

The University of Texas Health Science Center at Houston
Medical School Compensation Plan
With an effective date of March 1, 2001

Compensation Plan Philosophy and Objectives

The University of Texas Health Science Center at Houston Medical School (UTHSCH-MS) Compensation Plan (Plan) is intended to promote the effective compensation of its faculty through appropriately matching sources and uses of funds for the Medical School Missions of Education, Research and Patient Care. The Plan is also intended to support the goal of excellence in each of these missions. The Plan will provide a Total Compensation package that includes one or more of the following components:

Base Salary—Compensation related to faculty rank within the range for that rank and is related to a faculty member's primary appointment and role at the university. Base compensation is fixed at the beginning of each fiscal year.

Augmentation—Pay that is related to clinical performance; it is permissive and variable and related to the overall success of a group enterprise (i.e., physicians' practice plan.) Augmentation amounts are set at the beginning of each fiscal year for each participating faculty member but can vary during the course of the year, depending upon performance. Augmentation amounts are based upon the individual's expected clinical performance.

Administrative Supplement—A temporary pay supplement paid at the discretion of the designated budgetary official for specific situations when an employee assumes substantial, additional responsibilities on an interim basis for an extended period of time, generally not to exceed one year.

Total Compensation—The full salary package of an individual faculty member, including base compensation, augmentation, and supplemental pay, if any.

Incentive Pay – In addition to total compensation, a faculty member may be eligible for incentive pay which is variable and based upon meeting specific individual goals for productivity and performance which are over and above expected clinical teaching and research performance.

I. Compensation Components

Base Salary

Base salary compensates an individual for the following basic performance as a faculty member:

- Professional contributions in education and research
- Participation in the professional affairs of the Medical School such as basic administrative activities and committee membership
- Participation in and rendering quality patient care
- General Medical School citizenship

An individual's base salary will be established annually by the Department Chair subject to review and approval by the Dean, as well as the UTHSC-H President or his designee. The major components of Base salary are: Instruction, Research, Administration and Clinical Activity. The use of funds for each of the activities is to be matched to the appropriate source of funds:

- The administrative component will be supported by the fund source where the administrative activity takes place; i.e., state, practice plan or contract and grants
- The instruction component will generally be supported by state funds or that portion of MSRDP dedicated to the educational mission of the school
- The research component will generally be supported by research grants (either external or internal) or that portion of MSRDP dedicated to the research mission of the school
- The clinical component is that portion of clinical activity conducted in association with the instruction and supervision of students and residents and could be supported from either state or MSRDP funds dedicated to the educational mission

The salary range of base salary is determined by an individual's:

- Specialty
- Subspecialty
- Academic Rank
- Duration of Service

State dollars are allocated by the Dean and the Department Chair to individual faculty in support of the core academic missions of the Medical School.

An integral component of the Base salary is the set of predetermined measures of performance in each of the areas of faculty performance (i.e., Instruction, Research, Administration, and Clinical Activity) that can be objectively assessed to determine whether the individual is meeting these expectations.

The total of base salary plus augmentation is bench-marked to national standards, including AAMC data, by rank and specialty and by MGMA data by ranks and specialty. Supplemental pay is not included for comparison purposes.

Augmentation

The amount of augmentation for an individual faculty member will be predetermined by the departmental chairman and approved by the dean for each academic year based upon that individuals expected clinical performance and on the overall contribution of revenue to the practice plan by the faculty member. Clinical augmentation component will be supported by anticipated faculty practice plan clinical revenue and/or contractual revenue for clinical activity. This amount can change during the year as well as from year to year.

Supplemental Pay

An administrative supplement is paid to an individual upon his or her assumption of substantial additional duties and responsibilities. These appointments are by nature temporary and usually are for such instances as acting or performing as an interim administrator while a search is conducted for a new incumbent for the administrative position; such supplements may also be awarded in relation to an assignment to a special project that requires duties not typically associated with the faculty members primary position. Determination of the need for an administrative supplement and the individual to whom one is awarded is at the discretion of the head of the operating unit (dean).

Such supplements are discontinued when the faculty member is not longer responsible for the additional duties. Administrative supplements are intended to be short-term, thus no supplement should extend beyond one fiscal year except in special circumstances.

Guidelines for the amount of money associated with a supplement vary upon the amount and type of duties involves as well as the full array of the faculty member's allocation of time and effort. Generally, an administrative supplement should not exceed twenty percent of a faculty member's base salary. In all cases, the head of the operating unit should assure that the time requirements of the supplement duties and the level of responsibility involved have been considered as well as the range and scope of the new duties and internal equity with other, similar positions have been considered.

