

Managing Your Finances When Moving into Private Practice

By Dr Desmond Wai

For many doctors in public service, going into private practice will be one of the most important and difficult decisions they will ever make in their lives. I would like to share my humble experience so my fellow medical colleagues can make better informed decisions.

Finances are an important part of running your own private practice and you must consider all financial aspects before taking the plunge.

Business models

You have to first decide on which business model you want to adopt:

- **Private institutions or group practice.** There are several private medical institutions which hire specialists and family physicians. The finances of the doctors' work will be taken care of and they need not worry at all. But you must realise that currently, the maximum income tax for those earning more than \$320,000 annually is 20%, whereas a solo practice will pay 17% tax after generous tax exemptions or grants from the government. Hence, those who are earning higher incomes may also end up paying more income taxes.
- **Solo practice.** The main advantage of this option is that there are tax savings, like tax exemptions, the Productivity and Innovation Credit scheme and so on, for new start-ups to benefit from. Yet, the main disadvantage is the high start-up costs, which I will explain in the following section.
- **"Attenuated" practice.** You can also join an existing group practice as a partner. The finances and start-up costs can be taken care of by the group. There are also economies of scale in sharing the running costs. But the main disadvantage is that if one or more members of the group want to depart from the group practice, it may become quite messy.
- **Hybrid of the above.** I know of specialists, who will work in private institutions in the morning and then run their solo or group practice in the afternoon. There are also instances where a few solo practices form a loose conglomerate and share the cost of running the clinic.

It is really up to you to opt for the model that you feel most comfortable working under:

Income minus operating expenses equals net income

Income from a private practice comes mainly from consultations and procedures, so you must decide the charges for your own practice.

When I first started working in a group private practice six years ago, I asked several senior specialists on how much they charged for gastroscopies and colonoscopies, and their answers were quite standard: "You can follow the SMA guidelines." The SMA's Guideline on Fees has since been withdrawn. But an easy way to find out how much other specialists charge for gastroscopies would be to refer to the Ministry of Health (MOH) website. For example, for gastroscopy charges at Gleneagles Hospital, the 50th percentile is \$968, while the 90th percentile is \$1,500.

To get a better idea of how much to charge for clinic consultation fees, you can refer to the charges listed by the public hospitals on their respective websites. For example, first-time consultation fees for private patients seeing consultants at National University Hospital and Singapore General Hospital are \$101.65 and \$94.16 respectively.

Some doctors feel they deserve to charge more as they are providing personalised care. Other doctors prefer to charge less as they want to please their former patients from public hospitals, and some would charge new patients more and former patients less. Some would even hold promotional periods, and they would charge less during this time. There is no model answer for how much to charge. MOH does not restrict how much you can charge for procedures or consultations, but the range of the fees must be displayed in your clinics, and patients must give consent in writing for the fees of the procedures before they are conducted. Most of us will not charge anything near the "ethical limit", so the recent ruling by the Singapore Medical Council on a case of overcharging will not affect most of us.

Many potential patients call clinics to enquire about doctors' fees for consultations and procedures, so you must decide on all the charges before your clinic begins operating.

Start-up expenses

Running a clinic is like running any service or retail business, and there are start-up costs that you must be aware of:

- **Rental deposits.** Like residential rentals, most landlords would require a deposit of one to two months' rent.
- **IT hardware.** Depending on how many computer terminals, laptops, printers, and scanners a clinic has, the cost of hardware can range from \$5,000 to \$10,000.
- **IT software.** There are many types of clinic software in the market and the one I am using cost me \$250 for installation and training.
- **Renovation.** This depends on the condition and size of the unit. It can cost more than \$100,000 to renovate a brand new clinic unit, or less than \$1,000 to renovate just a room.
- **Inventory.** Most physicians stock up medications which can cost more than \$100,000.
- **Website design.** Depending on how sophisticated you want your company website to be, the cost of engaging a web design company to create one can cost up to \$5,000.
- **Promotion and advertising.** This is variable but I have heard of clinics spending more than \$10,000 for marketing.
- **Medical equipment and stationery.** I bought a manual blood pressure set, stethoscope, name cards, clinic stamps, etc, and spent about \$1,000. Some may require special equipment, like scopes and slit lamps, which would increase expenditure.

