

Group Practice-How and Why?

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INTRODUCTION

The purpose of this paper is to explore the area known as "Group Practice". There are two major divisions: (1) How a group practice is initiated and (2) why a group practice should be initiated and perpetuated. The first point is rather straightforward. Except for certain personal variations by the individuals involved, it can be described fairly completely. The second point can never be fully explored. Certainly, generalities can and will be made; however, the reasons for their formation and continuation will not be the same in any two groups. In the area of "The Why" we usually think of two basic divisions: those concerning the practice of the profession itself and the economic considerations involved, if full advantage is to be taken of the group practice situation. In the former, that concerning the practice of the profession, I consider myself qualified to speak. In the latter area, that of the economic considerations involved, I consider myself a layman, not a professional in the field. For the sake of definition let us consider a professional to be an attorney, an insurance agent, an accountant, or a management group utilizing all three, who has made a special study of this field. As a layman in the area of the economics of a group practice, let me explain that for eight years I have been part of a three-man group and that my interest in group practice has been stimulated and motivated by more or less personal interests.

Although, in the later part of the paper, I will discuss various economic areas, this is done more or less to acquaint the listener with some of the items available for consideration. These items should be fully discussed, pro and con, with your advisers in

order to evaluate their adaptability to a particular situation. The type of group practice, to which the attention of this paper is directed, is that made up of men in the same area of practice, i.e., orthodontics, oral surgery, endodontics, etc.

The direction of this discussion will also be focused on that type of group practice in which the patients, for the most part, would be treated by any and all members of the group. Exceptions might arise when an area of special interest is involved (one might be particularly interested in cleft palate treatment, another in Class III corrections or in patients being followed for Board preparation). Sometimes a specific doctor will be requested for various reasons and as a rule this can be granted. This situation would be the opposite of the type of group practice in which two or more men practiced together, but for the most part each patient is treated by his own doctor. This group might be technically referred to as a "Group of Separate Practices". This latter idea, while good for those who like it, has many distinct disadvantages. These will be seen in later discussions.

Since I have no immediate working knowledge of the type of group formed by a trained specialist who hires untrained professionals to aid in the treatment of patients, I cannot discuss this situation. Also, some of the points discussed would not be applicable to groups whose make-up consists of men practicing in various specialties in the profession.

PHASE I — "THE HOW"

The "How" of forming a group practice is generally divided into three areas: additive, merger, and group

formation from its inception. This might not cover all types of formations, but I'm sure the vast majority would be included. The first, additive, is by far the most common of the three types. In this situation an established practitioner or group decides to add additional trained professionals to the practice. The second type, merger, would involve two or more established practices being amalgamated into a single practice. The third type, in which the practice is started as a group type practice, would generally involve recent graduates who have decided to pool their resources from the beginning. Although the last two examples described are not used as often as the additive type of formation, they do offer special merit. The three types will be discussed in the reverse order mentioned.

The practice, which from its inception was a group, is gaining more and more popularity. With the advantages of group practice being "preached" from every "pulpit" in the country, new practitioners want to take advantage of this situation and understandably so. There are two obvious disadvantages of this situation in the beginning. First, it might be harder to feed two mouths instead of one in a new practice. The second drawback would be that a group must have a sufficient income to take advantage of certain tax situations. However, if this group can survive, it will be the real winner. Probably the major deterrent to this arrangement of group formation is the initial financial considerations. However, if careful attention is paid to the choice of area, of location within the area, (don't overlook downtown locations in medium size towns) and the men each exercise a modicum of patience, the full benefits of a group practice can be obtained as soon as they are feasible. A common way for this group to survive is to have each member work part-time in a busy office in either another part of town

or in a neighboring city; some benefits would be immediately applicable and obtainable from the first day.

In this type of group formation all expenses and income would be shared equally from the beginning; this might also apply to professionally earned income from outside the office. Early consultation with expert advisers is recommended so that the advantages of group practice can be realized early. Such details as work contracts, buy and sell agreements (in life as well as death), vacations, continuing education, etc., should be spelled out before the front door is opened. In this situation, which would probably be entered into between two close friends, and in any other group formation described hereafter, no detail is too small to be overlooked and no detail should ever be taken for granted. In the words of John D. Rockefeller, the financier, "a friendship founded on business is better than a business founded on friendship."

