HEALTH SERVICES COMMITTEE
June 11, 2019

1. **APPROVAL OF APPOINTMENT OF AND COMPENSATION FOR DONALD LARSEN, M.D., AS CHIEF EXECUTIVE OFFICER, UC RIVERSIDE HEALTH SYSTEM, RIVERSIDE CAMPUS AS DISCUSSED IN CLOSED SESSION**

Recommendation

The President of the University recommends that the Health Services Committee approve the following items in connection with the appointment of and compensation for Donald Larsen, M.D., as Chief Executive Officer, UC Riverside Health System, Riverside campus:

A. Per policy, appointment of Donald Larsen, M.D., as Chief Executive Officer, UC Riverside Health System, Riverside campus, at 100 percent time.

B. Per policy, annual base salary of $500,000, which will be funded by Health Enterprise revenues. No State funds will be used.

C. Per policy, eligibility to participate in the Short Term Incentive (STI) component of the Clinical Enterprise Management Recognition Plan (CEMRP), with a target award of 20 percent of base salary ($100,000) and a maximum potential award of 30 percent of base salary ($150,000), subject to all applicable plan requirements and Administrative Oversight Committee approval. Actual award will be determined based on performance against pre-established objectives and will be prorated in his first year of participation. CEMRP incentive awards are funded by Health Enterprise revenues. No State funds will be used.

D. Per policy, eligibility to participate in the Long Term Incentive (LTI) component of the Clinical Enterprise Management Recognition Plan (CEMRP), with a target award of ten percent of base salary and a maximum potential award of 15 percent of base salary, subject to all applicable plan requirements and Administrative Oversight Committee approval. The LTI uses rolling three-year performance periods, and any actual award will be determined based on performance against pre-established objectives over the three-year LTI performance period and will be prorated in his first three-year performance period. CEMRP incentive awards are funded by Health Enterprise revenues. No State funds will be used.

E. Per policy, standard pension and health and welfare benefits and standard senior management benefits (including eligibility for senior management life insurance and eligibility for executive salary continuation for disability after five consecutive years of Senior Management Group service).

F. Per policy, eligibility to participate in the UC Employee Housing Assistance Program, subject to all program requirements.
G. Per policy, reimbursement of actual and reasonable moving and relocation expenses associated with relocating his primary residence, subject to the limitations under Regents Policy 7710, Senior Management Group Moving Reimbursement.

H. For any outside professional activities, Dr. Larsen will comply with applicable Outside Professional Activity (OPA) policies.

I. This action will be effective as of Dr. Larsen’s hire date, which is estimated to be on or about July 1, 2019.

**COMPARATIVE ANALYSIS**

**Recommended Compensation**

**Effective Date:** Date of hire, estimated to be on or about July 1, 2019

- **Annual Base Salary:** $500,000
- **Clinical Enterprise Management Recognition Plan (CEMRP) – Short Term Incentive (STI):** $100,000 (at 20 percent target rate)
- **Clinical Enterprise Management Recognition Plan (CEMRP) – Long Term Incentive (LTI):** 10 percent target rate with the first possible payment to occur after the end of the 2021-22 Plan Year.
- **Target Cash Compensation:*** $600,000, plus possible LTI awards starting after the end of the 2021-22 Plan Year
- **Funding:** Non-State funded (UC Riverside Health System revenue)

**Budget &/or Prior Incumbent Data (No previous incumbent as this is a new position.)**

- **Title:** N/A
- **Annual Base Salary:** N/A
- **Clinical Enterprise Management Recognition Plan (CEMRP) – Short Term Incentive (STI):** N/A
- **Clinical Enterprise Management Recognition Plan (CEMRP) – Long Term Incentive (LTI):** N/A
- **Target Cash Compensation:*** N/A
- **Funding:** N/A

