



From Private Practice to the Hospital... And Back

Who knew helping people for a living could be so challenging? Health care reform, dwindling reimbursements and frivolous lawsuits continue to alter the landscape of the small physician practice, forcing many of you to consider alternatives. Consequently, you are having your entrepreneurial spirit tested and many are choosing to roll their practice into a hospital environment. This decision, one obviously not taken lightly requires **several** considerations. This article will attempt to skim the surface of a few of those, such as financial considerations and arriving at a monetary conclusion, negotiating your new contract, the steps and timing of closing your practice and also how to reverse your decision should you arrive at that end.

So you have decided to explore the option of hospital employment. The offer looks great on paper, but you need to be sure you are not comparing apples and oranges. In many private practices, the non-cash compensation can add up. Many private practices offer extended benefits such as mobile phones, auto reimbursement, retirement plans, health insurance, continuing education and extended paid time off.

In the hospital employment model, you will likely be offered the retirement plan of all other hospital employees, which will be approximately three to five percent of the IRS allowable maximum compensation while many private practices are funding twice that for each shareholder. Many contracts offer a limit dollar amount per year for continuing education, dues and other practice related items. For example, if the contract covers any auto reimbursement at all, it will likely be the IRS allowable rate per business mile driven and if you are not traveling between offices, you will likely receive no auto reimbursement in the employment model.

Paid time off presents a different prospective. More traditional hospital contracts are allowing three to six weeks of paid time off, but some hospitals are thinking outside the box and allowing unlimited time. Contracts are typically based on a dollar amount per relative value unit (RVU) so progressive hospitals are considering that if you are not working you will not be earning money. They are relying on this to motivate you to work and still offer more flexibility in paid time off than previous hospital contracts would allow.

Now that you have an idea how the compensation offered relates to the total compensation you have been getting in your private practice, what other areas of your contract should you consider? What is the length of the contract and how long is your compensation guaranteed? In most circumstances, the longer the term and the guarantee the better since most experts believe that reimbursement per RVU will only decrease in the future. This will allow you to lock into an agreed upon rate per RVU as reimbursements potentially decline.

Since most of the contract's compensation is related to you maintaining current volumes, are there any requirements for you to relocate or change referral patterns? If you are switching hospital systems and your referring physicians do not utilize that system, will they continue to send patients to you or will they find someone within your former

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system? This, of course, is likely not a problem in the years of the guaranteed salary, but if you do not have a guarantee, this will absolutely impact your wallet.

A couple of areas that physicians often do not consider when discussing hospital employment are how on-going decisions are made in the practice and how to withdraw from the arrangement if necessary. Most of the day-to-day decisions are kept within the practice site, but the major decisions may require involvement of the hospital leadership. Will your trusted office manager still be 100percent devoted to your office or will they be stretched over two or more practices? Will your staff that you have depended on and your patients have become accustomed to still be with you every day?

What if after a year you decide this is not what you signed up for? You have sold your equipment, staff and patient list to the hospital. How much will it cost to reestablish your practice? Does your contract have a non-compete clause that will require you to relocate and start over? These are items that should be addressed in the original contract. In most employment situations, the hospitals are only paying for fixed assets. A buyback of equipment at future fair market value clause can be easily included in your purchase contract.

Finally, another area to consider is what to do with your former entity. Since most hospitals only purchase your fixed assets, you will need to close out your practice entity. Did the hospital legally assume all leases? Are there old accounts receivable to still be collected? If all of your employees are now hospital employees and the hospital owns your software and equipment, how will you collect those outstanding receivables? If there are assets they did not buy, how will you dispose of them? Some physicians are deciding to keep their old entities open for a year or longer not only to collect old receivables, but to have an entity to return to if they decide hospital employment is not for them.

As one can see, this decision is ripe with financial, personal, staffing and autonomy considerations that need to be evaluated. Although hospital employment may not be for everyone, if you consider and negotiate all aspects of your contract initially, both financial and non-financial, your likelihood of success will be greater.

The second piece in this series will be a Q&A article. Please feel free to email your questions to osmagency@osmaia.org to be answered. We will address as many questions as possible in the article.

DISCLOSURES

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