An Overview of Veterinary Salary Structures
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Salary Methods

All salary formulas are based on one key concept: **Associate compensation is based on the doctor's ability to generate revenue.** The ability to generate revenue is influenced by the doctor's communication skills, medical knowledge, surgical abilities, attention to detail, and time efficiency. The ability to generate revenue is also influenced by the practice's caseload, support staff, scheduling, fee schedule, spending habits of clients, and business systems.

A number of different salary methods are used in the veterinary profession and the terminology can be confusing at times.

Method	**Example**
"Flat" or "straight" salary	$40/hour; $300/shift; $80k/year
"Production-based Pay" or "Pure Production"	21% of personal production
"Combination" of base/flat salary plus production incentive	
• "Base or %, whichever is greater"	$85k/year or 20%, whichever is greater
• "Base plus %"	$250/shift + 10% of personal production
• "Base plus % over a threshold, "ProSal"	$85k base + 22% of production > $386,000

According to the 2014 VIN Wage & Benefit Survey (hereafter referred to as the "VIN Survey"), 50% of veterinarians (1,417 respondents) were paid a flat annual or hourly salary, 43% were paid a salary plus percentage of production, and 7% were paid on pure production. The AVMA Exit Survey of 2017 UC Davis graduates showed that 75% of those who accepted a full-time position (including internships) were paid a flat salary and 23% were paid some form of combination salary.

"Production" generally means the fees charged to clients for the services provided by or overseen by a specific doctor. **Some studies have shown that doctors paid via flat salary earn on average less than doctors paid on some form of production.** CVMA's 2013 survey showed DVMs paid on a flat salary earned 6% less than those paid a combination salary and 18% less than those paid on pure production. AVMA's 2011 salary survey, however, showed DVMs on a flat salary earning slightly more than those paid a combination salary (there was insufficient data to evaluate DVMs paid on pure production). The U.S. economy was recovering from recession in 2011, which might explain this observation. CVMA's 2016 survey didn't report income based on salary structure.

Flat salary/Straight Salary/Guaranteed Salary: A fixed salary amount (which does not vary based on production) paid based on an agreed upon work schedule. This might be in the form of a fixed annual salary, per-shift salary, or hourly salary. In other words, doctors are paid one salary no matter what they individually produce or what the caseload is. In most cases in veterinary medicine, this is an annual salary.

PROS: The employer takes the risk vs. the employee; if a doctor has a slow month and produces less, his or her salary does not vary. The predictable cash flow provides greater security for employees on tight budgets, for example most new graduates. This methodology does not require tracking when different doctors are involved in the care of one case (for example, one doctor admits the case, another does the surgery). There is no incentive for competition among fellow doctors. More experienced doctors may feel more comfortable investing the time to mentor less experienced doctors (as a decrease in personal production from this time investment doesn't "cost" them).

CONS: There is no "upside" for the employee; if a doctor produces more for the practice than expected, he or she doesn't personally benefit (the employer does). There is no financial incentive for an employee to work harder, see more cases, work longer hours, ensure that fees are captured, minimize discounting, etc. There is inequity in multi-doctor practices, as inevitably some doctors produce more than others. This inequity can lead to resentment among doctors or toward the practice owners.

Note: The 2014 VIN Survey showed that about one-half of all practices paying associates by "flat salary" still tracked their production and used production to determine pay raises and bonuses. The reality is that a flat salary must still be related to doctor production (revenue generation) for business reasons and most owners formally or informally monitor this.

Straight Production/Production-Based Pay/Pure Production Pay: Doctor salary is based entirely on an agreed-upon percentage of that doctor's individual production. Different practices, however, define production somewhat differently. Items with a lower profit margin (for example pet foods and/or some medications) may be excluded from calculations of production or handled in a different way. This helps to preserve profit margin for the business, but may not adequately reward doctors for their time and energy in "selling" the product or service. This concept is discussed in greater detail below.

Most practices do not include unpaid bills (services provided but never collected from the client) in production. From the business' perspective, it would be unreasonable for an employee to expect a commission on money that is never received. Thus, production is often defined as "collectable production," meaning monies received at the time the services were provided or monies ultimately collected from the client via billing.

