BONUS AND INCENTIVE PROGRAMS

Profit-sharing legalities and potential pitfalls.

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What motivates your best employees? Do you believe your staff is driven by the same factors that drive you? Employees may not be as invested in the success of the practice as you are, which may create a chasm between you and your staff. Some aesthetic practices seek to bridge this gap by giving employees an opportunity to share in the successes of the business. With this strategy, your employees can enjoy increased compensation and stability, and you can reap the benefits of increased employee engagement, loyalty, and productivity.

The two most common structures that business owners use for bonus programs are performance-based models and profit-sharing retirement plans. Before proceeding, it is imperative that you as the business owner seek the advice of a trusted advisor who fully understands your practice and your motivations for starting a plan. Why you are starting (or amending) an incentive plan will be very important to determining what type of plan you implement.

PERFORMANCE-BASED MODELS

Performance-based models generally take the form of a cash bonus or company stock options. Bonuses are typically paid out when an employee obtains a certain level of performance defined by the employer's plan. A bonus can come either individually or through a company-wide collaborative channel. In most instances, the employer is permitted to deduct the bonus payment as a business expense, while the employee pays normal income taxes on the bonus received. Many employees prefer bonuses, because they have the flexibility to spend or save those dollars. A bonus plan can motivate employees, but it generally will not increase their engagement or foster loyalty.

Stock options may increase loyalty and engagement by creating a situation where the staff has some "skin in the game" as it relates to your practice. Option plans are generally used by early-stage companies that may not have the extra capital to pay out liquid bonuses to employees. These programs usually allow employees to buy shares of company stock, typically at a discounted or set price during a specific period of time. The benefit is not realized until the employee exercises the option.

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Options can be simple or complex. They may provide limited voting rights or no rights at all. Employers can also attempt to control redemption rights. Deciding between a bonus program or an option plan will generally come down to what you are trying achieve with the plan and how you intend to fund it. Stock options may have limited use in your medical practice, because in many states, only physicians may own a practice.

PROFIT-SHARING PLANS

Profit-sharing plans make sense if your business has a stable income. Your motivation to use a profit-sharing plan should stretch beyond potential monetary gains. Many business owners we consult with have a 401(k) plan in place with some method for matching contributions, which typically come in the form of a Safe Harbor Match by contributing a percentage based on each participant's compensation or deferral elections.

The matching benefit for employees can be taken further with the introduction of a discretionary profit-sharing plan. These plans come in multiple structures. They allow owners to choose how much to contribute annually and whether the funds will come from profits or another source. Owners also have the flexibility to determine when or if a contribution will be made in a given year.

Profit-sharing plans can function as a reward system that draws a direct correlation between your employees' actual

BONUS AND INCENTIVE PROGRAMS AT-A-GLANCE

Employees may not be as invested in the success of a practice as the owners are. Some practices seek to bridge this gap by giving employees the opportunity to share in the business' successes.

Bonus plans, stock options, and profit sharing each offer benefits to owners and employees. Why you are starting (or amending) an incentive plan will be important to determining which of these models will best meet your practice's needs.

Whatever structure you choose carries potential pitfalls. Communication at the time of implementation and throughout the duration of the plan is paramount to keeping owners and staff on the same page.

work and the reward received. The plan may also foster a culture of ownership within your workforce if employees are rewarded based on their contributions to the practice's success. If employees see themselves as owners, they may have more incentive to work to increase the practice's profitability.

PITFALLS

Any plan or structure carries potential pitfalls. Your employees may not be ready or able to gauge the impact of their individual work on the overall profitability of the practice. In some situations, employees may come to consider the benefits to be entitlements or part of the general compensation rather than something they must actually earn. Employees at different levels of your practice may have different understandings of what may and may not affect the profitability of the practice—and how that corresponds to the implemented plans.

Communication at the time of a plan's implementation and throughout its duration is paramount to keeping owners and staff on the same page. Retaining good employees is difficult; having some sort of incentive program, either performance based or profit sharing, can help in this regard, cutting down on turnover and increasing the overall stability of the office.

These programs are neither quick nor easy fixes for an undercompensated workforce. Prior to implementation, consider the following:

- What are you trying to achieve with the implementation of your program?
- How will you fund your program?
- Who will be eligible for your program?

Once you answer these basic questions, you can begin the process of developing a plan that fits your practice. ■

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