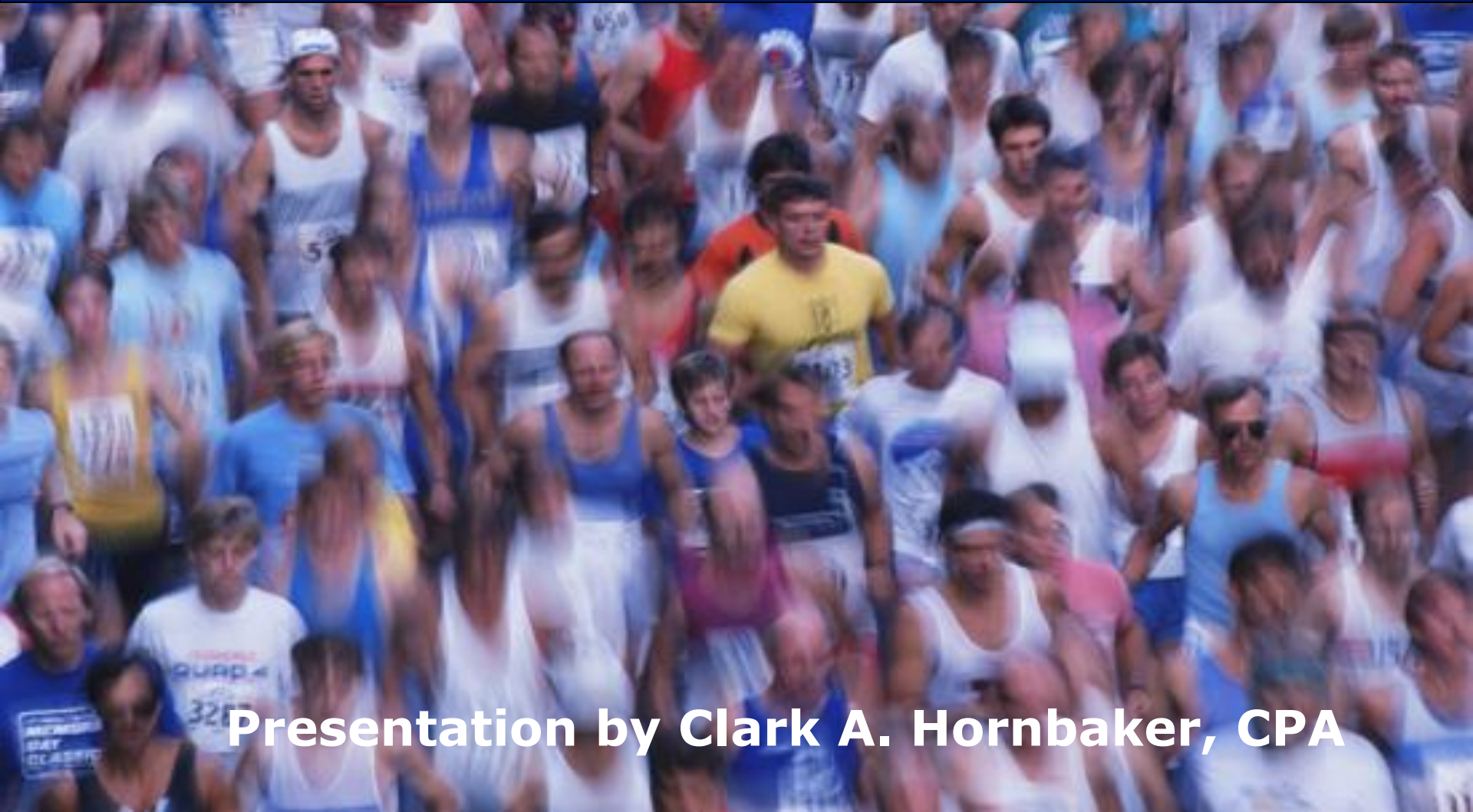


# Negotiating Your Place In The Practice



Presentation by Clark A. Hornbaker, CPA

# SIX KEYS

- **Practice** – What is my practice focus?
- **Compensation** – How much am I worth?
- **Termination** – How do I exit?
- **Insurance** – Who pays for what and why?
- **Non-compete** – With whom, about what and when?
- **PRACTICE STRUCTURE** – How does the tax & legal structure affect you?

