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1 Introduction and Background

1.1 Purpose

To research and analyze physician compensation arrangements, specifically incentive portions, in accordance with relevant law. Additionally, to confirm written agreements that require specific services to be provided by physicians and that set forth reasonable incentives in line with a fair market analysis.

For the scope of this analysis, data will be presented and the various compositions of data will be analyzed. This report does not interpret the accuracy of data due to the inconsistency in data collection and non-uniformity in sample sizes.

This report presents separate departmental analyses and FGP, NOT an overall analysis with standardized information across each department level.

1.2 Goals and Objectives

1. To compile a written synopsis of the compensation arrangements between the University of Michigan and each of its physicians covering the following:
   - Description of each component of compensation
   - Calculation procedures for components of compensation
   - Services to be provided by the physician

2. To provide samples of written employment or personal service agreements for the physicians in terms of appointment letters or specific letters from the University or Department chairs.

3. To collect a sample of offer letters, responses, and related correspondence used within departments to communicate with physicians or their representatives in connection with initial employment and compensation arrangements.

4. To furbish departmental policies about compensation arrangements, incentive plans, and how compensation is provided to physicians including rules for when payments are made and the consequences of resignation before a specific time for incentive payments.

5. To prepare copies of any and all fair market value analyses used by the departments to evaluate physician compensation.
1.3 Background and Environment Affecting Project

1.3.1 Questionnaire

The Program & Operations Team developed a standardized questionnaire as a means to collect uniform data. The team asked the same questions across all five departments, however received inconsistent data from Department Administrators who delivered non-standardized documentation, only financial figures and not criteria, only criteria and not financial figures, or a complete lack of documentation regarding specific topics. The Compensation Package Questionnaire included questions regarding:

- gross physician compensation
- base salary
- risk compensation
- profit & revenue sharing
- research revenue generated
- teaching
- administrative workload

1.3.2 Politics and Resistance

The team met resistance upon meeting with the clinical departments to be interviewed. Some faculty were not aware of the scope and the purpose and the project and therefore, (1) answered to the best of their knowledge based on current data and (2) were not prepared with adequate documentation. There were difficulties in scheduling with Internal Medicine which resulted in a brief, incomplete interview session. The team member interviewing the Internal Department chair and administrator collected no financial documentation, only departmental criteria.

1.4 Approach

1.4.1 Affected Departments

These five clinical departments were interviewed through the questioning of the Physician Compensation Questionnaire. Information was provided by both the chair and administrator in some instances, and in others the administrator provided information and documentation.

Pathology: Dr. Peter Ward
Eugene Napolitan

Radiation Oncology: Dr. Ted Lawrence
Marc Halman

Pediatrics: Dr. Jean Robillard
Sue Middleton

Surgery: Dr. Lazar Greenfield
Cynthia Sikina

Internal Medicine: Dr. Tim Lang
Lindsay Graham

Two other medical departments were crucial for department accessibility and data collection. The departments acted as liaisons and a point of contact during the course of the project.

Faculty Group Practice: Anne Ferris, Executive Administrator

Bill Elger: Medical School, Chief Financial Officer

1.4.2 Approach

- The team interviewed department chairs and administrators
- Acquired the components of physician compensation as permitted by data
- Obtained documentation
- FGP Plan
- Department salary Structure plan
- Clinical Supplement B Program
- Sample offer letters, agreement letters

1.4.3 Methodology

Fiscal year 98 numbers were gathered along with other most current data and documentation. From those numbers, department totals were identified into components of base, academic supplement, Clinical Supplement A, Clinical Supplement B, merit, and FGP. The team then calculated component percentages of the base salary and analyzed Clinical Supplement B accordingly.
2 Total Compensation Structure

The various departments within the UMHS system were using an old faculty compensation structure for some time. The old faculty salary components are made up of the ‘Base,’ which is subject to a NIH Salary Cap, and Risk I and II components. These together add up to give the total salary for the physician, and are shown graphically below.

| Base | + | Risk I | Risk II | = | Total Salary |

There was later a translation of some old faculty salary components into the following new components in 1997. These changes are listed below:

**Old**

**Changes**

**Base Salary:** “Base” salary will translate into the “Base” salary component in the new faculty structure until such time a plan for the realignment of base salaries is in place.

