



Inter-Doctor Relations

Is an Owners "Partial" Retirement an Option for Your Practice?

Given the burdens and complexities of medical practice, many senior practice owners wish they could exit the profession earlier than is what is typically considered normal retirement age. Often, however, the physician has not yet accumulated the retirement wealth needed to support his or her desired lifestyle. And in other circumstances, the potential early retiree really does not want to check out completely; he or she wants to gradually exit the practice and gradually phase in to full retirement. For a variety of reasons, more and more senior physicians are entering into such arrangements with their groups, and indeed interest in partial retirement is at a high point these days. Such a scenario presents both a challenge and an opportunity to the practice management team. Consider the factors below if you practice is faced with this situation.

In order to make partial retirement work effectively, the potential early retiree must work with his or her group to develop a game plan that addresses the three key factors: (1) schedule, (2) compensation, and (3) ownership. This article is written in the context of a group practice scenario. Solo practitioners face similar issues, though their partial retirement strategies are typically built around the recruitment and employment of an additional physician who must ultimately assume the entire practice.

Schedule

What type of schedule fits the senior doctor's needs and desires? Coming up with the proposed work schedule will mean determining in advance how much time she wants to continue to devote to practice, what type of patient services she is willing to render and how long she intends to work under the partial-retirement arrangement. Your group size and configuration will obviously have a large impact on the feasibility of the desired schedule, so be prepared to be flexible. Some physicians might work full-time but increase vacation to 10, 12, or more weeks. Others have taken long leaves -- say four months off, four months on, etc. Some work full-time but only three days per week with or without being on full, or reduced, night and weekend coverage schedules. Some work the regular schedule but only until two o'clock each afternoon. Some choose to drop some or all surgical procedures, but continue to do everything else.

Compensation

What level of compensation is fair to the partially-retired doctor and the group for the work she intends to do? In general terms, partial retirement polices routinely require a pay reduction based on the economics of the proposed arrangements. While some senior group members feel that no income adjustments are deserved given their years of service, the great majority of groups cannot afford to carry an early retiree at regular pay. Thus, resolving any major work reduction issue usually comes down to dollars and cents: what is the cost of the senior physician dropping some aspect of full practice?

Usually at the core of the "fair pay" issue is the impact of the potential reduction in either high volume, or "big ticket" procedures or surgeries that the early retiree has been doing for the practice. The easy answer may be that the group already has a young "superstar" capable of stepping into the shoes of the exiting big producer, in which case the practice keeps stride (and maybe even receives a windfall). In the absence of that scenario, the group must look at increasing the work levels of the remaining full-timers and what increase in compensation is appropriate for their added duties.

Groups that divide their income on a productivity basis typically do not face as difficult a problem when dividing income to accommodate partial retirement (compared to groups that divide all or a portion of income equally). A primary benefit of productivity income division is its self-adjusting feature. However, care must be taken to properly account for how overhead expenses within the group will be allocated in light of the part-time status.

Ownership

In dealing with a partial retirement arrangement, the early retiree must firm up two key ownership issues: (1) the buy-out, and (2) voting rights.

The question will arise as to how to treat the already established arrangements for paying the buy-out compensation (e.g., severance or deferred pay) guaranteed upon a full departure from the practice, as well as how to value the senior doctor's capital interest in the practice "hard assets." Thus, it has typically been recommended that a physician's employment agreement provide that buy-out compensation will be based upon his or her salary established in the last calendar or fiscal year before the partial retirement. This would, in effect, "freeze" the values until death or full retirement. Given the changing economics of group practice, however, there has been a trend recently toward re-evaluating the merits of this "freezing" approach in the partial retirement context. Because of generally declining reimbursements, shrinking collection ratios and diminishing patient loyalties, the remaining partners in a group will often push for some adjustments to the deferred compensation level of a partially retired member to "feel" more secure about meeting this obligation down the road. As such, some groups have segregated the deferred compensation liability along lines that correlate to the retired doctor's percentage of full-time activity before she completely stopped practice. Thus, for example, deferred compensation to a departed member, who in her last few years of practice had phased down to 60% of a full-time contributor might be paid on a two-tiered plan, with 40% of the pay-out based on her salary during his last fully active year with the practice and 60% based on her salary during the last phase-down year.

An early retiree who opts for partial retirement will also need to resolve whether she should continue to have a vote in practice management or governance. In general, most groups decide that in order to maintain a voice in management, an individual must be involved full-time in the practice. Thus, it is customary for the partially-retired doctor to sell her stock or partnership interest, and resign from officer and/or director positions.

Making Partial Retirement Work

While there may be good reasons for a senior doctor to opt for partial retirement status, the arrangement has to make sense from the perspective of the other group members as well (indeed, the needs of the group as a whole are clearly more important). With advance planning and attention to important details, both perspectives can be satisfactorily accommodated. In most cases, the continuing full-timers will reap a double benefit: (1) they'll see an increase in their own compensation packages; and (2) they'll retain a valuable resource for clinical expertise, patient and referring physician satisfaction and mentoring.

Consider that allowing each physician in a group practice to set his or her own partial retirement terms can develop into a logistical nightmare. If it is going to work successfully, the practice must deal with as many problems as possible, *before* they happen by establishing a formal, written partial retirement or phase-down policy.

Since so many groups have not yet addressed voluntary partial retirement in their inter-doctor agreements, you may need to lobby the owners to develop a policy for the practice. Recognize that from the perspective of the other group members any policy will need to include a number of "protections," such as:

- Eligibility standards will apply (minimum age and service).
- Fair advance notice must be given before partial retirement may actually commence; typically this means nine to twelve months.
- Partial retirement should be a temporary step between full-time employment and full retirement. Thus, partial retirement exists only on an annual, renewable basis, and rarely goes for more than three or four years.

If there is agreement as to the basics, you will need to work with the practice's attorney or other advisors to develop the right plan for your group. Begin planning early in order to develop a consensus among the partners that is beneficial to both the partially-retired physician and the continuing group members.

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