# PRACTICE FOCUS



**Practice Mix = Your Goals**

# PRACTICE FOCUS

## Practice MIX = Your Goals

### Cosmetic Practice

- Higher collections
- Rewarding
- Adult patients

### Plastic Reconstructive

- Lower collections
- Rewarding
- Children patients

**Does the practice mix match your professional and financial goals?**

# PRACTICE FOCUS



**Rainmaker  
or  
Catcher**

**Marketing required for success?**

# PRACTICE FOCUS



**Surgical Clinical Schedule – what Patients?**

# DESIGNING YOUR COMPENSATION

- **Standard billing rates** – Arbitrary fee amounts set by practice/physician for billing patients, insurance companies, Medicare/Medicaid
- **Collection rate** – Standard billings divided by collections

**First – Practice Economics**

# DESIGNING YOUR COMPENSATION

	<u>CPT 42200</u> <u>Cleft Palate</u>	<u>CPT 19357</u> <u>Breast Recons.</u>	<u>CPT 19325</u> <u>Breast Aug.</u>
<b>Standard Fee</b>	\$ 3,250	\$ 2,815	\$ 2,500
<b>Actual Payment:</b>			
Private	\$ 2,900	\$ 2,534	\$ 2,500
Private Insurance	\$ 1,100	\$ 2,815	N/A
Medicare/Medicaid	\$ 800	\$ 1,400	N/A
<b>Collection Rate:</b>			
Private	89%	90%	100%
Private Insurance	34%	100%	
Medicare/Medicaid	25%	50%	

**First – Practice Economics**



# DESIGNING YOUR COMPENSATION

- **Overhead** – Personnel, facilities, insurance, supplies, marketing, and other operating costs. QUESTION: Does this include physician discretionary, benefits, and professional expenses—liability insurance, health insurance, travel & meetings, auto, country club, and salaries.
- **Overhead Rate** – Practice overhead divided by collections

**First – Practice Economics**

# DESIGNING YOUR COMPENSATION

## Overhead Rates

<b>Billings</b>	<b>\$ 5,000,000</b>		<b>\$ 5,000,000</b>	
<b>Collections</b>	<b>2,250,000</b>	<b>100%</b>	<b>2,250,000</b>	<b>100%</b>
<b>Overhead</b>				
<b>Operating Costs</b>	<b>1,080,000</b>	<b>48%</b>	<b>1,080,000</b>	<b>48%</b>
<b>Physician discretionary</b>	<b>400,000</b>	<b>18%</b>	<b>400,000</b>	<b>18%</b>
<b>Physician Salaries</b>	<b>600,000</b>	<b>27%</b>		<b>0%</b>
	<b>2,080,000</b>	<b>92%</b>	<b>1,480,000</b>	<b>66%</b>
<b>Income</b>	<b>\$ 170,000</b>	<b>8%</b>	<b>\$ 770,000</b>	<b>34%</b>

**First – Practice Economics**

# DESIGNING YOUR COMPENSATION

## Second-Translating Terms

### What They Say

- Practice made \$1,000,000 last year
- This is a \$5 Mil Practice
  
- Things are tight, I only made \$50K last year

### What They Mean

- Collections on patient billings were \$1,000,000
- Billings are \$5 Mil, collections rate is 30%; collections are \$1.5 Mil.
  