The second arrangement of group practice formation is the type referred to as a merger. In this situation two or more men pool their practices. The author's attention was first brought to this type of group practice formation in an article written by Butori and published in *The Angle Orthodontist* in the late 50's. This article gave the author and his two associates the impetus to merge their practices.

This type of group practice formation, although not often used, should be given a great deal of thought by those interested in the idea. The individuals interested generally know each other through their professional and social contacts in the community. Each man's reputation for honesty, industriousness, gregariousness, and sobriety are generally well known. The individuals' training, treatment philosophies, and abilities are usually known by the concerned parties. It is my thought that this type of amalgamation should have

a better chance at success than any other. Although a similar analogy exists here between the single practice and the group practice as it does between a courtship and a marriage, the unknowns are nevertheless reduced and the possibility for success increased.

The mechanics of such a merger are many and varied and at times a little bizarre. Some of the things to consider are the obvious: various dollar incomes, number of patients under treatment, physical assets (actual, depreciated and replacement), accounts receivable, accounts in arrears, bad debts, supplies, etc. Some of the not-so-obvious problems are new and larger office space, personnel-job assignment and reassignment, fee schedules, salary schedules, distribution of various administrative duties, convention expenses, professional gifts, continuing education courses, etc. These, and the many more problems that will arise in the discussions prior to the formation of the group, must be agreed upon and settled equitably.

Once the physical assets and supplies of each man have been evaluated and a settlement agreed upon, the difficult area of finances must be discussed. A word of caution here, care should be taken so that each man is compensated fairly for that part of the practice that he brings to the group; however, care should also be taken that parity between the participants is reached as soon as possible. This will allow the man who brings the smallest workload to the group, but now finds himself doing his proportionate share of the work, be it one half or one third, etc., compensated for carrying this increased load. As in any situation like this or of similar nature, a solution that would be absolutely fair to all parties might be impossible. It is therefore necessary for a workable compromise to be arranged. If success is to be assured in the merger-type situation, or any other for that matter, all

parties must understand and recognize that they possess human frailties. The ready acceptance of this "give and take" philosophy of organization can be the cause of the victory or defeat of the proposed merger. Usually a percentage of the gross practice income is given to each member, according to the gross income he brought to the group, for a specified period of time. Again caution is stated that no detail is too small to be discussed and a solution reached.

The third and most common way of creating a group practice is the one described as additive. In this situation a single practitioner decides, for whatever his reasons, to add one or more men to his practice. An established group may also increase its size or replenish itself in a like manner.

After careful interviewing on the part of both the practitioner and the applicant, an agreement is reached between them to start to practice together. After recent interviews with parties in six groups formed like this, a most important and recurrent thought was expressed, the necessity that each of the involved parties have the same mutual goals. Success here seems, at times, to be based more on ideology than on any other single factor.

Prior to the time any final conclusions are reached, decisions should be made to cover such areas as finances, sickness and accidents, death, retirement, vacations, professional meetings, continuing education and any other areas that conceivably might cause a misunderstanding at a later date. Again, emphasis cannot be placed too strongly on the need to seek out, to listen to, and to follow the advice of experts in this area.

The usual procedure calls for a period of employment, after all the details are worked out in the employment contract, at a stipulated salary for a given

amount of time. The usual time is twelve to eighteen months. Sometimes a bonus is given for the completion of this employment phase. This term should give all parties a chance to get to know each other in all types of situations. Using the jargon of the day, this time might be compared to an interlude of "trial marriage". When this trial period is over, the actual "buy-in" can start.