* Target Cash Compensation consists of base salary and, if applicable, incentive and/or stipend.
## COMPETITIVE ANALYSIS FOR CHIEF EXECUTIVE OFFICER, UC RIVERSIDE HEALTH SYSTEM

**MRZ TITLE: CHIEF EXECUTIVE OFFICER, UC RIVERSIDE HEALTH**

<table>
<thead>
<tr>
<th>MARKET REFERENCE ZONE FOR BASE SALARY</th>
<th>MARKET COMPOSITE FOR TARGET CASH COMPENSATION*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percentiles</strong></td>
<td>25&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Market Data</strong></td>
<td>$384.0k</td>
</tr>
<tr>
<td><strong>% Difference from Market</strong></td>
<td>30.21%</td>
</tr>
</tbody>
</table>

* Excludes any possible LTI award.

**Survey Source:** Sullivan Cotter Survey of Manager and Executive Compensation, Public and Not-For-Profit Academic Medical Centers and National Health Systems

The compensation described above shall constitute the University’s total commitment until modified by the Regents, the President, or the Chancellor, as applicable under Regents policy, and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

**Submitted by:** UCR Chancellor Wilcox  
**Reviewed by:** Health Services Committee Chair Lansing  
**Office of the President, Human Resources**

### Background to Recommendation

The President of the University recommends approval for the appointment of and compensation for Donald Larsen, M.D., as Chief Executive Officer, UC Riverside Health System (CEO-UCR Health), Riverside campus, effective upon his hire date, which is estimated to be on or about July 1, 2019. This is a new Level One position in the Senior Management Group. The addition of this SMG position and the corresponding Market Reference Zone were approved by the Regents in January 2019.

The CEO-UCR Health will report to the Vice Chancellor – Health Sciences/Dean – School of Medicine. The CEO-UCR Health will work closely with the Vice Chancellor/Dean and Chancellor to develop clinical partnerships and build financial stability for the UCR Health System as well as support the education and research mission of the School of Medicine.

The campus has concluded a national competitive recruitment for the CEO position, and Dr. Larsen has been identified as the top candidate from a broad and diverse applicant pool due to his experience and background.
The President is recommending a base salary of $500,000, which is 2.2 percent below the 60th percentile of the Market Reference Zone (MRZ) for this position ($511,300). The proposed base salary is consistent with Regents Policy 7701, Senior Management Group Appointment and Compensation, and reflects an appropriate salary, taking into account the scope of responsibilities as well as Dr. Larsen’s depth and breadth of experience.

Consistent with academic personnel policy, the campus will be seeking an underlying non-tenured faculty appointment at zero percent time, without salary, for Dr. Larsen. Following review and approval by the Administrative Oversight Committee, Dr. Larsen will be eligible to participate in the Clinical Enterprise Management Recognition Plan’s (CEMRP) Short Term Incentive (STI) component, with a target award of 20 percent of base salary ($100,000) and maximum potential award of 30 percent of base salary ($150,000), subject to all applicable plan requirements and Administrative Oversight Committee approval. Actual award will be determined based on performance against pre-established objectives and will be prorated in his first year of participation.

Also following review and approval by the Administrative Oversight Committee, Dr. Larsen will also be eligible to participate in CEMRP’s Long Term Incentive (LTI) component, with a target award of ten percent of base salary and a maximum potential award of 15 percent of base salary, subject to all applicable plan requirements and Administrative Oversight Committee approval. Actual award will be determined based on performance against pre-established objectives and will be prorated in his first three-year period of participation, based on the number of complete months employed during that performance period.

UC Riverside completed a Health Administrative Review in April 2018 through Veralon, a health enterprise consulting firm. As part of the findings, one of the key recommendations was for UC Riverside Health to develop a senior leadership structure that would be able to rapidly grow the patient care delivery system from its current nascent stage.

The key position to drive this growth is the Chief Executive Officer (CEO), who will have primary responsibility for completing the strategic plan and executing the plan’s objectives.

