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How To Split The Pot: Partner/Owner Compensation

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Set Your Practice Fees Wednesday, August 28, 2024	Practice Budgeting Tool Thursday, September 5, 2024	Managing Payor Rates Wednesday, September 25, 2024
Provider Margin Reviews Wednesday October 9, 2024	Employed Provider Bonus Models Wednesday, October 16, 2024	Split The Pot Wednesday, October 23, 2024

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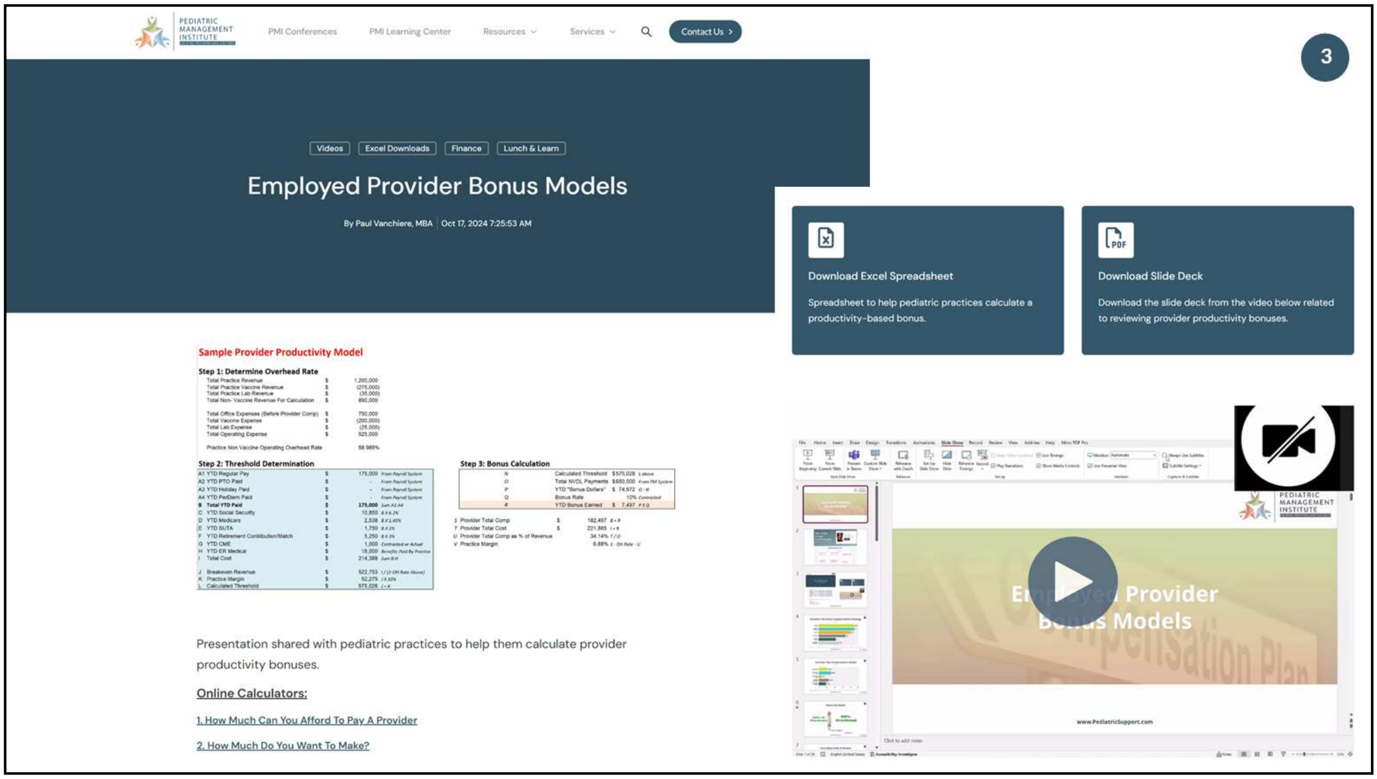
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Employed Provider Bonus Models
By Paul Vanchiere, MBA | Oct 17, 2024 7:25:53 AM
Download Excel Spreadsheet
Spreadsheet to help pediatric practices calculate a productivity-based bonus.
Download Slide Deck
Download the slide deck from the video below related to reviewing provider productivity bonuses.
Sample Provider Productivity Model
Step 1: Determine Overhead Rate
Step 2: Threshold Determination
Step 3: Bonus Calculation
Presentation shared with pediatric practices to help them calculate provider productivity bonuses.
Online Calculators:
1. How Much Can You Afford To Pay A Provider
2. How Much Do You Want To Make?
Employed Provider Bonus Models
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Reality Of Being A Partner

You Are The Last To Get Paid!