**Risk I:** “Risk I” will be split between “Academic Supplement” and “Clinical Supplement A” components in the new faculty structure. The split between the two components will vary based on rank and time in rank.

**Risk II:** “Risk II” would translate into the “Clinical Supplement B” component of the new faculty salary structure.

In this new salary structure, the “Base” together with “Academic Supplement” is subject to the NIH Salary Cap. The above stated changes are again shown in the following diagram to illustrate the new salary structure. An example of compensation received by five different members of staff according to the new salary structure is also included in the table below is included.
Please note that "Administrative Differentials" which are monies paid for having more administrative responsibility in a department. It is however not included here in the diagrams or salary structure. Such compensation does not vary and is paid according to the rank of the position held. Examples of positions in the department who receive such compensation are the Section Heads.
3 Data & Findings

3.1 Department of Radiation Oncology

The department's Category II Program (to be renamed Clinical Supplement B) is intended to develop high quality clinical programs and to reward faculty who expand efforts to meet this goal. A combination of base salary, Category I and II compensation limits are calculated and approved by the Medical School yearly.

3.1.1 Total salary vs. Clinical Supplement B

A graphical representation of sample base salaries and the percentage of Clinical Supplement B of those, is demonstrated in the following graphs:

![Base Salary vs. Clinical Supplement B](image)

3.1.2 Fair Market Value

The department benchmarks their compensation by the AAMC. Risk compensation can be affected physician specialty of being a cancer doctor. *(Fair market value percentiles were not provided by Radiation Oncology).*
3.1.3 Clinical Supplement A

*(Clinical Supplement A criteria was not provided by Radiation Oncology).*

Clinical Supplement A financial figures were given and are compared to the total salaries of Radiation Oncology physicians in the following graph:

![Total Salary vs. Clinical Supplement A](image)

3.1.4 Clinical Supplement B

Currently, Radiation Oncology has set a limit as to the maximum Supplement B a physician can make. Physicians can make up to 30% of their base salary provided they meet departmental criteria. Eligible participants are all clinical physicians (excluding the Department Chair). Participants must be a current member of the faculty at the time payment is made to remain eligible.

There are two parts to the Clinical Supplement B Program. In the first part, a physician can receive up to 20% of base salary based on clinical activity. This clinical activity is based on the number of patients seen per year to meet the bonus. The pre-determined number of patients is set by the department and contingent upon the budget for that year. Physicians can make an additional 10% of their base salary by (1) providing coverage at off-site affiliate programs around the state of Michigan and (2) attending conferences and providing Radiation Oncology expertise. Therefore, the maximum Supplement B a physician cannot
exceed 30% of their base salary. The following graph compares Supplement B to the base salary to substantiate the compensation formula.

![Base Salary vs. Clinical Supplement B](chart)

The FGP Incentive Payment Plan has utilized the same criteria from the previous year. The escrowed funds from last year as well as a small amount of this year’s program will cover benefits. The criteria utilized are:

- Physician faculty will receive payment based on RVU’s generated.
- Physics faculty who have clinical responsibility will receive payment again to reinforce their important contributions to supporting clinical volume with managing utilization and resources.
- Non CDS employees who are involved in clinical activities will receive payment equal to the Hospital gainsharing program.
- Senior management personnel who are integral to the management of clinical and clinical research activities throughout our network will receive payments.
3.2 Department of General Surgery

3.2.1 Total salary vs. Clinical Supplement B

In the following graph, we examine the fraction of total compensation that is made up of Supplement B. This chart is collected from a sample size of twenty one physicians within General Surgery. There are however 137 physicians within the department.

Below is a typical makeup of two physicians within two different divisions of General Surgery.

<table>
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<th>Department:</th>
<th>GSA</th>
<th>Rank:</th>
<th>Professor</th>
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<tbody>
<tr>
<td>Base</td>
<td>$151,463</td>
<td></td>
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<tr>
<td>Academic Supplement</td>
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<td></td>
</tr>
<tr>
<td>Clinical Supplement A</td>
<td>$79,830</td>
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<tr>
<td>Clinical Supplement B</td>
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<td></td>
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<tr>
<td>Total Salary</td>
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</table>

