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Newsletter, February 2012 Compensation Structures for Medical and Dental Practices

In this newsletter, I talk about compensation plans for medical and dental group practices. In general, a group practice pays its doctors in some combination of three ways: (1) salary, (2) productivity payments, that is, productivity bonuses or shares in profits or collections, (3) corporate dividends. Your balance of the three forms of payment determines in large part the culture of your group practice.

In my next newsletter, I'll explain the laws that govern compensation structures in a group medical practice, primary California and federal Stark and Anti-Kickback laws. Without further adieu,

Salary vs. Productivity Payments – Freeloaders vs. Malcontents ¹

In a compensation structure, the tension is between salary and productivity payments. Both have their pluses and minuses. On the positive side of the ledger, salaries create team spirit, while productivity payments give incentive to work.

As for the negatives, a compensation structure that is heavy on salary leads to freeloaders. Why work so hard if either way you'll get paid the same? A compensation formula heavy on productivity bonuses and profit shares leads to: (i) malcontented doctors who are unhappy to make less than others in the group; (ii) administrative staff devoting their time to tracking individual production and allocating overhead; (iii) complexity because you must find some other way to compensate doctors for necessary work that doesn't produce revenue, such necessary work being, for example, practice governance, management, staff development, hospital committee work.

Further, most group practices now factor capitation into the mix. This creates another tier of compensation, and requires a separate system for tracking data to measure capitation rewards.

Ft.1 -- *Matt's theory of freeloaders and malcontents*: All partners in a business, including you and me, fall into one of two categories, and frequently both. Each of us is either a freeloader or a malcontent. Having trouble with the concept? – visualize your marriage. You're a freeloader if you're happy to do less work than the other guy. Freeloaders say things like, "The value I bring is intangible but necessary; someone has to keep morale up." You're a malcontent if you resent working more than the next guy. Malcontents say, "I'm so tired of doing all the work around here; it's just not fair." In practices that survive, the doctors develop a sense of perspective because they know they've played either or both roles before, and will do so again. In case you're interested, I'm a freeloader.

The Solution – Combine Salary and Productivity Payments, and Account for Special Overhead

I'm sure you saw the "solution" coming a mile away – use a combination of salary and productivity payments. I won't belabor the salary part of the equation, except to note that you can tier salaries based on volume of work performed. This reduces the freeloading effect of salaries. For example, to be eligible for a full salary, a doctor must work 90% of the group's work days in the year + achieve 90% of the group's annual quota for office visits (regardless of complexity of procedures) + 90% of the group's quota for on-call hits. The group can reduce a doctor's salary proportionately based on the percentage drop below each 90% level.

As for productivity bonuses and profit shares, your group can pay based on such factors as patient encounters, some other relative value unit (RVU) applicable to the practice, panel size or capitated lives under management, and even such non-revenue factors as seniority or management services for the group. No matter what factors you use, try to pay the productivity bonuses (and deliver the corresponding accounting reports) on a monthly or quarterly basis.

Beware: a group medical practice must comply with the Stark and Kickback laws for every aspect of its compensation plan, especially productivity payments. My next newsletter addresses this subject.

Lastly, a group practice can charge a portion of certain costs against individual doctors. You do this if the costs inure to a particular doctor's benefit, for example, insurance for the doctor's specialty, extraordinary continuing education expenses (the cruise to Hawaii) and special equipment or supplies.

Corporate Dividends

Corporate dividends are much simpler than the first two forms of compensation. Most corporations pay dividends on a per-share basis, meaning that the more shares you own, the more you get paid. Founders get paid more because they usually own more shares. You might consider using stock options or restricted stock (stock subject to repurchase by the group) to regulate stock ownership among founders, incoming doctors and outgoing doctors.

It is with great joy that I conclude this newsletter. Call me if you want to talk more.

William James:

- It is our attitude at the beginning of a difficult task which, more than anything else, will affect its successful outcome.
- The greatest weapon against stress is our ability to choose one thought over another.
- Nothing is so fatiguing as the eternal hanging on of an uncompleted task.
- Pessimism leads to weakness, optimism to power.
- The deepest principle in human nature is the craving to be appreciated.

