

Approved

HEALTH SERVICES COMMITTEE

August 14, 2018

AMENDMENTS TO THE CLINICAL ENTERPRISE MANAGEMENT RECOGNITION PLAN

The President of the University recommends that the Health Services Committee approve the amendments to the Clinical Enterprise Management Recognition Plan as shown in Attachment 1, the plan document for the 2018-19 plan year.

Committee vote: Regents Blum, Kieffer, Lansing, Makarechian, Napolitano, Sherman, and Zettel voting “aye.”

Additions shown by underscoring; deletions shown by strikethrough

**The University of California
Clinical Enterprise Management Recognition Plan (CEMRP)
For Plan Year July 1, ~~2017~~ 2018 through June 30, ~~2018~~ 2019**

1. PLAN PURPOSE

The purpose of the University of California Clinical Enterprise Management Recognition Plan (CEMRP or Plan) is to provide at-risk, variable incentive compensation opportunity to those employees responsible for achieving or exceeding key Clinical Enterprise objectives. Consistent with healthcare industry practices, UC Health Systems use performance-based incentive compensation programs to encourage and reward achievement of specific financial and/or non-financial objectives (e.g., quality of care or patient satisfaction and safety, budget performance) and strategic objectives which relate to the Clinical Enterprise's mission.

The annual Short Term Incentive (STI) component of the Plan provides participants with an opportunity to receive a non-base building cash incentive based on the achievement of specific annual financial, non-financial, and strategic objectives relative to the mission and goals of the UC Health enterprise.

The Long Term Incentive (LTI) component is a non-base building incentive that is intended to encourage and reward top executives of the UC Health enterprise for the achievement of multi-year strategic initiatives, to support and reinforce those results that will promote UC Health and its long-term success, and emphasize the importance of the long-term strategic plan. In addition, the LTI assists in retaining the executive talent needed to achieve multi-year organizational objectives by complementing (but not duplicating) the focus of the rest of the Clinical Enterprise Management Recognition Plan. The Executive Vice President (EVP) – UC Health and the Chief Executive Officers (CEOs) of each of the Health Systems will participate in the LTI.

The overall Plan encourages the teamwork required to meet challenging organizational goals. The Plan also uses individual and/or departmental performance objectives to encourage participants to maximize their personal effort and to demonstrate individual excellence.

2. PLAN OVERSIGHT

Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – Chief Operating Officer
- ~~The~~ Chancellor of every campus with a Health System
- ~~The~~ Vice President, Systemwide Human Resources
- ~~The~~ Executive Director, Systemwide Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, may consult with the EVP – UC Health, and representatives from the Health Systems. The AOC will abide by

the Political Reform Act, which would prohibit Plan participants from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Senior Vice President – Chief Compliance and Audit Officer will assure that periodic auditing and monitoring will occur, as appropriate.

3. PLAN APPROVAL

The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. The Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended.

If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changes in the award opportunity levels, the AOC will obtain the approval of the President and the Regents' ~~Committee on~~ Health Services Committee before implementing such changes. Reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the end of the current Plan year. However, if changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the Plan.

4. PLAN YEAR

The CEMRP year will correspond to the University's fiscal year, beginning July 1 and ending the following June 30.

The applicable performance period for CEMRP's LTI component will begin July 1 of the Plan year and end three years later on June 30th.

5. PLAN ADMINISTRATION

The Plan will be administered under the purview of the Executive Director, Systemwide Compensation Programs and Strategy, at the Office of the President, consistent with the Plan features outlined in this document, and as approved by the President and the Regents' ~~Committee on~~ Health Services Committee. The Plan features and provisions outlined in this document will supersede any other Plan summary.

6. ELIGIBILITY TO PARTICIPATE

Eligible participants in CEMRP are defined as the senior leadership of the Clinical Enterprise

who have significant strategic impact and a broad span of control with the ability to effect enterprise-wide change.

Eligibility to participate in CEMRP's LTI component is reserved for those senior executives who are in a position to make a significant impact on the achievement of long-term strategic objectives, specifically the EVP – UC Health and the CEOs at each of the Health Systems.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

Plan participants may be added after the Plan year has begun, subject to CEMRP's eligibility requirements and AOC approval.