<table>
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<tr>
<th>Department:</th>
<th>EMA</th>
<th>Rank:</th>
<th>Associate Professor</th>
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<tbody>
<tr>
<td>Base</td>
<td>$105,558</td>
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</tr>
<tr>
<td>Academic Supplement</td>
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<tr>
<td>Clinical Supplement A</td>
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<tr>
<td>Clinical Supplement B</td>
<td>$25,000</td>
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</tr>
<tr>
<td>Total Salary</td>
<td>$202,859</td>
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</tbody>
</table>
3.2.2 Fair Market Value

We shall examine the new faculty salary structure in order to understand the methods used to determine fair market value. The Department of General Surgery used the AAMC to determine the “caps” or limits imposed on different components of its total compensation package. They expect that the sum of Base, Academic Supplement and Clinical Supplement A to approach the 50th percentile of the AAMC over time in rank. Clinical Supplement B would allow total salaries to reach the 80th percentile of the AAMC over time in rank. Ideally however, there would be no case where the total compensation would exceed the 80th percentile of the AAMC standard.

![Diagram of salary calculation](image)

With the data collected from the different divisions within General Surgery, it is found however that some of the ranks do indeed receive more than the imposed 80th percentile standard. The ranks that exceed the above suggested compensation distribution standard by more than $10,000 are included in the table included in the Appendix. These are cases of concern and should be more heavily researched into as to the reasons for surpassing the 80th percentile standard.

3.2.3 Clinical Supplement A

As academic effort and clinical productivity change over time in the Professor and Associate Professor ranks, “Academic Supplement” and “Clinical Supplement A” will be adjusted to reflect those changes. Also, adjustments would be made in “Academic Supplement” for Assistant Professor and Lecturers at the end of their
initial 3-year period in rank if academic expectations have not been met. The Supplement A is determined annually and can be paid to the physician on a monthly basis.

3.2.4 Clinical Supplement B

The Department of Surgery proposed some changes in the Risk II compensation structure in a memorandum to the Dean Bole of the Medical School in July 1994. This was part of a plan to introduce a new Category II (Supplement B) incentive program during the fiscal year of 1995, so as to move from an accrual-based individual model to a cash-based group model.

The old model, which calculates Category II payments using clinical revenue, did not encourage expense control, and was dependent on the validity of established provision rates that were subject to fluctuation. It was seen that in some cases, individual payments were made although the Section may not have met financial targets. The original intent of Category II was also altered due to retention issues and limited annual salary programs. Therefore, the Category II of total salary became to heavily weighted relative to the “base + Category I” components, and was no longer viewed by faculty as an incentive for clinical productivity.

The new Supplement B program was to allow greater flexibility for the distribution of clinical earnings and to give more opportunities to reward academic productivity. Supplement B would also encourage expense control by basing its payments on the group’s ability to meet financial targets. It would eliminate dependency on estimated provision rates used in accrual-based programs.

The limit or Supplement B cap for each member of faculty is set by the Section Head. The factors considered when setting the limit are as follows:

- Clinical productivity
- Research and teaching efforts
- Variability of time in rank

The setting of the Supplement B cap also establishes the expected performance criteria For the upcoming year, and is subject to the approval of the Chairman of the Department of Surgery.

3.2.5 Family Group Practice (FGP) Incentive Distribution

The data collected about the distribution of the FGP Incentive Pay in the department was submitted to the Interim Dean of the Medical School, Lorris Betz. According to this plan for 1998, of the $2.5 million allocated to the department, $200,000 will be retained for departmental staff and other special recognitions. The remaining funds would be distributed to the sections to the sections on the
basis of:

- FGP individual bonuses at $1,000 per FTE
- Overhead relief on incremental revenue
- Recognition of efforts to reduce length of stay

There are however limitations that are to be followed by the section heads over who will be included in the distribution and the amount assigned to each faculty and staff member. The conditions that apply are as follows:

- Individual faculty distributions limited to $30,000
- Staff distributions limited to lesser of 15% of salary or $10,000 after accounting for any M$hare payments received.
3.3 Department of Internal Medicine

Internal Medicine is the only depart which failed to divulge any information pertaining to physician compensation. The information which we do have was all provided by the office of William Elger, chief financial officer to the University Of Michigan Medical School. Included are documents which further describe Base Salary and Category I and II Salaries.

3.3.1 Total salary vs. Clinical Supplement B

From the data provided we have established that the median total salary (Base Salary, Category I Risks, Category II Risks) for Internal Medicine physicians who received a Category II payment is approximately $157,000 for the current period. There were 138 physicians.

