

# REVENUE GUARANTEES AND ORTHOPEDIC PRACTICES

One of the ways hospitals attract physicians to their communities is to promise that the doctor will earn a certain amount of money each month. This sort of “revenue guarantee” can be a great opportunity for an orthopedic practice, but you have to watch your step.

## Why?

Why do Hospitals put their money on the line for existing orthopedic practices that want to hire new doctors? Simple. They get the physicians they want and need into their community. Revenue guarantees help practices hire new or relocating doctors by shifting to the hospital the entire cost of hiring the new doctor.

## How Does it Work?

It’s pretty simple. The ortho practice and hospital jointly decide to activate a recruiter. When candidates are identified, the practice and hospital interview them and select one or two they like. The ortho practice negotiates the salary and benefits, prices all the expenses affiliated with the new doctor, then sits with the hospital to negotiate how much of those expenses will be shifted to the hospital. Done well, an orthopedic practice will have zero financial liability for this newly hired doctor. The practice need experienced accounting and legal advocates to optimize the opportunity. Once the figure is negotiated, documents are handed by the hospital to the ortho practice and the newly recruited practice. The practice is guaranteed to receive up to \$X/month, and any shortfall is made up by the hospital

## How Much Money?

Whatever is reasonable and directly attributable to the newly hired orthopedist, including salary, benefits, and overhead. It is essential to work with qualified experts who aid practices in knowing what those numbers should be, since failing to do that could leave your practice going into debt each month.

## What’s Included?

Since the hospital’s obligation to pay the guarantee amount is triggered only when collections do not hit the amount guaranteed by the hospital (normally at least the first 90 days), the hospital will want to look closely at the practice's financial books and records to

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see what's collected for the services of the new doctor. The hospital will generally count all amounts received, including any call pay and expert witness fees, but this is a negotiated point.

### **How Long?**

Most hospital revenue guarantees last a year, though they can run longer. The guarantee is especially important in the early part of the guarantee period, of course, when revenues are at their lowest due to the collection cycle (especially for managed care).

### **What Does it Cost?**

Nothing is free, and revenue guarantees do have costs. But, if things go well, an orthopedic practice can end up getting the hospital's assistance and not have to repay the hospital anything at all! Here are some of the costs/risks to a practice:

First, there's a possibility that the new hire doesn't work out and then leaves or is fired within three or four years. That's a big issue because one condition of getting to keep the hospital money and not having to repay it is that the recruited doctor stays in the community for up to four years (another negotiation point). If the recruited doctor moves away during the three or four year period, the practice and/or the doctor will owe the hospital some or all of the money they paid. The issue of how long the recruited doctor has to remain in the community and who bears the repayment obligation is often negotiable.

Second, a medical practice cannot unreasonably restrict the doctor from practicing medicine if he or she leaves the practice. That means, for instance, a very limited noncompete. Why? That's what the Stark II regulations require. For that reason alone, it may make more sense for an orthopedic practice to bite the bullet and get bank financing to bring in a new doctor.

Third, though not a dollar cost, the medical practice will have to allow the hospital to see its corporate financial records. Since the hospital's financial support is based in part on how much money is collected from the services provided by the recruited doctor, collections must be verified each month.