

Chapter 5

Evaluating the Offer



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To properly evaluate an employment offer, you need to investigate several issues about the group you are joining; know what's included in the offer and what's not; understand compensation systems and employment benefits, especially what you can expect to negotiate and what you probably can't; learn how to evaluate the contract and other documents you are being asked to sign. To make it even more difficult to discuss here, every specialty is different and the laws governing practice and contracts vary by state. The smaller the group, the more important all these issues become. The larger the group, like a Kaiser Permanente, or especially the government, the less relevant many of these issues become.

5.1 Evaluating the Group

There are a few general considerations about a group you need to investigate before joining it. Perhaps the most important one is the group's reputation in the medical community and the reputations of its members. Does the group have a service orientation? Do people like to refer them patients? Do they make themselves available to these referrals or consults? Is anyone in the group considered a marginal practitioner that you would have to "cover" for, or apologize for, if you joined them? Does anyone in the group have personality issues? Some of this is certainly specialty related. The chances of being saddled with a group member with an explosive or difficult personality are much less in a group of pediatricians than they would be in a surgical practice.

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What hospital or hospitals does the group routinely use for practice? What are the reputations of these hospitals? Are all the support services required for your practice available at these hospitals or elsewhere in the community? How do the Joint Commission (www.jointcommission.org), Health Grades (www.HealthGrades.com), the Leapfrog Group (www.leapfroggroup.org), and other external agencies rate these hospitals? Is the hospital recognized for nursing excellence or has it achieved the prestigious “Magnet” status from the American Nurses Credentialing Center (www.nursecredentialing.org/magnet)? Another key question is whether the hospital has participated in the various patient safety initiatives sponsored by the Institute for Healthcare Improvement (www.ihl.org).

Some specialties have contracts with these hospitals – often exclusive ones for the hospital-based specialties of anesthesia, emergency medicine, pathology, and radiology. What is the group’s relationship with the hospital like? How long-standing is the contract? Are there outstanding issues that are creating a contentious relationship with the hospital? If this hospital contract is terminated, what would happen to the group? The best place to look for answers to these questions is from group leaders or group members during your interviews. If you are concerned about whether or not they are forthcoming with their answers, seek out someone from another specialty for confirming information. The ultimate source for this information is the Hospital’s lead administrative physician (Vice President of Medical Affairs or Chief Medical Officer are a couple of commonly used titles for this position). This individual is often responsible for negotiating and renewing these types of contracts.

You will also need to understand the group’s structure. A corporation will usually have a well-defined leadership and mechanism of group ownership (shares). A partnership may have a less formal structure, often with a managing partner running the business affairs of the group. Buy-in may be a bit more complicated to define as well.

How efficiently the business of the group is managed is a very important topic of your research. The first question to ask is whether they bill themselves or contract this out. If they bill themselves, how good a job do they do? You can determine this by various billing metrics like how many days, on average, a bill remains uncollected in “Accounts Receivable” (AR). For example, if a group’s average days in AR are 45, then that means that on average, a patient bill is collected 45 days after the service is performed. That would indicate good performance of the billing function in the practice. The longer the period before a bill is paid, the less likely it is to be collected. If the group has an average days in AR of 90, not only does that negatively impact cash flow, that also means that many bills are probably older than 120 days after service or more, and less likely to be collected. An outside billing service would require the same scrutiny.

In addition to billing, the higher the group overhead, the less money is available to the providers for take-home salaries. Overhead norms vary by specialty, and you’ll have to do some asking around to determine the number for your own specialty. For example, the overhead expense for anesthesia billing is commonly between 6% and 8% since anesthesia has fewer bills of larger amounts. Additional

practice overhead varies from 5 to 15%, for a total practice overhead usually less than 20%. A practice with an office, clinical and business office employees, medical equipment, more bills of smaller amounts, more insurance authorization issues, such as those regarding the “gatekeeper” function of primary care, etc., can expect to pay a much higher overhead. A primary care practice may have an overhead of 50% or more of collections. Billing overhead may be 15% or more by itself. Again, try to find out what reasonable specialty-specific metrics would be for your type of practice.