For every group that exists, I feel that a slight variation in procedure is established. The terms of the various contracts differ from an immediate fifty-fifty relationship to some variation on the following theme: a price is established for physical assets, accounts receivable, supplies, accounts past due and goodwill. This, in general, establishes the worth of the practice and a proportion of this is generally paid by the new man over a reasonable length of time. (It is now general practice to charge interest on the unpaid balance.) From this time the new man starts to share the net income of the practice on a proportionate basis. This proportionate share generally increases so that within a period of three to six years the men have reached a position of equality in the practice. This procedure seems to cover most situations. The individual variations observed seemed to be set up to meet specific situations on the part of either member. Again reason should prevail in all negotiations. An advantage given or taken in the beginning phase can cause the demise of the whole. The contract should be written so that a stipulated termination date can be modified if all concerned parties agree. This idea seems to be relatively common if all participants are satisfied.

The three basic ways of creating a group practice, additive, merger or initiation have been briefly discussed. Let us now examine the "Why".

PHASE II — THE WHY

In discussing the "Why" of anything our first inclination is to seek out the pros and cons, the advantages and the disadvantages. Since the advantages and all their ramifications will require more of an examination, the disadvantages will be discussed first.

In any group situation the individual must consider himself less than the whole. Sometimes what is good for the group may not be convenient or even best for the individual. This might concern itself with such things as scheduling of time, certain bookkeeping procedures or even vacations. However, as in marriage, one must learn to give and take.

In the type of group formation, mentioned earlier as the "additive" type, the new man must expect to "play second fiddle" to the established practitioner for some time. In due course this situation will certainly ameliorate itself. The time involved will depend a great deal on the parties concerned. The more the original man or men are willing to bring the newer man to the fore, the less time this feeling of frustration will last. It should also be pointed out that the tables may reverse themselves as time goes on. This is especially true if there is a wide gap in the age difference. In time, the original man, who would most likely be the older one, would find the patients turning to the younger man. As we all recognize, there can be a certain charisma in youth and gruffness and dogmatism as age advances. It behooves us all to heed the cliché and "think young."

Another problem, at times, is that the members of a group might consider themselves apart from the total group, as might an employee of a major corporation who happened to also own stock in the corporation. In a professional group this usually manifests itself in two areas: purchases of materials

and supplies might not be observed as critically as in a single practice and the "pennies" of day-to-day operational costs are many times lost in the larger volume of dollar business, as done by groups, resulting in the loss of "dollars" of profit.

Another disadvantage that presents itself to some men is the loss of being the complete and sole person responsible. This has been called colloquially "The loss of the big I." Instead of all things being "I" they must now become "We", if the group arrangement is to be successful. Whether some men feel that a group arrangement challenges their ego or possibly, that they would just as soon stay "bachelors" instead of getting "married", is not within the scope of this paper to discuss. However, the truth must be faced, whatever the reason may be; some men are better off in solo practice.

Since any discussion of group practice must perforce include some mention of the professional corporation, the disadvantages as well as the advantages of this vehicle must be covered. As was stated earlier in the paper, I consider myself a layman in this field and my only intention is to focus your attention on some of the possibilities presented by this relatively new phenomenon. An examination of the fewer disadvantages will be first.

When discussing all the items available in a professional corporation we must first make certain that the parties involved can currently part with some portion of their spendable income. If the dollars are unavailable, nothing is advantageous. It should go without saying that food and shelter must precede our thinking on the corporate structure and its sophistications.

The day-to-day operation of a corporation, while it may not be a disadvantage to some, is certainly troublesome. Business meetings must be held with accurate minutes kept. The opera-

tion of a pension and/or profit sharing plan can certainly cut into free time, if not handled by experts. These details and many others can sometimes stretch the good humor of all involved.

There are still avenues of attack against the professional corporation being investigated by the I.R.S. Regardless of the present acceptance of the professional corporation by them, at some future date we may find ourselves with a court suit on our hands. Since the professional corporation might always be only grudgingly accepted by the I.R.S., the method of taxation on withdrawal of funds from pension or profit sharing plans could easily become an area of attack. A decision recently handed down has already changed some withdrawals from the capital gains bracket to that bracket occupied by the person on an ordinary income basis. Since most of us expect to be in an area of reduced income compared to the peaks occupied during active practice, we tend to negate this decision as only affecting us marginally. However, if the principle is attacked over and over again, we might find most of our tax advantages eroded.