The CEO of the UC Riverside Health System will work collaboratively with Department Chairs to build and enhance partnerships and affiliations with hospitals and health care systems in the Inland Southern California region and the University of California Health System. The CEO will have oversight of all clinical affiliations, partnerships, joint ventures, clinical operations, marketing, contracting, and related managed care activities for the faculty.

Working with the department chairs and the UC Riverside Health System leadership team, the CEO will promote excellence across all functional areas of health system administration, focusing on a strong financial management platform and a significantly enhanced information technology infrastructure. The goal of the team will be the efficient
provision of clinical excellence in a manner responsive to payer demands through a system of care that will be coordinated with UC Riverside’s primary academic and research missions.

The CEO will work closely with UCR Health Sciences to ensure that both the department chairs and the rank and file faculty are fully engaged in both clinical planning and advanced clinical resource management activities, along with managed care administration. The CEO will assist the faculty as needed in ensuring exceptional performance by the Epic billing platform and other financial platforms for inpatient services. The CEO will also ensure the planning, development, and execution of clinical contracts with affiliate health systems.

Dr. Larsen has been serving as Chief Medical Officer (CMO) at Providence Saint John’s Health Center since April 2015. This is a 266-bed community hospital that has been named a Top 50 hospital by Healthgrades for nine consecutive years and has been granted the Stroke Gold Plus Quality Achievement Award by the American Heart Association/American Stroke Association. Additionally, Dr. Larsen served as Executive Director of the John Wayne Cancer Institute from August 2015 – October 2018, concurrent with his role as the CMO, providing interim leadership as the Inaugural Executive Director of the Institute to steer the organization through a period of significant change.

Dr. Larsen previously worked as Chief Medical Officer, USC Verdugo Hills Hospital University of Southern California (USC) from July 2013 to March 2015; CMO, Keck Medical Center, USC from May 2009 to September 2013; Medical Director, USC Care Medical Group, Inc., from August 2006 to June 2011; Executive Medical Director, USC Student Health Center – Health Sciences Campus, from January 2008 to June 2011; and President, Medical Faculty Keck School of Medicine of USC from 2005 to 2006.

He holds an active California Medical License and an active certification from the Drug Enforcement Administration. He completed an internship in Internal Medicine at Nassau County Medical Center and his residency in Diagnostic Radiology at the LA/USC Medical Center followed by a fellowship at the LA/USC Medical Center in Vascular and Interventional Radiology. Additionally, Dr. Larsen completed two fellowships at UCSF in Diagnostic Neuroradiology and Interventional Neuroradiology.

Dr. Larsen is an active member of the American Board of Radiology and is a Fellow of the American College of Healthcare Executives. He is certified in Medical Quality from the American Board of Medical Quality.

Dr. Larsen received his bachelor’s degree from Boston University, and earned his medical degree from the Chicago Medical School and a master’s degree in business administration and master’s in healthcare administration from University of Southern California.
2. **ESTABLISHMENT OF A NEW SENIOR MANAGEMENT GROUP POSITION OF CHIEF STRATEGY OFFICER AND HEAD OF HEALTH AFFILIATES NETWORK, UCSF HEALTH, AND THE MARKET REFERENCE ZONE FOR THE POSITION, SAN FRANCISCO CAMPUS**

Contingent upon approval by the Governance Committee, the President of the University recommends that the Health Services Committee approve:

A. Establishment of a new Senior Management Group position of Chief Strategy Officer and Head of Health Affiliates Network, UCSF Health, San Francisco campus. This will be a Level Two position in the Senior Management Group.

B. Establishment of a Market Reference Zone for this position as follows: 25th percentile - $557,500, 50th percentile - $689,900, 60th percentile - $747,900, 75th percentile - $834,800, and 90th percentile - $925,700.

C. The position also includes eligibility to participate in the Short Term Incentive (STI) component of the Clinical Enterprise Management Recognition Plan (CEMRP), with a target award of 15 percent and a maximum potential award of 25 percent of base salary. Participation is reviewed and approved prior to the start of each CEMRP Plan Year.