To sum up, you can spend up to \$200,000 as start-up costs for a private clinic.

Monthly recurrent expenses

- **Rental.** This depends on the size and location of the clinic. I have heard of rentals being as low as \$3,000 per month for a room, to as high as \$30,000 per month for a large clinic in a premium hospital.
- **IT software.** My clinic software company charges me \$80 per month.
- **Website maintenance and hosting.** It can cost \$50 to \$100 per month.
- **Salaries for clinic staff.** This depends on the number of clinic staff in the clinic and their qualifications. Please remember to factor in the employer's Central Provident Fund (CPF) contributions (about 16%), as well as year-end bonuses of two to three months.
- **Salaries for yourself.**
- **Bookkeeping and accountants.** Most accountants charge between \$600 to \$1,000 per month, depending on the complexity of business models and revenues of the clinics.

- **Inventories.** Most physicians replenish their stock of medications monthly.

To sum up, you need to prepare up to \$100,000 per month for recurrent expenses.

Accounting terms regarding cash flow

Since I started my own clinic, I learnt these new terms: accrual basis accounting, accounts receivable and accounts payable:

- **Accrual basis accounting** means income and expenditure items are included in the balance sheets once they are earned or incurred, and not when the money is actually received or paid.
- **Accounts receivable** are monies that others owe you, but they have not been collected yet.
- **Accounts payable** are monies that you owe others and have not paid yet.

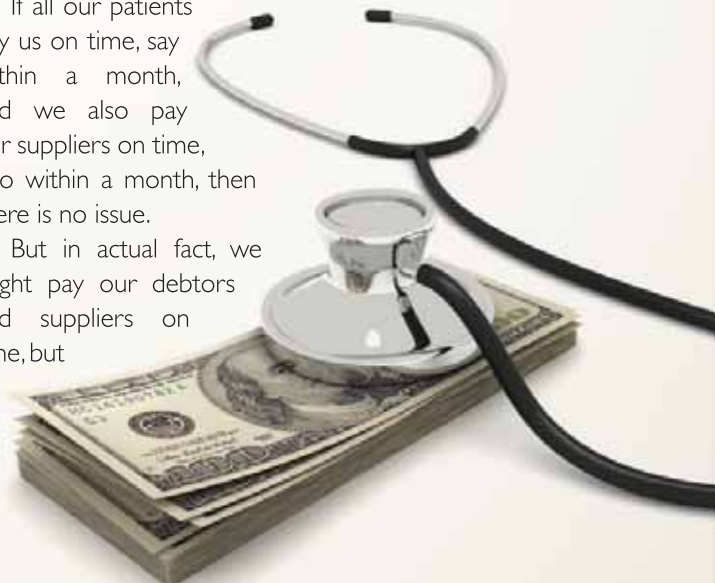
In our normal daily lives, we pay back immediately what we owe others, and we expect to be paid immediately when others owe us money. But in the real business world, this is not the case.

In layman terms, say I see a patient in the clinic and the patient is billed \$100 for the consultation and \$400 for a scope, so my clinic makes \$500 in income. At the end of the financial year, my clinic needs to pay taxes based on our total income, including this \$500. Though we have sent an invoice to the patient after I have rendered my services, we may not be able to collect payment immediately. If he pays us by letter of guarantee from an insurance company, then we call this account receivable, and his insurer can take two to six months to pay. So although our income is \$500, our cash flow is zero.

Similarly, if my clinic orders a stethoscope and once it arrives, the company will either ask for payment on the spot (ie, payment on delivery), or issue us an invoice with a 30-day credit. Either way, once an invoice is sent to us, it is considered our expenditure, though we may not have paid up the money yet.

If all our patients pay us on time, say within a month, and we also pay our suppliers on time, also within a month, then there is no issue.