Ranges for production pay are typically 18% - 22% for small-animal general practitioners. Production percentages for mixed, equine, and large animal veterinarians tend to be higher, ranging from 25% - 40%. The justification for paying higher percentages to mixed, equine, and food animal veterinarians is that their overhead costs are typically much lower (fewer support staff assisting the doctor, no or lower facility costs, lower equipment costs) and that these doctors have more "unproductive" time spent driving between calls.

To look at this another way, a **small-animal veterinarian** who wants to earn a salary of $100,000 will need to generate approximately **FIVE TIMES that amount in revenue** for the practice (20% x $500,000 = $100,000). A mobile equine veterinarian seeking a salary of $100,000 might need to generate THREE TIMES this amount in revenue for the practice (33% x $300,000 = $100,000). *It's very important for new grads to understand their employer's expectations for production.*

Many specialists are paid on straight production, although most receive a guaranteed base salary during their first year of employment. Specialists currently receive from 24% - 28%. This wide range is due to diversity in specialty services in regard to revenues generated/specialist, profit margins, equipment investment, and paraprofessional labor required. Historically, specialists received salaries of up to 30 – 35% but these salary levels proved unsustainable, providing inadequate profit margin for the business. Given that specialists should be able to charge higher fees (to justify their more costly education and equipment), it is difficult to provide a logical explanation for why they are still being paid at higher percentages than other doctors. Historically a high demand vs. limited supply of specialists supported this differential. With growing numbers of specialists, production percentages have declined.

PROS: Automatically rewards doctors who produce more for the practice. Doctors may be more motivated to work harder, see more cases, work longer hours, ensure that fees are captured, minimize discounting, etc. Some salary studies have shown that doctors paid on production make more, on

average, than doctors paid on straight salary. Doctors "give themselves raises" as they become more efficient and work harder. When the practice raises prices, doctors receive an automatic pay raise (without an increase in their percentage).

CONS: This **shifts risk to the employee**, especially when a doctor is first joining a practice and the caseload is uncertain. If the practice can't provide the caseload, the employee loses. Income is less predictable and may fluctuate significantly from month to month (uneven cash flow). When services for a single patient are provided by more than one doctor, tracking is required and can lead to contention. Doctors may feel compelled to "sell" unnecessary goods or services to clients. This method may foster competition among doctors, especially if the caseload is inadequate. Experienced doctors may be less motivated to mentor less experienced doctors. Vacation, sick leave, and CE time off may be unpaid, as no production occurs. As some sales have lower profit margins, it may be necessary to track and pay "tiered" production pay. Timing of payroll may become an issue with production-based pay as the production information must be available in order to calculate the correct payroll amount. Most practices include a "delay in payment" feature to address this.

Base plus Production Salary/ProSal Method/Hybrid Salary/Combination Salary/Base Plus Percentage Salary/Base plus Bonus Salary: This methodology (actually a range of methodologies) is really a combination of the straight salary and the purely production-based salary. The doctor is guaranteed a fixed "base" salary per year, per quarter, per month, or per shift. If the doctor's production exceeds a certain agreed-upon amount over an agreed-upon time period, then the doctor receives additional "bonus" compensation. This approach is becoming increasingly popular and is used by a number of large veterinary corporations.

One form of this compensation method is "base or percentage, whichever is greater." For example, a practice might pay a base salary of $85,000/year or 22% of production, whichever is greater. If this is evaluated annually, the employee must generate more than $386,363/year (= $85,000 ÷ 0.22) in order to receive additional compensation. If the employee generated $400,000/year, he or she would be paid $88,000 (0.22 X $400,000). If this is calculated only at year end, then the employee would typically be paid their base salary every two weeks ($85,000 ÷ 26 pay periods = $3,269) and then receive a bonus (in this case of $3,000) at year end. The comparison of the base salary to the percentage of production usually occurs more often than once yearly, for example per shift, monthly or quarterly. *It is greatly to the advantage of the employee to have this calculated and "reset" more frequently.*