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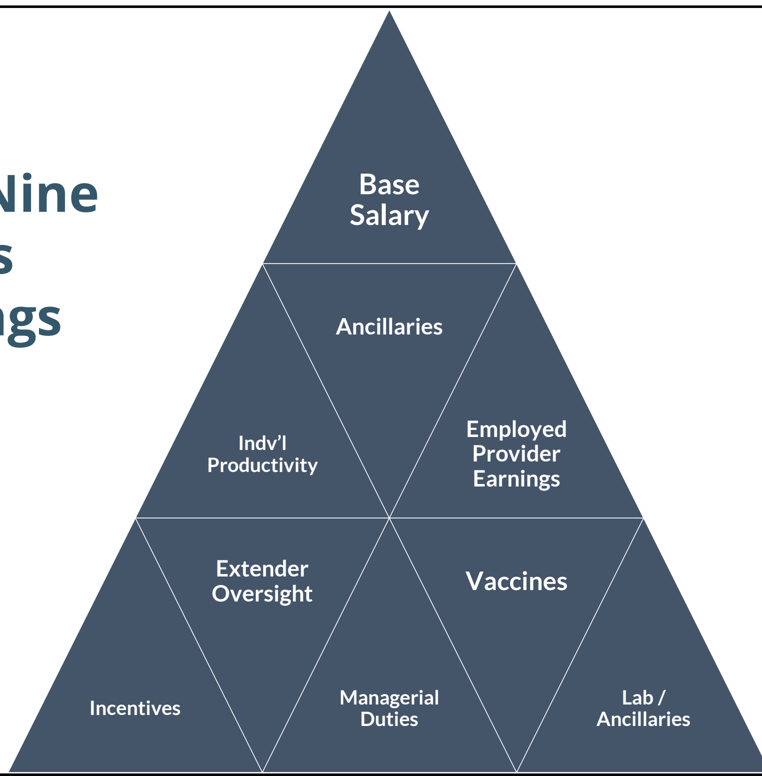
Partner's Nine Sources Of Earnings



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Partner/Owner Compensation

Owner / Partner Total Comp

Base Salary

- Based on days per week seeing patients
- Be mindful of Social Security Wage Base
- Approximately 10-20% higher than employed providers
- *Must examine margin on each to ensure appropriate/access to profits eligibility*

Vaccine Margin

- Split based
  - Equity Position
  - Volume (wRVU's, Visits, etc)

Productivity Bonus

- Standard Revenue Generated Model
- wRVU

Employed Provider Margin

- Split based on equity position or supervision responsibilities

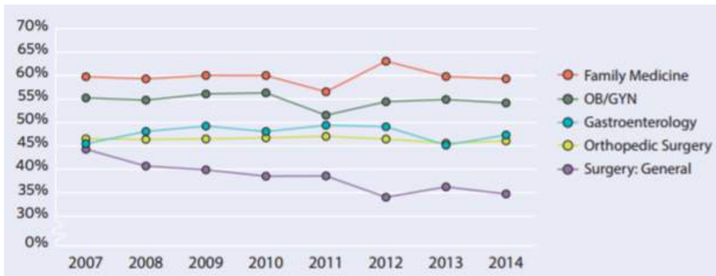
Reality Of Being A Partner

Ratio Of Partners To Total Provider Count

Overhead is Your Biggest Enemy

Increase in overhead reduces the profit/pot to pay physicians

Operating Cost as Percentage of Total Revenue



http://www.mgma.com/Libraries/Assets/Industry%20Data/Survey%20Reports/MGMA-2015-Cost-and-Revenue-Report-Based-on-2014-Survey-Data-Executive-Summary-Report.pdf?ext=.pdf

Impact Of Declining Revenue

	Scenario A
Practice Revenue	$ 1,000,000
Fixed Costs	$ 400,000
Variable Costs	$ 250,000
Total Costs	$ 650,000
Overhead Rate	65.00%
Available for Physician Compensation	$ 350,000

