accurate allocation of expenses? It's not easy. Frequently it's prohibitively complex to allocate expenses in detail based on doctor usage. The trickiest aspect of eat-what-you-kill is calculating expenses accurately, because it requires allocating staff, supplies, equipment and other resources on a doctor-by-doctor basis. So let's talk expenses.

Expenses. If you need more accuracy in dividing expenses, consider this 3- pool structure.

> Pool #1 includes all general overhead expenses, such as rent, utilities, bookkeeping, tax preparation, legal, corporate, receptionists, and more. The doctor / shareholders divide the expenses in Pool #1 based on their share ownership.

Pool #2 includes expenses that can be attributed to a doctor / shareholder's individual practice, such as assistants, nurses, and other employees, contractors, malpractice insurance, and equipment and supplies that are only used within a particular specialty. The doctors divide the expenses in Pool #2 based on their percentage share in the practice's gross billings or collections.

Pool #3 includes all personal expenses, such as rental cars, continuing education, meals, and the like. Each shareholder individually pays all expenses allocated to him or her in Pool #3.

Word to the wise: Keep the compensation plan simple and transparent. Including too many variables in the formula will make it too complex for doctors to understand and for staff to calculate.

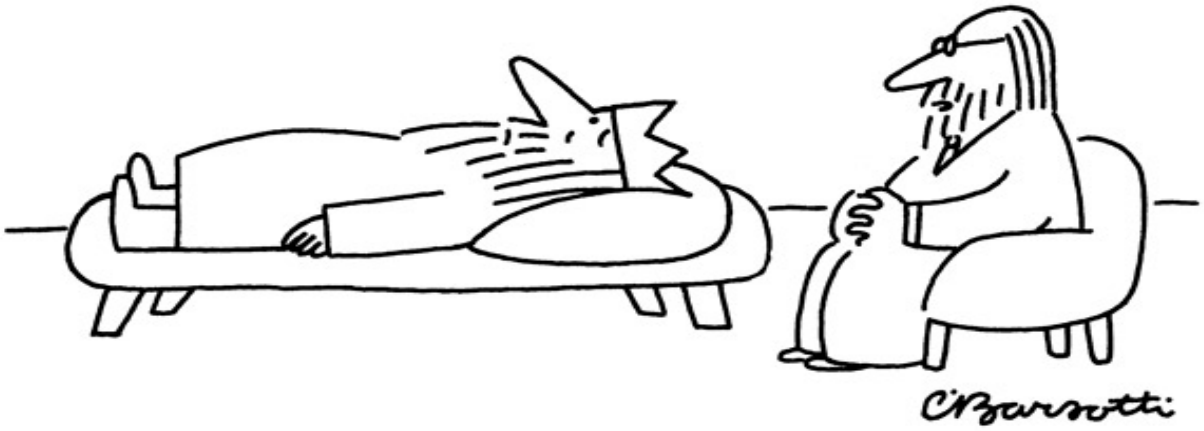
Income. Dividing income usually is easy once you've figured out expenses. Recall that income is what's left over after the payment of expenses. Consider this two-part system, which pays salary first for managerial services performed for the group practice as a whole, and divides collections after that.

First, pay managers a base salary or some hourly rate based on time spent in administrative or managerial capacities, *then second*, distribute remaining profits to the doctor / shareholders based on their individual collections, RVUs or what have you. At this second level, note that:

- Some practices use gross billings as the basis for allocating income and expenses, as opposed to collections. A practice uses gross billings when it wants to avoid the time lag between billing and collections.

- Using RVUs can be complex and in most cases will require a computer system capable of tracking utilization by CPT code and doctor. RVUs are useful in multispecialty groups where significant variations in reimbursement exist between the specialties.

And there you have it. Call me if you have any questions, or if you have a better structure in mind. Go to my website if you want to read more about compensation structures for a group practice.



"Enemies, yes, but doesn't your moat also keep out love?"