But in actual fact, we might pay our debtors and suppliers on time, but



receive our payments much later, and this may pose a cash flow problem for us. Hence, it is important to have some reserve cash in my clinic's bank accounts.

Taking steps to set up your own clinic

Ideally, you should start taking these steps before you resign from public service, as they are tedious and complicated, and many would take some time to finalise them:

- Set up a company or business entity. This can be done easily via the Accounting and Corporate Regulatory Authority Singapore website (<http://www.acra.gov.sg>).
- Identify and choose a company secretary or accountant, who will help the doctor in getting all the paperwork done for company set-up, including those for GST.
- Liaise with all the suppliers, like pharmaceutical companies, laboratories or imaging centres, to discuss fees, charges, cost of inventories and so on.
- Decide on fees for all possible procedures and scenarios.
- Set up a corporate bank account after the company is formally set up.
- Identify clinic space or room for your new practice, and decide on the relevant renovation plans.

Daily practicalities of running a private clinic

After you have taken the plunge and made the important decision of being your own boss, you still need to organise the following to ensure the smooth running of your clinic:

- Set up a cash box with loose change inside. Patients may hand over a \$100 note for a \$10 item so keeping a few hundreds dollars' worth of small change in the cash box is necessary.
- Set up a credit card device with major credit cards and/or NETS.
- Install clinic assistant software.
- At the end of the day, settle the credit card and NETS accounts, and count all cash. The cash ought to be deposited into the corporate bank account on a daily basis. Remember that cash collected at the clinic belongs to the clinic, not the doctor.
- Have a chequebook available at the clinic as some suppliers will demand payment on delivery.
- File all financial correspondence properly as one's accountant will need it by the end of the month. These include invoices from the suppliers or laboratories, payment advice from the hospitals, statement of accounts, bank statements, and so on.

Monthly practicalities

- Pay salaries to yourself and your staff. I still forget to do so sometimes. Your staff will usually remind you gently by the last day of the month.

- Make CPF contributions for yourself and your staff. CPF sends out reminder emails monthly and it may be easier to set up a GIRO system to make the CPF contributions promptly.
- Pay rent to your landlord.
- Different invoices have different due dates. Some require payment on delivery, and others only after 30 days. I find it easier to pay everyone by the end of the month so I only do so once a month.
- Compile and pass all financial documents and receipts to the accountant.
- Check and ensure all account receivables and payables are paid. On one hand, it is important to enquire about and chase delayed payments. On the other hand, it is equally important to pay your debtors on time.

Concluding thoughts

I started my own solo practice in March 2012, and I would say running your own clinic is not easy as a meticulous manager is needed to do all the routine and mundane work. Luckily for me, my wife helps out in my clinic as a clinic manager as well as a web designer.

There have been many cases of fraud committed by clinic assistants over the years so I would urge all doctors to be careful about this. Large sums of cash are handled at many private clinics daily, so doctors need to be vigilant.

I also caution all my medical colleagues to do proper planning prior to their resignations. It is important to save up enough money to pay for the start-up and running costs, which will probably be in the range of \$100,000 to \$200,000. Remember, the costs are fixed, yet the incomes are variable, and the payments may only reach your clinic account several months after you have rendered your services to the patients.

Going into private practice is not as easy as you imagine. For some who cannot tolerate uncertainties or have huge family financial commitments, going private may not be the best option.

To conclude, before one wants to go private:

- Think hard (before one resigns).
- Start humble (to lower the start-up costs).
- Save up (to pay for the start-up expenses).

I learnt about starting my own solo practice mostly from seniors and friends. And I am equally happy to share my personal experience with newcomers. For those who would like to learn more from me, do drop by my clinic for a chat over coffee. **SMA**



Desmond started his solo gastroenterology private practice in March 2012. The beginning is challenging and he finds advice from his colleagues most helpful. Desmond is keen to share his experience with his colleagues. Just visit his clinic, Desmond Wai Liver & Gastrointestinal Diseases Centre, and he can chat over a cup of coffee. Email him at dr_desmond_wai@yahoo.com.sg.