



Corporate Policies and Procedures

Human Resources

Compensation Administration-Faculty

Category: Compensation (CM)

Policy #: HR.CM.020

Applies to: All paid faculty, including both clinicians and scientists, employed by the Medical College of Wisconsin

PURPOSE:

This policy, which has been endorsed by the Compensation Committee of the Medical College of Wisconsin Board of Trustees, is intended to facilitate the institution's faculty compensation philosophy as stated:

- Promote reasonable and equitable compensation for all members of the faculty based upon comparable and objective market data and Fair Market Value principles
- Enhance the institution's ability to compete in the recruitment and retention of excellent faculty
- Encourage and support the alignment of faculty productivity with compensation
- Ensure that the compensation methodology is fiscally sound
- Assist in timely review and approval of compensation
- Comply with all regulatory requirements

The Medical College of Wisconsin (MCW) complies with the definition of reasonable compensation defined below. An aggregate compensation analysis covering a department or a large division/section can be a useful management tool for MCW leaders, including MCW Chairs and Deans. However, the regulatory requirements are applicable to individual compensation levels, not to a group of employees. As a result, this Policy addresses how individual compensation is to be set and reviewed.

DEFINITIONS:

Administrative supplemental pay: supplemental pay is paid for time spent performing administrative duties. Faculty holding Administrative roles, including Medical and Administrative Directorships, Residency Directorships, and Division/Section Chief roles, and Chair positions, must have either a percentage of base pay or a fixed amount identified as supplemental compensation for the role. This supplemental pay is usually paid as part of base compensation.

Base pay: compensation paid to the faculty member in 1/12th payments.

Clinical Productivity: For Fair Market Value (FMV) purposes, MCW defines clinical productivity in terms of approved work metrics, such as Relative Value Units (wRVUs), Anesthesia Value Units (AVUs), etc. Physician profitability and collection rates are financial outcomes of work performed. Revenue flows from Designated Health Services (DHS), as defined by Centers for Medicare and Medicaid Services (CMS), is not an approved work metric and DHS productivity shall not be utilized to measure clinical productivity for purposes of faculty compensation.

Compensation Services: A service within the Office of Human Resources that offers guidance and expertise in areas of compensation for MCW staff and faculty.

Compensation Committee of the Board of Trustees: Committee members are appointed and approved by the Board of Trustees. This Committee reviews and approves all transactions between the Medical College and the President and Chief Executive Officer, and any trustee, elected officer or any other person or entity who may be found to be a “disqualified person” under Section 4958 of the Internal Revenue Code of 1986. This Committee may delegate review and approval of transactions between the Medical College and any employee of the Medical College other than an elected officer. This Committee shall perform such other functions as may be required or otherwise appropriate under applicable law, rules or regulations, or other directives of the Board of Trustees.

External Pay: Outside compensation paid directly to the faculty member, such as Veterans Administration (VA) pay. Refer to Section 2.7A of the Faculty Handbook for further information about when this is permitted.

Faculty Handbook: The most current version of the Information for Faculty maintained by Faculty Affairs.

Fair Market Value (FMV): MCW has adopted FMV definitions as set forth in the Compensation and Productivity Benchmark Report (also referred to as the “white paper”). FMV is determined by analyses of total compensation benchmarks which serve as a comparator to the competitive market.

Full Professional Effort (FPE): Academically qualified individuals who devote full professional effort to programs of the College, working at least half-time (.50 FTE) but not working full-time, are eligible for appointment to this faculty category.

Institutional Compensation Committee: The Committee (“ICC”) established by the MCW President and CEO to assist with developing or revising MCW compensation policies or guidelines, reviewing and approving department compensation plans outside of approved policy, reviewing and approving modifications to the Fair Market Value (FMV) methodology, and reviewing and approving individual compensation levels beyond thresholds established in policy or FMV guidelines.