5.2 Buy-In

Another major issue affecting your future in a group is whether you will be offered ownership in the group. It is usual for individuals to be hired by a group as an employee without any ownership or governance rights in the group. Prior to buy-in, there is usually a waiting period of 1–2 years during which existing group members determine your fit with the group – the quality of your work, your dedication to the group and your (its) patients, how hard you work, how you get along with other members and staff, etc. If your salary is significantly discounted over other group members for that 1–2-year waiting period, that may itself count as your financial “buy-in.” If you are paid an amount roughly equal to other partners or owners of the group, then to become an owner in the group, you will be asked to pay for a proportionate share of the group’s assets. In a corporation, you will be buying a share or numbers of shares of stock. In a partnership, you will be buying a portion of the partnership’s assets, presumably an equal portion based on the total numbers of partners in the group. Where this becomes important is at the end of a fiscal year, when there are additional monies left over after all salaries are paid out, any extra income is paid out to the partners in an amount equal to the portion of the partnership that they own. Corporations will have other formulas for paying bonuses or dividends at the end of the year to their shareholders.

Other advantages of group ownership may be more subjective. It will give you a right to participate in group governance and give you a say in how the group is run, even run it yourself if selected for this task. You may take less call as an owner. You may have priority over the schedule, or patient referrals to the group. You may get the opportunity to own your own accounts receivable, which would be paid out to you if you left the group. It may be harder for group members to terminate you if you’re a shareholder or partner. At a minimum, they would need to buy you out.

There may be disadvantages of ownership as well. Before you join, or especially before you buy into a group (especially a partnership), make sure there are no outstanding liabilities or pending lawsuits that would substantially diminish the group’s assets. The reason that I mentioned “especially a partnership” is that a partner in a group structured as a “partnership” instead of a corporation (or limited liability company) is fully exposed to both the profits and the liabilities of the partnership. A large judgment against the practice or large business loss may impact your personal

wealth, including things like IRA retirement savings accounts. If you were still only an employee, you would not be liable for this. If you were a shareholder of a corporation, your personal assets would also likely be protected. If you are offered a buy-in by the practice, how can you be sure that the amount you are expected to pay, or future salary you are expected to forgo is reasonable? How do you do a practice valuation? The major components of practice valuation are as follows:

- **Assets** – These will vary by the type of practice. An anesthesia practice has very little actual assets with the exception of the practice's accounts receivable. These also will have little value if individuals have actual ownership rights over their own accounts receivable. A cardiology practice, on the other hand, may have many assets, an office with many leasehold improvements, major equipment such as echo machines and nuclear medicine cameras, minor equipment varying from computers to EKG machines to furniture, etc. Practices will consider their charts an asset since they are physical items that tie patients to the practice. Portable electronic patient records will eliminate the value of actual charts in the future.
- **Cash flow from other business activities or excess practice income** – If a practice has other businesses or investments that generate cash flow or an annual excess of revenue over expenses that is distributed to owners, a value can be placed on that cash flow. An example of this would be a large anesthesia practice that did its own billing, but also billed for other anesthesia practices in the region from which it makes a profit.
- **A hospital contract** – Here, things get dicey. Usually, hospital contracts have a value to the practice in that they guarantee access to business within the hospital and often pay stipends for service. The cash flows from such a contract into the business could be valued, just as the above other business activities. The caution here is that most contracts have early termination clauses, and can be terminated early by either party, without cause, in a relatively short period of time. This reduces their potential value to the practice. Loss of such a contract may even cause the dissolution of a practice.
- **Goodwill** – Basically, you are buying part of the group member's reputation and referrals. More often than not, this means buying the privilege of working with the group.

To determine the actual buy-in value of the practice, you take all of the objective values listed above, especially actual values such as accounts receivable and physical assets of the practice, and add this to the present value of cash flows from other business sources and excess practice income. You then divide this by the number of owners and get a number for the value per share of ownership. Then compare this to what you are being offered as a buy-in amount. If it's less than your calculation, then you're getting a good deal from a financial perspective. If it's more, you're buying the privilege of working with the group; it's goodwill, the tenuous value of any contracts and any other benefits ownership affords you.

5.3 Compensation Systems

The amount of your starting salary is one of the issues of your new employment most likely to be negotiated. The system under which it is paid is less likely to be open to negotiation. To understand what an offered salary really means, you need to understand basic compensation systems and the benefits included in that salary. We will cover some basic compensation systems common to a medical practice, followed by a discussion of benefits.

Straight salary is a common compensation approach in your first year or two of practice and with large employers like the government or medical groups, part of prepaid health plans. It's how you were paid in your residency and most other jobs you've held prior to medical school. With straight salary, you receive "X" dollars per year, paid in equal installments every two weeks (biweekly), twice a month (semi-monthly), or monthly, usually in arrears (you get your check within 7 working days after the end of a pay period, not in advance). In most cases, you won't be paid "overtime" if you work more than the expected work hours. Physicians are usually considered "exempt" employees, meaning you are exempt from overtime and not paid by the hour. Some large employers, however, provide you with the equivalent amount of time off for the hours you've worked beyond your employment commitment. They may also pay you for the additional time you've worked in lieu of taking it as compensatory time.