- This is after \$300K in physician salary and \$150K of discretionary expenses

# DESIGNING YOUR COMPENSATION

## How Much are You Worth

**Billings collected**  
**(less practice overhead)**  
**( less your direct discretionary expenses)**  
**( less % profit to owner/physicians)**

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**Amount available for your salary**

# DESIGNING YOUR COMPENSATION

## How Much are You Worth

	<u>First Year</u>		<u>Second Year</u>	
<b>Billings</b>	<b>\$ 400,000</b>		<b>\$ 800,000</b>	
<b>Collection Rate</b>	<b>45%</b>		<b>58%</b>	
<b>Collections</b>	<b>180,000</b>	<b>100%</b>	<b>464,000</b>	<b>100%</b>
<b>Overhead</b>				
<b>Operating Costs</b>	<b>75,600</b>	<b>42%</b>	<b>176,320</b>	<b>38%</b>
<b>Physician discretionary</b>	<b>30,000</b>	<b>17%</b>	<b>44,000</b>	<b>9%</b>
<b>Profit to physicians</b>	<b>18,000</b>	<b>10%</b>	<b>46,000</b>	<b>10%</b>
	<b>123,600</b>	<b>69%</b>	<b>266,320</b>	<b>57%</b>
<b>Available For Salary</b>	<b>\$ 56,400</b>	<b>31%</b>	<b>\$ 197,680</b>	<b>43%</b>
<b>Two Year Average</b>	<b>\$ 127,040</b>			

# DESIGNING YOUR COMPENSATION

## But I am great!

- **Marketing skills** – a true rainmaker!
- **Gifted hands** – potential world class!
- **Patients love me** – referrals build practice!

# DESIGNING YOUR COMPENSATION

## Trading Talks

### Benefits

- Health insurance
- Life insurance
- Disability insurance
- 401K Plan
- Dental insurance

### Discretionary Items

- Seminars & meetings
- Travel & entertainment
- Materials & Internet
- Membership dues
- Auto allowance
- Cellular
- Professional liability insurance

# TERMINATION & SEVERANCE

## Plan your exit strategy going in



- **Agree terms-for cause & without cause**
- **Negotiate severance pay**
- **Negotiate length of notice**



# TERMINATION & SEVERANCE

## How may they terminate?

### For Cause

- **Material breach of duties, contract terms**
- **Conviction of felony or dishonesty, fraud of moral turpitude**
- **Suspension, restriction, revocation of license**
- **Inadequate marketing**
- **You walk out the door**

### Without Cause

- **Go Please!**
- **Practice dissolution**
- **Your death**

# TERMINATION & SEVERANCE

## How may I terminate?

### For Cause

- **Material breach of contract terms**
- **Material diminution imposed by practice**

### Without Cause

- **I am leaving, goodbye**
- **I resign after being asked.**
- **I die or become disabled**

# TERMINATION & SEVERANCE

## Negotiating Severance

### Practice with Cause/You without

- Zero to month's pay
- No professional liability insurance coverage
- Benefits end now
- Billings, bonuses left on table

### You with Cause/Practice without

- Month to six months pay
- Insurance tail paid
- Benefits continue during severance period
- Earned but uncollected bonuses paid

# **TERMINATION & SEVERANCE**

## **Length of Notice**

- **Practice without Cause/ You without Cause**
  - **90 days notice**
  
- **Practice with cause/You with cause**
  - **10-30 days to cure (in certain cases)**
  - **Immediate notice and termination to 90 days**

