

An Explanation of Income Guarantees

What is an income guarantee?

An income guarantee is a forgivable loan that a hospital may extend to you if you are joining or starting an independent practice to help you financially while you are getting your practice established.

If your production is high enough, you can earn the guaranteed amount and the hospital does not need to pay anything.

If not, the hospital has to make up the difference between your earnings and the guaranteed amount.

Two kinds of guarantees

Net income guarantee: Guarantees target income comparable to a straight salary, based on expected revenues minus expenses.

Gross collections guarantee: Guarantees target revenue number before subtracting expenses. If expenses are higher than expected, your income may be less than you expect!

How does the *forgivable loan* part of an income guarantee work?

Federal law permits the hospital to provide aid to you based on a demonstrated “community need” for a physician.

If the hospital needs to loan you money for you to make the guaranteed amount, the hospital will forgive the loan if you continue practicing in the community for a certain pre-determined period of time.

The forgiveness period is usually 2 years for every one year you were on the guarantee. The forgiveness period may be negotiable.

Example based on 2 year forgiveness for each guarantee year:

- Year 1: Hospital loans you \$100,000 for you to earn guaranteed amount
- Year 2: Hospital loans you \$60,000 for you to earn the guaranteed amount, for a total “loan balance” of \$160,000
- Year 3: Hospital forgives ¼ of the loan balance (\$40,000)
- Year 4: Hospital forgives ¼ of the loan balance (\$40,000)
- Year 5: Hospital forgives ¼ of the loan balance (\$40,000)
- Year 6: Hospital forgives the final ¼ of the loan balance (\$40,000)

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