Implementation Steps for Orthodontic Staff Incentive Bonus Plan

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This is a more detailed written format of the presentation that was made to the Ormco Insiders at the last Insiders meeting at Manchester, Vermont. Since I presented the material I have received many requests to explain the details and rationale of the Orthodontic Staff Incentive Bonus Plan. Hopefully what follows will answer any additional questions you may have about this positive and empowering practice management program.

The decision to implement a staff incentive bonus plan must not be made without prior planning and forethought. As with most benefits that are provided in the orthodontic practice, once implemented become difficult to discontinue. However, a well-designed staff incentive bonus plan will help to replace the arbitrary distribution nature of other cash bonus benefits (holiday or end of year cash bonuses). The staff incentive bonus plan will also eliminate the decision-making process in deciding how much staff salaries should be raised at the time of staff performance reviews. The personal decision to include your staff in determining the ultimate success of your practice and share in the rewards sets up a non-adversarial environment between the doctor and the staff, and has ultimately proven to be a win-win scenario in our practice.

Our particular staff incentive bonus plan is based on both receipts and production; is figured and distributed monthly; and works with both salaried and hourly based methods of compensation.

<u>Step 1: Determine current percentage norm of staff compensation to gross collections in your practice.</u>
Calculations made in the staff incentive bonus plan are based upon the difference between a current percentage norm of staff compensation times a 3-month average of gross collections, and the actual salary that is paid to the staff (base salary). An easy way to establish this percentage is to gather your end of year profit and loss statements from your accountant. Five years of past data should give you a fair estimate to eliminate economic and staff turnover fluctuations. For each year divide the amount of gross staff salary compensation by gross receipts. This will include dollars that are paid for qualified retirement plans. Do not include staff fringe benefits, the doctor's salary, or matching social security taxes paid by the office. For most orthodontic offices this percentage norm will range between 16-21%. Average out the past five years to get an accurate current compensation percentage norm.

<u>Step 2: Determine your production goals for the next 12 months.</u>
Production goals are a big topic at our staff meetings. They are realistically made with seasonal variations of the orthodontic practice taken into consideration. An excellent way to get a feel for the rhythm of the ups and downs in your own practice is to use your past data and spreadsheet analysis. Several years ago, I developed a cash flow spreadsheet to analyze my annual practice percentage growth, visually see the monthly fluctuations in receipts and production, and to provide me with accurate production goals for the upcoming year. This spreadsheet is available for downloading on the O-zone in the practice management tips section (filename cashflo2.xls).

<u>Step 3: Set up your own practice incentive plan.</u>
Our bonus plan is set up on a monthly basis where if a bonus is declared for a particular month, the bonus is paid on the 15th of the following month. This gives me ample time to reconcile the monthly receipts and make the appropriate calculations. When you have calculated your current percentage norm of staff compensation, take this percentage times the average of the past three months adjusted gross collections (gross collections less patient refunds and uncollectable debt). For example if you were calculating the monthly bonus for March you would average out the adjusted gross collections for January, February, and March. You would then multiply this 3-month average by the current percentage norm of staff compensation. This averaging prevents key staff members involved in collections from "loading up collections" during a month likely to produce a bonus. The figure that you now have is a prediction of what you will pay out in the form of staff compensation based upon their <u>current degree of motivation and production.</u> Here is where the incentive comes into the picture. You will then compare this figure with the actual gross staff salaries that were paid during the month (the actual paid salaries is called your staff base salary). If the prediction based on current percentage norm times the 3-month average gross collections is <u>less</u> than the actual paid salaries (staff base salary) the difference is negative, and no bonus is declared for that month. If the prediction based on current percentage norm times the 3-month average gross collections is <u>greater</u> than the actual paid salaries (staff base salary) the difference is positive and a bonus in the amount of the difference is declared and distributed to the staff for that Month. Looking at it from another perspective, you are allocating to the staff a guaranteed, predetermined, non-fluctuating percentage of collections to their salaries. When that percentage is greater than the total staff base salaries, a bonus is declared and distributed.

Consider the following table:

	Collections	Average of past 3 months	Collections X 16% Comp. norm	Base Salaries	Bonus Dollars
January	$ 61,200	-----	-----	$ 10,000.00	-----
February	$ 60,185	-----	-----	$ 10,000.00	-----
March	$ 64,220	$ 61,868	$ 9,898.93	$ 10,000.00	$ (101.07)
April	$ 62,100	$ 62,168	$ 9,946.93	$ 10,000.00	$ (53.07)
May	$ 64,800	$ 63,707	$ 10,193.07	$ 10,000.00	$ 193.07
June	$ 65,240	$ 64,047	$ 10,247.47	$ 10,000.00	$ 247.47
July	$ 66,280	$ 65,440	$ 10,470.40	$ 10,000.00	$ 470.40
August	$ 70,125	$ 67,215	$ 10,754.40	$ 10,000.00	$ 754.40
September	$ 69,260	$ 68,555	$ 10,968.80	$ 10,000.00	$ 968.80
October	$ 68,275	$ 69,220	$ 11,075.20	$ 10,000.00	$ 1,075.20
November	$ 67,480	$ 68,338	$ 10,934.13	$ 10,000.00	$ 934.13
December	$ 66,350	$ 67,368	$ 10,778.93	$ 10,000.00	$ 778.93

