Hiring Seasoned Doctors:
Paying for Experience,
Avoiding Mistakes

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• Handle and advise re: employment
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Our Topic Today

- “Seasoned doctors” or laterals” as a special type of hire
- How they are different from hiring newly trained doctors, in terms of compensation, partnership, and other terms

“Laterals” : Who are They?

- At least one prior full time job
  - But still in early phase of career
- May have an independent practice
  - But able to concede that new employer offers them a better income and/or lifestyle
  - Willing to do a buy in (or be a long term associate)
- Age range: 32-45

Why Hire a Lateral?

- Saves you substantial training costs
- A more mature candidate
- May bring something to the table (existing patients or referral sources, for local candidates)
- If candidate is local, he may already have privileges at local facilities
- Supply and demand: it may be tough for you to recruit newly trained candidates
Laterals: Why are They Looking?

• Legitimate reasons
  • Failed buy-in negotiations
  • Need/desire to relocate
  • Current solo practice not ramping up as strongly as desired
  • Concerns with prior employer legal issues or management or clinical style

Laterals: Why are They Looking?

• Not so legitimate reasons
  • Insurance credentialing, licensing problems
  • Performance or attitude issues
  • Key is to sort out the good from the bad (as always!)

Doing Due Diligence

• Personal prior relationship
  • Very reassuring
  • But remember: you haven’t worked together
• Face to face interview
  • Watch non-verbal responses
    • Is the reason for job change credible?
  • Second interview: spend time together
  • Make sure spouse is on board
More Due Diligence

- Call references
- Trial run: candidate scrubs in, assists at surgery
- Have candidate self-query National Practitioner Data Bank and give you the results
- Other checks and balances
  - Candidate needs to be insurable at standard rates, get hospital privileges

Employee or Contractor?

- Some business savvy doctors want you to 1099 their individual PC, so that they can deduct some expenses
- But the tax risk is on you, if you treat them as contractors
- Even if they come with experience and patients, they are generally still employees, in the view of IRS

Employee or Contractor?

- Consider contractor status only if the candidate is very part time – 2 days or less
- And their employment is non-exclusive
- Ideally such a candidate has other jobs
- Talk with your accountant or attorney
Terms of Employment

• The starting point should be the usual associate to partner track
  • But with extra compensation to reflect extra experience
  • And possibly shorter track to partnership

Factors Affecting Compensation and Partnership....

• Extra experience and skills, versus newly trained doctor
• Does the lateral bring with him any patients or referrers?
• Basic supply and demand
  • Need for candidate’s subspecialty skills

Other Possibly Relevant Factors

• Candidate’s current pay
  • Worth consideration....
  • ......but bottom line your offer needs to reflect your practice’s financials ....not some other employer’s)
  • If he is taking a paycut, does he have a good attitude about it?
Candidate claims he is a star producer

- Careful… candidate’s past production is heavily dependent on variables other than pure work effort
  - E.g. Reimbursement levels, employer patient volume, availability of optical and ancillary testing, work schedules
- Key fact: how did candidate produce relative to other physicians at his former practice
  - May provide clues to candidate’s work ethic, surgical aggressiveness, tendency to order or not order ancillaries

Brass Tacks

- Base salary for general oph
  - Newly trained doctor:
    - $140,000 (easy hire)
    - $160,000 (average difficulty hire)
    - $200,000 (tough hire)
  - Premium for lateral:
    - $10,000 more, for extra year or two of experience….
    - … up to $40,000 or $50,000 more, for fully trained physician, with extensive experience
- Bonus: similar to newly trained doctor
  - 20-40% over 2.5x to 3.3X base

Fringe Benefits for Lateral Hire

- Comparable to newly trained doctor
- Health insurance (individual, or family with cost limit);
- 3 weeks vacation, 1 week CME (with $2500 - $3500 allowance for CME costs)
- Ten days of sick pay
- Society and hospital dues
- Possibly moving expenses, up to $5000 or $10,000
- Tail: 100% to doctor, or 50/50 split
Other Employment Terms

- Generally similar to “regular” hire of newly trained doctor
  - Exclusive employment
  - Evergreen contract – no fixed end date
  - Termination provisions
    - “Cause” termination (e.g., loss of license)
    - Without cause – with 30-90 days notice
  - Non-compete clause
  - Non-solicitation clause

