12 myths about selling your practice

Could collecting big bucks from a buyer, and then becoming a well-paid employee, be the biggest mistake of your life? Yep.

By David J. Schiller, J.D.

As that legendary football coach once said, "Winning isn't everything, it's the only thing." Many physicians who are selling their practices seem to have the same attitude about money: It's the only thing that counts. But if you plan to stay on to operate your former practice as an employee of the managed-care organization that buys it, such myopia is bound to bring you grief.

Even if the MCO offers you a king's ransom for your practice and promises a princely salary, don't rush to sign up without reading between the lines of your contract and understanding how your life will change as an employee. And don't be gulled by smooth-talking negotiators who assure you that the only change in your lifestyle will be all that extra cash you'll be able to spend.

Every aspect of your formerly autonomous professional life may change once you have a boss—everything from where your office is located to what hours and days you work, from whom you can hire and fire to how much CME and vacation time you can take.

And if you think that putting your signature on a contract means negotiations are over and you can now relax—well, that may be the biggest myth of all.

Which is not to say that you shouldn't sell, especially if the price is right. But, as the economist Milton Friedman once said, "There's no such thing as a free lunch." Here are some myths about what this particular lunch is really going to cost.

Myth No. 1:

Administrative hassles are over. Bargain hard, and you may get a strong salary from an MCO, perhaps more than you used to make. If, that is, your receipts remain the same. If they plummet, chances are that your salary will, too; one is usually tied to the other. "No problem," you may say. "My patient volume has been steady for years." That, unfortunately, is no guarantee for the future.

Even though you may be scrupulous in submitting the correct ICD-9 and CPT codes for each insured service you perform, the hospital or MCO may not bill for them.

Why might it not bill? Perhaps because of the negligence of an MCO employee installed in your former office, now the institution's office. In a common scenario, the employee quits; when you check her vacated desk, it's filled with unsubmitted bills. Another possible reason: poor training. If the MCO employee doesn't understand how to submit a given bill to the institution, instead of seeking advice, she

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Illustration by Robert Roger

lets the bill sit. Or the institution may bill for your services, and even collect the payments, but fail to credit your account. Constant screwups are a bureaucratic fact of life.

Or how about this: The vendor who furnishes you with medical supplies was used to prompt payment when you were footing the bills. But the MCO lets his invoices pile up for months. He tries in vain to get the money he's owed. Guess who he complains to? He comes to you. It then becomes your responsibility to run interference on the supplier's behalf—or do without paper towels, tongue depressors, and rubber gloves.

Will your earnings remain predictable after you sell your practice? Don't count on it. Your new employer may bill payers for your services, and even collect payments, but fail to credit your account. Constant screwups are a bureaucratic fact of life.

Myth No. 2:

I'll practice in the same place. Physicians typically take for granted that they'll remain in the same office after they sell. Don't assume that. Subtle provisions in a contract may specify that you can be assigned to work just about anywhere.

No, the MCO won't try to ship you off to the Aleutian Islands. But you may be told, "We're closing your old practice and relocating you to the other side of town." So your former 10-minute commute may suddenly stretch to a half-hour or more. Perhaps you have no choice but to tolerate the inconvenience, but your patients *will* have a choice—and they may exercise it. And the new neighborhood may be a dump.

What if you own the building you practice in and you're relocated? You'll lose what may be your highest-rent-paying tenant: yourself. It's common for a physician to charge himself rent equal to monthly mortgage payments. Without such an arrangement, you may have to sell your building at a loss. Find out how long your new employer will let you continue to occupy your current office, and, if you're relocated, what the MCO will do to help you unload your building.

Myth No. 3:

I'll keep my old hours. To a prospective purchaser, patient volume is all-important. So as long as your practice volume remains the same after the sale, what hours and days you work are up to you, right?

Afraid not. Once you're a hired hand, it's your employer who sets your schedule, not you. It's quite common for physician employees to have Saturday hours, as well as to work one or two evenings a week.

Myth No. 4:

My CME and vacation time won't change. Are you accustomed to taking six or eight weeks of vacation and continuing education time each year? Many self-employed physicians are. For employed doctors, however, three to four weeks of vacation plus one for CME are more the rule.

Myth No. 5:

My office will still be mine. During negotiations, it doesn't occur to most physicians to ask, "Will anyone else be using my office?" After all, how can you, a highly paid professional, not have your own private sanctuary in a busy practice? The answer is, Easily. After negotiations are over, your new employer can simply tell you that other physicians will be occupying "the"—not "your"—office when you're not there.