It should also be remembered that monies distributed to nonprofessionals reduce the amounts set aside for the professionals. This point must be weighed against the over-all good to the professionals that could not otherwise be realized, the reduction in employee turnover and the effect of this program on recruiting top-notch employees.

There is another item often overlooked, the unexpected costs, such as the formation and maintenance of the corporation. Realize also that the professional's salary is subject to payroll taxes and workmen's compensation insurance; again, while not monumental, it cannot be considered trivial. As you can see, some of the drawbacks to group practice and the professional corpora-

tion weigh more than others. Nevertheless, the over-all picture must be thoroughly scrutinized.

To balance our scale, one must now consider the advantages of the group practice. I shall not attempt to list these in order of importance, because that would be an individual decision. I will tend, where possible, to divide them into financial and nonfinancial advantages discussing the nonfinancial first.

It is my opinion, and I stress again the personal aspect of this statement, that the most beneficial part of a group practice is the ability to share knowledge and experience on a day-to-day basis. You have in effect your own study group. The entire plateau of professional achievement can be more easily elevated in this type of environment than in any other. In this same vein, a spirit of camaraderie can develop easily. It is one thing to have partners, quite another to have genuine friends.

Time out of the office can be more easily handled. Two can cover for three and three more easily for four. I have not studied this progression in more than a four-man group. I would think that a point could be reached where the addition of more professionals to a group might prove itself more cumbersome than advantageous. On returning from a trip there are no emergencies that must be seen, no myriad of phone calls concerning the practice, and no stack of mail to be digested. In short order you attend to the few personal things that have accumulated and then return to the routine of the practice. It might also be mentioned here that, while you are on holiday, not only has income continued but it has been earned as well.

It is not necessary for one man to wear the many "hats" of today's practice. The duties of personnel management, comptroller, supply, laboratory chief and professional need not be as-

sumed by one man. These duties can easily be shared. A propensity for one area is usually evident, and duties can be assigned more according to likes and dislikes rather than need.

As is true with the participating professionals and their various duty assignments in office management, so the nonprofessional can also be employed on a more selective basis. No longer is it necessary to hire a receptionist-bookkeeper supply clerk and office manager all in one; nor is it necessary to hire an assistant - laboratory girl - x-ray technician and photographer all in one. The various specialized duties can be better filled with personnel who might be specifically trained in one area. An employee who, like the professional himself, has a liking for one area more than another, might have specific duties designated to her. Group practice also lends itself very nicely to the development of training programs for the assistants. No longer is it necessary to hire someone and immediately put her to work in the treatment room or behind the reception desk. An adequate time can now be allotted for training and getting the "feel of the office".

The ease with which outside office interests can be cultivated by the professional members of the group is much greater. In these times when all our advisers admonish the professionals to take more interest in communal affairs, the time to accept these responsibilities can be more easily gained in a group than in a solo practice.

The acquisition of new equipment by the individual can sometimes represent a genuine sacrifice. This is not generally true in a group. The decision as to whether a major outlay of capital for new equipment can be financially managed is based more on need than on money available. This is really as it should be. Anything that will improve our skills as professionals or make our day-to-day practice easier would be a

welcome addition to our office. However, many times the individual expense involved is too great for the solo practitioner to absorb, therefore the needed purchase is postponed or passed over completely.

The obvious advantage of practice continuity must certainly not be overlooked. The ability to care for the patients despite untimely illness or even death has implications far greater than the more frequently mentioned ones of continuous treatment and little if any loss of income. The ease of recuperation must certainly be greater knowing that all is well at the office. The constant worry of office management problems would most assuredly affect the recovery of the patient where "rest and freedom of worry" are prescribed. Many thinking parents have often commented on their peace of mind knowing that any long course of treatment will be managed by the group in case of an unexpected emergency to the professional.

Efficiency, which is the goal in all offices, is more often achieved in group practices than in single practices. No longer can we afford the luxury of being only professionals. Our offices must function with a high degree of efficiency if we expect to continue to practice the profession for which we were trained. A group situation, which allows for a division of duties, can more easily succeed in this than the individual who must be all things to all persons.

