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 Mix = Your Goals
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?
Marketing required for success?

Rainmaker
or
Catcher
Surgical Clinical Schedule – what Patients?
• **Standard billing rates** – *Arbitrary* fee amounts set by practice/physician for billing patients, insurance companies, Medicare/Medicaid

• **Collection rate** – Standard billings divided by collections
<table>
<thead>
<tr>
<th>Service</th>
<th>CPT 42200 Cleft Palate</th>
<th>CPT 19357 Breast Recons.</th>
<th>CPT 19325 Breast Aug.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Fee</td>
<td>$ 3,250</td>
<td>$ 2,815</td>
<td>$ 2,500</td>
</tr>
<tr>
<td>Actual Payment:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>$ 2,900</td>
<td>$ 2,534</td>
<td>$ 2,500</td>
</tr>
<tr>
<td>Private Insurance</td>
<td>$ 1,100</td>
<td>$ 2,815</td>
<td>N/A</td>
</tr>
<tr>
<td>Medicare/Medicaid</td>
<td>$ 800</td>
<td>$ 1,400</td>
<td>N/A</td>
</tr>
<tr>
<td>Collection Rate:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>89%</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>Private Insurance</td>
<td>34%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Medicare/Medicaid</td>
<td>25%</td>
<td>50%</td>
<td></td>
</tr>
</tbody>
</table>

First – Practice Economics
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
# Overhead Rates

<table>
<thead>
<tr>
<th></th>
<th>First Quarter</th>
<th>Second Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billings</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Collections</td>
<td>2,250,000</td>
<td>100%</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>1,080,000</td>
<td>48%</td>
</tr>
<tr>
<td>Physician discretionary</td>
<td>400,000</td>
<td>18%</td>
</tr>
<tr>
<td>Physician Salaries</td>
<td>600,000</td>
<td>27%</td>
</tr>
<tr>
<td>Income</td>
<td>$170,000</td>
<td>8%</td>
</tr>
</tbody>
</table>

Total Overhead: 2,080,000

Total Income: $770,000

First – Practice Economics
## Second-Translating Terms

<table>
<thead>
<tr>
<th>What They Say</th>
<th>What They Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Practice made $1,000,000 last year</td>
<td>• Collections on patient billings were $1,000,000</td>
</tr>
<tr>
<td>• This is a $5 Mil Practice</td>
<td>• Billings are $5 Mil, collections rate is 30%; collections are $1.5 Mil.</td>
</tr>
<tr>
<td>• Things are tight, I only made $50K last year</td>
<td>• This is after $300K in physician salary and $150K of discretionary expenses</td>
</tr>
</tbody>
</table>
How Much are You Worth

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

Amount available for your salary
## How Much are You Worth

<table>
<thead>
<tr>
<th></th>
<th>First Year</th>
<th></th>
<th>Second Year</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Billings</strong></td>
<td>$400,000</td>
<td></td>
<td>$800,000</td>
<td></td>
</tr>
<tr>
<td><strong>Collection Rate</strong></td>
<td>45%</td>
<td></td>
<td>58%</td>
<td></td>
</tr>
<tr>
<td><strong>Collections</strong></td>
<td>180,000</td>
<td>100%</td>
<td>464,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Overhead</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Costs</td>
<td>75,600</td>
<td>42%</td>
<td>176,320</td>
<td>38%</td>
</tr>
<tr>
<td>Physician discretionary</td>
<td>30,000</td>
<td>17%</td>
<td>44,000</td>
<td>9%</td>
</tr>
<tr>
<td>Profit to physicians</td>
<td>18,000</td>
<td>10%</td>
<td>46,000</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Available For Salary</strong></td>
<td>$56,400</td>
<td>31%</td>
<td>$197,680</td>
<td>43%</td>
</tr>
<tr>
<td><strong>Two Year Average</strong></td>
<td>$127,040</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
But I am great!

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

- **Practice without Cause/You without Cause**
  - 90 days notice

- **Practice with cause/You with cause**
  - 10-30 days to cure (in curtain cases)
  - Immediate notice and termination to 90 days
For those times you really need it.
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
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
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.
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
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 = $\frac{1}{2}$ of CNC time period or more (i.e. 1 year CNC = 6 months severance pay)
Goals

• Gain some knowledge.
• Review legal practice forms.
• Who may be involved.
• Risks of different legal structures
• How each are taxed.
<table>
<thead>
<tr>
<th>TYPE</th>
<th>STRUCTURE</th>
<th>OWNERS</th>
<th>RISKS</th>
<th>TAXES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Proprietorship</td>
<td>No legal structure Assumed name Certificate</td>
<td>One-Individual</td>
<td>Personally responsible</td>
<td>Once-Individual</td>
</tr>
<tr>
<td>General Partnership</td>
<td>Partners doing business together Articles of Partnership</td>
<td>Two or more Partner death terminates</td>
<td>Jointly responsible prtshp debts &amp; partner decisions</td>
<td>Split to partners-taxed to individuals</td>
</tr>
<tr>
<td>Limited Partnership</td>
<td>Partners doing business together Legal entity-Articles filed with State</td>
<td>General partner(s) &amp; limited partners</td>
<td>General – full; limited partners – only capital invested</td>
<td>Split to partners-taxed to individuals</td>
</tr>
<tr>
<td>(Professional) Limited Liability Partnership [PLLP] [LLP]</td>
<td>Partners doing business together Legal entity Articles filed with State</td>
<td>Two or more partners; who may form may be restricted in some states</td>
<td>Limited - Protects partners from liab. Caused by other partners</td>
<td>Split to partners-taxed to individuals</td>
</tr>
</tbody>
</table>
## PRACTICE STRUCTURE

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