

White Paper - Lease: The Best of Both Worlds (April, 2014)

Rather than being paid a Hospital Salary, consider the option of negotiating a Lease Arrangement

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Advantages of Private Practice

- Higher Salary and Bonus
 - Increased work units are directly related to compensation
 - Significant “step” increases for new members (salary to parity)
- **Practice Plan** allows benefit flexibility
- Self directed retirement plan investments
- Efficient operations = better bottom line
- Ease of decision making
- Structure is set up to benefit the Pathologists
- Independent management
- Flexible billing arrangements



Advantages of Hospital Employment

- Stable compensation and fringes
- Security of employment
- Greater economies of scale in purchasing fringes
- Reduction in malpractice costs
- Elimination of administrative responsibilities
- Consistent employment guidelines apply to all MDs



Advantages of a Lease

- Avoids the issues of merging independently minded physicians into a hospital environment
- Historic income and work units are maintained
- Fixed monthly lease payments – no accounts receivable



Advantages of a Lease

- Compensation/benefits determined by the Practice
 - Step increases possible
- Flexible retirement plan funding with individual investment direction
- Benefits and malpractice can be purchased through the Hospital at reduced cost (economy of scale)
- Expenses not limited by Hospital budget (\$3,000 CME)



Advantages of a Lease

- Typical 3 year lease = standard hospital contract
- A 5% corridor of no change for volume (95% - 105%)
- Continuous dialog between Practice and Hospital
- Performance incentives result in a bonus
- Hospital 3rd party contracts achieve better reimbursement



Advantages of a Lease

- Reduced billing management but oversight still required
- Hospital billing costs are generally less
 - Private practice 8%
 - Hospital 5%
- Easier dissolution if the arrangement fails to meet expectations



Example of Lease Arrangement

	<u>2014</u>
<u>BACKGROUND INCOME CALCULATION</u>	
PART A	\$ 250,000
GLOBAL INCOME	450,000
PC INCOME	500,000
PCCP INCOME	75,000
INCOME - ACCRUED	<u>1,275,000</u>
LEASE PAYMENT (\$85 X 15,000 WRVUs)	1,275,000
COLLECTION OF PRIOR ACCOUNTS RECEIVABLE (Net of billing costs)	100,000
TOTAL RECEIPTS	\$ 1,375,000



Example of Lease Arrangement

EXPENSES

DOCTOR COMPENSATION/FRINGES	1,050,000
PAYROLL TAXES	25,000
MALPRACTICE	15,000
TECHNICAL COSTS	75,000
BILLING @ 5%	51,250
LEGAL & ACCOUNTING	12,000
OTHER OPERATING COSTS	5,000
MANAGEMENT/FINANCIAL SERVICES	36,000

TOTAL EXPENSES	\$ 1,269,250
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PROFIT/LOSS BEFORE INCENTIVES	\$ 105,750
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<i>PERFORMANCE INCENTIVE</i>	<i>50,000</i>
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REMAINING PROFIT / LOSS	155,750
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STOCK REDEMPTION PAYMENTS	100,000
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TOTAL PROFIT FOR BONUS	\$ 55,750
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