Impact Of Declining Revenue

	Scenario A	Scenario B
Practice Revenue	$ 1,000,000	$ 800,000
Fixed Costs	$ 400,000	$ 400,000
Variable Costs	$ 250,000	$ 200,000
Total Costs	$ 650,000	$ 600,000
Overhead Rate	65.00%	75.00%
Available for Physician Compensation	$ 350,000	$ 200,000

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Impact Of Declining Revenue

	Scenario A	Scenario B	Variance ($)	Variance (%)
Practice Revenue	$ 1,000,000	$ 800,000	$ (200,000)	-20.00%
Fixed Costs	$ 400,000	$ 400,000	$ -	
Variable Costs	$ 250,000	$ 200,000	$ (50,000)	-20.00%
Total Costs	$ 650,000	$ 600,000	$ (50,000)	-7.69%
Overhead Rate	65.00%	75.00%		
Available for Physician Compensation	$ 350,000	$ 200,000	$ (150,000)	-42.86%

Really?!?

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It's Simple *Business 101*

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Revenue – Expenses = Profit

If you understand this, you can figure out how much to pay a provider…just gotta know what to look for & plug in the numbers…

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It's Really Simple…

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$$\frac{\textit{Provider Revenue Generated} - \textit{Allocated Expenses}}{\textit{The Pot}}$$

The Pot determines how everyone gets paid

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It's All About The Pot (Of Gold)

Revenue Generated
-
Overhead
=
Available $$

Increase The Pot

- Higher Volume (FFS)
- Higher Revenue Per Encounter *(Well vs. Sick)*
- Lower Overhead
  - Staffing
  - IT Costs
  - Administrative Costs
  - Vaccine Expenses
- PMPM Payments

Decrease The Pot

- Lower Patient Volume (FFS)
- Lower Revenue Per Encounter
- Higher Overhead
  - Staffing
  - IT Costs
  - Administrative Costs
  - Vaccine Expenses

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Overhead Calculation Method #1	
Total Revenue	$ 6,200,000
Total Operating Expenses	$ 4,500,000
Overhead Rate	72.58%

Overhead Calculation Method #2	
Total Revenue	$ 6,200,000
Operating Expenses	$ 4,500,000
Employed Physician Wages	$ (300,000)
Extender Wages	$ (130,000)
	$ 4,070,000
Non-Provider Overhead Rate	65.65%

Overhead Calculation Method #3	
Total Revenue	$ 6,200,000
Immunization Drug Revenue	$ (1,500,000)
Non-Vaccine Revenue	$ 4,700,000
Operating Expenses	$ 4,500,000
Vaccine Expenses	$ (1,250,000)
Employed Physician Wages	$ (300,000)
Extender Wages	$ (130,000)
Non-Vaccine Operating ($)	$ 2,820,000
Non-Vaccine Operating (%)	60.00%

Method #3 allows you to easily carry the calculated overhead rate down to the provider margin analysis.

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The Practice Culture

1. Eat What You Kill or Socialist Model?
2. Financial Rewards & Incentives Drive Productivity & Actions
3. Only So Much Money Left Over (Profits)
4. What Is The Strategic Vision Of The Practice
5. Avoid Creating Dis-Incentives / Unintended Consequences
6. Cost Sharing or True Partnership?

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Documents Needed

1. Operating Agreement
   - Clearly Defined
   - Pre-Nuptial Agreement

2. Employment Contract
   - Between Partner & Practice

3. Annual Meeting Notes
   - Memorialize Major Decisions

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Operating Agreement

1. Personal Responsibility for Coding Audits
2. Consecutive Days Out of the Office
3. Disability
4. Medical Malpractice Tail Coverage
5. Force Out Provision
6. Update Practice Value Annually
7. Future Expansion / Financing
8. Failure to Plan Provision

Entity Type Can Dictate Options

1. C- Corp
2. LLC
3. S-Corp

C-Corporation (C-Corp)

Pros:
1.**Retained Earnings**: Owners can retain profits within the company without immediately distributing them to shareholders, which helps in reinvestment and growth.
2.**Dividend Flexibility**: Distributions in the form of dividends can be managed by the corporation, potentially deferring tax liability for shareholders.
3.**Unlimited Shareholders**: C-Corps can have unlimited shareholders, allowing for greater capital raising potential, especially with institutional investors.
4.**Different Classes of Stock**: C-Corps can issue different classes of stock (common, preferred), providing flexibility in profit distribution and control.

