I. Introduction

Because academic health centers and the US health care system continue to evolve in complex and often contradictory ways, more than ever a flexible clinician faculty compensation methodology is essential. An effective Clinical Faculty Compensation Plan (“the Plan”) requires flexible implementation of remuneration, allowing for timely alterations in the form of both increased and decreased compensation as changing financial conditions dictate or allow.

Since the prevailing salary levels of clinical faculty result from the unique clinical earning capacity of physicians and other clinicians, such salaries must be responsive in turn to the current revenues available to the clinical departments of the School of Medicine. In order to cope with existing and anticipated changes in reimbursement, it is essential that alterations be made in the way in which clinical faculty salaries are paid within the School. A system must be instituted which allows the School to alter salaries sufficiently to respond to changing economic conditions. Of equal importance, since most of the income in the School of Medicine is based on clinical receipts and research grant and contract awards rather than on appropriated state dollars, there must be an ability within the faculty compensation system to reward adequately the most highly productive members of a department.

This Plan updates and refines the Clinical Faculty Compensation Plan approved by the Board of Governors in January 1996, and revised in 2001. The Plan’s goal is to maintain the long term financial solvency of the UNC School of Medicine while encouraging excellence in teaching, research, clinical service and administration through incentive mechanisms. Recognizing that the departments within the School of Medicine may vary both in culture and in the type of health care services provided, the Plan allows an individual department to choose from a menu of clinical compensation strategies the approach that works best for that department.
II. Plan Summary

Each clinical faculty member will have a guaranteed base salary, set as described below. The faculty member will have total compensation that will consist of (1) the base salary and (2) a productivity component. The productivity component will be derived based as applicable on consideration of historical personal clinical productivity and on productivity in non-clinical duties such as research, teaching, administration and service. The total compensation may be increased or decreased from year to year based on either the individual’s personal clinical productivity, on the individual’s performance in teaching, research, clinical service and administration, and on the overall financial status of the department, and shall be consistent with the Board of Governors salary policies.

III. Faculty Covered by Plan

This Plan is designed to apply to all faculty members in School of Medicine clinical departments who are engaged in patient care, including fixed-term clinical faculty where consistent with the terms of their letters of appointment. Compensation for non-clinical faculty appointed to clinical departments who are not covered by this Plan shall be determined as provided by the School of Medicine Basic Science Faculty Compensation Plan. However, for special categories of faculty employee, including but not limited to visiting faculty, part-time faculty, and faculty who are hired on the assumption that their employment will be temporary, a Chair may, with approval of the Dean, determine at appointment that the faculty member’s compensation will be determined independent of the provisions of this Plan or of the School of Medicine Basic Science Faculty Compensation Plan.

Where a faculty member’s duties have changed sufficiently, he or she may with agreement of the Chair convert from this Plan to the School of Medicine Basic Science Faculty Compensation Plan, or from that plan to this Plan (subject to the foregoing provision regarding employees such as part-time, visiting and temporary faculty members). In addition, an individual department may provide that faculty members engaged in patient care at less than a minimum threshold over a specified period, as specified in the departmental implementation plan, may be removed from clinical assignments and declared ineligible for coverage by this Plan. In such cases the faculty member’s base salary may be adjusted to reflect his or her assigned duties. He or she will otherwise be eligible for productivity-based compensation as determined under his or her home department implementation plan. Reinstatement of the faculty member to clinical duties and to coverage by this Plan shall be within the discretion of the Chair.

1 Effective immediately, appointment letters for School of Medicine fixed term faculty shall include a statement that their compensation shall be set as provided by the applicable School of Medicine compensation plan.
IV. Plan Components

A. Overview of Components

Each clinical department faculty member subject to the Plan will have a total annual compensation for the fiscal year comprised of two components: the base salary and the productivity components.

The base salary will be effective for one fiscal year, will be determined during the annual budget process by Chairs (or their designees) with the agreement of the Dean, and will be established for the fiscal year subject to conformity with the University’s Board of Governors salary policies. The base salary will be based on the previous year’s earnings and expenses of each department and/or division or other operating unit, and on the individual faculty members’ productivity and excellence in teaching, clinical performance, research and administration. Information describing the charges for each covered faculty member will be supplied quarterly by the UNC P&A to the Chair of each department to aid in the determination of clinical productivity.