In a case where a professor assumes an administrative role in an interim or acting capacity or for a fixed term as department chair, the dean establishes the administrative supplement amount by considering the difference between mean salaries of comparable department chairs and mean salaries of comparable senior professors in other accredited medical schools and UT-Houston Medical School. The dean confers with the President when determining such supplements. In other situations within departments, the department head establishes the amount of the supplement with the approval of the dean.

The award of an administrative supplement should be documented for the files and should reflect such information as the job title, the effective dates, total compensation including the new administrative supplement and anticipated end of the assignment.

Total Compensation

Example: Components of Total Compensation

	<u>Preferred Fund Source</u>
Base Salary	
Administration	\$ 10,000 (State)
Teaching	\$ 30,000 (State)
Research	\$ 15,000 (Contracts & Grants)
Clinical	<u>\$ 25,000 (State/MSRDP)</u>
Subtotal	\$ 70,000
Augmentation	\$100,000 (MSRDP)
Administrative Supplement	\$ 15,000 (State/MSRDP/C&G)
Total Compensation	\$185,000

II. Incentive Plans

Clinical Incentive Plan

Clinical incentive pay is that portion of compensation, which is variable and earned based upon meeting specific anticipated clinical performance criteria. Since incentive pay is based upon anticipated performance, incentive will only be paid to faculty who remain employees of UTMS-H for the subsequent incentive period. Incentive pay is provided through MSRDP merit fringe benefit payments (up to 30% of total compensation) and/or once or twice a year lump sum payments that may not exceed the total maximum salary for the individual's academic rank as established by the UT System for physician faculty.

Definition of terms related to clinical incentive pay:

Gross Revenue—Fees for full dollar value, at the UTHSCH-MS established non-discounted rate schedule, of service provided to all patients.

Contractual Allowance—Reduction to gross revenue resulting from contractual arrangements with payor.

Net Collectible Revenue—Gross revenue minus the contractual allowance and unsponsored charity care. Net collectible revenue, therefore, is the expected, collectible amount of gross revenues, after reductions for contractual allowances and unsponsored charity care.

Bad Debt Allowance—A contra-asset account (i.e., a credit balance asset account) used in accrual accounting to properly value gross accounts receivable for probable credit losses. Such probable credit losses are estimated, typically based on historical information about such losses.

Bad Debt Deduction—A write-off at the time the debt actually becomes partially or totally worthless.

Net Collections—Net collectible revenue minus the bad debt allowance.

Capitation—All amounts received from capitated plans, including per member per month payments, periodic returns of withholds, and risk pool pay-outs.

Distribution Pool—That sum of funds which is available for semi-annual incentive payments. This sum will be budgeted annually and may be modified by the Dean with approval by the Chief Operating Officer and Chief Administrative Officer of UTHSC-H based on current operational performance through the formal University budget process.

Revenue Targets

A gross revenue target is established for each individual. The target will be established using a curvilinear target pay function. Each specialty will have a specifically identified market cash compensation and market production (see Appendix 1). There will be periodic review and adjustment of targets based upon market conditions; fee schedule changes; and survey updates. This curvilinear target pay function is derived from the amount of gross revenue required to earn a given level of compensation utilizing academic MGMA ratios; i.e. compensation at median will result in a target of median gross revenue. Those specialties with fee schedules set at the 75th percentile of marketplace will have gross revenue target set utilizing the MGMA 75th percentile gross revenue.

The curvilinear function pays proportionally to productivity at lower productivity levels and becomes curvilinear at higher productivity levels, matching market practice for higher productivity (see Appendix 2 for the curvilinear function). This results in a relative increase in gross revenue required at higher compensation levels.

With the approval of the Dean and/or the Associate Dean for Clinical Operations, a gross revenue target can be set for a group (Department and/or Division). Individual productivity targets will then be set by the Department Chairman or Division Head.

When the target gross revenue has been attained, the individual will be eligible for incentive pay.

Incentive pay is calculated in the following manner:

- The excess above gross revenue targets are summed
- The excess of an individual's gross revenue target is divided by the sum of the excess of gross revenue targets
- The individual receives his/her prorata portion of the distribution pool

Examples (tabs should be decimal set - too much trouble to fix!)

