

## ISSUE: DRIVING PERFORMANCE WITH INCENTIVE PAY

University of California academic medical centers are a distinct part of the UC system. They operate as self-supporting enterprises that vie for employees in a competitive health care marketplace, all while serving as a safety net for the medically vulnerable in California and sustaining the nation's largest health sciences training program.

In line with other hospitals, UC medical centers use performance-based pay plans as a key tool to help raise the quality of care, increase efficiency and compete with other hospitals for the best talent. All medical center incentives are paid from clinical revenues—no state funds are used. Indeed, unlike the general campuses, UC medical centers receive less than 1 percent of their \$5.6 billion budget from state funding.

UC medical centers use pay-for-performance programs across the board, with most employees eligible for some incentive compensation and chief executives putting as much as 30 percent of their pay at risk. The performance goals cover five categories: quality improvements, financial performance, patient satisfaction, resource utilization and key achievements against the strategic plan. UC has 22,000 participants in 21 clinical incentive plans at its five medical centers. They include more than 17,000 union employees: about 7,700 represented by the American Federation of State, County and Municipal Employees, 6,100 registered nurses represented by the California Nurses Association, 2,100 represented by the Coalition of University Employees and 1,400 represented by the University Professional and Technical Employees. The other 4,800 participants are professional or supervisory/management staff and 38 administrators in senior management.

Senior Management Group participants in the Clinical Enterprise Management Recognition Plan (CEMRP) met or exceeded their performance goals for fiscal year 2009, calling for them to receive \$3.1 million in performance pay. Under policy, the Regents must approve these payments. Including CEMRP, the total 2008-09 payout for all 21 clinical incentive plans is about \$33.7 million, or 0.6 percent of UC medical center revenues.

## WHAT IS THE CLINICAL ENTERPRISE MANAGEMENT RECOGNITION PLAN?

In highly competitive markets, such as health sciences, athletics and investment professionals, compensation is divided into two parts: **(1)** a fixed base salary and **(2)** a contingent payment based on performance. A look at UC's top pay earners highlights this distinction—they are predominantly doctors as well as coaches and medical center administrators. CEMRP began in 1994. Regents approved establishment of the plan to provide incentive pay to senior health sciences leadership who meet or exceed key clinical objectives. In January 2009, despite fiscal strains on campuses, Regents voted to continue the plan, recognizing its value in providing competitive compensation and in rewarding improvements in patient safety and satisfaction and quality of care. This plan is a common industry standard and an attempt to bring UC compensation to market rate. For example, cash compensation for UC medical center CEOs lags the market by 26 percent without incentive pay, but lags by only 2 percent with CEMRP payments.

The proposed CEMRP payments for the Senior Management Group range from \$30,120 to \$218,728. As a percentage of base salary, they range from 14.2 percent to 29.6 percent. Under CEMRP, medical center CEOs must meet their goals to qualify for payments that can't exceed 30 percent of base pay, with as much as half based on systemwide goals. If individuals don't achieve their goals, they won't be rewarded.

### **This year, medical centers exceeded their systemwide goals:**

**Patient Safety Goal:** decrease bloodstream infections by 10 percent.

**Result:** bloodstream infections reduced by more than 20 percent in the second half of fiscal 2009.

**Purchasing Goal:** achieve \$4 million in savings from group purchasing related to pharmaceutical, medical supply, lab and IT expenses.

**Result:** \$7.1 million savings.

**Contracting Goal:** increase clinical payment rates achieved by systemwide contracts with insurance plans by 4 percent.

**Result:** clinical payment rates increased by more than 5 percent, or more than \$100 million.