

REPORT OF THE HOUSE OF DELEGATES COMMITTEE ON COMPENSATION OF THE OFFICERS

The following report was presented by Willarda V. Edwards, MD, Chair:

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HOUSE ACTION: RECOMMENDATIONS ADOPTED AND REMAINDER OF REPORT FILED

This report by the Committee at the 2007 Annual Meeting presents a recommendation for Board of Trustee Officer compensation developed with the assistance of an external consultant expert in board compensation practices and is consistent with the principles adopted by the AMA for compensation of its Officers.

BACKGROUND

At the 1998 Interim Meeting the House of Delegates established a House Committee on Trustee Compensation, later named the House Committee on Compensation of the AMA General Officers. The General Officers are defined in Article VII of the AMA Constitution and Bylaws. (Note: under changes to the Constitution previously approved by the House of Delegates, Article V will refer simply to "Officer" which includes all 21 members of the Board of Trustees among which are President, President-Elect, Immediate Past President, Speaker of the House of Delegates and Vice-Speaker of the House of Delegates, collectively referred to in this report as "Officer"). The composition, appointment, tenure, vacancy process and reporting requirements for this Committee are covered under Section 2.64 of the AMA Bylaws:

The committee shall present an annual report to the House of Delegates recommending the level of total compensation for the Officers for the following year. The recommendations of the report may be adopted, not adopted or referred back to the committee, and may be amended for clarification only with the concurrence of the committee.

As defined in the Glossary to the AMA Bylaws, total compensation is the complete reward/recognition package awarded to an individual for work performance including the following compensation elements: (a) all forms of money or cash compensation; (b) benefits; (c) perquisites; (d) services; and (e) in-kind payments. The Committee's report is also required to include the total compensation of all individual Officers.

Shortly after the Committee was created a consultant was engaged to provide a baseline assessment of the total compensation of the AMA Officers including recommendations for the specific form and level of compensation. It has been six years since that report. Early in 2007, the Committee engaged an expert consultant to conduct research and provide advice and counsel to the Committee to develop the current compensation proposal submitted for approval at A-07. The Committee engaged The Delves Group, as represented by Don Delves, founder. The Committee was also assisted by Robert Davis, Senior Vice President of Human Resources, and Mary Klassen, Vice President of Compensation and Benefits, from the AMA.

METHODOLOGY

In developing its recommendations to the Committee, the Delves Group took the following steps:

- Analyzed pertinent historical data including Compensation Committee reports to the House of Delegates which include the definition of compensation as stated in the AMA bylaws and the AMA principles for compensating Officers (detailed below), the standing rules of the Board, actual Board pay levels and basic financial and organizational data on the AMA.
- Interviewed the three members of the Committee.
- Developed a format for interviewing selected Officers, which was implemented by the AMA Senior Vice President of Human Resources and the Vice President of Compensation and Benefits. A total of seven confidential interviews were conducted to obtain a representative sample of current Officers' views.
- Reviewed the results of the interviews.

- Conducted an analysis of compensation data for board members of for-profit organizations of similar size and complexity. Also, to the degree possible, collected anecdotal data on pay to Trustees of other not-for-profit and medical associations.
- Proposed and discussed initial recommendations with the Committee following the deliberative and objective process to arrive at the Recommendations as detailed in this report to the House of Delegates which follow the stated principles of the AMA and meet any legal or regulatory requirements.

Principles

The Committee applied the following principles in recommending the structure, form and level of total compensation for the AMA's Officers:

- Compensation should be based on the value expected by the AMA from its Officers.
- Compensation should take into account that the AMA is a "hybrid" organization when comparing compensation provided to board members by for-profit organizations and complex not-for-profit organizations of similar size and activities.
- Compensation should be aligned with the long-term interests of AMA members and the fulfillment of the fiduciary responsibilities of the Officers.
- Officers should be adequately compensated for their value, time, and effort.
- Compensation should be used to motivate Officer behavior.
- Compensation should be approached on an overall basis, rather than as an array of separate elements.

FINDINGS

The findings of the 2007 compensation review are divided into the following sections:

- Current Compensation & Historic Review of Recent Compensation Changes
- Key Findings of the Interviews with Trustees
- Competitive Analysis
- Recommendations

Current Compensation

Includes Board Chair, President, President-Elect and Immediate Past-President:

- Annual Honorarium: \$235,000
- 38 Board Meeting Days
- President permitted First Class Travel for travel over 1000 miles or 2 hours of travel time
- President permitted spousal travel allowance of \$10,000 annually
- President-Elect and Immediate Past-President are permitted spousal travel allowance of \$6,000 annually

Board Chair-Elect:

- Annual Honorarium: \$176,250, which is 75% of the Board Chair honorarium
- 38 Board Meeting Days

Other Trustees (except Medical Student and Resident/Fellow Trustees):

- Annual Honorarium: \$43,700
- 38 Board Meeting Days
- \$1,150 per diem for assigned representation with travel days

Medical Student and Resident/Fellow Trustees:

- Annual Honorarium: \$21,850 which is 50% of Other Trustee Honoraria
- 38 Board Meeting Days
- \$575 per diem for assigned representation with travel days