Promotion: An increase in faculty rank (other than a change from Instructor to Assistant Professor (see Section 2.2(B)(1) of the Faculty Handbook)). Promotion can occur with or without the concurrent grant of tenure. Grant of tenure without concurrent promotion is typically not considered a promotion in faculty rank.

Reasonable Compensation: MCW retains an independent compensation consultant annually to evaluate MCW executive compensation against the IRS requirement that compensation be “reasonable.” “The IRS has not defined or

established a 'standard' for what is considered reasonable compensation. However, as per the IRS: 'The greater the amount by which pay exceeds market norms, the greater the scrutiny that can be expected.'

Generally, total compensation that closely approximates or is below the market's 75% percentile is considered within market practice and reasonable. Total compensation levels above the 75th percentile are considered the upper-end of the market. Total compensation levels above the 90th percentile should be carefully reviewed, approved and documented by the ICC, as these levels of compensation may draw attention from regulators and/or the public. Total compensation levels should not significantly exceed the 90th percentile of the market data, unless a leader's unique skills, performance, or market circumstances warrant compensation at this level.

Source: Sullivan Cotter Compensation Analysis, April 20, 2017

Research Productivity: Includes an assessment of factors such as extramural funding, and numbers of peer reviewed publications.

Total Compensation: Combination of base compensation, any applicable administrative supplemental pay, variable compensation, external pay, and some cash based taxable benefits (i.e. moving expenses, etc.). Examples of pay included in total compensation are: compensation paid as base pay- or production-based compensation plans, any type of additional bonuses or incentives, clinically related medical directorships, administrative supplemental pay, call coverage, moonlighting supplemental pay and other miscellaneous compensation.

Variable Compensation: "At risk" compensation paid as a result of the achievement of specific performance goals by the individual or the department or institution. Variable bonus or incentive compensation will not be utilized to distribute revenue from designated health services.

- a. Incentive Compensation is defined as budgeted variable compensation paid quarterly, semi-annually or annually based upon funds available for distribution. Amounts are allocated to individuals based on quantifiable metrics approved in advance.
- b. Bonus is defined as unbudgeted distribution used to reward exceptional performance or other approved purposes. Approval requirements for bonus distribution may change based on departmental and/or institutional economic conditions.

POLICY:

As set forth in its Compensation Philosophy, the Medical College of Wisconsin (MCW) recognizes that its ability to fulfill its four-fold mission depends on the caliber of talent in its faculty workforce.

This policy statement is implemented through the following procedural subsections. The Institutional Compensation Committee is responsible for making recommendations to the President for this policy.

Departments are responsible for the development of the department-specific compensation plans using the criteria defined in this policy.

All Departments and Division/Sections must verify that prospective compensation adjustments comply with FMV requirements. Verification and approval must be

obtained from MCW Compensation Services before being disclosed either orally or in writing during recruitment or after hire.

Departmental compensation plans shall not consider the volume or value of referrals in establishing performance measures, targets for productivity, or any other element of clinical compensation.

This policy supersedes MCP and CSG Practice and departmental guidelines, plans or other policies or practices that conflict with the requirements of this Policy. All compensation plans created pursuant to this policy modify and supersede any prior plans or agreements concerning faculty compensation.

PROCEDURE:

A. Effort Allocation & FMV Benchmark

Clinical, academic and administrative leadership roles are individually benchmarked according to the respective effort in each role. The total compensation benchmark is a weighted average of these components. When changes are made to these allocations for individual faculty, the changes must be entered into the appropriate MCW electronic systems.

The Compensation and Productivity Benchmark Report discusses how benchmarks are evaluated, selected, and used (see Reference section for a link to this document). All compensation decisions must employ the FMV benchmark methodology. For further information see the following link in the reference section.

This Report is approved by the President and CEO and may be amended as recommended by the ICC.

B. Compensation

Compensation may be paid as a base salary only, or as base salary in combination with variable compensation and/or supplemental pay, depending on the Department's compensation plan. Total compensation is the sum of base salary, supplemental pay, variable compensation, bonus and any other form of cash based pay. An individual's total compensation is based upon academic and clinical specialty, performance, and external and internal data, and must not exceed Fair Market Value without approved business justification.