Participants in this Plan may not participate in any other incentive or recognition plan during the Plan year, including the Health Sciences Compensation Plan, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University incentive plan is not permitted.

CEMRP STI participants must have a minimum of six months of service to participate in the Plan and will receive a prorated award in their first year of participation. Similarly, participants who were not working for a significant portion of the Plan year may receive a prorated award in appropriate circumstances, as determined by the AOC. Participants who transfer within the University to a position that would not be eligible for participation in the Plan are eligible to receive a prorated award for that Plan year if they worked in the CEMRP-eligible position for at least six months.

An LTI participant hired or promoted into an LTI-eligible position between July 1 and December 31 of the Plan year will be assigned one or more long-term objective(s) for the three-year period that begins with the Plan year and will be eligible for a prorated LTI incentive opportunity for that period. The prorated LTI award will be determined by dividing the number of complete months employed during that three-year period by the number of months in the full performance period (36 months).

Prior to the beginning of the Plan year, the AOC will approve the Plan's participants and provide the President and the Chair of the Regents' ~~Committee on Health Services~~ Committee with a list of participants for that Plan year, including appropriate detail regarding each participant.

7. AWARD OPPORTUNITY LEVELS

As part of their competitive total cash compensation package, Plan participants are assigned threshold, target and maximum incentive award levels, expressed as a percentage of their base salary. These award opportunity levels serve to motivate and drive individual and team performance toward established objectives. Target awards will be calibrated to expected results while maximum awards will be granted only for superior performance against established

performance standards. Actual awards for any individual participant may not exceed the maximum award opportunity level assigned. Award opportunity levels are determined, in part, based on the participant’s level within the organization and the relative scope of responsibilities, impact of decisions, and long-term strategic impact. If a participant changes positions during the Plan year within the same institution (defined as the participant’s Health System) and the participant’s level within the organization changes based on the table below, the participant’s award should be adjusted to take into account the amount of time spent in each position.

CEMRP STI Annual Award Opportunity (as percent of salary)

Position Level within Organization	Threshold Opportunity	Target Opportunity	Maximum Opportunity
EVP – UC Health and Health System Chief Executive Officers	10%	20%	30%
Other “Chief Levels” and Other Key Senior Clinical Enterprise Leadership	7.5%	15%	25%
Other Key Clinical Enterprise Leadership	7.5%	15%	20%

The individuals eligible to participate in CEMRP’s LTI component will be assigned one or more long-term performance objective(s) for the three-year period that begins with each new CEMRP Plan year, resulting in overlapping three-year LTI cycles. The LTI Threshold, Target, and Maximum award opportunity for the EVP – UC Health and the CEOs will be 5 percent, 10 percent and 15 percent, respectively, as shown in the chart below. The actual awards will be based on final assessments at the conclusion of the three-year LTI performance period and paid at the same time as the STI awards are paid.

CEMRP LTI Award Opportunity (as percent of salary)

<u>Position Level within Organization</u>	<u>Threshold Opportunity</u>	<u>Target Opportunity</u>	<u>Maximum Opportunity</u>
EVP – UC Health and Health System Chief Executive Officers	5%	10%	15%

8. PERFORMANCE STANDARDS

Each Plan participant will be assigned Performance Objectives which have standards of performance defined as Threshold, Target, and Maximum performance consistent with the following:

Threshold Performance – Represents the minimum acceptable performance standard for which an award can be paid. This level represents satisfactory results, but less than full achievement of stretch objectives.

Target Performance – Represents successful attainment of expected level of performance against stretch objectives.

Maximum Performance – Represents results which clearly and significantly exceed all performance expectations for the year. This level of accomplishment should be rare.

The same performance standards will be used for LTI performance objectives, but they will relate to performance over a three-year period rather than a one-year period.

9. PERFORMANCE OBJECTIVES AND WEIGHTINGS

Prior to the beginning of each fiscal year, a series of financial and/or non-financial performance objectives will be established for each participant, consistent with the mission and goals of the Clinical Enterprise and each Health System in the Clinical Enterprise.