Q1, FY2002 - (Faculty Member A)

Gross Revenue	\$350,000
Target	250,000
Gross Revenue Above Target	100,000
Total Gross Revenue Above Target	10,000,000
Pro Rata Portion of Distribution Pool	.01
Distribution Pool	1,000,000
Distribution to Faculty Member A	\$10,000

QIV, FY2002 (Faculty Member B)

Gross Revenue	\$800,000
Target	680,000
Gross Revenue Above Target	120,000
Total Gross Revenue Above Target	9,000,000
Pro Rata Portion of Distribution Pool	.0133
Distribution Pool	1,200,000
Distribution to Faculty Member B	\$16,000

Phased Transition

This clinical incentive pay plan will be phased in over a period of 2.5 years (see Appendix 3). During the initial six-month period, the base salary and target will be identified for each individual; however, there will be no modification of salary until March Of 2002. The clinician's performance will be monitored with quarterly reports provided to the clinician comparing his/her anticipated versus actual performance under the new compensation plan.

Beginning on March 1, 2002, individuals who are below their gross revenue target will have their clinical augmentation reduced by 50 percent of the difference between present clinical compensation and clinical compensation supported by actual gross revenue. On March 1, 2003, additional modification to the clinical augmentation, supported by the gross revenue, will be made using the same methodology. Prior to any compensation reduction, appropriate consideration will be given to the clinician's actual revenue collected.

New Faculty

For newly recruited faculty to the Medical School who do not bring with them an active clinical practice, the base salary will be set using standard methodology. A clinical target will also be determined and recognized by the augmentation component of compensation. There will be no decrement in this augmentation component for the first two years of their appointment due to not attaining expected gross revenue targets.

Research Incentive Plan

The goals of this plan are to provide a mechanism for generating financial incentives for individual faculty members conducting research and providing resources for academic programs for their department or Medical School.

The plan will be funded by reserves generated from State funds salary savings resulting from research grants, contracts or other approved sponsored programs that provide faculty salary replacement support. The plan will make awards for direct payments to faculty members (not to exceed UT salary limits) and allocations for the payment of operating expenses, such as research expenditures, professional travel, books, journal subscriptions, etc. Direct payment awards to the faculty member through payroll are treated as compensation subject to federal income tax and ~~withholdings~~ FICA. They are excluded from all calculations of retirement benefits and merit fringe benefits (Direct Purchase Annuities, Supplemental Retirement, etc.).

Special guidelines for participation in the Research Incentive Plan are:

1. The faculty member must have a full-time faculty appointment.

2. The faculty member must contribute to teaching, service and general Medical School citizenship as outlined in the section Base Salary.
 3. The faculty member must be employed at the Medical School at the time the award is made.
 4. The faculty member must request funds for full cost recovery of shared equipment used and appropriate services and facilities in all sponsored project proposals.
 5. The faculty member must assure that all accounting and reporting requirements must be met.
- The Department Chair will annually review and recommend to the Dean those faculty members meeting these requirements. Each Department Chair will administer the standard schoolwide plan for allocation of research generated salary funds between the individual faculty member and the department.
 - The Department Chair is responsible for communicating the incentive plan to faculty at the beginning of each academic year.
 - The Department Chair must utilize the standard formula that distributes a specific portion of funds to the faculty members who generated those funds. This Plan does not preclude arrangements for departmental support of a faculty member's research operations based on the acquisition of outside research funding.

The standard schoolwide allocation follows:

<u>Percentage of Salary Generated</u>	<u>Incentive as Percentage of Salary Generated</u>
0-9%	0%
10%	1%
20%	5%
30%	10%
40%	15%
50%	25%
60%	30%
70%	35%
80%	40%
90%	45%
100%	50%

The amount of an incentive award will be determined by the plan, but the distribution between the direct payments to faculty members (not to exceed a maximum of 30 percent of salary) and allocation for operation of their academic program will be at the direction of the individual faculty member.

Example I

Individual Base Salary	\$100,000
Grant Salary Generated	\$20,000 (20%)
Incentive Award	\$1,000 (5% of \$20,000)

Example II

Individual Base Salary	\$100,000
Grant Salary Generated	\$80,000 (80%)
Incentive Award	\$32,000 (40% of \$80,000)

The maximum amount the individual could receive in a direct payroll payment is 30% of \$100,000 or \$30,000; the remaining \$2,000 would be available to the individual for other program operating expenses.

