BOR 2025:
Practice Structures & Compensation
What are you getting into?

Tushar Ranchod, MD

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What will we cover today?

- Legal structures of retina practices
  - Corporations, partnerships, management services organizations
  - **What happens when you "buy in" to one of these?**
- Compensation structures
  - **What are the various structures you may encounter?**
- Benefits and how to value them
  - Disability and parental leave
  - Health insurance and retirement benefits
  - **How should you value these?**

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Legal Structures of Retina Practices

- Practicing physicians need the legal protection of a corporation
  - Safeguard personal assets from (some) liabilities of professional work.
- **Associate physicians** are usually employees
  - Corporate structure has little impact on compensation or liability protection.
- Once you become a **partner**, corporate structure matters for:
  - Taxation
  - Benefits
  - Ownership and rights

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Private Practice: Solo

- Sole owner of a Professional Corporation.
  - **C Corporation**: default type of corporation
    - Taxes are paid on profit, separate from the owner's income tax
    - Double taxation is avoided if the C Corp has no profit at year-end
  - **S Corporation**: election at the time of incorporation
    - Taxes are passed through to the owner, not paid at the corporate level
  - **Limited Liability Corporation**
    - Simpler requirements than a Corporation, flexible in how profits are shared
    - Can be taxed like an S Corporation
    - Not allowed in California for physicians
- No difference between structures regarding business expenses
  - Payroll, vendors, etc.

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Private Practice: Group

- **C Corporation**:
  - Profit left in the corporation at year-end is taxed at corporate level. If this money is later distributed to owners, it gets taxed again.
  - Significant planning may be required to flush all profit out at year-end, in order to avoid corporation taxation.
  - Allows for multiple share classes (matters more for complex practice structures)
- **S Corporation**:
  - No taxation of income/profit at the corporate level, so double taxation if money left in corp at year-end.
  - Profit left in the corporation at year-end is taxed at the individual owner level, pro rata by ownership
  - Can only have one share class
- **Limited Liability Corporation**
  - Less formality than a corporation: can lead to problems when owners disagree, so need a very well written operating agreement
  - Ownership (membership interest) can be defined as percentage of the LLC or something more complex; more flexible than Corporation in which ownership is defined by shares of stock.
  - Multi-member LLC may be taxed as a partnership, which is more complex. May elect S-corp taxation in some cases.
  - Not allowed in California for physicians
- **Partnership**
  - Physician autonomy: can be as conservative or aggressive as desired with benefits of various kinds.
  - Partnership of corporations (partnership of individuals would provide no corporate protection!).

Note: For all structures above, assets at risk are limited to those in the corporation (in a partnership of corporations, includes assets in the partner corporations).

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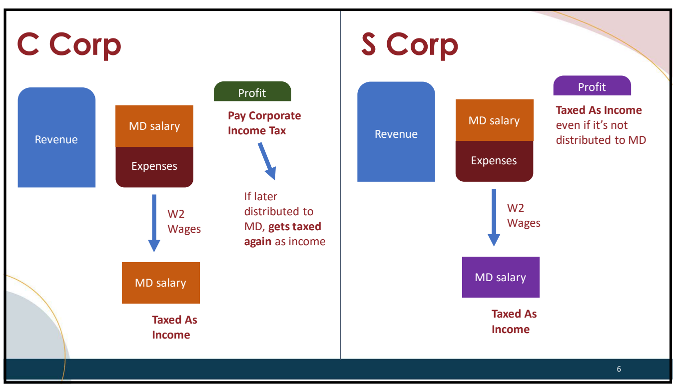

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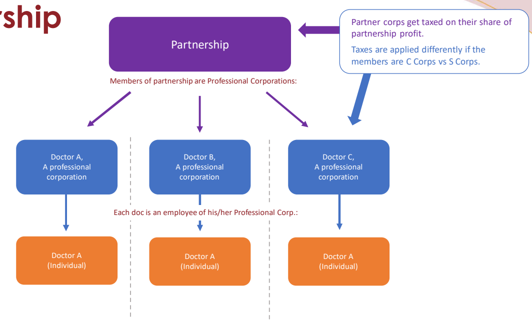
Partnership



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C Corporation: Money & control

- C Corp
  - Physician partners own 100%, control decisions
  - Income from medical service and drug receivables
  - Expenses for payroll, services, drug payables, other overhead
  - If profit is retained in the Corporation, it's taxable
  - Minimal taxes paid by the Corp if no profit left after paying owner
- Owner
  - Gets a W-2 and benefits as an employee of the C Corp
  - Owner pays income tax on compensation received from the Corp

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S Corporation: Money & control

- C Corp
  - Physician partner owns 100%, controls decisions
  - Income from medical service and drug receivables
  - Expenses for payroll, services, drug payables, other overhead
  - If profit is retained in the Corporation, it's not taxed at this level
- Owner
  - Gets a W-2 and benefits as an employee of the C Corp
  - Owner pays tax on income including income left in the corporation (i.e. taxable amount doesn't depend on how much of the profit is paid to the owner)