Another form of combination salary is referred to as the **"ProSal" method**. With the ProSal approach, doctors are paid a percentage of their production each month and also have a guaranteed annual base salary. Practice management consultant Mark Opperman developed ProSal and intended that *at the end of the year,* if the employee hasn't received their full guaranteed base, they would be owed the difference. For example, a practice might pay a doctor 22% of her production with a base salary of $85,000/year (same as above). Using ProSal, she would be paid 1/26 of the base salary ($3,269) on the first pay period of each month. The second paycheck of the month is a "production" check (if any). If this doctor produced more than $32,196 (= $386,363 ÷ 12 months) in the preceding month, then she receives a "production check." For example, if she produced $35,000 she would receive a production check of $4,431 (0.22 x $35,000 - $3,269 [which she was already paid in her first check] = $7,700 - $3,269 = $4,431). If she produced at this same level for the entire year, she would earn $92,400. As she exceeded her guaranteed annual base of $85,000/year, she would not receive any additional money at the end of the year.

Whereas this sounds great, what happens if she produces less than the "target" amount of $32,196 in a month? For example, if she produces $25,000/month, then she would receive a production check of just $2,231 in the second pay period of the following month (0.22 x $25,000 - $3,269 = $5,500 - $3,269 =

$2,231). So her total income for that month would be $3,269 + 2,231 = $5,500. If she produced at this same level for the entire year, she would earn just $66,000. In this case, the practice would be required to pay her a bonus check of $19,000 to bring her up to her guaranteed annual base salary of $85,000. In reality, this employee would probably leave the practice to earn more elsewhere before completing a full year or the practice would fire her for failing to produce enough revenue to justify her guaranteed annual salary of $85,000.

What is more likely with ProSal compensation is that employees will exceed 1/12 of their base salary in some months and earn less than 1/12 of their base salary in other months. This unpredictability can be stressful, but also motivates doctors to produce while assuring them a certain guaranteed minimum annual income after a full year. If production moves above and below the threshold amount, the practice doesn't have to "make the employee whole" until the end of the year. At that time, there is a "reset" and a new one-year cycle begins.

Yet another form of combination salary is commonly called "base plus production" compensation. With this methodology, doctors are paid a set base amount per year, quarter or month. They also have the opportunity to earn "bonus" compensation if they exceed a defined production dollar target. The following example shows three doctors being paid via this method on an annual basis:

	Dr. A	**Dr. B**	**Dr. C**
Production threshold	$ 363,636	$ 400,000	$ 363,636
Production % of $ over threshold	22%	22%	20%
Actual production	$ 400,000	$ 400,000	$ 450,000
Production > threshold	$ 36,364	$ 0	$ 86,364
Production pay	$ 8,000	$ 0	$ 17,272
Base pay	$ 80,000	$ 80,000	$ 80,000
Total pay	$ 88,000	$ 80,000	$ 97,272
Pay as % production	22%	20%	21.6%

Dr. A receives a base salary of $80,000/year plus 22% of production over $363,636/year. In our example, she produced $400,000 for the year, resulting in additional bonus compensation of $8,000 and a total salary of $88,000. Dr. B is on the same salary structure and produces the same amount, but his production threshold is higher ($400,000). Note how this difference in production threshold reduces his annual pay relative to Dr. A. Dr. C has the same production threshold as Dr. A, but her production percentage is lower (20% vs. 22%) and she produces more. Her lower production percentage is more than offset by her higher actual production so she earns significantly more. Importantly, note how changes in production, production threshold, and salary percentage all impact salary. If a practice has a high caseload and strong technical support staff, it may be smart to accept a lower production percentage knowing that you can produce more revenue.

Some employers utilize **"negative accrual"** of production pay with these combination salaries. ***It is extremely important that employees fully understand the implications of this approach to compensation.*** Let's look at a situation where Dr. A is paid on the same formula shown above, however her compensation is reviewed quarterly (rather than annually) and is subject to "negative accrual." We will also assume that she produced less than her employer desired as she struggled to either build caseload or improve her skills and efficiency.

