

A GUIDE TO COST SHARING AGREEMENTS



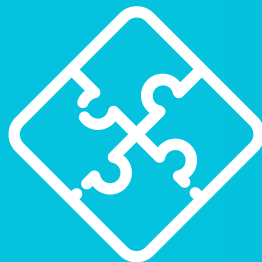
Optimizing your practice. Every step of the way.



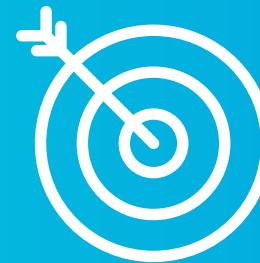
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INTRODUCTION

Whether you own your practice or are part of a collective, determining shared costs and overhead can be difficult. There is no single, perfect way to do this that meets the needs of every physician group or circumstance. The purpose of this guide is to help facilitate the conversation by providing guiding principles and options for physicians to consider.

There are three principles to consider when choosing a cost sharing model:

1. **Transparency** of appropriate information.
2. **Participation** at a mutually agreed upon level for each physician and clinic owner.
3. **Understanding** the options and implications.



Disclaimer

Doctors are advised that these are only points of consideration. Each agreement will require further discussion and will be different for different practices. Doctors of BC is providing this information to members to help start the conversations. Physicians are advised to always seek their own legal counsel before finalizing contracts or agreements.

*Adapted from Alberta Medical Association Practice Management Program – [Mind Your Own Business](#)

1. TRANSPARENCY

Prioritizing open discussions about cost sharing among all partners is key to a medical practice's success. It is vital to ensure the transparency of appropriate information among members of the group so all parties feel empowered to make an informed decision.

Providing relevant information in a timely manner will help build trust among the group. This information could include:

- **Operational costs:** Costs associated with running the clinic are clear to all parties involved. This can include lease agreements and associated fees, staff salaries, rental rates, supplies, minor incidentals, etc.
- **Insurance implications:** Understand the risk premium being charged by the owner(s) of the clinic. There may be additional costs within the overhead calculation to account for the added risk associated with general office liability issues.

In situations when an [Assignment of Payment agreement](#) is in place, it is recommended that physicians also submit a [Release of Information agreement](#). This ensures doctors can access their own billings faster and without any obstacles from Health Insurance BC (HIBC).

Physicians participating in a cost sharing agreement may also want to agree on the frequency and detail of financial reporting for the clinic. For example, a group of physicians may decide to meet monthly to review the overhead costs for the previous month.

This principle does not suggest full disclosure of all costs in every circumstance; rather, that information is shared to the level that physicians can have reasonable conversations about relevant expenses for the purposes of determining cost sharing.



2. PARTICIPATION

It's important all parties understand the expectations of participation and what opportunities they will have to provide input on clinic operations and practice management. Regular, upfront communication helps to ensure everyone understands processes and can head off misunderstandings. This includes on how information is shared as well as how decisions are reached.

Key elements to consider include:

- **Leasehold improvements:** How are site location decisions made? Who determines the quality and associated costs of furnishings/equipment, etc.?
- **Assignment of costs:** How would the clinic pay for major renovations? By participating physicians' personal loans or a clinic loan? If a clinic loan, what are the terms and who carries the risks?
- **Rental rates:** How are rental rates determined and what elements are included in the rental costs?
- **Staffing decisions:** How are decisions made about hiring or letting go of staff?
- **Review period:** How often will the agreement be reviewed?

Doctors entering into a cost sharing agreement may also want to consider a process for dealing with discrepancies and how concerns or issues will be addressed.

A [Guide to Group Governance Agreements](#) provides additional information for physicians practicing in a group setting.



3. UNDERSTANDING

Expenses can be broken down into three areas:

- **Personal:** Dues for Canadian Medical Protective Association (CMPA) and other associations, and practice overhead insurance.
- **Shared:** Ongoing office expenses, such as rent, staff salaries, office supplies, and insurance.
- **Capital expenses:** The purchase of an EMR system, major equipment, or office renovations.

Clinic owners can operate their business in very different ways. A cost sharing agreement will specify the above expenses and clarify each physician's responsibility. Usually, doctors are personally responsible to pay for their association dues; however, capital expenses are often shared equally, even among doctors whose in-office days vary. This is because regardless of the number of days in the office, each doctor needs to be able to access the infrastructure and communication systems.



The following are three common models of how clinics can share expenses to help inform your decision and can be adopted or altered to fit the clinic needs:

1. Proportionate cost sharing

Under this model, expenses are determined each period (typically monthly) and each physician is charged their fixed share. For a simple example, if five full-time physicians practiced in a clinic with \$50,000 of operating expenses per month, each physician would be charged \$10,000 a month.

Determining equitable overhead contributions can be a challenge for many clinics if, for example, some doctors work part time at the clinic or bill more or less than their colleagues. More consideration is needed if a full-time physician only spends part of their time in the clinic and the rest in a facility, or to determine how staffing costs are shared.

3. UNDERSTANDING CONTINUED

2. Percentage of billings

Under this model, each doctor is charged a fixed percentage (e.g., 40% of their billings monthly).

There can be several variations of this model, therefore the following questions need to be considered:

- **Full or partial billings:** Does the percentage payment apply to all or only some of the physician's billings (e.g., fee-for-service, WorkSafeBC, facility work, non-office work, etc.)?
- **Level of billings:** Does the percentage payment vary based upon physician billings (e.g., same rate charged for full-time versus part-time, lower average versus higher average billings, etc.)?
- **Location of practice:** Two common contrary questions include: Why should a physician pay for overhead on revenue generated outside of the clinic? Given overhead costs must be covered regardless of how much or where each physician chooses to work, why should these costs be paid by someone else?

3. Mixed model

This model often includes elements of proportionate cost sharing and percentage of billings models. Under this model, there are some variants in the calculations of overhead:

- **Ceiling:** providing a fixed-dollar amount for overhead. Participating physicians are charged a fixed amount or percentage, usually monthly, up to a maximum threshold. This model may also include a minimum amount that is charged.
- **Multiple rates:** differing overhead rates based upon location. Clinics that operate out of more than one location may have differing overhead rates.
- **Fixed versus variable:** involves detailed separation of fixed and variable costs of the clinic. Fixed cost elements would be shared equally versus fluctuating variable costs depending on physician activity, and therefore assigned directly to an individual physician.

3. UNDERSTANDING CONTINUED

In general, overhead models address two key objectives: To provide sufficient funding to the clinic to cover its expenses and provide sufficient incentive for the physician to participate.

Doctors are advised to always retain their own legal advice when entering into contracts or agreements.

- Preferred rates are available with vetted legal professionals such as [Campbell Froh May & Rice LLP](#) and [Watson Goepel LLP](#), and accounting support from [MNP LLP](#), through [Club MD](#).

The following [contract templates](#) are available to help start the process with your legal counsel:

- Contractor agreement, Cost Sharing agreement, Release of Information agreement, and Group Governance agreement.

Visit [Business Pathways](#) for more information and resources.