The A/R Payout

QUICK REFERENCE The Situation • Two Paths • The Test • Worked Example • Traps • Drafting

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1 | THE SITUATION | WHAT A DEPARTING PARTNER IS PAID

The exit follows the formula — what the pay formula charged decides what the payout includes

3 months
a common run-out window — the departing partner's own A/R collected for a stated period after the last clinical day (illustrative; agreements vary)

$280 → $300
one HPV vaccine dose — what the practice paid for it, what the payer paid the practice (illustrative)

2 paths
the payout includes vaccine drug and lab revenue, or it does not — nothing in between works

1 question
did the compensation formula ever charge this partner the cost?

Many agreements pay a departing partner their initial investment or capital account balance plus their own accounts receivable collected for a stated window after they leave. Visit revenue in that window is straightforward — the partner did the work; vaccine drug and lab revenue is different, because the practice bought the product, and whether it belongs in the payout turns on one question: did the pay formula ever charge the partner the cost?

2 | THE TWO PATHS

Read the compensation formula, then read the payout off it

A PARTNER LEAVES
Their claims keep paying for the next 3 months. Who gets that money?

Did the pay formula ever charge this partner for the vaccines and lab supplies they used?

YES → PATH A · PAY IT ALL OUT — Payout $80,000

They already paid for the vaccines and lab kits inside their pay formula.

Visits	Giving shots	Vaccine drugs	Lab tests
$60,000 to the partner	(admin) to the partner	$18,000 to the partner	$2,000 to the partner

NO → PATH B · PAY OUT THE WORK ONLY — Payout $60,000

The practice bought the vaccines and lab kits and was never paid back.

Visits	Giving shots	Vaccine drugs	Lab tests
$60,000 to the partner	(admin) to the partner	$18,000 stays with practice	$2,000 stays with practice

Giving the shot is the physician's work and is paid out on both paths. Only the purchased product changes sides.

3 | THE TEST | WORKED EXAMPLE

Six questions, then the arithmetic · every dollar figure below is illustrative

THE TEST · SIX QUESTIONS, IN ORDER

- **1. Pull the compensation formula.** The partnership agreement or compensation exhibit, not memory.
- **2. Ask about vaccine drugs.** Did the formula assign vaccine product cost to the individual physician? Yes → drug revenue is in the payout. No → it is out.
- **3. Ask about lab supplies.** Same question for in-office lab supply cost (molecular and antigen strep tests carry thin margins, so the dollars are smaller — the rule is identical). Yes → in. No → out.
- **4. Leave administration in.** Vaccine administration (90460–90474) is the physician's work and stays in the payout on either path.
- **5. Pay collections, not charges.** The run-out pays what the practice actually receives on the partner's claims during the window, by rendering provider, after offsets the agreement names.
- **6. Write the answer down once.** The same treatment for every exit trigger — retirement, resignation, disability, death.

WORKED EXAMPLE · ILLUSTRATIVE

ONE DOSE (HPV) · WHAT THE LINE IS WORTH ON EACH PATH		
Practice cost	**$280**	What the practice paid for the dose
Payer paid	**$300**	Collected on the departing partner's claim
Margin	**$20**	$300 – $280
Path A payout	**$300**	The $280 was already charged to the partner in the formula
Path B payout	**$0**	The practice spent $280 the partner never bore — paying $300 out loses $280

THREE-MONTH RUN-OUT · ONE DEPARTING PARTNER · ROUND NUMBERS		
Visits, admin, procedures	**$60,000**	
Vaccine drugs	**$18,000**	
Lab	**$2,000**	
Total collected	**$80,000**	$60,000 + $18,000 + $2,000
Path A payout	**$80,000**	Everything collected on the partner's claims
Path B payout	**$60,000**	The $20,000 of drug and lab revenue stays with the practice, which already paid roughly $18,000 for the product behind it

Round numbers. The practice's own formula, run-out window and product costs set the real figures.

4 | TRAPS | 5 | DRAFT IT ONCE

Where practices get this wrong · and what the agreement should name

TRAPS · WHERE PRACTICES GET THIS WRONG

- **"Whatever A/R comes in."** Paying out every dollar collected without checking the formula. Under Path B it hands the departing partner revenue on product the practice bought — PMI sees this often, and the payout is too high every time.
- **The flat percentage haircut.** "Pay 80% of A/R to cover overhead" is not a substitute for the exclusion. Percent of what — charges, payments, units? And vaccine volume varies by physician: fewer newborns, fewer shots. A flat cut overpays one partner and underpays the next.
- **Deciding at the exit.** A payout rule invented in the month a partner leaves is a dispute, not a formula. It belongs in the agreement, in advance, the same for every trigger.
- **Paying billed charges.** A/R is worth what it collects, not what was billed — pay the run-out on collections.

DRAFT IT ONCE · WHAT THE AGREEMENT NAMES

- **The window.** How long after the last clinical day the partner's collections are paid out.
- **The basis.** Collections received on the partner's own claims, by rendering provider.
- **The code families.** Under Path B: vaccine product codes and clinical lab codes excluded; vaccine administration, E&M, preventive and procedure codes included. Under Path A: all included.
- **The offsets.** Advances, practice debt, tail-coverage allocation, property not returned.
- **The gate.** Charts closed and property returned before the first installment.
- **Symmetry with the pay formula.** If the bonus base excludes vaccine drugs and lab, the expense pool excludes the matching costs — and the exit reads off the same rule.