Systemwide Clinical Enterprise level ~~systemwide~~ objectives encourage the Health Systems to work together for the benefit of the entire Clinical Enterprise system. Institutional performance objectives encourage local teamwork and recognize the joint effort needed to meet challenging organizational goals. Individual or departmental performance objectives are designed to focus attention on key individual or departmental initiatives.

For purposes of this Plan, individual/departmental performance objectives should not be the same activities that are normal job requirements or expectations. Job performance is assessed as part of the Annual Performance Review Process. All CEMRP performance objectives must be stretch in terms of achievement potential, must be aligned with specific Institutional and/or Clinical Enterprise initiatives, and are often peripheral but related to or integrated with ongoing job responsibilities.

Each of the STI and LTI performance objectives will relate to one or more of the categories below:

- Financial Performance
- Quality Improvements
- Patient Satisfaction
- Key Initiatives in Support of the Strategic Plan
- People and other Resource Management

There will be no more than nine STI performance objectives for each participant in CEMRP comprised of the following: (1) Up to three objectives relating to the performance of the *Clinical Enterprise* (defined as Systemwide); (2) Up to three objectives relating to the performance of the *Institution* (defined as the participant's Health System); (3) For all participants other than those eligible for the LTI component, up to three objectives relating to *Individual* and/or *Departmental* performance. If an Individual/Departmental performance objective has three components and the Threshold, Target, and Maximum performance standards are framed as “meet one of three,” “meet two of three,” and “meet three of three,” respectively, each component must have equal

importance and weighting. While this type of Individual/Departmental performance objective is permissible, Individual/Departmental performance objectives with clear metrics for each performance standard are preferred.

Annual STI Individual/Departmental performance objectives will be established and administered by each participant's supervisor in consultation with the CEO of that Health System for all participants other than those eligible to participate in the LTI component.

The annual STI Institutional performance objectives for each Health System will be established and administered by the EVP – UC Health in consultation with the respective Chancellors in advance of the Plan year.

The annual STI performance objectives for the Systemwide Clinical Enterprise level ~~systemwide~~ will be established by the President, who may consult with the Chair of the Regents' ~~Committee~~ on Health Services Committee.

LTI participants will also be assigned one or more LTI performance objective(s) for each three-year performance period. The LTI performance objective(s) will require longer-term, multi-year efforts to achieve. LTI performance objectives must contain details that define Threshold, Target, and Maximum performance and include metrics and benchmarks, as appropriate. The LTI performance objectives will be established by the President, who will consult with the Chair of the Regents' ~~Committee~~ on Health Services Committee.

All performance objectives must be SMART (specific, measureable, attainable, relevant, and time-based). Assessment of participants' performance and contribution relative to these objectives will determine their actual award amount.

Peer group and/or industry data must be used where appropriate to provide a benchmark and performance standard. Performance objectives at the Clinical Enterprise and Institutional levels are typically measured against relative peer/industry benchmarks in the market. Where an established internal or external benchmark is used, baseline metrics must be included to enable a determination of the degree to which the intended results would require stretch performance. The Chief Human Resource Officer at each Health System will be responsible for ensuring that all Individual/Departmental objectives for participants at that location meet the SMART standards before obtaining sign-off from the CEO and Chancellor. The STI and LTI performance objectives for all participants will be subject to review and approval by the AOC prior to the beginning of the Plan year or as soon as possible thereafter. The AOC will consult the Senior Vice President – Chief Compliance and Audit Officer in an independent advisory capacity during its review of Plan participants' objectives.

The participants' performance toward their assigned STI objectives may be measured across three organizational levels as noted above (Systemwide Clinical Enterprise, Institutional, and Individual/Departmental) and will be weighted according to the percentages listed in the table below.

Weighting of STI Annual Objectives

Position Level within Organization	<u>Systemwide / Clinical Enterprise Level</u>	Institutional Level	Individual and/or Departmental Level
<u>EVP – UC Health</u>	<u>100%</u>	<u>0%</u>	<u>0%</u>
EVP – UC Health and Health System Chief Executive Officers	50%	50%	0%
Other “Chief Levels” and Other Key Senior Clinical Enterprise Leadership	30%	50%	20%
<u>Other UC Health Leadership</u>	<u>80%</u>	<u>0%</u>	<u>20%</u>
Other Clinical Participants	20%	50%	30%

The supervisor of each Plan participant will provide him/her with: (a) the participant’s performance objectives for the Plan year, (b) the performance standards that will be used to measure Threshold, Target, and Maximum performance for each objective, (c) the performance weightings that will apply to the participant’s performance objectives, and (d) a copy of this Plan document.