Cons:
1.**Double Taxation**: Profits are taxed at the corporate level and again at the shareholder level when distributed as dividends.
2.**More Regulations**: Heavier administrative burdens and regulatory compliance, especially for publicly traded companies, may reduce flexibility in distributing profits.
3.**Dividend Taxes**: Dividends are not deductible to the corporation, making them less tax-efficient compared to other structures.

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Limited Liability Company (LLC)

Pros:
1.**Pass-Through Taxation**: Profits are only taxed at the individual level, avoiding double taxation. Distributions are passed directly to the members.
2.**Flexible Profit Distribution**: Profits do not have to be distributed in proportion to ownership percentage, allowing for customized profit-sharing arrangements (if agreed upon in the operating agreement).
3.**No Payroll Tax on Some Distributions**: Distributions may not be subject to self-employment tax (depending on the arrangement), reducing the overall tax burden.
4.**Simplicity in Operations**: LLCs offer flexibility with fewer formalities required to distribute profits compared to corporations.

Cons:
1.**Self-Employment Taxes**: In most cases, LLC members must pay self-employment taxes on the entire distribution, which can be a significant tax burden.
2.**Limited Growth for Investors**: Difficulty in attracting institutional investors due to the pass-through structure, potentially limiting future growth and distribution opportunities.
3.**Varying State Rules**: Profit distributions can be subject to complex state rules, including additional taxes like franchise taxes or fees.
4.**Limited Classes of Ownership**: Unlike C-Corps, LLCs may not issue different classes of ownership interests easily.

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S-Corporation (S-Corp)

Pros:

1.Pass-Through Taxation: Like LLCs, S-Corps allow profits to be passed through directly to shareholders, avoiding double taxation at the corporate level.

2.Avoid Self-Employment Taxes on Some Distributions: Owners can receive distributions that are not subject to self-employment tax, provided they also pay themselves a reasonable salary.

3.Limited Liability: Similar to C-Corps and LLCs, S-Corps provide liability protection for owners, and profits can be distributed without affecting that protection.

4.No Corporate-Level Tax: S-Corps do not pay corporate income tax, with profits taxed only at the shareholder level.

Cons:

1.Limited Shareholders: S-Corps are limited to 100 shareholders, which can restrict growth and make it harder to raise capital for "normal" businesses.

2.One Class of Stock: S-Corps can only issue one class of stock, limiting flexibility in profit distribution and creating challenges in offering preferential returns to certain investors.

3.Complex Rules on Salary vs. Distributions: The IRS requires S-Corp owners to pay themselves a reasonable salary, which can complicate the distribution of profits.

4.Strict Ownership Rules: All shareholders must be U.S. citizens or residents, and corporations and partnerships cannot own S-Corp stock, limiting flexibility in ownership.

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Summary Comparison

•**C-Corp**: Offers flexibility in retained earnings and shareholder diversity but suffers from double taxation on profits (amounts not paid out to owners).

•**LLC**: Provides flexibility in profit distribution and pass-through taxation but may face higher self-employment taxes on distributions.

•**S-Corp**: Avoids double taxation and allows for self-employment tax savings, but is limited by stricter rules on ownership, the number of shareholders, and salary requirements.

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Summary Comparison

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- **C-Corp**:
  - All earnings (salaries/bonuses/net due amounts) normally run through payroll to bring net income to $0.00 (if possible)
  - Allows practice to deduct amounts paid to owners/partners

- **LLC**:
  - Base salary run through payroll
  - Allocation of profits can be paid via distribution
  - Can allow for unequal distributions (percentages)

- **S-Corp**:
  - Base salary run through payroll
  - Distributions **must** be in proportion to equity percentage
  - Where one partner's earnings exceeds their equity percentage, consider paying a "bonus" via payroll.
  - Could help reduce double taxation and allows for self-employment/payroll tax savings.
    - Part of base salary treat as distributions depending on your practice's unique situation

Each structure has its advantages and drawbacks, and the choice will depend on factors like the number of owners, future growth plans, tax implications, and flexibility in distributing profits.