D. This action will be effective upon approval.

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

3. **AMENDMENT OF THE CLINICAL ENTERPRISE MANAGEMENT RECOGNITION PLAN**

The President of the University recommends that the Health Services Committee approve the amendment of the Clinical Enterprise Management Recognition Plan as shown in Attachment 1, the plan document for the 2019-20 plan year.

Committee vote: Regents Guber, Lansing, Makarechian, Napolitano, Park, Sherman, and Zettel voting “aye.”
4. **APPROVAL OF THE PROPOSED REQUEST FOR APPROVAL FOR THE UC IRVINE CAMPUS MEDICAL COMPLEX, IRVINE CAMPUS**

The President of the University recommends that the Health Services Committee approve (A) the proposed discussion of the UCI Campus Medical Complex project with the Finance and Capital Strategies Committee, which is anticipated to take place in fall 2019, and (B) subsequent requests to the Finance and Capital Strategies Committee at its future meetings for: (1) approval of preliminary plans funding, budget, external financing, and design pursuant to the California Environmental Quality Act (CEQA), and (2) approval of any amendment or modification to the foregoing.

Committee vote: Regents Guber, Lansing, Makarechian, Napolitano, Park, Sherman, and Zettel voting “aye.”
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
- Chancellor of every campus with a Health System
- Vice President, Systemwide Human Resources
- 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’ 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’ 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’ 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)**

<table>
<thead>
<tr>
<th>Position Level within Organization</th>
<th>Threshold Opportunity</th>
<th>Target Opportunity</th>
<th>Maximum Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>EVP – UC Health and Health System Chief Executive Officers</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Other “Chief Levels” and Other Key Senior Clinical Enterprise Leadership</td>
<td>7.5%</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Other Key Clinical Enterprise Leadership</td>
<td>7.5%</td>
<td>15%</td>
<td>20%</td>
</tr>
</tbody>
</table>

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)**

<table>
<thead>
<tr>
<th>Position Level within Organization</th>
<th>Threshold Opportunity</th>
<th>Target Opportunity</th>
<th>Maximum Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>EVP – UC Health and Health System Chief Executive Officers</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>

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 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 will be established by the President, who may consult with the Chair of the Regents’ 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’ 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

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

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. 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 cash flow income from operations before intra-institutional transfers and depreciation. 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.

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’ 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’ 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’ 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 consolidated negative cash flow from operations before intra-institutional transfers and depreciation 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. 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’ 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.

<table>
<thead>
<tr>
<th>Reason for Separation</th>
<th>Separation During Plan Year (i.e., on or before June 30, 2019)</th>
<th>Separation on or after July 1, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Separation for any reason other than retirement</td>
<td>• Forfeiture of STI award for 2018-19</td>
<td>• Payout of full STI award for 2019-20</td>
</tr>
<tr>
<td>• Retirement</td>
<td>• Partial STI award for 2019-20</td>
<td>• Payout of full STI award for 2019-20</td>
</tr>
<tr>
<td>• Medical separation due to disability</td>
<td>• Partial STI award for 2019-20</td>
<td>• Payout of full STI award for 2019-20</td>
</tr>
<tr>
<td>• Death*</td>
<td>• Partial STI award for 2019-20</td>
<td>• Payout of full STI award for 2019-20</td>
</tr>
<tr>
<td>• Involuntary separation due to reorganization or restructuring</td>
<td>• Forfeiture of STI award for 2019-20</td>
<td>• Forfeiture of STI award for 2019-20</td>
</tr>
<tr>
<td>Involuntary termination due to misconduct or inadequate performance</td>
<td>• Forfeiture of STI award for 2019-20</td>
<td>• Forfeiture of STI award for 2019-20</td>
</tr>
</tbody>
</table>

*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.