~~10. Financial Standards and Plan Funding~~

10. PLAN FUNDING AND MINIMUM THRESHOLD FOR FINANCIAL STANDARD

Full funding of STI awards for participants at a Health System in the plan year is contingent upon that Health System’s ability to pay out the awards while maintaining a positive income from operations. This minimum threshold financial standard is based on Modified Operating Income (Loss) which is Revenue less Expenses, excluding the non-cash portion of Other Post Employment Benefits (OPEB) as reported to the Regents’ Health Services Committee.

~~Full funding of STI awards for participants at a Health System in the Plan year is contingent upon that Health System’s ability to pay out the awards while maintaining a positive net cash flow from operations before intra-institutional transfers.~~

In the event that the Health System cannot meet that financial standard for the Plan year, and the Health System attains key Institutional non-financial objectives, the AOC may consider and approve, in consultation with the Chancellor and EVP – UC Health, partial STI award payouts for some or all of that Health System’s Plan participants based on the Award Opportunity Levels defined above and participants’ achievement of their assigned STI performance objectives for the Plan year.

11. INCENTIVE AWARD ELIGIBILITY CRITERIA

Participants must be active full-time employees of the University at the conclusion of the Plan year (i.e., as of midnight on June 30th) to be eligible to receive an STI award for that Plan year,

unless the circumstances of their separation from the University entitle them to a full or partial award as set forth in the Separation from the University provision below in Section 13.

LTI participants must be active full-time employees at the conclusion of the three-year period associated with an LTI performance objective (i.e., as of midnight on June 30th of the third year) to be eligible to receive an LTI award for that period.

Participants must have at least a “Meets Expectations” or equivalent overall rating on their performance evaluation for the Plan year to be considered for an STI award under the Plan for that Plan year or an LTI award for the performance period that concludes at the end of that Plan year. A manager may reduce or eliminate an award according to the participant’s overall performance rating with the approval of the AOC. However, an overall performance rating below “Meets Expectations” will eliminate the total award for that participant for that Plan year or performance period.

A participant who has been found to have committed a serious violation of state or federal law or a serious violation of University policy at any time prior to distribution of an STI or LTI award will not be eligible for such awards under the Plan for that Plan year and/or performance period. If such allegations against a participant are pending investigation at the time of the award distribution, the participant’s award(s) may be withheld pending the outcome of the investigation. If the participant’s violation is discovered later, the participant may be required to repay awards for the Plan years and/or performance periods in which the violation occurred.

Likewise, when it has been determined that a participant’s own actions or the participant’s negligent oversight of other University employees played a material role in contributing to a serious adverse development that could harm the reputation, financial standing, or stability of the participant’s Health System (*e.g.*, the receipt of an adverse decision from a regulatory agency, placement on probation status, or the adverse resolution of a major medical malpractice claim) or, with regard to the EVP – UC Health and the Clinical Enterprise overall, the AOC has the discretion to decide that the participant will either not be eligible for an STI or LTI award under the Plan that year or will receive an award that has been reduced as a result of and consistent with the participant’s role with regard to the adverse development. If the participant’s role with regard to the adverse development is still under investigation at the time of award distribution, the participant’s award for the Plan year may be withheld pending the outcome of the investigation.

If the participant’s role in the adverse development is discovered later, the participant may be required to repay awards for the years in which the actions or negligent oversight occurred.

12. INCENTIVE AWARD APPROVAL PROCESS

At the end of each Plan year, proposed incentive awards will be submitted to the Executive Director, Systemwide Compensation Programs and Strategy. Except as set forth below. Awards amounts will be reviewed and approved by the AOC. Any incentive award for the EVP – UC Health will require the approval of the Regents’ ~~Committee on~~ Health Services Committee in addition to the approval of the AOC. The AOC will consult the Senior Vice President – Chief

Compliance and Audit Officer in an independent advisory capacity during its review of proposed incentive awards. The AOC will provide the chair of the Regents' ~~Committee on Health Services Committee~~ and the President with a listing of award recommendations before awards are scheduled to be paid. On behalf of the AOC, the Executive Director, Systemwide Compensation Programs and Strategy will provide the President and the Regents with the award details in the Annual Report on Executive Compensation.

