

The Impact of Millennial Nephrologists on the Group Practice Partnership Model: Why Group Practices Are Being Structured More Like Law Firms

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Many nephrology group practices of all sizes are facing an existential crisis driven by a confluence of factors. The first, and most notable, factor fueling this issue is the result of a significant decline in the number of physicians choosing to pursue a career in nephrology. In 2018, for example, the percentage of unfilled nephrology training tracks was 57.7% (up from 10.6% in 2009) and the number of unfilled nephrology positions was 39.9% (up from 5.2% in 2009).^[1] This declining interest in nephrology has been attributed to lower compensation (as compared against many other specialties), increasing student loan debt and lifestyle-related considerations, among other factors. ^[2] As a result of this trend, many nephrology group practices around the country have experienced increasing difficulty recruiting nephrologists to fill open positions as more senior physicians retire and move into different organizational roles. Smaller and rural nephrology group practices face even more acute challenges in attracting and retaining talented nephrologists.

Group practices are using a variety of creative incentives to recruit nephrologists to combat this worsening shortage, including increasing base compensation, offering sign-on bonuses, loan forgiveness programs, generous paid time off packages, relocation incentives, the lure of potential future earnings through dialysis joint venture and medical directorship income, and the possibility of future equity ownership (or “partnership”) in the practice. Increasingly, however, Gen Y and Millennial nephrologists are questioning whether they wish to become a partner in a group practice. These nephrologists are sophisticated consumers of information, technology-wise, experience-oriented learners and, as a generation, they are generally more comfortable with the traditional employment model. They value free time to explore interests, become involved in their communities and attend to family obligations, which has caused some of them to question whether the promise of additional financial reward as a partner outweighs the perceived loss of free time and financial commitment.

Gen Y and Millennial nephrologists are also asking more questions about the partnership process, often times even before entering into an initial arrangement with a practice. It is increasingly common for practice leaders to receive the following questions from applicants:

1. When will I be eligible for partnership?
2. What criteria does the practice use to decide whether I will be asked to join the partnership?
3. How much will it cost to purchase equity in the practice?

4. If the practice invites me to join the partnership, what additional financial benefits would I be eligible to receive?
5. As a partner, am I required to sign guarantees of practice debt or other practice financial obligations?
6. Would I be able to participate in the practice's ancillary investment opportunities, such as dialysis joint ventures, clinical research and real estate investments?

These are fair questions, but they are also questions that job applicants *almost never asked just five years ago*, but which Gen Y and Millennial nephrologists ask with increasing frequency in today's competitive nephrology job market. Many practice leaders are stunned when they are asked these questions for the first time. Some leaders believe that such questions are indicia that a candidate is "presumptive," "entitled" or otherwise "confrontational." However, Gen Y and Millennial physicians likely view these questions through a dramatically different lens.

Such a nephrologist likely views the prospects of partnership in terms of a simple cost-benefit calculation where the benefits of increased financial reward and career self-determination are weighed against the perceived loss of personal time and potential financial risk associated with the challenges of operating and managing a successful group practice in the era of value-based medicine. As a result of these simultaneous generational and practice-based shifts, an increasing number of nephrologists are choosing not to pursue a traditional partnership track.

This trend is impacting nephrology group practices to varying degrees, but it appears to be disproportionately effecting small and mid-size group practices. So what should a group practice do—sell the practice to the local hospital, dialysis organization or private equity fund? Retire and move to Tahiti and let the next generation figure out a solution? Perhaps these are appropriate solutions for some practices, but many other groups are adjusting their practice "partnership" model to account for this change.

Some nephrology group practices that have historically required physicians to make a significant up-front capital contribution as a condition of becoming an equity owner in the practice have significantly decreased the amount of their equity buy in, especially in those markets where a competitive group already offers a small or limited buy-in amount as a condition of partnership. Groups that have a smaller or nominal buy-in amount frequently also have a small or nominal equity redemption amount when a physician exits the practice. In such practices, partnership primarily entitles a physician to his/her share of practice profits, if any, while an equity owner.

Alternatively, a growing number of nephrology group practices are transitioning to a three-tiered law/accounting firm organizational and equity ownership model. Under this model, newly recruited "associate" nephrologists become W-2 practice employees for a period of time (generally one to three years). Associates would next become eligible for non-equity partnership status with the practice. Non-equity partners typically earn more base and incentive-based compensation than associate physicians, are promoted to become a "partner" and may be entitled to additional or improved benefits, but they remain W-2 employees and are ineligible to purchase equity in the practice and for certain other benefits reserved exclusively for equity partners. True equity ownership in the practice would be reserved for a smaller group of physicians interested in

becoming the next generation of practice leaders and who are willing to make a substantial capital contribution to purchase equity in the practice, accept risks associated with practice ownership, and who are eager to take on a larger practice leadership role.

This model focuses on creating an “incentive ladder” that both recognizes Gen Y and Millennial nephrologists’ comfort with an employment-based model, while also preserving a traditional equity incentive track. A sample three-tiered incentive ladder may contain some, or all, of the following elements:



Group practice re-structuring generally requires a practice to revise its employment agreements and organizational documents, such as its bylaws, shareholder agreements, buy-sell agreements and/or operating agreements, depending upon a practice’s organizational form. It is also important to synchronize key terms of wind down and retirement policies and buy-in and redemption terms of affiliated practice entities, such as dialysis joint venture investment companies, to ensure that appropriate cross-termination and redemption provisions are included in all practice documents. Finally, it is important to note that group practice re-structuring often involves careful coordination with a practice’s accountant to ensure that the practice may continue to employ effective income tax strategies and to ensure that such changes can be accomplished within the practice’s existing organizational and tax framework. Although the re-organization process can take time and may require practice leaders to address difficult questions head on, the process can be transformational and can create an attractive recruitment differentiator and platform for future career development for Gen Y and Millennial nephrologists.

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[1] The American Society of Nephrology, Nephrology Match AY 2018-Preliminary Results (available at https://www.asn-online.org/education/training/workforce/ASN_Data_Brief_Nephrology_Match_AY_2018_Preliminary_Results.pdf).

[2] The American Society of Nephrology, Report on the Survey of 2018 Nephrology Fellows (available at https://www.asn-online.org/education/training/workforce/Nephrology_Fellow_Survey_Report_2018.pdf).