Education Incentive Plan

The goal of this plan is to provide a mechanism for generating incentives for individual faculty members who provide exemplary education for medical students and residents (significantly above and beyond that normally expected of academic faculty). It is anticipated that up to 20 percent of the faculty will be eligible for such awards. Awards to individual faculty will be dependent upon available funds identified by the Dean.

Individuals will be nominated by department chairs, after consultation with course/clerkship/program directors, based on criteria which have been developed by a faculty committee appointed by the Dean. Criteria for the "Dean's Teaching Excellence Awards" include quantity of teaching activities; quality of teaching; educational administration and service; curriculum development and assessment; and educational scholarship. Consideration will be given to educational activities for undergraduate, graduate and postgraduate level students. A letter of nomination for each faculty member will be submitted by the department chair to the Dean. Faculty nominations will be reviewed annually by a faculty peer review committee and will be approved ultimately by the Dean. Based on availability of funds, direct payments will be made to faculty members identified as outstanding educators.

Conflict Resolution

Specific faculty issues arising under the Plan must be discussed and attempt to be resolved initially with the division head or the department chair. If the issue cannot be resolved satisfactorily by the division head or the department chair, the faculty may bring the issue before the Group Practice Steering Committee which will review the issue in consultation with the Dean of the Medical School and render a decision within thirty (30) calendar days. The issue may be reviewed, if necessary, by the Medical School Budget and Compensation Committee. Alternatively, a grievance regarding compensation may be filed in accordance with section 4.24 of the University's Handbook of Operating Procedures (Faculty Grievances).

If the issue is submitted to the Group Practice Steering Committee and a satisfactory resolution does not result, the faculty may continue to pursue the issue in accordance with section 4.24 of the University's Handbook of Operating Procedures.

Compensation Plan Modification

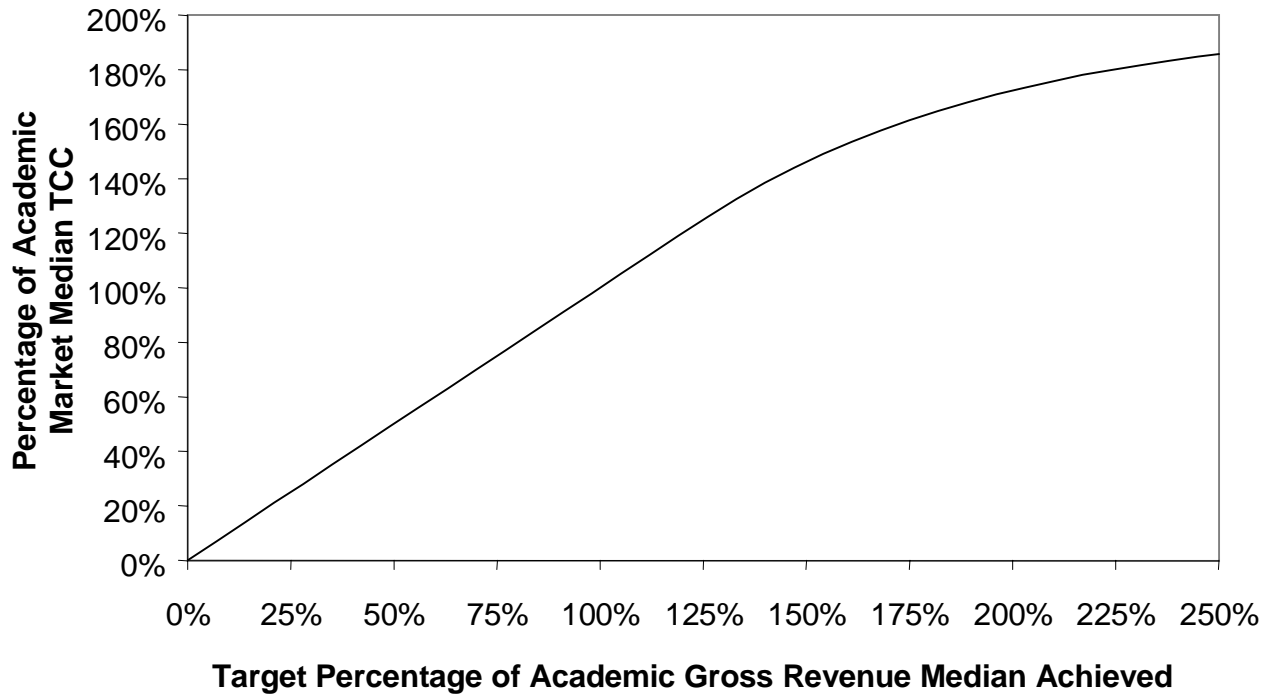
UTHSCH-MS reserves the right to modify this plan at any time with approval by the President of UTHSC-H and the Executive Vice Chancellor for Health Affairs, UT System.