Individual compensation will be reviewed for alignment to FMV and productivity. Where productivity and compensation are misaligned, further evaluation may be warranted. The following principles apply to compensation reviews:

1. **Total Compensation <25th%ile:** Total compensation <25th%ile of FMV typically reflects faculty new in their rank or career, low in academic and/or clinical productivity or other reasonable business factors. Departments are responsible for annually reviewing and assessing compensation under the 25th%ile for appropriateness and developing action plans.
2. **Total Compensation ≥25th%ile but <50th%ile:** Total compensation approaching the 50th%ile of FMV characterizes faculty consistently performing near expected levels and demonstrating academic and/or clinical productivity approximating market averages.
3. **Total Compensation ≥ 50th%ile but ≤75th%ile:** Total compensation ≥ 50th%ile but ≤75th%ile of FMV, when appropriately matched with

productivity, characterizes faculty consistently performing at/or above expected levels and demonstrating academic and/or clinical productivity at/or exceeding market averages.

4. **Total Compensation > 75th%ile but <90th%ile:**

Total compensation >75th%ile must be justified by benchmark academic and/or clinical productivity metrics or other reasonable business factors such as those listed below:

- Institutionally recognized strategic importance of a clinical specialty or program
- Documented recruitment/retention difficulties in a clinical specialty
- Individual training, clinical skills and national reputation
- Exceptional sponsored research and/or scholarly activity

All individual faculty total compensation levels >75th%ile of FMV but < 90th%ile will be reviewed by the ICC. All individual faculty total compensation in this category NOT justified by benchmark academic and/or clinical productivity metrics or other reasonable business factors shall be reviewed and approved by the ICC. In carrying out this review, the ICC shall be provided with a written opinion/justification approved by the Department Chair. The Dean will discuss with the relevant Department Chair any ICC decision to recommend disapproval of the Department Chair's total compensation recommendation, or to refer faculty compensation >75th%ile but <90th%ile to the Compensation Committee.

5. **Total Compensation ≥ 90th%ile:** Individual faculty total compensation ≥ 90th%ile of FMV will be referred to the ICC regardless of whether there are metrics or business justifications supporting the level of compensation. In carrying out the review of compensation not justified by clinical productivity, the Compensation Committee of the Board of Trustees shall be provided with a written opinion/justification approved by the Department Chair.

The Dean of the Medical School will discuss with the relevant Department Chair any Compensation Committee of the Board of Trustees decision that does not support the Chair's justification/recommendation.

C. Base Compensation

Base compensation for all faculty shall be established for each position. Base compensation must be set at a reasonable percentage of total compensation reflecting both a reasonable level of planned base compensation for cash flow and providing a market appropriate level of compensation at risk for fiscal departmental planning. Base compensation is determined by factors such as: academic rank, clinical productivity, research/scientific productivity, educational excellence, and administrative effectiveness.

For research intensive faculty without incentive opportunity, base compensation shall constitute total compensation. Factors considered in establishing base compensation for research intensive faculty include reputation (receipt of invitations to lecture or contribute to peer reviewed journals), publications in journals of significance or top tier journals of broad significance, funding (external grants/peer review) and research citizenship.

Full payment of base compensation depends upon departmental resources to fund base compensation for all faculty.

D. Incentive Compensation

D.1 Variable Compensation-Budgeted Incentive Compensation

Research Intensive Faculty

At the discretion of Department leadership, research intensive faculty may also be eligible to receive incentive compensation pursuant to an approved compensation plan.

School of Pharmacy

At the discretion of the Dean of the School of Pharmacy, faculty may be eligible to receive incentive compensation pursuant to an approved compensation plan. Leaders may be eligible to participate in the MCW Key Leader Incentive Plan.