	Annual	Q1	Q2	Q3	Q4	End of Year
Production threshold	$ 363,636	$ 90,909	$ 90,909	$ 90,909	$ 90,909	$ 363,636
Production %	22%	22%	22%	22%	22%	22%
Actual production		$ 60,000	$ 75,000	$ 85,000	$ 95,000	$ 315,000
Production > threshold		$ (30,909)	$ (15,909)	$ (5,909)	$ 4,091	$ (48,636)
Production pay		$ (6,800)	$ (3,500)	$ (1,300)	$ 900	$ (10,700)
Base pay	$ 80,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 80,000
Actual pay		$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 80,000
Accrual		$ (6,800)	$ (10,300)	$ (11,600)	$ (10,700)	$ (10,700)

Notice that Dr. A's actual production was below the threshold (but gradually improved) during the first three quarters of the year before exceeding the threshold in the fourth quarter. For each time period that Dr. A was below her production threshold, she amassed a larger "deficit" in the form of **negative accrual**. By the end of the third quarter, she had a "negative accrual" of $11,600. Notice that even though her production exceeded the threshold in the fourth quarter, she still only received her base salary. The additional production pay of $900 was applied to reduce her deficit from ($11,600) to ($10,700). **She does not receive ANY production pay until any previous deficit is eliminated.** Unless this "reset" at one year, she would begin her second year with a deficit and would not receive production pay until her deficit was eliminated.

The important point is that employees should consider some specific questions when offered any form of combination compensation format, including: 1) Will I be OK if I end up earning just the guaranteed base amount?; 2) How likely is it that I can exceed the base/threshold (considering practice caseload, staffing, scheduling, your skills, etc.); 3) How attractive is the production percentage?; 4) How often will the production percentage be calculated?; 5) When production is calculated, will it "reset" or will any deficit accrue into the next period?; 6) Are the terms subject to reevaluation or renegotiation at some specific point in time? *Many newly-employed veterinarians do not consider these questions.*

If production "bonus" pay resets, it is generally in the employee's interest that the reset occur *more often*, in other words that the bonus period be shorter. The employer, however, generally prefers to have longer bonus periods that serve to "smooth" the ups and downs of revenue generation, making it less likely the employer will have to absorb any "deficits."

PROS & CONS: As you might guess, this methodology provides a "middle ground" on each of the Pros and Cons for flat salary and straight production described above. Many owners and employees feel this method provides some of the "best of both worlds." Risk is shared between owner and employee. Employees remain incentivized but hopefully not to an excessive degree.

Definition of Production

Any doctor paid on any form of production must understand that the definition of **"production" varies from clinic to clinic.** It is very important to have production clearly defined (in writing) in a job offer or contract. In most practices, applicable production means that the veterinarian had direct contact with the client and that the client actually paid their bill. Refills of medications may be handled differently than initial sales, because these items can be purchased or refilled without a concurrent office visit with the veterinarian. Additionally, some practices may not include certain items when calculating their doctor production.

In general, the logic in not paying doctors production for sales of certain items is based on these items having a ***lower*** **profit margin** for the business than others or where the doctor doesn't "add value." Typically, veterinary services (vs. products or diagnostic tests) are the most profitable for the practice. If an item has a significantly lower profit margin (for example, pet foods or some costly medications), then paying a doctor a 20-22% "commission" on their sale may actually lead to a loss of revenue for the business.

Thus, excluding these sales from production may be justified. On the other hand, if a doctor had to invest her or his time and expertise in "selling" the product to the client, then some form of compensation may be warranted even for lower profit items. Additionally, some doctor recommendations result in repeated sales over time for the practice (for example, a client who repeatedly returns to purchase a prescription diet or parasiticide). Despite the value of these type of recommendations, the VIN Survey showed 43% of practices paid no production compensation to their doctors for sales of diets.

Boarding and grooming services are commonly excluded from doctor production calculations. After paying the individuals performing these services, there is inadequate profit margin to also pay a commission to the DVM. This concept also applies when a specialist performs a specific service, such as an ultrasound, on another doctor's patient; the specialist receives the production/commission but not the doctor who "sold" the service to the client.

Markup on prescription medications is typically 150-200% plus a "dispensing fee." Thus, these are fairly profitable sales. They also require a doctor's expertise and advice on their potential benefit and risks. It seems unreasonable that these would be excluded from production calculations. The VIN survey showed that 91% of practices paid production compensation for the initial sale of medications, but 55% of practices did not pay production compensation for refills.