Appendix 1

Department	Median Compensation	Median Charges
ANESTHESIOLOGY	\$176,156	\$833,203
ANESTHESIOLOGY-PAIN	\$175,000	\$872,962
CARDIOTHORACIC/VASCULAR SURG	\$296,128	\$1,292,816
DERMATOLOGY	\$153,498	\$588,430
DERMATOLOGY SURGERY	\$271,000	\$1,080,389
EMERGENCY MEDICINE	\$164,202	\$677,423
FAMILY PRACTICE	\$129,295	\$307,748
INTERNAL MEDICINE- Invasive Cardiology	\$177,000	\$1,301,798
INTERNAL MEDICINE- Non-Invasive Cardiology	\$161,243	\$781,183
INTERNAL MEDICINE – Endocrinology	\$128,514	\$429,619
INTERNAL MEDICINE – Gastroenterology	\$153,594	\$952,167
INTERNAL MEDICINE – General	\$119,458	\$302,876
INTERNAL MEDICINE - Hematology/Oncology	\$135,766	\$408,668
INTERNAL MEDICINE - Infectious Disease	\$128,100	\$245,076
INTERNAL MEDICINE – Oncology	\$146,058	\$623,013
INTERNAL MEDICINE - Pulmonary & Critical	\$130,563	\$596,136
INTERNAL MEDICINE - Renal Diseases	\$137,034	\$533,113
INTERNAL MEDICINE – Rheumatology	\$124,003	\$317,501
INTERNAL MEDICINE - Allergy & Clinical	\$120,000	\$403,874
NEUROLOGY	\$126,155	\$444,024
NEUROSURGERY	\$275,000	\$1,695,857
OB/GYN	\$160,176	\$540,374
ORTHOPAEDIC SURGERY	\$205,920	\$1,190,033
OTOLARYNGOLOGY ADULT	\$199,724	\$1,200,905
OTOLARYNGOLOGY PEDIATRIC	\$192,123	\$1,072,749
PATHOLOGY	\$139,000	\$394,329
PEDIATRICS - Community & General	\$109,877	\$214,769
PEDIATRICS – Gastroenterology	\$118,825	\$501,874
PEDIATRICS – Genetics	\$108,970	\$167,444
PEDIATRICS – Hematology	\$112,380	\$365,854
PEDIATRICS – Neonatology	\$139,398	\$886,639
PEDIATRICS – Adolescent	\$108,814	\$214,769
PEDIATRICS – Cardiology	\$148,779	\$761,554
PEDIATRICS - Critical Care	\$147,000	\$776,055
PEDIATRICS – Developmental	\$108,663	\$369,800
PEDIATRICS – Endocrinology	\$105,913	\$298,986
PEDIATRICS – Nephrology	\$110,697	\$398,627
PEDIATRICS – Pulmonary	\$112,264	\$391,264
PMR DEPARTMENT	\$135,474	\$417,170
RADIOLOGY	\$187,092	\$899,696
SURGERY - Neuro Surgery	\$275,000	\$1,695,857
SURGERY - Thor Cardiovascular	\$215,085	\$1,292,816
SURGERY - Transplant Surgery	\$294,743	\$1,284,007
SURGERY – General	\$199,498	\$963,015
SURGERY - Immunology & Organ Transplant	\$294,743	\$1,284,007
SURGERY – Pediatric	\$234,537	\$1,130,277
SURGERY – Plastic	\$200,031	\$1,148,792
SURGERY – Trauma	\$241,834	\$1,083,849

Appendix 2

**Clinical Pay as a Function of Target Gross Revenue for
UTMS-H Physicians (Curvilinear Function)**



APPENDIX 3

TRANSITION TIMELINE

<u>DATE</u>	<u>INCENTIVE</u>	<u>PAID</u>
Sept. 1, 2000 to Feb. 28, 2001	Compensation Plan dated September 1996 as Modified	QIV, FY 2001
March 1, 2001 to August 31, 2001	Current approved Compensation Plan	QI, FY 2002
Sept. 1, 2001 to Feb. 28, 2002	Current approved Compensation Plan	QIV, FY 2002
March 1, 2002	Reduction of augmentation possible	