Some employers will add a bonus to a straight salary at the end of the year, based on the group's profitability or, you or your specialty group achieving predetermined goals for productivity, quality, and other metrics. Employers like this type of compensation system as it provides an incentive for hard work, efficiency, customer satisfaction, etc. With a straight salary without bonus, you are paid the same amount no matter how good a job you do.

The compensation system that awards productivity above all else is one in which you are paid what you collect from patients, less practice overhead and billing expenses, or, based on units of service worked that are paid on an average corporate "unit value." Straight productivity systems are less common in the first year or two of practice, or in larger group practices, but are very common after you get an ownership interest in a group.

There are other models as well, such as combinations of the above. Some groups pay a straight salary from 7 am to 5 pm. Monday through Friday, and then pay extra for work outside of those hours. Other combinations likely exist. The one basic principle of compensation systems is that they reward and encourage certain types of behavior, for good or for bad. For example, a system utilizing straight salary doesn't reward or encourage high productivity or high-quality work. A straight productivity compensation system awards high volumes of work over quality or work benefiting the group as a whole. When you join a group or large employer, you won't likely be able to get them to provide you with a different compensation system than that they already have in place.

5.4 Benefits

There are basically two types of benefits. The first category (statutory) are those required by law to be provided to an employee. The others are more elective. See Table 5.1. Statutory benefits include payments into Social Security and Medicare (the employer’s contribution), state disability insurance, unemployment insurance, and pregnancy (or family) leave. While an employer is “required” to provide these benefits, they may be subtracted from your total compensation, especially if you are an owner of the group and are paid with a compensation system based primarily on productivity. This is less of an issue with large employers such as universities or large groups.

Most employers provide additional, “elective” benefits, including some form of paid vacation, conference or sick leave; health, life, disability, and malpractice insurance (see Chapter 8); pension plan contributions, 401 K or 403B accounts (see Chapter 9); or very elective ones such as a leased car, home office, etc.

Vacation and sick leave can be combined into “personal time off” or PTO. Most employers grant a minimum of 2 weeks vacation, or 3 weeks if considered PTO. Many medical groups offer much more generous time off depending on the age or other life interests of the more senior partners.

Insurances provided through your employer are advantageous to you for several reasons. They are taken out of pretax dollars, and often are lower in cost than if privately negotiated (especially true of larger employers). Perhaps, even more important is coverage without proof of insurability. If you have a preexisting medical condition (juvenile onset diabetes, prior renal transplant, hepatitis, etc.) that would otherwise make obtaining health, life, or disability insurance impossible, this is a HUGE benefit to you.

Table 5.1 Types of benefits

Statutory “benefits”:
Social security (employer contribution) and Medicare
State disability insurance
Unemployment insurance
Pregnancy leave
Elective benefits:
Vacation, sick leave or PTO
Health insurance (coverage for preexisting conditions?)
Group life insurance (pre-tax and post-tax)
Group disability insurance
Education
Conferences
Car, home office, etc. (usually taken out of salary)

These last few benefits may be more of a convenience for you and if you elect them, and are taken out of your salary for tax purposes. The advantage of many of these benefits, even if taken from your salary, is that they are taken out of pre-tax dollars before deductions are calculated. They don't show up on your income tax forms as deductions and are therefore less subject to audit. Universities are more likely to offer unique benefits like tuition assistance, for both you and your children, and educational funds out of which you can attend conferences, buy computers, books, etc.

Prior to signing an employment agreement, or selecting a job, it's important that you fully understand what elective benefits your employer will provide you and how these benefits will be paid, whether by the employer or out of your salary. Not only will this expose what would become unpleasant surprises, it gives you the opportunity to compare the total compensation packages more accurately between different employers.

5.5 Comparing Compensation Offers

Let's say you have two offers with different stated salaries. One is with a small single-specialty medical group (Group A) and the other is with a large prepaid health plan with a multispecialty medical group (Group B). Group A offers you a starting salary of \$250,000 a year. Group B offers you \$180,000 a year. There are many issues that you should consider in choosing between the two offers, but let us look at total compensation.