# PROFESSIONAL LIABILITY INSURANCE



**For those  
times you  
really  
need it.**

# PROFESSIONAL LIABILITY INSURANCE

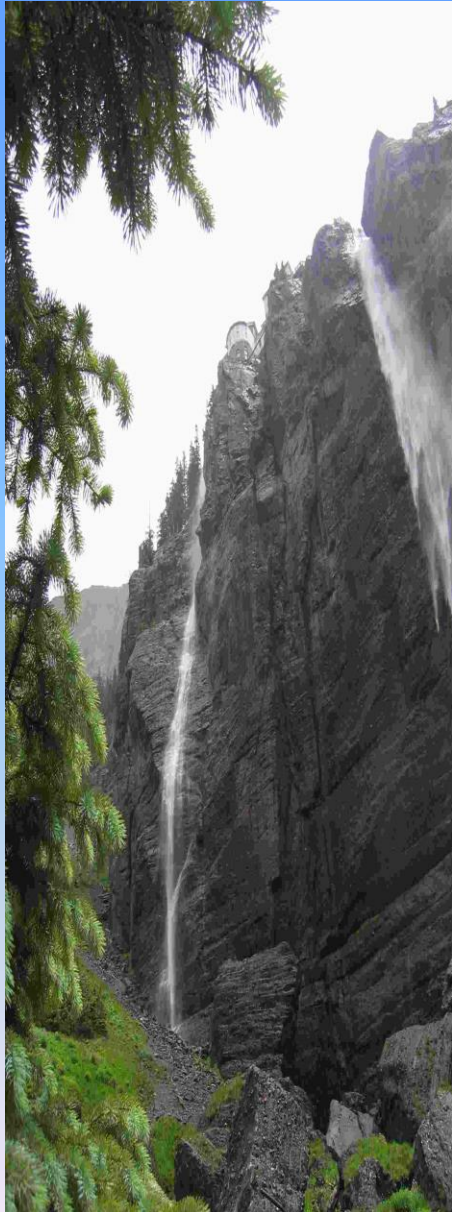
## Two types of Policies

- **Occurrence** – Covers claims no matter when they are made for services rendered during policy period.
- **Claims Made** – Covers claims made during policy period for services rendered before (usually date specific) and during policy period. Does not cover claims after policy period; requires purchasing a tail for this coverage.

## Tail Coverage

- **Covers claims made after normal occurrence policy period.**
- **Usually included in new occurrence policy, unless**
  - **Going to a university**
  - **Retiring**
  - **Moving to certain states**
- **Can be VERY expensive**

# PROFESSIONAL LIABILITY INSURANCE



## **Negotiation Points:**

- **Practice pays Prof. Liab. Insurance during employment**
- **Practice pays tail if:**
  - **Terminated without cause**
  - **You terminate with cause**
  - **Practice dissolves**
- **Often, when going to another practice, their new policy will pick up your tail.**



# BALANCING THE CNC



**Covenant  
-Not-to-  
Compete**

**Some key points to  
balance should you be  
required to sign a CNC**

# BALANCING THE CNC

## **First -What is a Covenant-Not-to-Compete?**

- **Restricts your activities to practicing medicine for your employer while you are with them, and**
- **Restricts your ability to practice your specialty for a time period after you leave the practice.**

# BALANCING THE CNC

## Common Provisions:

- **Geographical restriction – county, state, mile radius, hospitals**
- **Medical specialty restrictions – plastic and cosmetic surgery**
- **Time periods – three months to two years**
- **Provisions for “buying out” CNC –rights to purchase “your patients”**
- **Terms correlated with “for cause” or “without cause” terminations**

# BALANCING THE CNC

## Key Negotiating Points

- **For cause and you without cause – limited CNC**
  - Geographical with reason
  - Specialty specific
  - Buy out provisions
- **Without cause, you with cause – no CNC**

**Severance pay = 1/2 of CNC time period or more  
(i.e. 1 year CNC = 6 months severance pay)**

# PRACTICE STRUCTURE

## Goals

- **Gain some knowledge.**
- **Review legal practice forms.**
- **Who may be involved.**
- **Risks of different legal structures**
- **How each are taxed.**