Other Payments/Benefits:

- Expense Reimbursement for Travel
- Daily meal cap of \$110
- Reimbursement for spousal travel at Annual and Interim events only (coach fare)

- No family travel
- \$300,000 Term Life Policy
- \$500,000 AMA Travel Accident Policy
- \$10,000 Individual Policy for medical costs incurred while on AMA business

Compensation History Highlights

Board Chairs and Presidents:

- July 2001, \$5000 increase - Annual Honorarium to \$230,000 from \$225,000
- June 2004, \$5000 increase - Annual Honorarium to \$235,000 from \$230,000

Other Trustees (except Medical Student and Resident/Fellow Trustees):

- January to June 2002
 - \$1,120 Weekday Per Diem rate
 - \$560 Weekend Per Diem rate
- July 2002 – June 2003
 - \$1,150 Weekday Per Diem rate
 - \$575 Weekend Per Diem rate
- June 2003 to Present
 - \$1,150 Per Diem Rate (weekday or weekend)

Student and Resident/Fellow:

- July 2000 to June 2005
 - Resident/Fellow Annual Honorarium increased in 2005 to \$15,000 from \$10,000
 - Student Annual Honorarium increased to \$6,000 from \$2,500
- July 2005 to present
 - Annual Honorarium increased to 50% of Other Trustee Annual Honorarium
 - Per Diem increase to 50% of Other Trustee Per Diem - \$575

Key Findings of Trustee Interviews

Key findings from the interviews are as follows:

- The time commitment is considered to be very significant and often more than expected.
- Only days involving travel are compensated. Preparation time and telephonic conference call meetings are not compensated. This is a concern.
- It was noted that it is more difficult for full time practicing physicians to balance the significant time commitment that Officer responsibilities require, with their practices and families. While variations in the amount of lost income were noted, almost all interviewees thought it should not be a consideration in compensation.
- Officer compensation is seen as an enabler in that it allows people to serve – rather than as an incentive to serve.
- The current system of regular monthly payments for the standard expected service days is greatly appreciated.
- Half of those interviewed thought that the daily meal limits should be raised.
- Health insurance is a concern for those whose commitment is nearly full-time. This issue varies depending on individual circumstances, but could be particularly problematic for Officer positions where the time commitment may impact the member's ability to maintain coverage in their current employment situation.
- Spouse travel was noted as an inequitable benefit for those with no spouses, working spouses or young families.
- The overall program is viewed as fair. Concerns and criticisms were all couched in a general statement of perceived fairness.
- There was no stated desire for additional compensation for Board committee chairs.
- Some noted that first class air travel upgrades should be allowed/reimbursed.
- It was noted that as part of their official assignments, some Officers are assigned to be the AMA representative to outside groups (e.g. The Joint Commission), and these groups occasionally meet via teleconference. These meetings can occasionally be lengthy and the AMA representative is not compensated for this time.

Competitive Analysis

The AMA Officers perform two significantly different functions:

- Organizational Governance
- Organizational Representation

Based on external data, it is proposed that these functions be recognized and paid separately. In analyzing the external data, the consultant reviewed the data from four perspectives;

- compensation per individual Officer,
- annualized compensation rates for Officers,
- organizational cost of Governance,
- organizational cost of Representation.

In reviewing the compensation related to the governance function, the consultant reviewed data from similarly sized for-profit organizations. In general, the AMA governance portion of compensation is aligned with the for-profit cash portion, i.e. the retainer. In the for-profit environment, the retainer is paid for board meetings and related preparation. However, the for-profit compensation often includes a stock component that increases the total compensation for the for-profit board member. It is also important to note that the for-profit world conducts board governance activities with approximately half the number of board members in half the number of days. In other words, the AMA Board is about twice as large as a typical for-profit company board and spends about twice the amount of time performing its governance function.

An additional consideration is that the current compensation package of most of the Officers (except the Board Chairs, Presidents and the Medical Student and Resident/Fellow Trustees) has not been adjusted for four years; June 2003 was the last adjustment. Also considered was the feedback from the interviews noting the increased time commitments of board service, in preparation, committee and task force meetings and representation, via in person meetings or telephonic meetings.

As to Representation, there is no good market comparison data for these activities. However, there is extensive market data for for-profit compensation, which is a mix of a retainer and a fixed meeting fee. Meeting fees for organizations of similar size and complexity are as follows:

- Board Meeting Fees: \$1,500
- Committee Meeting Fees: \$1,000
- Telephonic Meeting Fees: \$500

It is also important to note that some medical associations offer per diems for representation activities on a limited basis. The typical per diem is \$1,000.

For-profit organizations have also recognized the role teleconferencing plays in conducting business by providing telephonic meeting fees for typical committee business of a minimum teleconference call length.

Officer compensation was also analyzed using for-profit survey data for organizations of similar size and complexity and found to be in line when considering the significant time commitment for Governance and Representation. However, it is important to note that the last compensation adjustment for the Board Chairs and the Presidents occurred 3 years ago, in June 2004.