This particular practice has calculated a current compensation percentage norm of 16%. Every month this percentage is multiplied by the average of the last 3 previous month's collections and is then compared to the Staff base salaries. Notice that during the months of March and April that the difference was negative and therefore no bonus was declared for those months. The staff was paid their regular base salaries and was not obligated to pay back the difference indicated in brackets. From this standpoint, the base salaries act as a safety net for the staff as they are always guaranteed their base salaries. During the months of May-December, the difference is a positive number and the staff in addition to their regular base salaries are collectively paid the positive difference in the form of bonus dollars (more on bonus distribution later). From the staff's perspective, the only way to go is up! Collectively the staff has been given a direct and immediate reward system for performing in a more productive fashion. It is also important to note that they have total control of the potential for reward. You may think that this incentive method would place undue stress on key staff members directly involved with collections. Quite to the contrary the observations in my office have been that this incentive method fosters a team effort. Team members that do not pull their weight are usually coached and prodded on by the other more productive team members (amazingly without intervention by the doctor). Clinical staff members are now motivated to perform in an efficient manner. Scheduling coordinators now go the extra mile to fill in gaps from canceled appointments. Financial coordinators are better motivated to step up their collection efforts. Instead of playing tug of war with your staff in an attempt to drag them into following you towards your personal practice goals, you now find yourself running together with your staff as a team towards common practice goals.

Production goals are also figured into the bonus. If the monthly production goal is met then the full bonus is distributed among the staff. If the production goal falls short, then 50% of the bonus is distributed.

<u>Step 4: Distribution of the bonus</u>

When a bonus is declared, it can be distributed in one of three ways:

- -Equally among staff
- -Based on a percentage of total staff hours worked
- -In the same proportion of base dollar distribution.

The decision on how the bonus should be distributed should be left up collectively to the staff! Again this gives them greater control (and lessens the chances of future complaints to the doctor). Our staff chose the second option for bonus distribution. In our calculations we include vacation hours but not sick-leave hours as hours worked, this way we do not penalize the more senior staff members. New hires are not included in the bonus incentive plan for the first six-months of employment. In my opinion it takes this amount of time for a staff member to become a "productive member of orthodontic society". During the first six months of employment, the new staff members' hours and compensation are not included in the bonus calculations.

At the end of each month I reconcile the monthly bank statement to get accurate gross collection figures (Visa payments by patients usually only appear on the bank statement and need to be added to the gross collection figures). I also run a Quickbooks payroll report to arrive at the staff base salaries paid figure for the prior month as well as the total hours worked by each staff member. I then insert these figures into a Microsoft Excel spreadsheet that I have designed to calculate and distribute the bonus (this spreadsheet can also be downloaded on the O-zone-filename Bonusc~1.xls). This spreadsheet will calculate whether a bonus is declared and if so then will appropriately distribute the bonus out to the individual staff members based upon percentage of total staff hours that are worked. The spreadsheet has been designed for eight staff members but can be expanded to include more staff members by someone with basic Microsoft Excel experience (your kids)! The whole process takes me five minutes to enter in the pertinent information. When printed out the spreadsheet first prints out a master sheet with all the staff information for myself, and then prints an individual sheet for each staff member. This brings up another important concept. <u>**The doctor must be willing to share the practice collection statistics with the staff!**</u> It is not necessary to disclose individual staff compensations, nor is it necessary for the staff to know the compensation received by the doctor. The staff that is not openly provided information on practice collection statistics will not respond as favorably if they receive practice information based on "good faith".

<u>Step 5: End of year evaluation and adjustments</u>
At the end of each year we evaluate the results of the bonus incentive plan. If the staff has earned a bonus at least nine out of the last twelve months, I will increase base salaries. I perform staff evaluations during the first week of February which gives me ample time to distribute W-2 statements as well as a total staff benefits worksheet (Yup! Another Excel spreadsheet)! If adjustments to the base salaries have been earned, I will calculate the total bonus dollars paid to each staff member. I will then convert this total to an hourly wage by dividing it by the number of hours actually worked. This amount is then added to each individual staff members' base hourly wage. It is interesting to note that by raising staff base salaries it will then make it more challenging and difficult for the staff to earn bonuses for the next twelve months. It is necessary to periodically re-calculate the current compensation percentage norm to level the playing field and allow the staff to continue to succeed. <u>Remember that this is not a zero-sum game.</u> When the staff earns more compensation in the form of bonuses, you are also earning more along with them. If you are starting a new incentive bonus plan utilizing this method, I recommend that you first do a dry run utilizing the past 12 months receipts, production and your current compensation percentage norm. Adjust your current compensation percentage norm so that the staff would have earned a bonus for six of the past 12 months. This will make it easy for the staff to succeed, as they only have to step up production for an additional 3 months in order to meet the 9 out of 12-month goal for your first year of plan implementation.

I hope that this will answer some of the many questions that I have received with regards to this Incentive plan. I realize that many of you have implemented your own incentive plans and have had the opportunity to observe the effects that they have on your practice. For more details and variations of the incentive bonus plan, I would refer you to "The New Manual for Managing Dental Office Personnel" by Karen Moawad & Lynne Ross Costain, available through Penn Well Books on which the majority of this incentive plan is based. I would also entertain comments, questions or concerns via e-mail to orthodoc@lnk.goexcel.net, or through the O-zone.

Good luck!

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