Nor can you assume that this won't happen to you if you own the building in which you practice. Once you grant tenant privileges to an MCO, it may be contractually entitled to put five physicians in your suite if it so desires. If you neglect to make an issue of it during negotiations, be prepared to join the queue.

Oh, now that you're sharing your office,

please take your diplomas off the walls. And those pictures of your family on the desk—sorry, but they have to go. And when you arrive in the morning, would you mind throwing out the Styrofoam coffee cups and leftover half-doughnut that your colleague on call the night before forgot to drop in the trash?

That's not all. If your new employer wants to replace your costly new computer system with its own hardware and software, as it often will, count on howls from your staff. The steep learning curve and inevitable glitches can turn your smooth-running practice into chaos, and push your bottom line lower. An MCO may want to redecorate your office and even change the name of your practice, systematically stamping out its former identity—and yours.

Myth No. 6:

Personnel problems are history. You may think that selling your practice will rid you of staffing hassles because the MCO will take care of them for you. The reality is, Yes and No.

Consider what happens when a staff member quits. True, you'll no longer have to call the newspaper, place a classified ad, and interview applicants. The MCO will handle all that and send you a new receptionist or nurse or PA—unless, that is, there's a hiring freeze, or staff cuts, which are not uncommon, in which case you may have to do without. Your idea of how many people are critical to have in the office may differ considerably from that of hospital or managed-care executives.

On the other hand, you may wish there *were* a hiring freeze or staff cuts when the MCO sends you a replacement who's far less competent than the person she replaces, or who has a grating personality, or who has irritating habits like gum-chewing or tardiness.

When you're the boss, you can say, "Mary Jane, Friday's your last day." When you're an employee yourself, you can't force the institution to take her back. Unless you catch her robbing you blind or stealing narcotics, expect to be told: "Sorry. You'll have to put up with her. She works for us, we've assigned her to you, and that's where she's going to stay."

Myth No. 7:

I'll be rid of collection headaches. When you become an MCO employee, your income will usually be guaranteed for a couple of years, assuming your contract is renewed. Thereafter, your earnings will depend on how well your practice does financially. And how much money your practice earns depends on how well you handle collection problems.

Imagine having to share your office with other doctors. No diplomas on the wall. No pictures of your family on the desk. And when you arrive in the morning, would you please throw out the Styrofoam coffee cup someone left on the desk the night before?

Suppose an MCO agrees to pay you 45 percent of your gross revenues as a salary. Or you might receive a salary of $150,000 instead. Either way, your income will dip when your gross sinks below a certain predetermined amount—say, $350,000. For each percentage point of earning underperformance, regardless of the cause, your salary is reduced the same percentage. (And for each percentage point that you exceed earning expectations, your salary is equivalently enhanced.)

So if you have a lot of outstanding bills that are hard or impossible to collect, don't expect your new employer to jump in and save the day. In reality, the only thing an MCO will bird-dog is the money you make. What you have to do to collect it is still up to you.

Myth No. 8:

I'll still have my perks. If you decide to sell, expect the fringe benefits you've been enjoying as an independent practitioner to

Belatedly, the institution realized he was cleaning up and it would have to share the revenue with him. It's now trying to force a renegotiation of the sale contract. While the matter is still in dispute, the point is this: Until a judge says so—if it gets that far—a done deal may not really be done.

Myth No. 12:

If things don't work out, I'll resume my old life. What happens if your contract isn't renewed? Many institutions include a restrictive covenant in the contract. If your employment with the MCO doesn't continue, that clause will prohibit you from reopening a practice or even seeking employment within, say, a five-mile radius of your current location.

Many patients won't travel five miles to see a primary-care doctor, particularly in a city where people depend on public transportation to get around and where physicians are plentiful closer to home. You are, in effect, banished from your former practice.

And don't assume your contract is bound to be renewed. As hospitals and MCOs wake up to the fact that medical practices aren't the cash cows they'd thought, you could get the axe simply because of the organization's own mismanagement of your former practice.

So selling your practice isn't just about money, no matter how dazzling the sum. If you plan to remain and draw a salary, your life will change in many predictable—and probably some unpredictable—ways.

Some changes you may not be able to do much about; accept them as part of the price you pay for the price you are paid. Others may be negotiable—if, that is, you read the contract carefully (or have a competent representative do it for you) and bargain hard before you sign. This may seem like common sense. But then, as Voltaire once said, "Common sense is not so common." ■