

ADVENTURES IN MEDICINE

Career & Life Planning

Survival Guide



*Best Practices
for Physicians
to Evaluate
Compensation
Offers*

Discovery Resource

ST-13

Compensation

Compensation is a major factor in determining whether or not to accept a particular job offer. When evaluating various job opportunities, different compensation models and rates of compensation may be presented.

Understanding the basis of how organizations determine compensation allows for better evaluation of offers when searching for a new career.

COVERED TOPICS

- **Why is it important to know about compensation models and rates of compensation?**
- **What is the difference between a compensation model and rates of compensation?**
- **What are the different types of compensation models for physicians?**
- **What are the pros and cons of each compensation model?**
- **Do these compensation models vary by type of business arrangement?**
- **How do rates of compensation vary from one region of the country to another?**
- **Are rates of compensation negotiable?**
- **What are the critical points when negotiating your rate of compensation?**



Why is it important to know about different compensation models and rates of compensation?

Different compensation models and rates of compensation can vary significantly, resulting in tens of thousands of dollars left on the table. Being informed about how the compensation offer was determined will enable you to make a better decision regarding the offer in relationship to your skills and experience.

What is the difference between compensation model and rates of compensation?

Compensation Model

Compensation models are the arrangement set up for how an employee is paid. There are several compensation models and most of them pay a percentage of revenue to the physician. The percentage is based on net revenue minus the physician's salary and operating overhead.

Rate of Compensation

Rate of compensation is a specific amount of money periodically paid out during a given time period for an agreed upon service.

What are the different types of compensation models for physicians?

Guaranteed Salary

Hospitals or groups often pay physicians a starting salary. These salaries are generally lower than the overall potential of the opportunity, because they are seeking physicians who are productivity-minded. In the event that the physician is not pleased with the opportunity or they need to relocate for personal reasons, the guaranteed salary provides an easier way out for the physician than an income guarantee arrangement. Generally, guaranteed salary contracts include a clause that requires the physician to give thirty days to six months notice of leaving.

Income Guarantee

Hospitals typically offer an income guarantee to physicians. Generally, the concept is to bring a physician into the community where the hospital supports the physician for "X" amount of time, but the physician takes ownership of their practice. The hospital pays the physician a salary, however, this salary acts as a loan. As revenue comes in from the physician's services, it is applied against the loan that was initially paid by the hospital to the physician.

After "X" amount of time, if the physician's revenues balance out the loan from the hospital, the physician then earns X%. (Generally, the X% can be as high as 90 to 100% of collections after expenses). In the event, the physician shows a loss during "X" amount of time, the hospital may forgive the loan as long as the physician practices for "Y" amount of time longer.

Pros and cons of each compensation model:

Guaranteed Salary

Pros:

- Safe opportunity and does not tie you to the area long-term
- Little to no risk
- Administration makes decisions and therefore you do not have to worry about business aspects
- Generally light call

Cons:

- Less autonomy with administration making decisions for the group/hospital
- More competition for opportunities
- Generally, compensation is less flexible

Income Guarantee

Pros:

- Great for physicians who want autonomy and flexibility
- Entrepreneurial
- Great for individuals who are looking to practice in a specific area long-term
- High-income potential and greater potential for a higher reward
- Generally, more support from the hospital administration with hiring staff, billing, medical building, and much more

Cons:

- Generally a 4-year commitment — if you leave before four years you may be assessed a penalty
- Generally, a heavy call schedule
- More risk



Do these compensation models vary by type of business arrangement?

Generally, compensation packages remain competitive with the different business arrangements. Compensation, however, might vary depending on the type of entity you are working. For example, if you are working as a solo-practitioner, you have an opportunity to make more income because you are on call much more — creating a better chance to negotiate financial terms. The type of market generally impacts compensation more than the type of business arrangement.

How do rates of compensation vary from one region of the country to another?

Depending on the location, market and circumstance there can be substantial compensation differences from region to region.

The regions are broken into six markets:

- Northeast
- Mid-Atlantic
- Southwest
- Southeast
- Northwest
- Midwest

Each region has three additional markets: metro, medium size, and rural markets. Compensation in each of these markets also varies.

Compensation surveys can be a good resource of information, but keep in mind that many of them tally all the participants across the country and provide an average salary/income. When researching your specialty's average salary, please make sure to consider the different markets. In general, the salaries are higher in the Midwest and the Southeast than in the Northeast and the West Coast states.

Income in the Northeast can be 20 to 30% less than Midwest salaries.

Rural opportunities can be some of the most attractive positions because compensation packages are up 20 to 30% higher in rural and medium-size communities. This is because hospitals/groups often offer sign-on bonuses, loan repayment, and higher salaries and the cost of living is much lower than in metro areas.

Are rates of compensation negotiable?

Depending on the particular specialty and market, compensation may be negotiable. In markets where there are more physicians than opportunities there is a lower chance for negotiations. On the other hand, where there is a strong demand for physicians the market may provide more of an opportunity for a negotiated agreement. There are a number of things that are negotiable:

- Salary
- Sign-on bonus
- Vacation
- CME stipend
- Compensation model

Opportunities for negotiations may also vary for the group/hospital. Many groups and hospitals try to provide consistency within their organization and will not negotiate agreements. They want to create an atmosphere where all physicians are treated equally.

What are the critical points when negotiating rates of compensation?

Your flexibility in negotiations depends on the following:

- Specialty and how much it is in demand
- Flexibility — the more flexible you are the more chance for negotiations
- The market you are looking in — supply and demand
- Type of training
- Track record
- Board Certification