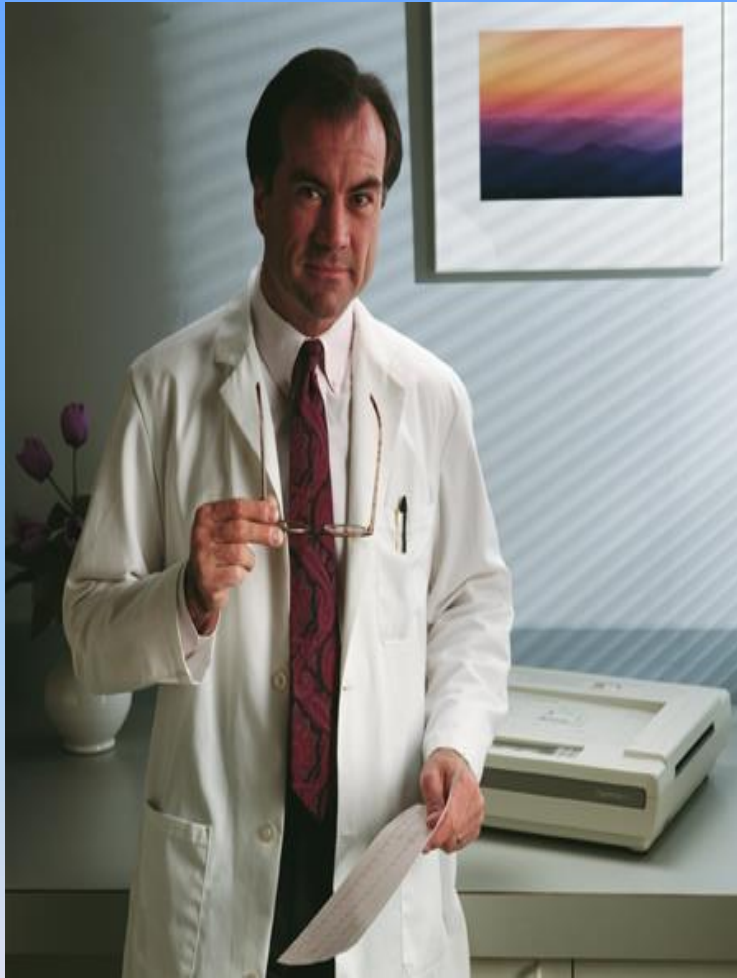
# PRACTICE STRUCTURE

TYPE	STRUCTURE	OWNERS	RISKS	TAXES
Sole Proprietorship	No legal structure Assumed name Certificate	One-Individual	Personally responsible	Once-Individual
General Partnership	Partners doing business together Articles of Partnership	Two or more Partner death terminates	Jointly responsible prtshp debts & partner decisions	Split to partners- taxed to individuals
Limited Partnership	Partners doing business together Legal entity-Articles filed with State	General partner(s) & limited partners	General - full; limited partners - only capital invested	Split to partners- taxed to individuals
(Professional) Limited Liability Partnership [PLL P] [LLP]	Partners doing business together Legal entity Articles filed with State	Two or more partners; who may form may be restricted in some states	Limited - Protects partners from liab. Caused by other partners	Split to partners- taxed to individuals

# PRACTICE STRUCTURE

TYPE	STRUCTURE	OWNERS	RISKS	TAXES
(Professional) Limited Liability Company [PLLC] [LLC]	Legal Entity Articles of Organization filed with state	Members Single or Multiple	Limited like corporation	Once-Taxed like partnership Split to partners-taxed to individuals
Corporation [C-Corp]	Legal Entity Articles of Incorporation filed with state	One or more Stockholders	Limited to capital invested	Twice, corp tax return, dividends to stkhds.
S-Corporation [S-Corp]	Legal Entity Articles of Incorporation filed with state; S-Corp. election by stkhds filed with IRS	One of more stockholders; some limitations on number & who may be stockholder	Limited to capital invested	Once, Taxed like partnership Split to partners-taxed to individuals

# SO HAVE I NEGOTIATED A GOOD PLACE?



## SIX KEYS ACHIEVED

- ✓ **Practice focused**
- ✓ **Compensation agreed**
- ✓ **Termination negotiated**
- ✓ **Professional liability insurance tail covered**
- ✓ **CNC balanced with severance**
- ✓ **Understand Different Practice Structures**



# Thank You & Have a Good Day

Presented by

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