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Better Management is Better Medicine®

Five Myths about Associate Compensation – 2008

What's fair when it comes to associate compensation? Owners and associates want to know, and too often each party's understanding of what's fair lies at opposite ends of the spectrum.

Misconceptions, partial-truths, and even a little fantasy abound when it comes to doctor compensation. Owners and associates aren't intentionally trying to deceive the other. But sometimes their interpretation of something they heard or read about compensation is muddled, leading to misunderstandings, hurt feelings, and perhaps conflict and severing the work relationship.

So what's fact and what's fiction? Here are five myths about compensation that it's time to set straight.

Myth #1 – Doctors are paid 25 percent of their individual production.

Reality: A variety of percentages could be inserted in this statement, but the truth is the percentage isn't a one-size fits all number. Items to consider when determining the appropriate number include:

- The type of practice. The percentages will vary depending on the species - companion animal, equine, or food animal – and whether you have a general, referral, or emergency practice. And if you have a referral practice, the type of specialty will also impact the percentage. See Figure 1.

- Whether the compensation formula is a blended percentage that applies to all medical service and product production, or it's a split-rate compensation formula with one percentage applied to medical services and a different percentage applied to medical products.

  Well-managed, companion animal practices that use a blended rate, pay somewhere between 16 percent and 21 percent of the doctor's individual production. Where they fall in the range is dependent upon the practice's staff-to-doctor ratio. The more staff the practice provides to assist the doctors, the lower the percentage paid to the doctors. The additional staff members allow the doctors to produce at a higher level, which increases their compensation. And the practice has an added layer of overhead for the additional staff, which the doctors must help support thus the lower percentage.

  For example, with a 3.5 to 4.5 full-time equivalent staff-to-doctor ratio, expect a rate of 20 percent to 21 percent. With a 4.6 to 5.5 staff ratio, expect a rate of 18 percent to 19 percent. Conversely, practices with a low staff ratio should offer a higher percentage because the doctors likely have responsibilities that would ordinarily be delegated to a technician or an assistant, which impacts their ability to produce. For example, with a 2.5 to 3.4 staff ratio expect a rate of 22 percent to 23 percent.

Well-Managed Practices® that use a split-rate formula, pay 22 percent to 26 percent on services and 4 percent to 10 percent on products. Where you fall in the range depends on the staff-to-doctor ratio and the service/product mix – how much of medical revenue comes from services and how much from product sales (ideally, 85 percent/15 percent).

- The services and products credited to the doctors. See **Myth #2** below.
- What the percentage paid to the doctors covers. See **Myth #3** below.

Myth #2 – Doctors get credit for all medical services and medical products, including prescription refills.

Reality: To make any percentage-based compensation system work, every team member must understand what is and isn't credited to the doctor's individual provider codes. For example, medical service revenue includes all medical care that doctors provide as part of an outpatient appointment, in-hospital treatment, or surgical procedure, including services that a veterinarian supervises, such as radiology or dentistry (all care except the prophylaxis cleaning portion which is handled by the technician). Veterinarians also receive credit for medications and therapeutic foods they dispense during an outpatient appointment, during in-hospital treatment, or at the end of a pet's hospital stay.

Prescription refills and additional food or product purchases that don't involve a doctor are credited to a hospital provider. The doctor receives credit for the refill only if it requires his or her time to review the record, assess if the patient's medication or dosage needs to change, and give direction to the staff member who will fill the prescription. And you never credit boarding, grooming, or retail purchases to a doctor, because he or she typically isn't involved in generating this revenue.

When multiple doctors collaborate to treat a patient, the doctor who provides each point of care gets credit. For example, if Doctor A examines and admits a patient to the hospital on Day 1, and Doctor B provides or supervises the hospital treatment on Day 2, Doctor A gets credit for everything on Day 1, and Doctor B gets credits for Day 2.

Myth #3 – The percentage paid to the doctor covers salary, benefits, and employer's payroll taxes.

Reality: This discussion pops up on a regular basis and differing opinions exist about what exactly is covered by the percentage paid to the doctor. The confusion lies in whether you're talking about wages only, or the total compensation package paid to the doctor, or the total cost of employing the doctor.