I have spoken briefly of the attraction that a group practice can offer the nonprofessional employee. The same is most assuredly true of the attraction for a new professional to the group. Those young graduates who are undecided about a group association will many times be attracted by the benefits offered in a group. Similarly, the time might come when a new graduate might appraise one group against another. This is the exact situation

industry finds itself in today. Young men do not accept the first job offered, but rather investigate the prospective employer, his over-all corporate structure, the area in which he is expected to live, etc. All other things being equal, the recent graduate may select the group that has the most attractive package to offer.

I have briefly examined the non-financial advantages to group practice and now will discuss some of the financial ones. Again let me emphasize my admonition stated before, please seek the advice of those whose professional judgment you respect in this area. The following items are mentioned only as a method of bringing them to your attention.

A deposit made to a profit sharing and/or a pension plan is tax deductible. These two vehicles are generally referred to as qualified retirement plans and may receive up to twenty-five percent of your earned income, ten percent profit sharing, and fifteen percent pension. The earnings realized from these deposits are tax free until the time of withdrawal. (The I.R.S., in 1970, changed the tax rate on the withdrawal of the funds. This change was listed before as a disadvantage.) This now allows the professional to compound his savings before the tax bite has been applied. It is a very worthwhile program.

Most group practices can qualify for a group life insurance program that is deductible. As with many of the programs available to groups, the amount of coverage need not be equal. That is, the professionals can acquire a larger amount than that given to the nonprofessionals. While discussing insurance it should also be noted that the cost of disability and medical insurance, for the professionals only, can be a direct office expense. It is also possible for the professional to be reimbursed for direct medical expenses

for him and his family. This last item is in addition to any insurance coverage present.

One of the items of particular interest to all professional men is the transferability of interest, either on retirement or death. In this latter situation, the stories are many of the flourishing solo practice that created only a pittance of estate value. A man who has worked all of his professional life to build a thriving practice is entitled to feel that this will have as readily a marketable value as does the neighborhood dry cleaner, grocer, or service station owner. Unfortunately, the only way this can be assured is through a group situation where a firm buy and sell agreement has been reached. This can be funded by insurance and/or deferred compensation. Then it is not a burden on the surviving or remaining members of the group. Now, a man's practice can be marked in the asset column, with a definite amount, similar to insurance cash values or real estate when determining his estate value or funds available for retirement. While in a discussion of estate value, it should be noted that monies paid to a named beneficiary, in case of death, in a lump sum from a pension or profit sharing plan are not subject to the usual estate taxes. The federal estate taxes do not apply. Depending on the size of one's estate this could be a marked savings.

Let us now examine the so-called nonqualified retirement plan called deferred compensation. A contract can be entered into between the professional corporation and the professional employees on a selective basis. Monies can be set aside to be received after retirement or death. It should be understood that the finances so deposited are not deductible by the corporation, nor are they taxable to the individual. They are, however, deductible by the corporation at such time as they are distributed and are taxable to the re-

ipient at that time. This is an effective way to create an additional insurance instrument with pretax dollars. This policy would pay the face value on death or the policy could be purchased by the retiree for the cash value. Again, as with the profit sharing plan and the pension plan, the deferred compensation cannot in any way be collateralized or it would be disallowed.

In any corporation, be it professional or not, there is a limit of liability. This understandably is not professional liability, but the liability of one member for another in civil matters. It might also be stated here that when malpractice insurance is considered that, not only should the professionals be insured, but also the corporation.

One of the most overlooked areas for investment by the professionals in a professional corporation is the ability to deposit up to an additional 10% into the profit sharing plan. These are post tax dollars, of course, but the growth is not taxable and it does qualify for the capital gains treatment when utilized at a later date.

In summation, let me again emphasize what I think are the major advantages of group practice and the professional corporation: 1) the day-to-day sharing of professional knowledge and experience with one's peers, 2) the use of the profit sharing and/or pension plan and 3) the creation of a fair and immediate estate value. For the first time we as professionals can make plans and enjoy some of the advantages hitherto only afforded to the employees of major corporations. It has not been my purpose to try to convince anyone to initiate or join a group practice or to form a professional corporation; however, I feel that once both sides are explained and understood, a correct and rational decision can be reached by each individual.

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