

APRIL 2007 JOURNAL ADMINISTRATIVE ARTICLE

In what type of practice do you work? Let's explore the different types.

Excerpt from:

Saunders Textbook of Medical Office Management

FORMS OF MEDICAL PRACTICE OWNERSHIP

There are three types of medical practice ownerships –

- Sole proprietorship (solo)
- Partnership
- Corporation

A solo practice is a medical practice consisting of one physician only. A partnership practice consists of two or more physicians practicing as a group. A corporation can be one physician or two or more physicians practicing as a group. Each form of medical business ownership has advantages and disadvantages.

SOLE PROPRIETORSHIP

In a sole proprietorship, the physician owner employs needed personnel, collects all revenues, and assumes responsibilities of all financial obligations of the practice. There is no formal formation as with the formation of a corporation, but the physician owner must register the name of the practice. All revenues are reported as personal income of the physician owner. *No* legal documents are necessary for this type of ownership.

The advantages of a sole proprietorship are as follows:

1. Formation as a legal entity is easy.
2. The physician has a certain amount of independence.
3. There is flexibility in the organization and management of the practice.
4. There is a certain amount of privacy in a solo practice.
5. There are tax advantages: The physician pays taxes only on personal income from the practice

The disadvantages of a sole proprietorship are as follows:

1. Potential for profit is limited.
2. Management problems can occur.
3. Financial problems can occur.
4. There exists *unlimited liability*, which means that any damages or debt incurred by the business can also be attached to the owner of the practice. The life of the practice is limited; when the physician dies, the practice ends unless it is bought by another physician.

PARTNERSHIP

A partnership consists of two or more physician owners, who regulated by certain laws, can vary in size from two physicians to an unlimited number. Physician co-owners usually share equally in all revenues and each co-owner assumes joint responsibility for all obligations of the medical practice. Under the Uniform Partnership Act (UPA), partners have an equal right to manage the practice. Most issues are resolved by majority vote. The legal documents necessary for a partnership are a partnership agreement, a buy-sell agreement, and employment agreements.

The advantages of a partnership are as follows:

1. There is the potential to create more profit than can be obtained from a solo practice.
2. There are incentives for motivated employees.
3. There are legal and financial advantages.

The disadvantages of a partnership are as follows:

1. Interpersonal problems can occur between partners in the practice
2. Management problems can occur
3. The life of the practice can be limited; when the last partner dies, so does the practice.

A *limited partnership* is like a general partnership except that each partner is confined to that partner's capital contributions as long as there is no participation in daily operations. There must be one general partner and there can be an unlimited number of limited partners. Income is considered to be stable to individual partners. A *limited liability partnership* can be formed in 19 states in the United States. The difference in this partnership is that debt and obligations can be modified so that there is not individual liability. Partners, however, are individually liable for their own malpractice. A *limited liability company* (LLC) has owners, called members, and the liability is limited to each one's investment in the practice. Not all states recognize this type of ownership. Maryland, Hawaii, Massachusetts, and Vermont do not recognize LLCs. Taxation laws are different depending on the state of the partnership. The legal documents necessary for limited partnerships and companies are articles of incorporation, an operating agreement, and an employment agreement.

CORPORATION

A corporation is a simulated person or entity that is separate from the owners. It has a life of its own. The legal documents necessary for a corporation are articles of incorporation, bylaws, employment agreements, and perhaps stock purchase and redemption agreements.

The advantages of a corporation are as follows:

1. There is limited liability; damages/debt can be applied only to the practice, not to the physician.
2. The practice can readily raise cash by issuing stock.
3. The life span of the practice is unlimited.

The disadvantages of a corporation are as follows:

1. The practice must publicly disclose its finances and operations.
2. It is expensive to incorporate compared with other types of ownerships
3. High taxes are associated with corporations

While there are several types of corporations, generally only a few are found in the medical field. An *open corporation* is a corporation that makes a profit for the owners and has shareholders. It is a public corporation. A *closed corporation* is also a profit-making business but has only a few owners and does not have an open market for shares of stock. *Nonprofit corporations* are service institutions that are incorporated mainly for the advantage of limited liability. A *single-person corporation* is an individual who incorporates to avoid paying high personal income taxes and reduced liability.

