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## **Dividing Practice Income**

Is there an optimal way to structure compensation in a group practice? That depends on several factors -- the individual practitioners, the practice's culture, and the type of administrative systems the practice has in place. The equal shares model and the productivity-based payouts model both have positive and negative elements. Many practices opt for a blend of the two models. Here are some issues that may help you determine which compensation approach is most appropriate for your practice.

### **The Equal Shares Model**

Practices that adopt this model often pay a base salary plus equal shares of all profits. Supporters of this model cite its positive, team-building impact on the practice. They point to how its use can minimize intra-group competition and potential conflicts about the use of support resources.

However, the equal shares model is only fully effective if there's a shared perception of equal work. Ideally, every partner carries a similar patient workload and is equally productive. Differences in billing, time, and productivity among partners can generate questions about fairness relating to compensation and may lead to workplace conflict. Some practices have found that the equal shares model of compensation actually lacks an incentive for individual performance and productivity.

Then there is the question of what to do if a partner wants to cut back on his or her on-call commitment or work hours. The primary issue of fairness in the equal share model relates to a situation in which certain partners are carrying a heavier workload than other partners.

### **Productivity-based Payout Model**

This approach provides partners with an incentive to commit time to the practice since higher producing partners are rewarded for meeting established productivity measures. It also encourages partners to use the practice's resources in the most efficient way possible, especially if part of the practice overhead is allocated according to resource use.

One potential negative associated with the productivity-based model is that it may inadvertently cause partners to compete against each other for patients and practice resources. That competition may, in turn, reduce the overall effectiveness of the practice. Moreover, it's not always a simple bookkeeping matter to track productivity measures. Often, the administrative work involved in measuring each partner's daily, weekly, and monthly productivity can be extensive.

## **The Blended Model**

Many medical groups opt for a compensation model that blends certain aspects of the equal shares and productivity approaches. There's no fixed formula. Choosing which aspects of each model to retain and which to discard essentially comes down to the practice's culture and priorities. However, for this approach to be fully effective, each partner has to assess rigorously his or her goals, values, and contributions to the practice.

One common approach involves setting each partner's compensation at a relatively low base amount and then paying bonuses based on measurable contributions to the practice's revenue. Another approach entails splitting net income into two pools, with one pool shared equally and the other divided, based on relative collections, for instance. Other measurable factors can be considered.

Partners considering this approach have to be aware of the definition of income that is to be divided. Some agreements define income as gross receipts less all operating expenses. Other practices define income as the amount remaining after charging certain personal expenses, such as malpractice insurance or the cost of continuing medical education, to each physician.

## **We Can Help**

It takes time and effort to devise a compensation structure that will satisfy all members of a medical practice. We have helped numerous medical practices analyze profitability and create workable, fair compensation arrangements. Please call us if you would like to discuss your needs.

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- Improving care coordination -- This includes the exchange of key clinical information among authorized entities.
- Improving population and public health -- This includes having the ability to provide data to immunization registries.
- Ensuring adequate privacy and security protections for personal health information.

This is a work in progress. It's quite possible that these meaningful use criteria will change over time.

These incentives are designed to blunt the effect of the costs involved for medical practices that implement EHR technology.