Both groups provide insurances, but Group A deducts it from your salary, and Group B pays for it. Group A has a pension plan and allows you to contribute \$30,000 a year into it. Group B covers all its professional employees with a defined benefit plan of equivalent value. Group A deducts any other professional expenses from your pre-tax salary, such as conference expenses, and Group B provides an annual stipend for conferences. Both groups allow you 3 weeks a year vacation. Group A expects you to work 50 hours a week and doesn't pay you if you work more hours. Group B either gives you compensatory time or pays you for those additional hours worked through additional salary.

Table 5.2 illustrates a theoretical comparison of the total compensation offered by these two groups.

The take-home message here is that one salary is not directly comparable to another without taking into account the benefits offered by each employer and who pays for those benefits. Ultimately, there are a lot of other reasons for choosing Group A over Group B, or vice versa. We didn't cover longer-term issues like pay and other additional benefits after becoming a shareholder or partner in the group. But, in this analysis, salary shouldn't be the primary reason for choosing one over another group, because after deductions, your take home pay from both Group A and Group B will be equivalent.

Table 5.2 Comparison of total compensation

Benefit	Group A	Group B
Salary	\$250,000	\$180,000
Health insurance	(\$8000)	0
Disability insurance	(\$2000)	0
Malpractice insurance	(\$10,000)	0
Pension contribution	(\$30,000)	0
Conferences and Ed leave	0	\$2000
Compensation net benefits	\$200,000	\$182,000
Paid extra work	0	\$20,000
Total compensation	\$200,000	\$202,000

Note: Negative numbers are in parentheses

5.6 What Else Can You Expect to Negotiate?

The smaller the group you join, the less likely or able that group will be to pay for additional expensive benefits. But there are a lot of other issues you can negotiate that won't cost the group a lot of money. Some larger groups may be willing to pay for moving expenses and temporary housing support during your relocation. Certainly, Group B above has the capacity to do this, as do other large multispecialty groups, universities, and government employers. A general rule of thumb here is that if you don't ask, you probably won't be offered this benefit.

Work hours, full- vs. part time, may be negotiable. What puts you at a disadvantage here is that part-time employment generally pays proportionately less than full time. You may also have to take a full share of call for part-time pay. Negotiating "special deals" for less call may also be difficult. Physicians in groups don't like to grant special deals. They want to hire people who will make their life easier by taking a full load of work and call. You may want to work additional shifts beyond your practice responsibilities, as a hospitalist, providing call coverage for other groups, EDs, etc. If so, it is important that you negotiate away any restrictions in your employment agreement limiting your ability to do this type of work. Restrictions over outside work are most common in university practices or with other large employers.

An important issue in smaller groups that may be negotiable is whether or not you own your accounts receivable after leaving the group. This is unlikely if you are coming into a group at a full salary from day one. The group will need to utilize your collections after you leave to make up for paying you in advance when you arrive. If, on the other hand, you start at a very low or no salary until your collections begin, then you should make sure that you own your own accounts when you leave. In this case, the group didn't go out of its way to front you the money, or perhaps fronted you a loan on your collections that you will have to pay off. This will usually be defined for the entire group, so special deals may be difficult. It is also more likely that you will be able to own your own AR after you buy in to the group, rather than as an introductory employee.

One final and, potentially, negotiable point is who pays your malpractice tail insurance coverage when you leave the group. We will cover types of malpractice insurance and what a “tail” is in Chapter 8, but for the sake of the discussion here, a tail can cost three times your annual malpractice premium and covers you for any future claims from your practice with this group. This is less of an issue if you move to another, similar group where you must maintain malpractice insurance. You won’t need to buy a “tail.” If, however, you decide to go back into an academic practice, join the military or get another job with the government, join a large pre-paid health plan practice, or cease to practice medicine altogether, you or your new employer will have to pay for this tail coverage.

If you decide to make this change, it is hard to expect that an employer in your existing group would pick up the bill. You would have to make a deal with a new employer for this.

On the other hand, if your existing employer terminated you without cause (a contract clause in most agreements), you may want to try to negotiate the “poison pill” to this provision of mandating that they pay for your malpractice tail with such a termination. They may not agree to it, but like moving expenses, you probably won’t get this potential benefit if you don’t ask.

In general, negotiations always work more to your advantage if you’re in a position of strength. The best strength comes from your new employer badly wanting you to join their group. If your job is in an underserved area and you are trained in a specialty where there is a large shortage, you can get a lot of additional considerations in both salaries and benefits that you won’t likely get if you are one of several people applying for one job in a large metropolitan area. You may also be able to leverage a third party, like a hospital, in negotiating additional salary or benefits. Hospitals can legally pay medical directorships, moving expenses, provide forgivable loans and other benefits if they can document that you are moving in from outside the area and there is a shortage of your specialty in the area you’re moving to. Try to take advantage of all this if you are eligible.