School of Medicine

For clinically intensive faculty in the School of Medicine, the budgeted target incentive compensation should consist of at least 10% in FY2019. Stretch level incentive achievement will exceed target levels. Exceptions may be requested by Departments for extenuating circumstances; an exception requires consultation with the Dean of the School of Medicine, approval by the MCP or CSG Practice leader and the ICC. Incentive compensation for any activity must have a funding source and be reflected in the Department's operating budget.

D.2 Variable Compensation-Bonus Payment

The payment of bonus compensation depends on the appropriateness of the FMV analysis, significantly above exceptional performance levels, approved by the Practice and the Dean of the School of Medicine and availability of department resources to fund the distribution. Any unbudgeted bonus payments require approval and may change based on departmental and/or institutional economic conditions. Requests for unbudgeted bonus payments are reviewed and approved as described in the annual Institutional planning process.

D.3 Incentive Compensation Plan Design – this section effective July 1, 2018

Each clinical department is responsible to submit a compensation plan using the approved Clinical Compensation Plan Template to their practice compensation committee for approval in advance of the fiscal year for which it goes into effect. The Clinical Compensation Plan Template is reviewed annually and approved by the ICC with ongoing input from the practice compensation committees. Pursuant of the template, each Department's compensation plan for clinically focused faculty will include the following elements:

- Clearly written guidelines concerning the eligibility to participate
- How performance is measured
- Threshold, target and stretch metrics defining performance correlating to budgeted incentive payouts
- Funding source for the program
- Payout schedule

Incentive compensation goals may be expressed as individual goals or on the attainment of collective departmental, divisional or defined clinical unit goals. Eligibility for participation in the incentive program is conditioned upon the

attainment of measurable baseline performance expectations expressed in the plan.

Incentive compensation and increases in base compensation and supplemental pay should be awarded based upon performance against goals, and in alignment with clinical productivity, quality measures and market conditions.

Annually, each Department will establish a budget based upon measurable baseline expectations of clinical productivity and realistic assumptions related to growth in procedure volume and patient populations. Baseline expectations should be based upon productivity benchmarks, and may include specialty specific benchmarks.

Incentive compensation plans will define threshold, target and stretch metrics beyond the baseline by which performance of faculty will be measured. Clinical performance, measured by clinical productivity (such as wRVU or template) shall be given the primary weight in determining incentive eligibility.

A portion of clinical incentive opportunities may be based upon other criteria, including clinical practice priorities (such as patient satisfaction, quality and patient safety) approved by the applicable practice group.

Incentive plans may include measures against goals related to scholarly activity that advances MCW's multiple missions, and the Chair's discretionary evaluation of the individual faculty member's overall performance. Appropriate weights should be assigned to each such objective.

E. External Pay

External pay is compensation paid directly to the faculty member by an affiliate organization, such as the VA, and is included in total compensation for FMV analysis review. Individual faculty must report external pay and Departments are responsible for maintaining accurate records of external pay.

F. Promotions

Academic rank promotion does not carry with it an automatic compensation increase. When promotion is proposed, an FMV analysis should be done to support the proposed compensation after promotion and the increase in compensation may not exceed 15%. Compensation increases greater than 15% must be reviewed and agreed upon by MCW Compensation Services prior to implementation. If compensation increases are not agreed upon by Compensation Services, the Department may request an exception. The exception request is to be directed to the VP Human Resources and must be accompanied by a department justification. The VP Human Resources will assemble the department information and Compensation Services recommendation and consult with the Dean and Executive Vice President or another appropriate Dean. This decision is final.

G. Administrative Supplemental Pay

Administrative supplemental pay is role-specific rather than individual-specific. It is expected that all annual compensation letters issued by Department Chairs and/or Division/Section Chiefs shall contain an allocation of base compensation to one or more administrative roles held by individual faculty members. The compensation allocation may be based on FMV data, where available, or upon such factors as affiliate support provided for the administrative role. When the faculty member no longer holds an administrative role, compensation should be adjusted and/or Departments/Divisions can reassign effort to an activity that is of value to the Department, such as increase in service time.