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Considerations

1. Partner must cover their own salary expense (Positive Margin)

2. Run on YTD basis & Track Draws/Deductions

3. Always tie out to Profit & Loss Report / Balance Sheet

4. By June each year, should have enough cash on hand to cover one month of expenses

5. Allocation of earnings (Salary/Distributions) depends on legal structure
   - Be mindful of Social Security wage base
   - Take advantage of distributions (LLC's)

6. Pay out no more than 80% due paid until December

7. Make sure to account for accrued liabilities on the financials

8. Capital Expense Allocation / Depreciation

9. K.I.S.S.

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Most Important Consideration

Is this a cost sharing arrangement or a true partnership?

Tried & True

Practice Net Income	$	375,000
Production Allocation		60.00%
Even Split Allocation		40.00%
Production Allocation	$	225,000
Even Split Allocation	$	150,000

	Productivity %age A	Productivity Split B	Even Split C	Total Earned D
Partner 1	30.00%	$ 67,500	$ 37,500	$105,000
Partner 2	35.00%	$ 78,750	$ 37,500	$116,250
Partner 3	25.00%	$ 56,250	$ 37,500	$ 93,750
Partner 4	10.00%	$ 22,500	$ 37,500	$ 60,000
		$ 225,000	$150,000	$375,000

Production Split Options: wRVU's, Charges, Payments, etc.

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	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5	Total
Salary Paid YTD	$ 150,000	$ 175,000	$ 125,000	$ 225,000	$ 250,000	$ 925,000
YTD Discretionary Fringe Benefit	$ 5,000	$ 1,000	$ 500	$ 2,500	$ 3,000	$ 12,000
Bonus YTD	$ 20,000	$ 20,000	$ 30,000	$ 20,000	$ 20,000	$ 110,000
Total Salary Expected to Receive	$ 175,000	$ 196,000	$ 155,500	$ 247,500	$ 273,000	$ 1,047,000

Additional Cash/Earnings to Disperse		$ 200,000
Total Allocable Earnings	100%	$ 1,247,000
Equal Share	50%	$ 623,500
Years of Service	10%	$ 124,700
Productivity	40%	$ 498,800

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		Allocation	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5	Partner 6	Partner 7
	Percent each partner generated of vaccine drugs and admins	*Vaccine*	17.87%	11.95%	13.21%	14.93%	13.93%	11.46%	16.65%
	RVU percent / production percent	*wRVU*	17.14%	12.65%	12.73%	13.29%	12.36%	12.02%	19.80%
	Items split based on equity position	*Equity*	12.50%	15.00%	15.00%	12.00%	12.50%	15.00%	18.00%
4000 Professional Fees	% RVU & 50% Equity	*Hybrid*	15.71%	13.47%	13.51%	13.79%	13.32%	13.15%	17.05%
4010 Insurance ETF	$ 2,600,000								
4011 Credit Cards	$ 580,000								
4012 OTC Deposits	$ 1,100								
4013 Mail Deposits (Combined)	$ -								
4014 EFT Recoupment	$ -								
4015 Deposit- TBD	$ -								
4016 Incentive Checks	$ 260,000								
4017 Remote Capture	$ 130,000								
4910 Rebates	$ 2,200								
Uncategorized Income									
Total 4000 Professional Fees	0								
4500 Refunds	0								
4510 Patient Refunds	$ (6,000)	wRVU	$ (1,029)	$ (759)	$ (764)	$ (798)	$ (742)	$ (721)	$ (1,188)
4520 Insurance Refunds	$ (3,500)	wRVU	$ (600)	$ (443)	$ (445)	$ (465)	$ (433)	$ (421)	$ (693)
Total Income	$ 3,563,800								
Vaccine Revenue (All Providers)	$ 750,000	*Vaccine*	$ 133,989	$ 89,648	$ 99,111	$ 111,975	$ 104,464	$ 85,915	$ 124,899
Incentives	$ 260,000	*Hybrid*	$ 40,857	$ 35,020	$ 35,114	$ 35,852	$ 34,642	$ 34,198	$ 44,318
Employed Physician #1 Revenue	$ 172,000	*Equity*	$ 24,571	$ 24,571	$ 24,571	$ 24,571	$ 24,571	$ 24,571	$ 24,571
Employed Physician #2 Revenue	$ 150,000	*Equity*	$ 21,429	$ 21,429	$ 21,429	$ 21,429	$ 21,429	$ 21,429	$ 21,429
Employed Physician #3 Revenue	$ 165,000	*Equity*	$ 23,571	$ 23,571	$ 23,571	$ 23,571	$ 23,571	$ 23,571	$ 23,571
Employed Physician #4 Revenue	$ 130,000	*Equity*	$ 18,571	$ 18,571	$ 18,571	$ 18,571	$ 18,571	$ 18,571	$ 18,571
Employed Physician #5 Revenue	$ 100,000	*Equity*	$ 14,286	$ 14,286	$ 14,286	$ 14,286	$ 14,286	$ 14,286	$ 14,286
Owner & Mid Level Generated revenue	$ 1,836,800	*wRVU*	$ 314,883	$ 232,401	$ 233,733	$ 244,156	$ 227,065	$ 220,787	$ 363,775
Allocated Revenue For Bonus Calculation	**$ 3,563,800**		**$ 590,529**	**$ 458,295**	**$ 469,178**	**$ 493,148**	**$ 467,425**	**$ 442,186**	**$ 633,539**