The Department Chair will inform the faculty member in writing of his or her base salary for the upcoming fiscal year once that salary has been approved in writing by the Dean. Changes in the base salary will not be processed without documentation that the Dean has approved the salary.

The base salary component may consist of any appropriate combination of state appropriations, income from contracts and grants, AHEC salary support, endowment or other trust fund income (including funds allocated for approved academic leave), and funds from clinical income and shall be calculated in accordance with the parameters set forth in Section IV B, below. The productivity component may consist of any appropriate combination of income from contracts and grants, AHEC salary support, endowment or other trust fund income (including funds allocated for approved academic leave), and funds from clinical income, but adjustments in the productivity cannot be based solely upon receipt of or termination of a federally sponsored research grant. The productivity component shall be calculated in accordance with the parameters set forth in Section IV. C., below. State appropriated funds generally will not be included in the productivity payment component.

In addition to the base salary and productivity components, where funds are available the School may award faculty members subject to this Plan an annual, non-recurring bonus. As determined by the Dean, such bonus compensation may be paid in equal amounts to all faculty members subject to this Plan, or it may be set by reference to

---

2 The Board of Governors annually approves salary caps for School of Medicine clinical faculty, by department. Faculty salaries cannot exceed the stated caps without permission of the General Administration.
merit criteria defined at the beginning of the fiscal year by the Dean upon approval by
the Office of University Counsel.

Total compensation to any faculty member in any fiscal year, including any
supplements, will not exceed the salary ceilings approved by the Board of Governors of
the UNC System. **In no event will any component of faculty compensation be set by
taking into account the volume or value of referrals made by the individual faculty
member to the University of North Carolina Hospitals or to the School of Medicine
for ancillary services.**

B. **Base Salary**

The base salary can be increased or, with approval of the Dean, it can be adjusted
downward, but it cannot be adjusted below the minimum base salary. The minimum
level to which a base salary may be reduced will be set uniformly by academic rank
throughout the clinical departments in the School of Medicine. When it is anticipated
that a faculty member’s base salary will be reduced, the chair will write the faculty
member to inform him or her of the planned reduction and the basis for same, and the
faculty member shall have a period of not more than twenty calendar days from the date
of the chair’s notice to submit a written response stating why the proposed reduction is
unwarranted. The chair and Dean will consider information provided by the faculty
member in making final base salary determinations.

This minimum salary level will be set uniformly by academic rank throughout the
clinical department faculty, and will be adjusted at least every three years based in part
on changes in state EPA salary dollars provided to the departments during that time.
The minimum salary level will be prorated where a faculty member is appointed for less
than full-time effort.3

C. **Productivity Component**

The productivity component should reflect an assessment of the faculty member’s
clinical productivity and as applicable his or her productivity in teaching, research,
administration and service. Faculty who serve as directors of centers or institutes
internal to the School, or as department chairs will be eligible for a variable component
enhancement in their administrative supplements for such service, under separate
criteria and procedures developed and administered by the Office of the Dean.

---
3 As of June, 2006, each faculty member already subject to this Plan was to receive his or her current minimum
salary, which could not be increased until it was equaled by the minimum salary for faculty members of equivalent
rank.
1. Initial Productivity Component

For faculty members hired following adoption of this Plan, the Department Chair will determine an initial productivity component based upon consideration of the faculty member’s projected clinical productivity and of the availability of funds other than those allocated to paying base salary for the faculty member, such as sponsored research grants and contracts, start-up funds, endowed professorship funds, etc.

2. Subsequent Calculation of Productivity Component

Each departmental plan will provide for determination of the Productivity Component of a clinical faculty member’s total annual compensation by adjusting the faculty member’s Initial Productivity Component (and in subsequent years the faculty member’s current Productivity Component) through:

(a) Calculation of a Non-Clinical Activities Productivity Component, taking into account the faculty member’s productivity and merit, in the calendar year preceding the year during which the assessment is made, in research, teaching, administration\(^4\) and service, as applicable, as compared with past performance and in light of the standards of the department; and

(b) Calculation of a Clinical Productivity Component arrived at by consideration of the faculty member’s clinical productivity based on measurable criteria. Such criteria may include increases in productivity compared with the last three years’ average, on rank in productivity compared with peers, as set out in Appendix A to this Plan, or another methodology adopted in an approved departmental plan adopted pursuant to Article V below.