In reviewing for-profit data it was also noted that board performance and effectiveness, while not tied to compensation, is evaluated by most organizations. The evaluation process may review total board effectiveness or individual board members based on either self-evaluation and/or feedback from management and/or shareholders. The Committee notes that the concept of board evaluation is a process for further review for use by the AMA Board.

The Committee recognizes and appreciates the significant time and work load commitment of the AMA Officers. Further, the Committee recognizes and commends the AMA Officers' work in increasing our focus on results on behalf of patients and their physicians through the ongoing planning process. The planning process resulted in concentrating our efforts and resources on the twenty two Strategic Initiatives, membership and the financials of our AMA. Measurement and reward are appropriate drivers in achievement of results. We note that the Board has tied AMA staff performance and a portion of compensation to achieving these objectives and believe that to be a move

in the right direction. The Committee also notes that the Board has begun to spend more time on self-evaluation, and although there is not a direct link with compensation, this is a positive dynamic as the Board moves forward.

Feedback from the interviews also noted health insurance as a concern. Our review of other for- profits and not-for-profit organizations revealed that health insurance was not typically included as part of board compensation. At the same time, the Committee acknowledges that this is a consideration in serving on the AMA Board. Based on our analysis, the Committee believes that it is not appropriate for the AMA, as an organization, to provide health insurance to its Board members. We recommend that it continues as an individual responsibility, and as such, is not a compensation recommendation in this report.

Spousal travel concerns were noted; however, the Committee recommends no changes at this time.

While the daily meal Cap of \$110 appears relatively reasonable at this time, the Committee recommends a \$5 per day increase annually to adjust for inflation.

While the Committee empathizes with the challenges of current air travel, it does not recommend any changes to the policy at this time. Rather, the Committee recommends reviewing this issue once there is a better understanding of the Representation commitment.

RECOMMENDATIONS

The House of Delegates Committee on Compensation of the Officers recommends that the following be adopted and that the remainder of the report be filed:

Specifically, the Committee recommends the following changes to compensation, effective July 1, 2007:

1. There should be an annual review of all compensation with appropriate inflation adjustments for both Honoraria and per diem rates. The compensation of the Chair-Elect continue at 75% of the compensation of the Chair, President, President-Elect, and Immediate Past-President. It is further recommended that the compensation level for the Medical Student and Resident/Fellow Trustees continue at 50% of other Officer compensation. Therefore:
 - Given that Officer Honoraria was last increased in June, 2004, a 4% per year increase results in an Annual Officer Honorarium of \$264,000 for the Chair, President, President-Elect and Past-President. This will result in an Annual Honorarium for the Chair-Elect equal to \$198,000. They will continue to be paid monthly.
2. The Committee recommends other Officer compensation will be split between a Governance Honorarium and Representation Per Diem (other than the Board Chairs and the Presidents). Therefore:
 - The purpose of the Governance Honorarium is to compensate Officers for Scheduled Assignment Days (Board meetings and related travel days as approved by the Board). Governance Honorarium also includes Board, committee or task force conference calls, and all related preparation for any of the above.
 - The purpose of the Representation Per Diem is to compensate Officers for additional travel related to Scheduled Assignment Days, Representation assignments, and special committee and/or council work as approved by the Board Chair. Additionally, the Board Chair may approve payment of Representation Per Diem for special circumstances, which may include special meetings of the Board.
 - Other Officer (except for Medical Student and Resident/Fellow Trustees) annual Governance Honorarium increases to \$50,000, paid monthly throughout the year. Medical Student and Resident/Fellow annual honorarium increases to \$25,000 paid monthly, throughout the year. These amounts represent that portion of compensation considered to be Governance and are intended to compensate for the standard 38 days upon which the Honorarium has been historically based.
 - Representation Per Diem continues at \$1,150 per day for other Officers (excluding the Board Chairs and Presidents) and at \$575 per day for Medical Student and Resident/Fellow Trustees.

3. Compensation for Representation via conference calls 2 hours or greater is recommended.
 - For Officers (excluding the Board Chairs and the Presidents) who are assigned as the AMA representative to outside groups, as one of their specific Board assignments, pay a per diem rate for teleconference meetings, if that outside organization holds an official meeting via teleconference of at least two hours in length. Payment for these meetings would require approval of the Chair of the Board. The amount of the telephonic per diem will be 1/3 of the full per diem or \$383 (\$192 for the Medical Student and Resident/Fellow).
4. Administration of the aforementioned compensation policy will be governed by the Standing Rules Relating to Travel and Expenses of General Officers.
5. Final overall cost and effective date:
 - The annual cost of implementing all of the above recommendations, assuming 4 telephonic representation meetings of at least 2 hours, equals \$255,250 and is broken out as follows:

Increase to Chairs and Presidents Honorarium	\$137,750
Increase to Other Officer Honorarium	\$94,500
Estimated Increase for Telephonic Per Diem	\$23,000
 - Due to the length of time since the last adjustments to compensation, the Committee recommends that these changes be implemented immediately, effective July 1, 2007.
6. Inflationary adjustments of daily meal cap in 2008:
 - Beginning in January 2008, increase the daily meal cap by \$5 per day, each year. Effective January, 1, 2008, the daily meal cap increases to \$115.