

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

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

**REPORT OF THE HOUSE COMMITTEE ON COMPENSATION
OF THE AMA GENERAL OFFICERS**

**HOUSE ACTION: RECOMMENDATIONS ADOPTED AND
REMAINDER OF REPORT FILED**

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. The composition, appointment, tenure, vacancy process and reporting requirements for this Committee are covered under Section 2.74 of the AMA Bylaws. Section 2.744 defines the purpose of the Committee and the requirement for this report:

The Committee on Compensation of the General Officers shall present an annual report to the House of Delegates recommending the level of total compensation for the General Officers for the ensuing year subject to approval by the House of Delegates. 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 individual Board members.

Shortly after the Committee was created a consultant was engaged to provide a baseline assessment of the total compensation of the AMA General Officers including recommendations for the specific form and level of compensation. It has been six years since that report. The Committee is engaging a consultant to develop a current compensation proposal which will be addressed by the Committee in a report to the HOD at A-07.

METHODOLOGY

In developing its recommendations, the Committee follows the methodology summarized in Appendix A, which includes establishing a set of principles for compensating the General Officers, data collection, analysis, findings and development of recommendations. Since the Committee's inception, the Committee has viewed the AMA as a hybrid entity, having some characteristics of a complex non-profit organization and others similar to a for-profit company. Given the limited survey information available on complex non-profit organizations and the requirements for trustees to function similar to trustees of for-profit organizations, the Committee has utilized best practices from the for-profit sector along with assessing the practices of complex non-profit associations in developing its compensation recommendations.

Principles

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

- Director compensation should be based on the value expected by the AMA from the General Officers and should take into account that the AMA is a "hybrid" organization when comparing compensation provided to board members by for-profit organizations and complex non-profit organizations of similar size and activities.
- Director compensation should be aligned with the long-term interests of AMA members and the fulfillment of the fiduciary responsibilities of the Board of Trustees.
- Directors should be adequately compensated for their value, time and effort.

- Director compensation should be used to motivate director behavior.
- Director compensation should be approached on an overall basis, rather than as an array of separate elements.

The Committee has worked to establish a process to develop its compensation recommendations in a deliberative and objective way that follows the above principles and meets any legal or regulatory requirements.

Data Collection

In conducting its data collection, the Committee reviewed the following: (1) prior testimony and actions from the House of Delegates; (2) input from the AMA Board of Trustees in face-to-face meetings; (3) the current structure and requirements of the AMA Board; (4) AMA reports on cash compensation of the General Officers and the basis for that compensation to include all assignment and travel days; (5) current Board benefits and perquisites; (5) travel and expense policies and detailed expense reports; (6) comparable director compensation data from for-profit and non-profit organizations; and (7) national data on physician compensation.

To ensure that the AMA is meeting its legal and regulatory requirements and its General Officer compensation is reasonable when compared to other comparable organizations, the Committee reviewed articles on Board compensation practices, and compensation survey data primarily from the following: National Association of Corporate Directors, American Association of Medical Society Executives, Equilar, The Conference Board, Medical Group Management Association, and "Medical Economics". Valuable insight was also obtained through discussions with a number of consultants.

FINDINGS

The Committee reviewed the "Standing Rules of the AMA Board of Trustees" which contain the current compensation levels, the structure of the Board and the responsibilities of the Trustees. For the purposes of this report, the General Officers of the AMA Board are divided into AMA Officers (President, President-Elect, Immediate Past President and Chair) and the AMA Non-Officer Trustees, which includes all other Trustees.

The Committee noted the increased time commitments generated by Board, committee and task force requirements. It was also recognized that the Board has adopted, where appropriate, best practices in governance. Given the amount of time being required of Board members, it is important that individuals seeking a position on the Board be made aware of this commitment and the scope of compensation.

Cash Compensation

The Cash Compensation for the General Officers shown in the following table will not be the same as compensation reported annually on the AMA's IRS Form 990 because Form 990s are based on a calendar year, January-December. The Cash Compensation is compensation for the days these Board members spend away from their home on AMA business approved by the Board Chair. The Assignment/Travel days include Board and committee meetings, and all other AMA representation days and the travel days. In addition to these days, it was noted that the Board held conference calls of the entire Board during this reporting period.

