



happens.

**The Hayes Center for Practice Excellence
at SCO is here to help.**

Practice transitions can be difficult.
We provide resources to assist you in making the right decisions.



HAYES CENTER
FOR PRACTICE EXCELLENCE
SOUTHERN COLLEGE OF OPTOMETRY

Why should I bring in an associate or partner?

In general, there are two good business reasons to take in a associate or partner. The first is so you can arrange a buyout of your practice. If you are near retirement, you need to find a way to get the maximum equity out of your practice. According to Dr. Jerry Hayes, this is a good reason if you are 10 years or less away from retirement.

The second reason is to significantly increase your net-to-gross income. A bigger practice without a bigger personal income for you is not a better practice. Consider the following questions to help determine if hiring another doctor may be right for you:

1. *Am I fulfilling my own potential?*
2. *Will adding a doctor bring in more patients?*
3. *Will adding a partner help cut costs?*
4. *Will adding a partner improve my practice management?*
5. *Am I ready for the lifestyle changes, access to a second opinion or cross insurance provided by adding an associate?*

No matter the business knowledge of your associate or partner, you will lose some autonomy over the decision making in your practice.

Is my practice ready for an associate?

When is a good time to hire an associate? The most common mistake is to bring in an associate before your practice is economically ready. The right time to hire an associate depends on your stage of practice and whether you want to bring in another OD for economic reasons or for practice transition reasons.

For ODs more than ten years from retirement, hiring an associate OD is usually an economic decision based on practice production. Some practice owners make the mistake of hiring an OD when they feel 'busy' when the better financial move is to increase production on a solo basis by delegating more to its non OD staff.

For example, the median production for a solo OD is about \$600,000 per year in gross collected revenue while it's not uncommon in today's world for solo ODs to produce \$1 Million +.

It's also important to note that the median net income for private practice ODs is 30% of gross or \$180,000 for a \$600,000 practice.

Median production per non OD staff is about \$130,000 per employee. Which means proper staffing for a \$600,000 practice would require 4.6 FTE (full time equivalent) employees ($\$600,000 \div \$130,000$).

In our opinion, a practice owner producing less than \$600,000 solo and \$180,000 in net income who still wants to work full time is not a candidate to bring in an associate based solely on feeling busy. The actual breakeven point for hiring an associate is around \$800,000 in solo production.

On the other hand, ODs within a ten year horizon for retirement may want to consider hiring an associate for transition reasons.

How do I find an associate or partner?

There are many ways to find a recent graduate who is looking for an associate or partner opportunity. The Hayes Center for Practice Excellence offers an easy to use, free placement site that allows an existing practitioner the ability to list the details of their practice. Students and recent graduates perform a search on the Hayes Center website looking for a practice that meets their mode of practice and location interest.

Attendance at state and regional optometry meetings has also proven to be beneficial in joining the generations of doctors. Graduates looking for practice opportunities are encouraged to attend these types of meetings and inquire about practitioners who may be interested in hiring an associate or finding a partner.

How much should I expect to pay an associate?

The median annual compensation for an associate employed by an optometrist(s) is \$85,000. But the real answer is that associate compensation should be viewed as a function of how much revenue and gross profit an associate can expect to produce in your practice.

As a rule of thumb, associate compensation should equal 15 - 18% of their annual production. Using this guideline, if a full time associate produces \$500,000 in a practice, they should be paid \$75,000 on the low end ($\$500,000 \times 15\%$) to \$90,000 on the high end ($\$500,000 \times 18\%$).

The same general formula can be applied to part time associates.

The key to making an employed OD work financially is patient demand. That depends on the ability of the practice to supply the young optometrist with enough patients from your overflow or the ability to generate their own patient flow.

How do I pay for an associate? Should I pay them as an independent contractor or an employee?

The general reason optometric practice owners seek to hire their OD employees as a private contractor is to save money on payroll taxes and employee fringe benefits. However, these same tax savings would NOT apply to the employee.

While there may be some tax advantages to hiring an OD as an independent contractor, most employed optometrists will not qualify as a contractor under IRS regulations.

In addition to the tax savings, an employer would not compensate an independent contractor for any of the benefits that a salaried employee might receive such as health insurance, retirement programs and time off for vacation, sick leave and paid holidays.

Is this arrangement legal?

Every case is different and IRS Ruling 87-41 is not clear cut on what qualifies as a legitimate

independent contractor in the eyes of the law. Here are some basic questions the practice owner might get asked in an IRS audit:

- *Is the contract OD a full time employee?*
- *Does the contract OD set their own hours?*
- *Does the contract OD set their own fees to patients?*
- *Does the contract OD use their own equipment?*
- *Does the contract OD supply their own staff?*

If the contract OD is a full time employee in one practice and the answer to all the others is NO, this employee will NOT qualify as a true independent contractor with the IRS in our opinion.

If the IRS made that determination after an audit, the employer would be assessed back payroll taxes, interest and penalties on all compensation paid to the employee.

Dr. Hayes' strong advice to practice owners is to follow the letter of the law with your employees. Otherwise, you may find yourself vulnerable to legal action if you have a management dispute with a litigious minded staff member.

What should be included in an associate contract?

An associate is an employee and as such holds no ownership interest in the business entity for which the employee works. The associate contract is typically prepared by the employer's attorney and should include the conditions of employment such as working conditions, special duties, hours and practice locations.

The term of the employment will include the specific dates of the contract. The salary and how it's paid, including any bonus income is spelled out in detail. Other items that can be negotiated are the employee benefits such as dues, continuing education, insurances and moving expenses, details of paid vacation and the terms of a non-compete clause. Any equipment provided by the employee needs to be listed.

It is important to remember that contracts are legally binding, so do not rely on verbal representations if they differ in any way from the written document. Know what you are agreeing to and have an attorney review the contract before you sign anything.

The Hayes Center for Practice Excellence is here to help.

Whether you are interested in hiring an associate, finding a partner or selling your practice, the Hayes Center for Practice Excellence is here to help. One of our goals is to help private practices transition to the next generation of optometrists. Beginning this process in a timely manner is of the utmost importance. A practice has the greatest value when it is active and profitable. Up-to-date equipment and inventory raises the value by making the practice more desirable to a potential buyer. If you have any questions or would like to discuss your practice transition, please feel free to contact us at the Hayes Center at **901-722-3332** email, **hcpe@sco.edu** or visit **www.sco.edu/hayescenter**.

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