Other Baggage

- Did candidate purchase tail for prior employment?
- If not, his insurance with you will be more expensive
  - For claims made policies, the lateral’s new premium will be at the “mature” rate

Laterals from the Neighborhood

- If the doctor is local, is he subject to subject to a prior employer’s non-compete clause?
- Don’t accept assurances like “my attorney says it’s unenforceable”
- Hiring such an employee may create legal exposure for you, and/or severely hamper your ability to fully utilize the employee
Laterals from the Neighborhood

- Get a representation and warranty that the doctor is not subject to any restriction that would effect his practice with you.
- Or his legal right to solicit his patients
  - Consider having attorney check this with prior employer
  - Or require a joint letter to patients from the new employee and his old employer
- Work closely with your attorney – danger zone!

Non-Compete Issues for Local Candidates

- “This is my hometown – I can’t take the risk that you’ll kick me out of town”
- I’m already practicing here – why should I agree to restrict myself, esp. if you can terminate my employment?
- Good points....but....

The new employer still needs protection

- Without a non-compete clause, you are simply setting up a new, stronger competitor
- Explore geographic compromises – perhaps a smaller radius than you would otherwise require
  - Give the candidate places where he can still practice without moving his family out of town
- Consider liquidated damages provision
  - Ex-employee can practice locally, but must pay for the privilege
Non-Solicitation Clauses

- Always important, as a supplement to non-compete clause
- Local candidate may bring patients from his prior practice…. Can he solicit those?
- Maybe…but only if he leaves early in the new relationship

Partnership Track

- Typical track for newly trained doctor: 2-3 years
- Typical track for lateral: 1-2 years
- What about immediate partnership?
  - Maybe, for very strong or very known candidate
  - Retain contractual right to to sever the relationship, if things don’t work out

Examples of Immediate Partnership

- Local candidate with small but self-supporting solo practice
  - Candidate needs to be enticed
  - Akin to merger, rather than straight hire
- Candidate brings new subspecialty or special skills ---- supply and demand
- Candidate’s immediate buy-in is a senior doctor’s immediate buyout
  - Candidate’s relieves the group of buyout and keeps senior’s volume from migrating elsewhere
Terms of Partnership for Laterals

- Probably no different from newly trained doctor, in terms of buy-in to equipment or receivables
- Possibly some leeway on goodwill buy-in, especially if candidate brings patients with him
  - E.g., shave a year off of the 4-5 year income discount
  - E.g. 70-80-90 progression, rather than 60-70-80-90
  - Or 20-35% off of fixed dollar goodwill buy-in
- Negotiate

Special Situations: the Part Time Lateral

- Typical candidate request: 45-50% of collections
  - This addresses the variability in schedule of a part timer
  - But makes it difficult to earn any profit on the doctor… if your overhead is 60%, and you pay 40% of collections, where is your profit margin?
  - Also makes it tough to structure future buy-in, without administering a big pay cut

Part Time Lateral Compensation Options

- Per diem or per session rate
  - E.g., reasonable base salary for full time doctor, and then divide by number of days or sessions for full time
- Percentage of revenues based on actual practice overhead less profit margin
  - E.g. 60% overhead plus 10% profit margin leaves 30% for doctor
Percentage of Collections

- If you do use this, specify that the percentage includes benefits
  - i.e., all benefits e.g. (health insurance, dues, CME costs) are charged against the percentage of revenues entitlement
  - No special pay for vacation, CME or sick time – employee receives only the percentage of collections

Outside Employment

- Part timer may want to work for a second employer
- You will have to allow this if you are unwilling to provide full time employment
- But require that the second job be out of your service area (outside the non-compete area)

“Lateral” vs itinerant subspecialist

- Visiting retina or other subspecialist may expect higher percentage of collections: 40-50% or more
  - No expectation of partnership
  - You are competing for visiting subspecialist’s attention
    - Other practices will pay 40-50% or more
  - Itinerant specialist must incur substantial travel time (unpaid) to visit you
Partnership for Part Time Laterals?

- Consider at a future date, but only if the doctor becomes full time.
- Not worth the hassle to negotiate partnership terms before this (full time status) happens.
- Doctor may have little interest in partnership if he is given 45-50% of collections from the start.

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