The Productivity Component will be paid not more frequently than quarterly, and may not be paid unless the individual faculty member has met or exceeded productivity goals defined in advance by the chair consistent with the departmental implementation plan. In all cases, the formula whereby the Productivity Component will be calculated must be set out in advance of the fiscal year for which such payments are to be made. Department Chairs’ (or their designees’) recommendations to provide productivity payments must be approved in advance by the Dean, taking into consideration the current overall financial condition of the department or other operating unit.

3. Reductions in Productivity Component

A faculty member’s Productivity Component may be reduced where, under the methodologies adopted by his or her department, the faculty member’s productivity in the period used by the Department or Division to evaluate productivity is determined to have decreased. A chair may, in his or her discretion, recommend that the Productivity Component not be reduced in light of mitigating circumstances to be set forth in detail

\(^4\) This productivity component shall not be based upon productivity in administrative duties as a chair or as a center or institute director, which are to be compensated through a separate policy and procedures.
in a memorandum to the Dean. In such cases the Dean shall make the final decision regarding whether to reduce the faculty member’s Productivity Component.

**D. Department- or Division-Wide Salary Reductions**

Because of departmental or divisional financial conditions, the Department Chair with approval of the Dean may lower the total base salaries for all faculty members covered by the Plan in the department or in a specific division of the department by not more than fifteen percent (15%) of their then-current total base salaries. Such adjustments must be made at the same rate for all affected faculty members.

**V. Departmental Implementation Plans**

Each department of the School of Medicine having faculty subject to this Plan shall adopt a departmental implementation plan setting out the department’s specific approach to implementing the compensation arrangements authorized by this plan. As appropriate, divisions within departments may adopt their own plans, subject to approval by the Chair. Each departmental or divisional implementation plan should spell out in reasonable detail the criteria to be followed in establishing individual faculty members’ total annual salary. No departmental or divisional implementation plan, or any amendment of such a plan, may take effect unless first approved by the Office of University Counsel and the Dean. The Chair of each department shall be responsible for implementing the departmental and divisional implementation plans and shall inform the department’s faculty in writing of these criteria and methodologies not less often than annually.

**VI. Departmental Reserves**

Departmental reserves are essential to the financial viability of the School of Medicine and it is the responsibility of the Dean of the School of Medicine and his designees to monitor departmental finances and intercede if a department appears at risk of financial insolvency.

As a general guideline, departments should strive to maintain reserve balances equal to three months of UNC P&A operating expenses, based on the most recent fiscal year, and it is the goal of institution that the average for all departments will be at this level. It is expected that reserve balances will be higher in some departments than others based on many factors, and that over time the relative levels of departmental balances may change.
There may also be circumstances in which a department uses its reserves to fund program development. It shall be the responsibility of the chair to report issues of financial concern to the Dean, when requested and as frequently as on a monthly basis. If a department is deemed to be in financial exigency, the Dean, or a committee he appoints, together with the President and COO of UNC P&A, will develop a plan for financial recovery, together with the chair of that department.

Under certain circumstances a Chair may determine that it is in the best interest of a department and the School to allow the department to operate for a limited period of time with a trust fund balance which is below the minimal desired reserve without adding funds to the reserve, or further depleting the reserve, or to run a deficit budget when there are adequate funds to support the deficit. This can be accomplished after a detailed budgetary justification including specific measures aimed at extricating the department from its deficit spending posture, has been presented to the President and COO of UNC P&A, and subsequently approved by the Dean.

VII. Special Situations

If there is disagreement between a faculty member and Chair regarding the annual salary established for that faculty member, and all reasonable efforts have been made by the faculty member to reconcile the difference of opinion within the department’s or other operating unit’s customary dispute resolution procedures, the faculty member can appeal to the Dean. At the Dean’s discretion, appeals will be evaluated either personally by the Dean or by a committee established by, and advisory to, the Dean. However, disagreements between a faculty member and a Chair over across the board salary alterations within a department or division, which are based on overall departmental or divisional financial performance, cannot be appealed under these provisions. Nothing herein in any way deprives any faculty member of any grievance or appeal rights otherwise available to all faculty members under University faculty policies, including the Trustees Policies and Regulations Governing Academic Tenure at UNC-CH.

