

University of Colorado Medicine  
Physician Incentives Guideline

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## 1. POLICY OVERVIEW

This policy is intended for use as a guideline in the processing of physician incentive plans. The objective of this policy is to ensure that all commitments and payments related to physician incentives are consistent with the missions and requirements established by the CU Medicine Bylaws and University Operating Agreement, in compliance with approved clinical department incentive plans (previously approved by the Dean of the University of Colorado School of Medicine), processed in a timely manner per University compensation policies and processes, and are in strict compliance with relevant IRS regulations for 501(c3) corporations.

## 2. GENERAL GUIDELINES

### CU Medicine Incentive Principles

A clinical department may have a unique incentive formula as part of its incentive plan. However, all incentive plans must conform to the following basic principles:

- Incentives are not guaranteed. The payment of incentives to any member is subject to a clinical department being in a surplus position and funds being available for distribution.
- Incentives are paid to members retroactively through the University of Colorado School of Medicine payroll system and are separate and distinct from the base and supplement components of salaries.
- Via a memorandum in February and August, the CU Medicine Finance Department will notify each clinical department as to the amount of funds available for distribution as incentives. Surplus funds are defined as clinical department revenues (less the assessments and other deductions) that exceed expenses.
- Per the CU Medicine Bylaws, a minimum of fifty percent (50%) and a maximum of ninety percent (90%) of the available funds earned by members shall be distributed as incentives to members.

- An incentive formula should recognize a member's contribution to the School of Medicine department's profitability and success (including salary support generated by grants, contracts, clinical activity or medical/legal), adherence to CU Medicine's Compliance Plan and service standards, support for and adherence to group practice behavior and values and other income available to offset CU Medicine member salary encumbrances; however, incentives should be distributed primarily to members who contributed to clinical and other income-producing activities.
- Each clinical department shall maintain a reserve fund equal to or greater than ten percent (10%) of the clinical portion of faculty salaries and benefits as budgeted by the School of Medicine department. At a department's request, the President may authorize that the ten percent reserve fund obligation be waived in whole or part for a fiscal year, subject to the approval of the Board of Directors.

If a department's reserve fund falls below the ten percent requirement, the Cost Center shall replenish that reserve fund as follows:

In the event that a department experiences an operating deficit that exceeds its existing reserve fund and requires a loan from the AEF, once the department experiences an operating surplus, those surplus funds will be split 50/50 with 50% of the overage going towards repayment of the AEF loan and 50% of the overage used to restore the required departmental reserve balance and also fund faculty incentives. The distribution of the surplus funds must be approved by the Dean.

In the event the departments have an operating surplus but fall below the 10% reserve requirement: operating surpluses will be split 50/50 with 50% of the surplus deposited into the department reserve until it is fully funded and the remaining 50% distributed according to the then current cost center incentive plan. This 50/50 split may be readdressed by the Dean and the Department Chair when special circumstances arise that might warrant a variation from this split.

- Any funds directed to department reserves as part of a clinical department incentive plan shall be used in a manner that is consistent with all CU Medicine fiscal policies and with CU Medicine's not-for-profit mission in support of the University of Colorado.
- Incentive payments shall be distributed at least annually following the financial close of the fiscal year. The incentive plan may provide that incentive payments shall be distributed semiannually or quarterly but must be reconciled with the department's year-end financial position.
- The total amount of CU Medicine incentive distributions to any Member in each fiscal year, when combined with all other compensation paid to the Member via the School of Medicine Compensation policy shall not exceed reasonable fair market compensation for services performed.

### **3. COST CENTER INCENTIVE PLAN DEVELOPEMENT**

- Incentive plans shall be developed under the direction of the faculty leadership and administrative management of the clinical department (Chair, finance or incentive committees, director of financial administration, and the like). Proposed incentive plan must be approved by a majority vote of the members of the clinical department and by the CU Medicine President. A department may change or amend its incentive plan at any time prior to the distribution period in which it is to be applied. However, the revised plan must be approved by a majority vote of the Members of the department and by the CU Medicine President. Each department incentive plan shall be reviewed no less frequently than every five (5) years and changed or reaffirmed by a majority vote of the Members and the President of CU Medicine.

### **4. INCENTIVE PROCESSING PROCEDURES**

- All proposed incentive payments must be processed using the forms described below. Incentive forms should be completed by the department, approved by the Department Chair and Department Administrator/Director and sent to CU Medicine Finance, for signature/approval. Approval by the Department Chair and Department Administrator/Director can be in the form of actual signature on the Summary Page and Attachment A or through e-mail to CU Medicine Finance. CU Medicine Finance will then send the signed form to the Dean's Office for final approval. It is the department's responsibility to enter incentive payments in PeopleSoft for payroll processing via the University. Information provided and approved on the form must match what is entered into PeopleSoft or the system entry will not be approved.