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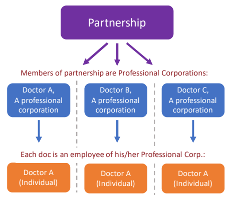
Partnership of Corps: Money & control

- **Partnership of S Corps**
  - Owned by physician partners who make the practice decisions
  - Income from medical service and drug receivables
  - Expenses for payroll, services, drug payables, other overhead
  - Profit is distributed to the partners (in this case the partner corporations)
- **Each S Corp**
  - Physician owns 100% of his/her S Corp
  - Money comes in from partnership, goes out via payroll to the owner
  - No taxation at this level
  - Physician controls expenses that are reimbursed by his/her S Corp
- **Individual Physician**
  - Gets a W-2 and benefits as an employee of the S Corp
  - Owner pays taxes based on K-1 and W-2
  - Taxable income is based on profitability at the Partnership level



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Management Service Organization (MSO) Model

- MSO entity is typically an LLC or limited partnership.
- MSO has contracts with physician practices (and other entities such as ASCs) for their services.
- The MSO charges management fees from the other entities and has operating agreement with them.
- The physician practices remain intact as legal entities providing medical services.
- Employees and services can remain in the physician practices or can be centralized at the MSO level.

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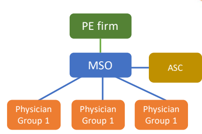
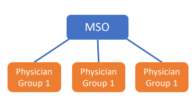
MSO: MD vs PE-owned

<u>PE-owned MSO</u>
- Jointly owned by PE firm (majority) and physicians.
- MSO typically provides all services to run the practice.
- Long term contracts
- Usually larger scale than non-PE MSOs



<u>MD-owned MSO</u> (non-PE)
- MSO may provide more limited services such as RCM, rather than full scope.



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When you buy into a practice, what happens?

A. You become an **equal equity owner**, or…
B. You become a **"junior" owner** without full owner rights
- There are many variations…

What are the possible forms of a "buy-in" to partnership?
- **Reduction of income** which is redistributed to other partners
  - Reduction could be a percentage or a fixed dollar amount
- **Purchase of a share** of hard assets
  - Objective calculation of cash and other assets on the balance sheet

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Compensation Structures

- **How much of your own productivity do you get?**
  - 100% productivity-based = "eat what you kill"
  - 0% productivity-based = profit shared equally
  - Hybrid = any mix of the two

Can be further complicated by a productivity floor

- **How is productivity measured?**
  - Collections? Can vary by payer mix/geography
  - RVUs? Represents work (doesn't depend on the payer)
  - Building a new office vs walking into a busy office full of patients
- **What about sources of profit other than productivity?**
  - Is drug profit neutral or incentivized?
  - How is study profit, associate profit, other profit divided?
- Are **expenses** divided equally, or do you pay per resources?

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Compensation Structures

- For every dollar of collections for services you provide as a partner, how many cents are distributed to partners?
  - In a privately owned group, everything that's not direct overhead is typically distributed to the partners.
  - In a PE-owned group, a portion of profit goes to the PE entity, reducing the percentage distributed to partners.
    - This reduction in partner share of profit be partially offset by increased overall profit derived from greater scale (higher margins).

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Disability and Parental Leave

- How is **disability** handled for an associate? A partner?
  - Does the practice act like a protection? Or a tap that turns off?
- How is **parental leave** handled, especially for an associate who doesn't have much money saved?
  - Any different from disability in general?
  - State disability only (which is almost nothing)? Or supplemental income to help provide security to a future partner?

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Benefits: Health Insurance

- As an associate:
  - Company pays for physician health insurance premiums.
  - Does the company pay all/part of premium for partner/dependents?
  - What plans can you choose from? Do they meet your needs?
- As a partner:
  - Each partner typically pays the cost of their own premiums out of their own compensation.

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Benefits: Retirement Accounts

- What are all the retirement vehicles available?
  Safe harbor, profit sharing, 401(k)?
  What is that in $$$/yr? This matters in high tax brackets!
  - Does the company contribute on behalf of an associate?
  - When does eligibility start and how can an associate contribute?
- Does the company have a **cash balance plan**, which allows much greater additional pre-tax savings?
  - If so, when does eligibility start?

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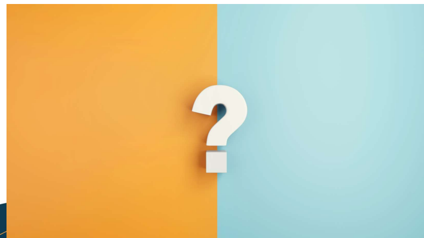
Bay Area Retina Associates

Diseases and Surgery of the Retina and Vitreous

Questions?

tranchod@bayarearetina.com



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