FOR THE PROSPECTIVE ASSOCIATE: QUESTIONS TO CONSIDER

The following questions are intended to help a physician determine whether a partnership-track position is desirable.

Questions to ask up front

Will private practice suit you? You may prefer the variety of an academic practice, or caring for patients in a community health center. You may feel more comfortable practicing as an employed physician in a health system, or in the military or a government agency. Identify the key issues that would make a practice a good fit for you.

Will partnership suit you? Think carefully whether you might be willing accept the risks and commitments of partnership as well as the benefits. The two main benefits of becoming a partner are the opportunities to earn higher compensation and to have a greater say in the practice's decisions than an associate physician. Partners also enjoy greater professional autonomy and job security. On the downside, partners are more directly exposed to financial risks than associate (non-owner) physicians and bear more direct responsibility for running the practice, including obligations to employees and others. Partnership is a long-term commitment: at least five years in a stable practice, potentially longer if succession planning is involved.

Is this a partnership-track position? Some practices hire physicians with the objective of offering partnership if association works well. Others do not intend to add new partners. It's reasonable to find out whether partnership is a possibility and what you might expect. The number of partners added over the years is a good indicator of your likelihood of becoming a partner. The experiences of the practice's newest partners suggest what you might encounter on the partnership track.

What might you be buying if you become a partner? Will your share of the practice be proportionally equal to those of the other partners? A small inequality can make a big difference in your compensation and your influence in important decisions. Will you receive the same class of shares as the other owners, or an inferior class that might provide less compensation and influence? Does the medical practice include real estate or expensive equipment, such as diagnostic equipment or computer systems? If these are owned by separate business entities, will you be invited to purchase a proportional number of shares in them, too? In short, how much can you expect to earn as a partner and how much of a voice will you have in practice decisions?

When might you become eligible to become a partner? The typical partnership track is two or three years long, at which time you may be invited to become a partner (rather than just *beginning to discuss* partnership, as specified in some employment agreements). Learn about explicit criteria for partnership, such as achieving a productivity threshold.

How will you pay for your partnership share? It is quite common for practice owners to reduce the new partner's compensation and apply the difference to the purchase price. Other practices expect new partners to pay their buy-in price immediately, which may require borrowing money.

To quickly assess the financial benefits of partnership, divide the estimated purchase price by the difference you expect to earn as a partner. If you expect the cumulative compensation differential to exceed the buy-in price within three to five years, it's probably a good deal financially. (When real estate or expensive equipment is involved, a discounted cash flow methodology for assessing the attractiveness of your investment in the practice is more appropriate, and more complex, than this rule of thumb. You may want to consult an accountant for help.) Hospital physician recruiting incentives can complicate financial considerations. See "Hospital physician recruiting incentives" for more information.

Questions to ask down the road

Now that you have the chance, do you want to be a partner? As the eligibility date draws near, assess whether you might accept the partnership opportunity, if offered. Consider both your happiness with the practice and its financial situation. Do you like your patients, the practice's culture and your colleagues? Does the practice have a sufficiently large patient panel and strong referral channels to support all the physicians including you as a partner? Are the practice's location and your lifestyle attractive? Are you satisfied with your current and potential compensation? In short, do you anticipate a rewarding career in the practice?

Perform due diligence to determine whether the practice is financially sound. Examine the practice's income statements, balance sheets and tax returns for the past three years. Has the practice earned sufficient gross profits (revenues minus practice expenses) to adequately compensate the physicians? Does the practice have strong positive net worth (assets minus liabilities)? Do the partners anticipate any unusually large expenses? Are any of the current partners planning to retire or otherwise leave the practice, burdening the remaining partners with buy-outs? Ask for realistic financial projections for the coming three years.

Is the buy-sell agreement fair? A good agreement respects each party's interests; a poor agreement favors one party over the other. Becoming an equal partner is preferable to becoming a minority shareholder or to purchasing inferior class of the practice's stock. Does the agreement calculate the price of each physician's share the same way for buyers and sellers? If it includes clauses protecting senior partners' interests, are they reasonable?