Dynamic Chiropractic

Assoc. Doctor Financial Realities: Win-Win or No Deal

R. Jay Wipf

Does anyone really know what the associate doctor relationship should be? Stephen Covey, MBA, PhD (The 7 Habits of Highly Effective People) suggests a win-win deal or no deal. That seems fair. The profession seems to be divided on what is fair. The division is basically drawn between clinic owners and new or distressed doctors. Both groups have their own set of values and perceptions that seem to be inherently at odds with the other. Each has something the other wants. If both are fair and realistic, their relationship can be win-win.

Perhaps more than anything else, the financial reality of running a practice has the effect of setting the stage and parameters for this relationship more than does practice technique or philosophy. Both sides must understand the needs and values of the other before realistic relationships can be formed, based on a win-win deal within the financial realities of a modern chiropractic practice.

Somewhere in chiropractic college or at a practice management seminar, the new doctor was ingrained with the unshakable belief that a chiropractic degree was of value in and of itself. In reality, that value is only translatable to an income if applied to an exchange of professional services in a clinical environment for a fair and reasonable fee by a satisfied patient. Additionally, a significant number of patients must be served, fees collected and deposited (in a short enough time to cover the cost of providing those services), and a profit taken.

New chiropractic physicians expect to be paid the chief of staff salary, while performing at the level of an intern. Medical interns beginning their postgraduate practice after earning their medical degree, understand that their value as an intern is roughly in the $25-30,000 per year range. Chiropractic physicians believe that their degree entitles them to initial compensation as an employee of not less that $36,000 per annum. Where does this come from? Is it realistic?

Let's look at the intern salary from a statistically financial point of view. Thirty-six thousand dollars is just the beginning. We must realize that for the employer to pay this salary, he must add on:

- social security tax (6.2 percent)
- Medicare tax (1.45 percent)
- unemployment tax, state and federal (1-3 percent)
- workers' compensation insurance premiums (1-2 percent)

That's approximately 15 percent (plus or minus 2 percent), depending on the state of residency and employment history of the employer. The actual cost to the employer of a $36,000 salary becomes $41,400. If we now assume that the employer's overhead is at the national average (60 percent) and he hopes to earn 10 percent from the associate's presence in the practice, then the associate's compensation is 30 percent, totaling 100 percent. If $41,400 is 30 percent of the practice (the associate's compensation), then $96,600 represents the 60 percent overhead and the 10 percent owner's profit. Therefore, the total of the associate compensation, plus overhead, plus owner profit, is $138,000 per year, or $11,500 per month in collections. The national average of 90 percent collections would equate a services performed production of $12,650 per month by the associate to merit a salary of $3,000 per month the first year.

To summarize this financial arrangement for a win-win deal where the associate nets $36,000 a year, the associate must produce gross services of $12,650 per month at a 90 percent collection rate to justify his salary with a 60 percent overhead: with his total cost compensation at 30 percent; with the owner's profit at 10 percent of collections. There you have it.

By getting out the calculator and factoring in the overhead, the percentage of collections and the expected percentage of profit for the clinic owner and the associate, you can quickly tell how much your new associate must produce to pay his way. Making it a win-win deal really is dependent on realistic expectations based on the realities of economic conditions that presently prevail in your practice and the percentage of profit you expect to take from the relationship. It is truly a balance between all these factors.

If the clinic owner and the associate doctor can't come to an understanding about what the numbers support financially, then they'll never have a lasting relationship, as the numbers always dominate and overrule the best of uninformed intentions. Therein lies the rub. The newly degreed doctor has the state board tested knowledge but rarely the finances or the business skill to assure a significant number of new patients in a clinical setting, or to collect the fees in an amount greater than the overhead for a sufficient period of time to claim a profit large enough to merit a continuing chiropractic enterprise.

Rarely does a MD open a professional practice immediately out of medical school. However, rarely does a chiropractic doctor not attempt to open a professional practice immediately out of chiropractic school. Does that sound right? Are chiropractic physicians exempted from the rules of clinical experience, business skills and financial access that medical doctors seemingly observe during their system of internship, residency, and group practices which serve to guide, protect and mentor them into financial success, at perhaps a slower career track, but certainly a more predictable career track than the majority of the chiropractic profession? Medical doctors are in fact more viable within their profession than are chiropractic doctors over the long haul, as their journey to financial security is more predictable, more gradual, and thereby more profitable, due to their system of dependency on the group paradigm rather than solo practice paradigm.

Lessons can be learned from the medical profession in an attempt to duplicate in the chiropractic profession their financial success for the majority of their member practitioners. Making projections by financial evaluation of current practice statistics relevant to your practice to support your long-range viable relationships with your associate doctor makes good business sense. Wipf it out.

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