
APRIL 2024 DISTRIBUTION

DISTRIBUTION – HOW IT WORKS

- Physicians, as shareholders, bear the risks and rewards of owning a business.
- Expenses come in three categories; 1) general overhead (i.e., rent, clinic staff), 2) cost center overhead (i.e., imaging, laboratory), and 3) physician overhead (i.e., malpractice insurance, MA costs over the allowance).
- After all expenses are paid, the remaining revenues are paid to physicians through “distribution.” An overhead rebate (High Income Production Bonus) is paid at the end of the year to physicians that produce more than the average net production.
- We measure distribution (income) to physicians based upon a distribution percentage which is a ratio of distribution compared to net production.
- Increased (decreased) revenues and expenses directly impact physician income.

OVERHEAD PERCENTAGE

- We have historically used a distribution percentage to evaluate how we are doing as a clinic. This percentage represents the percentage of your production that is paid to you. The inverse of that number is the overhead percentage.
- Some expenses increase our overhead percentage, but also increase physician income. These are typically items that the physician does not actually provide the service. Examples include MRI/CT, Laboratory, non-physician providers (APPs, therapists, etc.).
- With changes in adding more non-physician providers, shifting more revenues to outside income, and increasing ancillary services, the overhead percentage is not an apples-to-apples comparison with previous years.
- The best measurement for evaluating your income is based upon the volume of work performed, and how that has changed over time and how it compares to others in your same specialty in Utah.
 - Consider including all outside income (call pay, medical directorships, income from Medical Building, etc.).

OVERHEAD PERCENTAGE

Example to show how an increase in overhead percentage can be good for business.

	Physician	%	MRI	%	Total	%
Production	\$500,000		\$200,000		\$700,000	
Overhead	-\$250,000	50%	-\$160,000	80%	-\$410,000	59%
Net Income	\$250,000		\$40,000		\$290,000	

PROVIDERS

- All providers (physicians and non physician providers) are valuable to the clinic. Each plays an important role as we put the patient at the center of everything we do.
- However, non-physician providers contribute less overhead, but they benefit the supervising physician financially. This changes overhead percentages (not an apples-to-apples comparison).
 - On average, physicians annually contribute almost 3 times the amount of general overhead as compared to APPs
- Our mix of providers (physicians as a percentage of all providers) has been changing. That impacts the overhead contributions and percentages.
 - In 2015, physicians represented 90% of all providers (78 physicians of 87 total providers).
 - In 2024, physicians represent 59% of all providers (140 physicians of 238 total providers).

APRIL'S DISTRIBUTION PERCENTAGE WILL BE 54%

2023'S PERCENTAGE WAS 58%

- Reasons for a lower percentage:
 - Employee Wage Increases
 - Over the last couple of years, we have seen significant increases in Employee wages. These changes have decreased the distribution percentage by at least 1% each of the last two years.
 - Lower 1st Quarter Production - down \$2,500,000 from last year.
 - Parkway Building - Equipment, Supplies, Rent
 - Equipment \$2,000,000, Supplies \$600,000.
 - The Parkway building increased our square footage by over 50%. Rent \$3,000,000 per year – the rent rate per square foot is similar to other Tanner Clinic rent rates.
 - Use of Building Space
 - We are using more square feet per physician. Providers are “spreading out.” We do charge for extra space, but it is not reimbursed at the same rate as we would receive if a physician were sharing space or if the space was utilized by physicians, rather than other providers.

KEY POINTS TO REMEMBER`

- We are investing in the future of Tanner Clinic with the new Parkway building. We have advantages because of our size.
- There is no “Clinic” when it comes to overhead. All overhead is contributed by physicians and other providers, either individually or as a group.
- Realize that we are in a different market economy. Employee wages have permanently increased. Even with increased wages, employees are still feeling the impact of lower purchasing power (inflation).
- Remember that we can’t judge financial success by an overhead percentage.