

Dear Colleagues,

As you may know, the financial relationship, known as the “clinical funds flow model,” between the UCSF Medical Center and UCSF Benioff Children’s Hospital (collectively referred to as “UCSF Medical Center”), UCSF School of Medicine, and Clinical Departments within the UCSF School of Medicine is changing effective July 1, 2014.

The timing of the transition coincides with the completion of the UCSF Clinical Enterprise Strategic Plan. With the implementation of the strategic plan, a number of initiatives are underway to help focus our efforts on those that will be most beneficial to our patients and to our future.

As part of the transformation, we will refer to all of the components that comprise the clinical organization at UCSF, including the UCSF Medical Center and the Physician Practices, as the “UCSF Health System.” This change signifies our commitment to operating as a true health system, rather than disjointed parts.

There have been a number of questions about the impact of the new clinical funds flow model on individual faculty compensation. **The transition to the new clinical funds flow represents a change in payment from the Health System to the School of Medicine Departments, not to divisions or individual faculty. Distribution to divisions and individual faculty compensation will remain under the control of the department.**

The following information is intended to describe the general structure of the new clinical funds flow and further clarify its relationship to individual faculty compensation.

Current vs. New Clinical Funds Flow Model Structure

Under the current (pre-July 1, 2014) clinical funds flow model, departmental clinical income is based on faculty-generated professional revenue less expenses.

In the new clinical funds flow model (post-July 1, 2014), professional fee revenue will accrue to the Health System and the Health System will assume financial responsibility for the costs of operating ambulatory and inpatient practices (e.g., clinic support staff, facilities, supplies).

Departmental clinical income will include a combination of four tiers of payment from the Health System:

- **Tier 1** is a payment based on the number of clinical work RVUs (wRVUs) generated by faculty in the department. The dollar per wRVU for various subspecialties is determined using national standards for physician productivity and compensation. The dollar per wRVU is multiplied by the wRVUs generated by the department to determine the departmental payment.
- **Tier 2** is a margin sharing incentive payment where the Health System, Clinical Departments, and Dean’s office share in the margin earned above the annual combined budget for the Health System.

- **Tier 3** is an incentive plan that aligns the Health System around goals that are designed to enhance performance in quality, access, and the patient experience.
- **Tier 4**, the staffing payment, is reserved for the small number of clinical services for which physician staffing is a requirement for safety, regulatory mandates, or good patient care.

Some agreements between the Health System and the School of Medicine Clinical Departments will be retained under the new clinical funds flow model. For example, strategic support will continue to cover costs such as business plans for new faculty, business development activities and some program support.

In addition, the Health System will reimburse the department for the cost of faculty benefits related to their clinical time as reflected by the clinical operating statement and pay for a significant portion of the clinical operating overhead expense within each Department.

The Tier 1 wRVU-based payment represents the largest share of the payment from the Health System to the clinical departments.

The Health System will directly cover the dean's tax, malpractice, billing and medical group costs.

Under both the current and new clinical funds flow models, each department is responsible for faculty physician compensation.

Relationship to Individual Faculty Compensation

The Tier 1 wRVU formula determines the amount of clinical income that the department will receive from the Health System for the total wRVUs generated by faculty in the department's ambulatory and inpatient practices.

Individual faculty compensation will remain under the control of the department, based on the department's compensation plan. Department compensation plans consider many factors, including clinical effort, educational effort, research activities, and other factors.

Importantly, the fundamental principle that the productivity of clinical faculty is a key driver of the departmental clinical income will not change after the transition to the new clinical funds flow model.

The School of Medicine Dean's Office believes that there should be alignment of incentives between the clinical funds flow model and departmental compensation plans, such that faculty effort in patient care, clinical productivity, and other aspects of clinical performance are valued and incented by departmental compensation plans to support Health System goals. However, the School of Medicine Dean's Office also recognizes that compensation should recognize activity and accomplishments across all mission areas.

Specific questions regarding the relationship between the clinical funds flow changes to individual faculty compensation should be directed to your Division Chiefs/Department Chairs.

Sincerely,

The Funds Flow Transition Oversight Committee

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