Markups on over-the-counter (OTC) medications (for example, flea/tick, etc.) are typically lower than for prescription medications. In some practices it is largely non-DVM staff who drive these sales. In other practices, DVMs drive the sales, generating additional profits. One can argue whether including these medications (on the date of visit) in a doctor's production is reasonable or unreasonable. Similar logic applies to sales of retail items, which typically have at least a "keystone" markup of 100%. The VIN Survey showed that for sales of heartworm or flea/tick medications, about one-quarter of practices always paid doctors production. Another one-quarter never paid production and about half of all practices paid production only if the sales occurred in the exam room (excluding refills without an exam).

Benefits

When considering job offers, it's important to realize that salary is just one (admittedly very important!) part of a "compensation package." Almost all full-time positions will include a variety of benefits. Part-time positions may or may not include benefits, as many businesses establish minimum guidelines for hours worked in order to qualify for benefits. For some group health insurance programs, these guidelines may be established by the insurance company rather than by the employer.

Health insurance is a common benefit, though still not provided by all veterinary employers. According to a 2016 CVMA survey 77% of employed veterinarians received health benefits (70% in the VIN Survey). These surveys included some part-time DVMs, who often don't qualify for health benefits. The AVMA Exit Survey showed that 84% of 2017 UC Davis graduates who accepted positions received some health benefits. Due to the high cost of healthcare insurance, the **majority of veterinary employers provide only *partial* coverage** of the cost with employees responsible for the balance.

Other common benefits include payment of: state license fees, DEA license fees, membership dues for national and/or local veterinary organizations, VIN membership, CE allowance, paid time off for CE, malpractice insurance, paid vacation, paid sick leave or personal days, dental coverage, vision coverage, uniform allowance, signing bonus, relocation bonus, discounted pet care, retirement plan and/or contribution, disability insurance, life insurance, paid holidays, travel reimbursement, etc.

Benefits represent a substantial additional cost to the employer. **A common "rule of thumb" is that the true cost of an employee to the business is approximately 1.2 times the employee's salary.** This additional 20% is due to the cost of benefits and certain mandatory payroll contributions that employers are required to make on behalf of their employees. When negotiating a compensation package, it may assist both the employer and employee to shift dollars from salary to benefits, depending on the tax structure. For example, an employee might accept $200 less in salary per month in order to gain $200 in additional contributions toward her health insurance coverage.

Employment Agreements

Putting things in writing is essential to protect both parties should a dispute arise in the future regarding what terms of employment were agreed upon. These documents can be in the form of an employment contract specifying all of the important terms such as salary, hours of work, benefits, etc. Some employers hesitate to use the term "contract," however, as they are concerned that such contracts may violate the "at will" status of employment (see below). Instead, these employers provide a list of their employment terms ("term sheet" or "written job offer") and a detailed job description.

"At will" employment is an employment relationship with no specified duration, meaning that the employee or employer is permitted to terminate the relationship at any time *with or without cause*. This means that neither party is "locked in" to a specific period of employment. For any reason, the employer can fire the employee or the employee can leave the employer (with or without notice). The exception to this lies in discrimination cases where the employee may pursue a formal complaint or lawsuit if they feel they were terminated based on discrimination.

If a valid employment contract exists, however, then an employee can claim that she or he can only be terminated for reasons specified in the contract. In other words, employment is no longer "at will." This is obviously restrictive on the employer, who must now prove the employee violated the contract in order to terminate the employee. In California, however, the *employee* can still terminate employment for any reason, *even if a contract exists.* In some other states, employment contracts may be binding on *both* the employer and employee; either party cannot terminate the contract without "just cause."

If a valid employment contract exists, then employment may no longer be "at will." Employees working under the contract may claim that they can only be terminated for reasons specified in the contract. Due to the imbalance in legal benefits of contracts to employers vs. employees in California, many California employers seek to avoid creating a "contract" with their employees. **Employers often include reminders about the "at will" status of employment to protect themselves** from an employee claiming that she or he was actually provided with a contract, and its associated "guarantees." When interfacing with employees, employers should be cautious to avoid even implying that employment is for some specified period of time. For example, even verbal assurances such as "we hope you'll be with us for a long time" should be avoided.