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Allocation Methods

- **Vaccines**
  - Allocation based on each partner's percent of vaccine revenue generated (Admins & Drugs)
- **wRVU's**
  - Allocation based on each partner's percent of wRVU's generated
- **Equity**
  - Allocation based on each partner's equity position in the practice
- **Hybrid**
  - 50% wRVU & 50% Equity Allocation (above)

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6000 General and Administrative Expenses	$ -	*Hybrid*	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6100 Building and Occupancy Expenses	$ -	*Hybrid*	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6120 Building and Facilities Rent/Lease	$ 170,000	*Equity*	$ 24,286	$ 24,286	$ 24,286	$ 24,286	$ 24,286	$ 24,286	$ 24,286
6121 Common Area Maintenance Expense	$ 65,000	*Hybrid*	$ 10,214	$ 8,755	$ 8,778	$ 8,963	$ 8,661	$ 8,549	$ 11,079
6140 General Maintenance	$ 8,800	*Hybrid*	$ 1,383	$ 1,185	$ 1,188	$ 1,213	$ 1,172	$ 1,157	$ 1,500
6150 Utilities	$ -	*Hybrid*	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6151 Utilities-Water	$ 1,900	*Hybrid*	$ 299	$ 256	$ 257	$ 262	$ 253	$ 250	$ 324
6152 Utilities-Electricity	$ 3,300	*Hybrid*	$ 519	$ 444	$ 446	$ 455	$ 440	$ 434	$ 562
6153 Utilities-Waste Disposal	$ 3,000	*Hybrid*	$ 471	$ 404	$ 405	$ 414	$ 400	$ 395	$ 511
6160 Property Taxes	$ 13,000	*Hybrid*	$ 2,043	$ 1,751	$ 1,756	$ 1,793	$ 1,732	$ 1,710	$ 2,216
6161 Federal Taxes Paid	$ 17,500	*Hybrid*	$ 2,750	$ 2,357	$ 2,363	$ 2,413	$ 2,332	$ 2,302	$ 2,983
6162 State Taxes Paid	$ 3,750	*Hybrid*	$ 589	$ 505	$ 506	$ 517	$ 500	$ 493	$ 639
6170 Housekeeping/Maintenance	$ 9,300	*Hybrid*	$ 1,461	$ 1,253	$ 1,256	$ 1,282	$ 1,239	$ 1,223	$ 1,585
6171 Housekeeping/Maintenance- Supplies	$ -	*Hybrid*	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6180 Security	$ 1,800	*Hybrid*	$ 283	$ 242	$ 243	$ 248	$ 240	$ 237	$ 307
6200 Administrative Furniture, Fixtures, and Equipment	$ 275	*Hybrid*	$ 43	$ 37	$ 37	$ 38	$ 37	$ 36	$ 47
6300 Administrative Supplies and Services	$ 1,500	*wRVU*	$ 257	$ 190	$ 191	$ 199	$ 185	$ 180	$ 297
6310 Postage, Shipping and Courier Services	$ 375	*wRVU*	$ 64	$ 47	$ 48	$ 50	$ 46	$ 45	$ 74
6311 Postage Lease	$ 800	*wRVU*	$ 137	$ 101	$ 102	$ 106	$ 99	$ 96	$ 158
6320 Printing and Copying	$ 2,900	*wRVU*	$ 497	$ 367	$ 369	$ 385	$ 358	$ 349	$ 574
6330 Administrative Expenses	$ 2,600	*wRVU*	$ 446	$ 329	$ 331	$ 346	$ 321	$ 313	$ 515
6331 Office Supplies	$ 10,250	*Equity*	$ 1,464	$ 1,464	$ 1,464	$ 1,464	$ 1,464	$ 1,464	$ 1,464
6332 Office Equipment	$ -	*Equity*	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6333 Office Lease	$ 1,150	*Equity*	$ 164	$ 164	$ 164	$ 164	$ 164	$ 164	$ 164
6335 Gifts	$ -	*Equity*	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6340 Purchased Professional Services	$ -	*Equity*	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6341 Accounting Services	$ 9,500	*Equity*	$ 1,357	$ 1,357	$ 1,357	$ 1,357	$ 1,357	$ 1,357	$ 1,357