5.7 Employment Contracts and Other Documents

Let’s move on to the employment contract and other employment documents. The larger the employer, it is less likely you will have a formal employment contract to review. For example, in a university setting, you will likely have some sort of an offer letter outlining the basic agreement with your department chairman. Most of the details of your employment are well described elsewhere in human resources documents or department policy manuals. The government or a very large group practice will be similar with the military having its own unique set of contract terms.

If your practice does offer you an employment contract, chances are that it is a standard document offered to all professional employees of the group. It has been developed over many years and has already been reviewed by many attorneys. Because of that, it may be hard to change, unless you change some condition in the

contract for all of the other professional employees in the group. Some things can't be changed at all, such as provisions for retirement contributions into a pension plan. That is completely defined by the legal documents forming the plan.

For Further Review

When evaluating an employment contract, some of the items that require a close review or complete understanding are:

Employment duties: This will usually specify that you will devote your entire professional time to the performance of your duties for the organization. This may become an issue if you want to work part-time for another employer.

Term of the agreement: The contract will likely specify a term and termination date. There often is additional language stating the contract will automatically renew annually if not terminated by one of the parties. This is sometimes referred to as an "evergreen clause."

Salary: An employment agreement usually specifies an amount of compensation if that compensation is guaranteed. If there isn't a "guarantee," and your income is based on the patient care services you provide, then some methodology for passing along payments for your patient care should be specified.

Ownership of accounts receivable: If you leave the practice, does the practice continue to collect on the bills submitted for your services, or do you collect them? Any outstanding, unpaid bills are referred to as accounts receivable. If you don't own them, then you leave the practice with no continuing income unless you already have another job lined up which has a guaranteed salary.

Benefits: Often, benefit details are in some other document such as an addendum to the agreement, or in a document that also applies to the other members of the group. Make sure you get a copy of this document or these documents and carefully review them.

Do-not-compete clause: If you leave the practice, the contract may specify certain penalties if you go into practice in direct competition with the group you are leaving. This may or may not be enforceable in all states.

Termination with or without cause: Termination with cause is usually immediate and is associated with events like getting kicked off the medical staff, your medical license to practice being restricted, dropping malpractice insurance, drug abuse

affecting practice, illegal activities, etc.

Termination without cause should allow either party to terminate the contract with some reasonable notice like 90 days. Make sure you can get out early if this practice doesn't work out.

Arbitration: If a claim or controversy arises out of this agreement, then organizations usually request that it be arbitrated in accordance with the

Commercial Arbitration Rules of the American Arbitration Association. The location of this arbitration or any subsequent litigation is usually specified, as well as the responsibility for any expenses arising from this arbitration or litigation.

Medical Malpractice: Most contracts require that the physician obtain malpractice insurance with certain minimum limits. It will specify who pays for this coverage. It may also specify who is responsible for paying for a so-called “tail” if coverage is terminated. See Chapter 8 for more details. It is very important that all the key issues related to malpractice insurance are written clearly in the agreement and understood by all parties.

At a minimum, you should have someone read the contract who is familiar with employment contracts in general, the terms you can expect, and the basic legal issues, and who can explain the details of the contract to you in terms you can understand. Often, there is someone on the faculty of your residency program who can assist you with this task. If you don't have anyone to do this, you may need an attorney to review it, though this may get fairly expensive if the attorney gets carried away with concerns over issues that aren't likely to be negotiable. Where an attorney may be particularly helpful is with contracts with newly formed groups, those with atypical business dealing, those with a seemingly large buy-in, or those with a do-not-compete clause that would significantly restrict your ability to practice in an area you chose to live long term for family or other reasons. If you do get an attorney, it is very important to get someone familiar with the laws of the state in which you are intending to practice. For example, whether or not a do-not-compete clause is enforceable in California may be completely different from the enforceability of a clause with the same language in Nevada.

Other important issues may not be listed in an employment contract. These are things such as call frequency, time off, case assignments, behavioral standards, benefits, etc. These are often written down in other types of documents such as policies and procedures. These policies and procedures usually apply to the entire group and should be made available for your review. As a general principle, if it isn't written down, it doesn't exist. You have to get everything important to you specified somewhere in writing, either in a policy, a procedure, a contract, a letter, or even an email.