#### **4.1 Incentive Package**

- The incentive package (<https://intranet.cumedicine.us/departments/finance/faculty-incentive-processing-attachments-checklist/>) consists of a summary page, Attachments A, B, C, D, and supporting documents. The incentive package is required by CU Medicine Finance for mid-year and year-end distributions. The incentive package must be completed and signed by the department and returned to CU Medicine Finance, at campus box A069 by the appropriate deadline.
  1. Summary Page: This page summarizes the amounts on Attachments A, B, and C. Department Chair approval by signature can be provided on this page. The total amount of distribution must equal the amount available for distribution provided by CU Medicine Finance.
  2. Attachment A: This page lists each physician receiving an incentive, the physician employee id number, the speedtype that the incentive will be paid from, the amount of incentive, the benefit amount, if applicable, and the amount of net payment. The total of the Bonus Amount column is the amount (less the amount being placed in discretionary reserve) that will go on the Summary page line for Attachment A. This is used as the official pay form and is used to approve the entry in PeopleSoft.

3. Attachment B: This page lists each physician that is reserving an amount for discretionary

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use. Please make sure to include the CU Medicine Faculty Provider Number. The total amount being reserved will go on the Summary page line for Attachment B. *There must be a Reserve Letter on file with CU Medicine Finance signed 6 or 12 months (as applicable) prior to distribution that corresponds to the amount being reserved.*

4. Attachment C: This page lists the enrichment accounts, CU Medicine program account numbers, and amounts that are to be placed in reserve. The total amount will go on the Summary page line for Attachment C.
  5. Attachment D: This page is a summary of incentive calculations and provides CU Medicine Finance with details related to the final amount to be distributed to physicians. Details about % to reserves, amount for chair's discretion, % for merit, and other adjustments should be provided in order to reconcile the amount available per the CU Medicine Finance incentive memo to the amount to be distributed. In addition, this page provides verification of the following: 1) a vote, if applicable, to approve a distribution outside of the plan, 2) that all individuals receiving an incentive have a signed MPA and 3) that all individuals noted on Attachment B have a timely reserve form on file.
  6. Incentive Plan Completeness Checklist: This page can be used by the department to ensure that all necessary documentation is submitted to CU Medicine Finance (including Attachments, support letters for merit >\$10,000, support for incentives >100% of salary, etc.). Incentive packets must be complete as indicated by the checklist in order to be received by CU Medicine Finance and processed for payment.
  7. Supporting Documents: This is any documentation provided by the Cost Center to support the calculations of the incentives. An electronic file copy is needed for reference.
- The incentive package forms (summary page and Attachments A, B, C and D) are in Excel format and will be emailed with the incentive memo.

**4.2 Special Incentives/One Time Pay/On-Call Pay**

- Special incentives or one time pay must have supporting documents attached with a short explanation as to why they are being given. Special Incentive requests submitted without supporting documentation will not be approved by CU Medicine Finance for payment processing. For Merit payments, a memo should be written to the CU Medicine President supporting the justification. For one-time pay, the Additional Pay Form from the University of Colorado needs to be completed and the Hand-drawn Warrant box checked, if appropriate. For on-call pay, the CU Medicine On-Call/Incentive Form spreadsheet needs to be submitted.

#### 4.3 Special Note

##### **Account Code**

- When entering incentives into the PeopleSoft system, it is imperative that the correct earnings code and department speedtype are used.

Earning code UPI (Incentive pay) is charged directly to an enrichment account.

Earning code UOC (On-call pay) can be charged to operating, enrichment, or contract depending on where the revenue supporting the payment is posted.

Earning code LEG (Medical/Legal and Consulting overages) can be charged to operating, enrichment, or contract depending on where the revenue supporting the payment is posted.

##### **Incentive Fringe Benefits**

- Reducing the cost of fringe benefits from the incentive payment to the physician is done based on the Cost Center's incentive plan.

#### **5. INCENTIVE DEADLINES**

- Year-end incentives **must** be paid out in the **September** or **October** payroll periods. Department Chairs and Administrators will receive a memo in August with the amount available for distribution and the specific deadline dates to meet either the September payroll period or October payroll period. Incentive packages received by CU Medicine after the first deadline date (for the September payroll period) will be processed in the following month (for the October payroll period). Incentive packages received after the second deadline date (for the October payroll period) must receive special permission from the President to be processed in a later month.
- Mid-year incentives **must** be paid out in the **March** or **April** payroll periods. Department Chairs and Administrators will receive a memo in January with the amount available for distribution and the specific deadline dates to meet either the March payroll period or April payroll period. Incentive packages received by CU Medicine after the first deadline date (for the March payroll period) will be processed in the following month (for the April payroll period). Incentive packages received after the second deadline date (for the April payroll period) must receive special permission from the President to be processed in a later month.
- The monthly deadline for incentives and one time pays is around the 12<sup>th</sup> of each month. The Dean's Office sends out a monthly email with specified deadline dates in order to meet that month's payroll period. You may also contact CU Medicine Finance for the deadline dates.
- Reserve letters (<https://intranet.cumedicine.us/departments/finance/incentive-reserve-form-upi/>) must be signed and received by the CU Medicine Finance Department prior to the *beginning* of the distribution period. It is recommended that each physician sign a reserve letter even if he/she is not requesting an amount to be placed in a discretionary fund.

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Incentive Period

July – December

January – June

July – June

Incentive Letter Due Date

June 30<sup>th</sup> Prior to Incentive Period

December 31<sup>st</sup> Prior to Incentive Period

June 30<sup>th</sup> Prior to Incentive Period