H. On Call Pay

For clinically intensive faculty, ordinarily base pay includes compensation for required on-call and on-service requirements. Some services, which require in house call, accommodate call requirements into ordinary scheduling. However, other services assign call schedules typically on a rotation: some specialties are likely to be called and must frequently come to the hospital to attend patients, where in other specialties, the call requirements are fewer when the faculty member is on call. Each Department and where indicated, each Division/Section, must establish a monetary value associated with call. The purpose of this is not to provide additional compensation for taking required call, but to establish, in advance, the compensation reduction associated with the relinquishment of all or part of call requirements.

I. Shift Work

For clinically intensive faculty, some departments define the clinical work week in part by the number of "shifts" faculty work to cover the relevant service (for example, Emergency Medicine). It is permissible for the Department to establish additional compensation (for example, an amount per shift) for shifts worked in excess of the ordinary requirements.

J. Departmental Needs and Faculty Effort

It is not permissible to pay extra compensation for working normal business hours, Monday through Friday. Shifts worked in excess of the ordinary requirements are an exception to this requirement; refer to Section H above. A Department or Division/Section may use a practice of post-call time off when a faculty member on-call or on-service has worked fairly constantly through the night or weekend.

There are occasions when a productive faculty member becomes ill, is mobilized to the military, resigns or retires, for example, that other faculty may be asked to assume on-call or on-service time in excess of the normal schedule or requirement. A Department or Division/Section may establish additional temporary compensation to be paid to faculty members who supply this additional coverage. Once the original on-call schedule or on-service requirements are reinstated, the additional compensation will no longer be paid.

K. Recruitments

All Departments and Division/Sections must verify the proposed total compensation being offered to new recruits, regardless of rank, complies with FMV requirements. This verification is done by MCW Compensation Services before being disclosed to the candidate either orally or in writing. No internal or external offers can include guaranteed base salary increases. Guaranteed incentives must not exceed two years.

L. Market Adjustments

Occasionally, local, regional or national market pressures may affect MCW's ability to recruit and retain certain specialists or subspecialist physicians. These issues are to be addressed with MCW Compensation Services. Adjustments made for market pressures typically involve base compensation increases, but on occasion, may involve compensation decreases.

M. Full Professional Effort/Part time Status

All of the above sections apply to FPE, part time, and other paid faculty, prorated by percentage of effort.

N. Compensation Adjustments for other reasons

Prospective compensation adjustments may be made to faculty base and incentive compensation at any time during the academic year. Compensation decreases may occur for a variety of reasons not discussed in other sections of this Policy, including but not limited to failure to comply with the MCP Open Encounter Policy, for reduced research or clinical productivity, and for lack of professionalism. To the extent Compensation Plans provide for a Chair's discretionary distribution, a faculty member's portion of that distribution may also be adjusted.

O. Compliance Considerations

The risks in not paying at FMV levels include jeopardizing MCW's not-for-profit federal income tax exemption status, jeopardizing the fiduciary duties of MCW's trustees, intermediate sanctions, or violations of Stark and/or anti-kickback statutes.

To assess these risks and ensure compliance, the Corporate Compliance Office will periodically review individual faculty compensation to determine the FMV percentile levels, and assess these levels against the corresponding academic and clinic productivity. This may consist of reviewing compensation below the 25th percentile FMV levels to ensure there are no potential inequities in compensation by gender or ethnicity, or reviewing compensation above the 75th percentile FMV levels to assess the reasonableness of the justifying business factors.

P. Froedtert Health and Medical College of Wisconsin Community Physicians (CP)

Please refer to the CP Compensation Policy referenced below.

Other general questions should be directed to MCW Compensation Services.

REFERENCES:

Community Physicians Compensation Policy Link
[Compensation and Productivity Benchmark Report](#)
[Faculty Handbook](#)
[Compensation Philosophy](#)
[ICC Charter](#)

ATTACHMENTS:

Not Applicable

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Approved By: _____

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