The ranges outlined in this article include wages and retirement contributions (deferred compensation) paid on behalf of the doctor. Other benefits are paid in addition to the percentages shown. Other benefits typically include continuing education, health insurance, liability insurance, and professional dues and licenses. The value of the other benefits commonly represents another $8,000 to $12,000 of compensation.

For example, a companion animal doctor generates $510,000 of medical services and products and is paid a blended rate of 20 percent. She receives $99,000 in her regular paycheck, and $3,000 in retirement contributions, for a total of $102,000. The value of her other benefits is $10,000, so her total compensation package is $112,000, which represents 22 percent of her production.

Her employer also is responsible for payroll taxes on the $99,000 of compensation in her regular paycheck, or approximately $9,000 of additional expense related to employing her. So from a management/budgetary perspective, the total cost of employing this doctor is $121,000, or 24 percent of her production. See Figure 2.

Myth #4 – It's the practice's responsibility to make sure doctor production continues to grow.

Reality: It's true that the practice is responsible for taking the appropriate management steps to grow revenue. However, associates are equally as responsible for growing their production.

When it comes to revenue growth, management's responsibilities include:
- ✓ Leading by example
- ✓ Communicating expectations regarding the standard of care provided in the practice and how you charge for the care provided
- ✓ Addressing billing for care in employment agreements and position descriptions
- ✓ Providing the appropriate number of well-trained staff members to support the doctors' efforts
- ✓ Explaining the practice's fee schedule so associates understand how you bill for services and products, and updating fees on a regular (at least bi-annual) basis
- ✓ Teaching associates to develop accurate treatment plan estimates
- ✓ Adding new services and technology as appropriate

The associate's responsibilities for revenue growth include:
- ✓ Meeting the hospital's standard of care with appropriate case workups
- ✓ Offering the best, educating and informing, and letting the client decide
- ✓ Effectively utilizing the staff to preserve your time for patients
- ✓ Charging for all the care you provide
- ✓ Working a reasonable number of hours
- ✓ Continuing to expand your skills and knowledge

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Myth #5 – Production-based compensation leads to competition for cases and/or service selection based on the financial result.

Reality: Competition could happen in a practice that is doctor-heavy based on the existing client demand. Therefore, I don't recommend incentive-based formulas when the caseload isn't high enough to keep all the doctors busy. But in practices with a sufficient caseload, I've only seen a few situations where competition (or service selection based on the dollars) occurred. More commonly, the doctors don't have time to turf cases and often look for ways to save the client money.

You must never lose sight of why you do what you do – your patients. The medicine must drive the finances, not the reverse. If the doctor focuses on doing what's best for the patient, the dollars will follow. And, if you do have a doctor that treats patients based on the financial result versus the medical result, that doctor doesn't belong in your practice.

Don't let these myths create confusion or disagreements that sour relationships in your practice. Demystify compensation to ensure packages that are fair to both associates and the practice, so you continue to enjoy a healthy, respectful co-working relationship that lasts.

Figure 1 – Compensation ranges by type of practice (blended percentage)

	General Practice	Referral Practice	Emergency Practice
Companion Animal	16% to 21%	25% to 30%	25% to 28%
Equine Ambulatory	25% to 28%		
Equine Haul-In	20% to 25%	16% to 22%	
Food Animal Ambulatory	25% to 28%		
Food Animal Haul-In	20% to 25%		

Note: Percentages include wages and retirement contributions paid on behalf of the doctor. Other benefits are paid in addition to the percentages shown.

Figure 2 – Sample calculation of doctor compensation

Individual production	$510,000
Percent paid to doctor	x 20%
Total compensation (see **footnote**)	$102,000
Value of other benefits (continuing education, health insurance, dues and licenses, liability insurance)	$10,000
Total compensation package	$112,000
Compensation package as a % of production	22%

Total cost of employing this doctor:

Wages and retirement contributions	$102,000
Other benefits	10,000
Payroll taxes	9,000
Total cost of employment	$121,000
Total cost as a % of production	24%

Footnote:

Amount received in paycheck	$99,000
Amount received in retirement contributions	$3,000

To obtain additional information:

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