VIII. Salary Adjustment Procedures

Approval of this Plan by University authorities signifies explicit authorization for adjustment of individual faculty members’ total compensation payments by Department Chairs (or their designees) as described above, if and as warranted. No separate process shall be required for advance approval by the University or the Board of Governors of downward salary adjustments, either individually or on a departmental or divisional basis. Upward adjustments will be congruent with the Board of Governors salary policies, but otherwise shall not require advance approval. Any salary adjustments as may be implemented shall be reported annually to the Chancellor and the President following the close of the fiscal year. All aspects of clinician faculty salary administration in the School of Medicine shall be fully in accordance with the Rules, Regulations, and Policies of the Division of Health Affairs of UNC-Chapel Hill (“Health Affairs Code”).
Each year during the budget planning process for the following fiscal year, each chair will make a projection of the total funds expected to be available for faculty salary compensation in the coming fiscal year. The chair will recommend to the Dean a proposed split of salary for faculty subject to the Plan between base salary and productivity component payments.
APPENDIX A

SAMPLE METHODS FOR EVALUATING CLINICAL PRODUCTIVITY

(i) **WRVU Production-Based Methodology.** This methodology compares work relative value units (WRVU) generated by the faculty member for the Index Year, which shall be the calendar year preceding the year during which the computation is made, with an average of the preceding three years’ WRVU for the faculty member. By way of illustration, a faculty member’s WRVU data for the period January 1—December 31, 2007 would be compared with the average of his or her WRVUs for the calendar years 2004, 2005 and 2006 to determine the clinical portion of his or her Productivity Component for the Fiscal Year beginning July 1, 2008.

A grouping and dollar paid for the variance are assigned as follows (Clinicians with 0-100 WRVU production in the most recent fiscal year are excluded from the guideline):

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Index Year WRVUs variance</th>
<th>Dollar paid per WRVU</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>&lt;500</td>
<td>$5</td>
</tr>
<tr>
<td>2</td>
<td>500-999</td>
<td>$10</td>
</tr>
<tr>
<td>3</td>
<td>1,000-1,999</td>
<td>$15</td>
</tr>
<tr>
<td>4</td>
<td>&gt;2,000</td>
<td>$20</td>
</tr>
</tbody>
</table>

To calculate the clinical portion of the Productivity Component, the dollar value per WRVU is multiplied by the variance between the Index Year and the three-year average of WRVUs. Clinicians who demonstrate no increase in the Index Year do not qualify for an increase in the clinical portion of the Productivity Component and may be subject to salary reduction (see below). Only increases over $1,000 will be awarded because of the administrative cost of processing small dollar increases. The maximum possible increase will be $50,000, in order (1) to offset the effect of high production augmented by output from residents or physician assistants or of billing issues that inflate the production of the clinician and (2) to avoid undue financial hardship for departments.

Clinical productivity of clinicians with less than three years of WRVU data will be assessed by other mechanisms consistent with this Plan.

(ii) **Medical Group Management Association (“MGMA”) Comparison Methodology.** This methodology compares the clinician to his/her peers through a calculation of performance compared to maximum performance reported in the MGMA data (90th percentile.) The percentage that the individual clinician achieved is then compared to the scale below, resulting in an adjustment to the clinical portion of the Productivity Component.
<table>
<thead>
<tr>
<th>% of maximum MGMA RVUs</th>
<th>Dollar paid per WRVU above % of maximum MGMA RVUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;50%</td>
<td>$25</td>
</tr>
<tr>
<td>Btw 45% and 50%</td>
<td>$20</td>
</tr>
<tr>
<td>Btw 40% and 45%</td>
<td>$15</td>
</tr>
<tr>
<td>Btw 35% and 40%</td>
<td>$10</td>
</tr>
<tr>
<td>Btw 30% and 35%</td>
<td>$5</td>
</tr>
<tr>
<td>&lt;30%</td>
<td>$0</td>
</tr>
</tbody>
</table>

Clinicians who demonstrate no increase in the Index Year do not qualify for an increase in the clinical portion of the Productivity Component and may be subject to salary reduction (see below). Only increases over $1,000 will be awarded because of the administrative cost of processing small dollar increases. The maximum possible increase will be $50,000, in order (1) to offset the effect of high production augmented by output from residents or physician assistants or of billing issues that inflate the production of the clinician and (2) to avoid undue financial hardship for departments.