3.2.2 Fair Market Value

General information regarding base salary for Internal Medicine physicians:
Salary level relates to quality and quantity of factors including:

- Teaching effort and related patient care activities.
- Research
- Administrative Activities
- Rank
- Time as part of UMHS.
- Market Place Considerations (Our team has no information in regards to how Internal Medicine benchmarks the fair market value of the physicians employed within.)
- No selective reduction of Base Salary for tenured physicians.
- Exception being a forced reduction for the Medical School in whole.

3.3.3 Clinical Supplement A

The criteria by which Category I Risks are compensated are as follows:

- Individual contributions to academic medicine.
- Prestige an individual physician brings to department and institution.
- Funds can be freely increased, reduced or shifted to Category II Risk based upon the performance and activities of the individual.
- Shifts from Category I to Category II Risk made with the intention of Division Chief and the Chair to maximize faculty distribution of Category II Risk.

3.3.4 Clinical Supplement B

The criteria by which Category II Risks can be established are as follows:

- Performance of patient care activities as the part of Faculty Diagnostic Unit Activities.
- Funds from outside sources may be applied to offset Category II Risk on a dollar by dollar amount.
- Funds from grants to alleviate a research commitment.
- Reimbursement by other departments or schools.

In Internal Medicine Category II Risk encompasses a median figure of 75% of Base Salary and has exceeded 400% for several physicians.
3.4 Department of Pediatrics

The pediatrics department provided documentation for the general faculty salary structure, the FGP distribution, as well as incentive agreement letters for several faculty members.

3.4.1 Total salary vs. Clinical Supplement B

The data we received from the Pediatrics department places the median total salary (Academic Salary, Supplement A, Supplement B) to be at approximately $140,000 for all physicians who received a Supplement B payment. There were 38 physicians.

3.4.2 Fair Market Value

We received no documentation that outlines how Pediatrics benchmarks the fair market value of Base Salary. We also received no information explaining the criteria by which Base Salary is established.
3.4.3 Clinical Supplement A

The following criteria are the basis for the Clinical Supplement A disbursement:

- Reserved for "clinical scholars".

3.4.4 Clinical Supplement B

The following information represents all the information we collected for the disbursement of clinical Supplement B.

- Should roughly equal 15% of Academic Salary.
- Earned by productivity related outpatient activities.
- The level of activity varies for each physician.

3.4.5 Family Group Practice (FGP) Incentive Distribution

Pediatric Faculty Group Practice disbursement:

- Each faculty member will receive $1000 lump sum.
- Research faculty receives $1000/FTE.
- Divisions distribute funds based upon proposal submitted to chair.
- 60% of funds distributed based upon goal attainment.
- 40% distributed based upon total revenue in division.
3.5 Department of Pathology

3.5.1 Total salary vs. Clinical Supplement B

The information was not available for this department.

3.5.2 Fair Market Value

The Pathology department aligns the base salary of its physicians using the AAMC to establish a fair market value for each position. Additional criteria by which base salary is established are:

- Yearly evaluations.
- Quantity and quality of work performed.
- National or international prestige.

3.5.3 Clinical Supplement A

No information available

3.5.4 Clinical Supplement B

- Based upon revenue dollars an individual generates for the department.
- 75% of total funds to department, remaining 25% funds awarded to faculty.
- 80% of faculty funds to individual, remaining 20% to division director.
- Disbursed to individuals in proportion to funds generated.
- All awards contingent upon departmental revenue earnings.

3.5.5 Family Group Practice (FGP) Incentive Distribution

- Based upon revenue generation, expense reduction and enhanced patient services.
- Also available to faculty who acted in administrative roles.
- 75% distributed to faculty, 25% retained by the department.
- Amount pro-rated due to time served or work output less than 100%.
- Cannot exceed 10% of Base Salary.
- Must be currently employed to receive award.
4. **Conclusions**

For the purpose of this project, departmental data was gathered and focused on base salary, Clinical Supplement B, and total compensation. This data that is represented in graphical form compares the components of the compensation formula to the departmental benchmarks. While some of the ranges fall within the benchmarked percentile ranges, other individual physician cases exceed those ranges. Furthermore, these ranges that do not comply at the benchmarked AAMC level give cause for potential concern. It is for further investigation to conclude if these outlying cases are potential cause for risk under federal guidelines.