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	9139 Owner Buy Sell Insurance	0	*Equity*	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	9140 Owner 401K	0	Direct							
	9152 Business Travel	0	Direct							
	9160 Owner Bonuses	$ 450,000	Direct	$ 74,150	$ 48,417	$ 56,393	$ 46,694	$ 57,298	$ 56,992	$ 113,891
	9161 Owner Auto-Lease	0	Direct							
	9170 Owner Cell Phone	0	Direct	$ -	$ 297	$ -	$ -	$ -	$ -	$ -
	9180 Owner Licenses, Dues, Materials & CME	0	Direct	$ -	$ 2,298	$ 860	$ 860	$ -	$ -	$ -
	Unallocated Owner Expenses	0	Equity	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Uncategorized Expense	$ 700	*wRVU*	$ 120	$ 89	$ 89	$ 93	$ 87	$ 84	$ 139
	Unapplied Cash Bill Payment Expense	$ 3,500	*Equity*	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500
A1	**Total Expenses**	**$ 3,410,185**	*Calculated*	**$ 556,762**	**$ 442,751**	**$ 454,728**	**$ 461,862**	**$ 460,062**	**$ 439,292**	**$ 630,255**
A2	**March Bonus Previously Paid**			**$ (74,150)**	**$ (48,417)**	**$ (56,393)**	**$ (46,694)**	**$ (57,298)**	**$ (56,992)**	**$ (113,891)**
	Cash Back Rewards (Divvy)	$ 22,000	*Vaccine*	$ 3,930	$ 2,630	$ 2,907	$ 3,285	$ 3,064	$ 2,520	$ 3,664
A6	**Total Due Before Adjustments**	**$ 584,423**	*A1 + A2*	**$ 111,848**	**$ 66,590**	**$ 73,750**	**$ 81,265**	**$ 67,726**	**$ 62,406**	**$ 120,838**
	Adjustments									
B1	**Management Team Bonus #1**	$ (17,533)	*A6 X 3%*	$ (3,355)	$ (1,998)	$ (2,213)	$ (2,438)	$ (2,032)	$ (1,872)	$ (3,625)
B2	**Management Team Bonus #2**	$ (17,533)	*A6 X 3%*	$ (3,355)	$ (1,998)	$ (2,213)	$ (2,438)	$ (2,032)	$ (1,872)	$ (3,625)
C	**Bonus To Be Paid**	$ 549,357	***A6+B1+B2***	$ 105,137	$ 62,595	$ 69,325	$ 76,389	$ 63,662	$ 58,661	$ 113,588
D	Partner Distribution Payment	$ 391,076	*Equity*	$ 48,884	$ 58,661	$ 58,661	$ 46,929	$ 48,884	$ 58,661	$ 70,394
	Partner Payroll Check (Minus Related EmplyER Taxes)	$ 158,282	*C - D*	$ 56,253	$ 3,934	$ 10,664	$ 29,460	$ 14,778	$ -	$ 43,194

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Significant PMPM / Capitation

You Will Need To Get Creative

- Far greater complexity
- Align practice culture with financial incentives/results of practice
- Consider splitting earnings into several categories

	Owner / Partner	Employed Physician	Extender
Base Salary	Yes	Yes	Yes
Production Incentive	Yes	Yes	Yes
Quality Incentives	Yes	Yes	Yes
Vaccine Drugs	Yes	No	No

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Variables To Consider

1. Percent of FFS vs. Capitation vs. Quality Payments
2. Culture of the practice
3. Percent of private versus Medicaid
4. Varying costs by location
5. Administrative responsibilities
6. Expectations (timeliness of documentation/billing)
7. What else?

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