SOLO or GROUP

There are two types of medical practice: solo and group. Group practices are further broken down into single-specialty and multispecialty groups and small and large groups.

A *solo practice* is a one-physician practice. A *group practice* consists of three or more physicians in practice together. Over the past 10 years, the number of group practices has increased, largely because of the evolution of managed care. A *physician network* differs from the traditional solo practice and group practice. A physician network can be –

- An integrated provider network
- A management services organization, or
- A physician-hospital organization

Integrated provider networks can be a great “marriage” between hospitals and physicians. This type of physician practice is sometimes called a “clinic without walls.” It allows physicians to become part of a single practice organization while maintaining their individual practices. *Management services organizations* provide management and administrative support services to physicians and hospitals. These organizations provide a high degree of independence. *Physician-hospital organizations* are a conglomeration of physicians and hospitals that maintain a separate identity. These organizations can be beneficial in negotiating managed care contracts.

A *single-specialty* medical office is a group practice that is limited to one specialty (e.g., surgery or internal medicine). A *multispecialty* medical office contains physicians with different specialties practicing together; an example is an office with a cardiologist, a hematologist, and a gastroenterologist.

The advantages of a small group practice are as follows:

1. Physician coverage of the practice is sometimes available.
2. Other physicians are available for consultation and assistance if needed.
3. Revenues may be enhanced.
4. It is easier for physicians to take vacations and sick days.

The disadvantages of the small group practice are as follows:

1. The physician cannot always take time off when desired; there are others to consider.
2. Large amounts of capital are sometimes necessary for investment, and then this money cannot easily be retrieved (not liquid).

The advantages of a large group practice are as follows:

1. It offers more free time for the physicians.
2. Consultations with colleagues are readily available.
3. Some physicians may not want to be in charge of daily operations, investments, or marketing practice growth, and so on, and other physicians can take over these tasks.

The disadvantages of the large group practice are as follows:

1. The physicians must conform to the rules of the practice and lose some of their independence.
2. It can take time to become a full partner in a partnership or corporation.

GROUP PRACTICE

According to the American Medical Association (AMA) definition, group practice is a group of three or more physicians who are formally organized as a legal entity in which business and clinical facilities, records and personnel are shared. Income from the group medical services is divided according to a pre-arranged plan. According to a survey by the AMA, 46% of all groups have 3 or 4 physicians and 70% are single-specialty groups. In single-specialty groups, more than one-third are made up of the following specialties: OB/GYN, radiology, pediatrics, and orthopedics. Most single-specialty physician practices can be found in anesthesiology, radiology, and allergy. In multi-specialty groups, there can be any combination of specialties with the group.

APRIL 2007 JOURNAL ADMINISTRATIVE ANSWER SHEET

The following questions will apply for CME credit for the 2008-2009 recertification year. All completed answer sheets should be held until you receive your recertification notice in the mail (April of 2008). At that time, attach all JOURNAL answer sheets to your notice and mail to:

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Read the excerpt from the Saunders Textbook of Medical Office Management and answer these questions

1. In a sole proprietorship, the physician owner employs needed _____, collects all _____, and assumes responsibilities of all financial obligations of the practice.
2. In a sole proprietorship all revenues are reported as _____.
3. In a sole proprietorship legal documents are necessary . _____ TRUE _____ FALSE
3. A partnership can vary in size from two physicians to an unlimited number.
_____ TRUE _____ FALSE
4. The abbreviation UPA stands for? _____
5. In a partnership most issues are resolved by _____ vote.
6. The legal documents necessary for a partnership are –

7. In a limited partnership there must be _____ general partner and an _____ number of partners.
8. The abbreviation LLC stands for? _____
9. The legal documents necessary for limited partnerships and companies are –

10. An open corporation is a corporation that makes a _____

11. A closed corporation is a profit-making business but has only a few owners and does _____ does not _____ have an open market for shares of stock
12. Over the last 10 years, the number of group practices has increased largely because of the evolution of _____.

13. A physician network can be –

14, Integrated provider networks are sometimes call a –

15, According to a survey by the AMA –

_____ of all groups have 3 or 4 physicians
_____ are single-specialty groups

15 -- 13 correct answers	5 credits
12 -- 10 correct answers	4 credits
9 -- 7 correct answers	3 credits
6 -- 4 correct answers	2 credits
3 -- 1 correct answers	1 credit

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