



GOOD PARTNER PAY-OUT PLANS PROVIDE FOR BOTH PARTIES

In today's market, it's quite common for physicians to move from practice to practice. Such movement can have financial consequences. That's why doctors should carefully craft a practice pay-out plan.

The best partner pay-out plans manage to provide for both parties involved. They are equitable to the departing physicians and protect the practice's financial health and those responsible for sustaining its future viability.

A pay-out spread over a reasonable period and limited to a percentage of gross or net income offers separating physicians some security and ensures that pay-outs won't become too expensive for the practice.

The question is - how do you know whether to base the pay-out on gross or net income? Using the *gross income* limitation may worry younger physicians because their income could be threatened by the need to fund a partner's retirement. It also contains a lot of risk for the departing doctor, since pay-out is controlled by a frightening unknown - the future financial success of the practice.

The *percentage of net income* limitation takes into account the impact of rising overhead on the practice as well as the revenue stream. However, expenses which can be categorized as physician compensation are excluded. Although it comforts remaining physicians about their ability to fund the pay-out in coming years, those departing may be uneasy about the potential risk to their income.

Other provisions that should be added to pay-out contracts include the following:

1. ***Reduction or elimination of pay-out for departing physicians who become competitors of the practice.*** Today's especially competitive environment produces situations in which departing physicians join a competing practice or set up a solo practice in the same community. Protect your practice from funding this competition.
2. ***Reduction for benefits already paid out.*** Many plans reduce the final separation payment for physicians who had been collecting sick pay and then retire.
3. ***Penalties for short-notice departures.*** While 2-week notices may be acceptable in the business world, recruiting and bring on a new physician in 2 weeks would be miraculous. Physicians who leave with less than 6 months' notice should be held responsible for the likely hit to your practice's income.
4. ***Provisions to address handling of future liabilities.*** Once physicians have moved on, should they be freed from shouldering a portion of any liabilities that arise?
5. ***Practice protection when several physicians depart at once.*** Such provisions normally establish temporary reductions in the pay-out plan so the practice isn't placed in peril.

These suggestions are broad and don't take into consideration your practice's unique culture. We can help you devise a custom-fit plan that maintains the good will of departing physicians without compromising your financial future or that of the practice overall.