Approved incentive awards will be processed as soon as possible unless they have been deferred pursuant to the provision set forth below.

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The participant's total University salary (which includes base salary and any stipends, but does not include any prior year incentive award payouts or disability pay) as of June 1st of the Plan year will be used in the calculation of the incentive award amount. The assigned Description of Service code of "XCE" specific to the Plan **must** be used when paying awards to Plan participants.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of the President, in consultation with the Chair of the Regents' ~~Committee on Health Services Committee~~. Reasonable efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, awards for the current year will still be processed based on participants' performance during the portion of the Plan year prior to termination.

Notwithstanding any other term in the Plan, current year incentive awards may be deferred if the Regents issue a declaration of extreme financial emergency upon the recommendation of the President or if the Systemwide Clinical Enterprise experiences a ~~systemwide negative cash flow consolidated negative income from operations based on Modified Operating Income (Loss) which is Revenue less Expenses, excluding the non-cash portion of Other Post Employment Benefits (OPEB)~~. In such situations, the deferral would be made upon the recommendation of the AOC and require the approval of the President and the Chair of the Regents' ~~Committee on Health Services Committee~~. In such a case the current year deferred awards will earn interest at the Short Term Investment Pool rate. Award payments that have been approved, but deferred, will be processed and distributed as soon as possible. In no event will awards be deferred longer than one year.

The University may require repayment of an award that was made as a result of inappropriate circumstances. For example, if there is an inadvertent overpayment, the participant will be required to repay the overage. If the participant has not made the repayment before an award for the employee for a subsequent Plan year is approved, the outstanding amount may be deducted from the employee's subsequent award.

13. SEPARATION FROM THE UNIVERSITY

The table below indicates whether a participant who separates from the University will be eligible to receive a full or partial STI award and also specifies when forfeiture of such awards

will occur. Retirement will be determined based upon applicable University policies. In order to determine the most accurate STI award for the current Plan year, partial payments will be calculated at the end of the Plan year and issued in accordance with the normal process and schedule.

Reason for Separation	Separation During Plan Year (i.e., on or before June 30, 2018 <u>2019</u>)	Separation on or after July 1, 2018 <u>2019</u>
Voluntary Separation for any reason other than retirement	<ul style="list-style-type: none"> • Forfeiture of STI award for 2017-18 <u>2018-19</u> Plan year. 	<ul style="list-style-type: none"> • Payout of full STI award for 2017-18 <u>2018-19</u> Plan year.
<ul style="list-style-type: none"> • Retirement • Medical separation due to disability • Death* • Involuntary separation due to reorganization or restructuring 	<ul style="list-style-type: none"> • Partial STI award for 2017-18 <u>2018-19</u> Plan year. 	<ul style="list-style-type: none"> • Payout of full STI award for 2017-18 <u>2018-19</u> Plan year.
Involuntary termination due to misconduct or inadequate performance	<ul style="list-style-type: none"> • Forfeiture of STI award for 2017-18 <u>2018-19</u> Plan year. 	<ul style="list-style-type: none"> • Forfeiture of STI award for 2017-18 <u>2018-19</u> Plan year.

*In such cases, payments will be made to the estate of the participant.

LTI awards are not eligible for full or partial payment if a participant separates from the University before the conclusion of the applicable three-year LTI performance period; forfeiture will occur.

14. TREATMENT FOR BENEFIT PURPOSES

Incentive awards under this Plan are not considered to be compensation for University benefit purposes, such as the University of California Retirement Plan or employee life insurance programs.

15. TAX TREATMENT AND REPORTING

Under Internal Revenue Service Regulations, payment of incentive awards under this Plan must be included in the participant's income as wages subject to withholding for federal and state income taxes and applicable FICA taxes. The payment is reportable on the participant's Form W-2 in the year paid.