Advice from Dr. John Guiliana About How Much to Compensate a New Associate

From the AAPPM Resource Center

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I am frequently asked how much to pay an associate. My answer is almost always the same. It depends. It depends upon a number of economic as well as personal factors.

While there are indeed a number of different methods to compensate a new associate, I want to start by stating that you should proceed with caution about the potential for fee splitting. Check with your state regulations.

I will start with the economic factors that you need to consider. Certainly, you are aware of the geographical variations that exist, so I will not explore them here. Aside from that, each practice is a unique entity with its own set of financial data. I'm sure that you would agree that paying an associate a salary that comes to 50% of what they collect may be acceptable for a practice with a 30% overhead but not for a practice with a 75% overhead. So the first thing that I would recommend before trying to establish a fair salary is to get to know your practice very well.

It is important to be able to "predict" what type of profit (or loss) the new associate is going to bring to your practice. This is accomplished by becoming aware of some important data. Start by determining your revenue/patient. Divide your collected receipts for a given time period (i.e., 2001) by the total number of patients seen in that same time period. Also calculate your total costs/patient by dividing your operating costs (do not include your salary/perks) by the total number of patients in that time period.

Now here is where the "personal factors" come in. What is going to be the role of this associate (their duties and responsibilities) according to the contract? Are they going to be hired to allow you more free time or are they going to promote themselves and bring in MORE patients to the practice? If they will hopefully be adding patient volume, you need to be able to estimate the cost/patient that you will incur. To do this, you need to differentiate between your fixed expenses and your variable expenses for a given time period. Any additional patients will likely add to your variable expenses only, since your fixed expenses are most likely already paid for and independent of volume. So calculate your variable expenses/patient in a similar manner.

With this data, you can begin to predict how many patients the associate has to see per day or per hour in order for you to hit your break even point. From there, it becomes a lot easier to establish and explain a fair compensation package to an associate. Undoubtedly, during the initial start up period, the associate will be seeing some of your patients, thereby reducing your own revenue pool. This may be part of your plan (a personal factor). If it's not, don't panic. It should be viewed as your "initial investment". If the associate is the right person, they will be eventually marketing themselves and will increase the overall practice volume and revenue. Benchmarking through monthly, quarterly and annual reviews of both the associate's as well as the practice's data is critical.

In conclusion, be sure to have a sound contract with experienced legal and accounting advice.

I hope you can now see why this "fair salary" number is different for each practice. If any of this needs more explanation, please feel free to contact me through the American Academy of Podiatric Practice Management at AAPPM.com.

Good luck,
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