The following summarizes the AMA General Officer compensation for the period July 1, 2005 through June 30, 2006.

<u>AMA Officers</u>	<u>Position</u>	<u>Cash Compensation</u>	<u>Assignment/Travel Days</u>
J. Edward Hill, MD	President	\$235,000	243
William G. Plested, III, MD	President-Elect	\$235,000	155.5
John C. Nelson, MD	Immediate Past President	\$235,000	170
Duane M. Cady, MD	Chair	\$235,000	139.5

<u>AMA Non-Officer Trustees</u>	<u>Position</u>	<u>Cash Compensation</u>	<u>Assignment/ Travel Days</u>
Joseph M. Heyman, MD	Secretary	\$129,375	112.5
*Cecil B. Wilson, MD	Chair-Elect	\$176,250	106.5
Nancy H. Nielsen, MD, PhD	Speaker	\$98,900	86
Jeremy A. Lazarus, MD	Vice Speaker	\$114,425	99.5
**Joseph P. Annis, MD	Trustee	\$2,300	2
John H. Armstrong, MD	Trustee	\$101,775	88.5
Peter W. Carmel, MD	Trustee	\$43,700	81
Samantha L. Cramoy, MD	Resident	\$29,613	53
Ronald M. Davis, MD	Trustee	\$85,100	74
**Chris DeRienzo	Student	\$1,438	2.5
William A. Hazel, Jr., MD	Trustee	\$68,425	65
Cyril M. Hetsko, MD	Trustee	\$83,950	73
Ardis D. Hoven, MD	Trustee	\$96,600	84
Edward L. Langston, MD	Trustee	\$109,250	95
Joe T. McDonald	Student	\$37,088	64.5
Robert R. McMillan	Trustee	\$62,100	54
Rebecca J. Patchin, MD	Trustee	\$100,625	87.5
J. James Rohack, MD	Trustee	\$113,275	98.5
**Steven J. Stack, MD	Trustee	\$2,300	2
Robert M. Wah, MD	Trustee	\$81,075	70.5

* The Chair-elect receives an honorarium at the level shown.

** These individuals were elected to the AMA Board to begin their term at A-06. They were approved by the Board Chair to receive a per diem for assigned activities during this reporting period.

Officer Trustees (President, President-elect, Immediate Past President and Board Chair)

In 2005-2006 each Officer Trustee received a \$235,000 honorarium which was paid in monthly installments. The most recent increase of \$5,000 took effect in June 2004. Officer Trustees spent 708 days on approved Assignment and Travel, an average of 177 days per Officer. This is 110 days less than the prior year and 23 days under the goal of 200 days per Officer set by the Committee in its 2000 report.

The Committee continues to recognize the importance of the roles of the Officer Trustees and believes that the use of an "honorarium" or annual stipend of \$235,000 is appropriate for the requirements of the positions and hybrid nature of the AMA. While the average number of assignment and travel days fell below 200, the President remained well above this target. Since this number does not include the substantial time spent on AMA business at home, the Committee intends to address this target in its A-07 report. The Committee recommends at this time that the annual honorarium for the AMA Officers identified above remain the same for the 2007-2008 elected year.

Non-Officer Trustees (All other including the Board Chair-Elect, the Speaker, Vice Speaker, Medical Student, Resident/Fellow, Young Physician, Public Member)

Non-Officer Trustees received Cash Compensation that includes \$43,700 in honorarium for 38 Board meeting days at \$1,150 per day paid in monthly installments. The remaining compensation is for Assignment and Travel Days that are approved by the Board Chair to represent the AMA in various venues. These days are compensated on a per diem of \$1,150.

There are several exceptions:

- The Chair-Elect was approved for an annual honorarium of 75 percent of the AMA Officer honorarium beginning with the 2004-2005 elected year, and received \$176,250 during this reporting period; and
- Beginning in July 2005, the stipend for the Medical Student and Resident/Fellow Trustees was changed by House action at A-05 from \$6,000 and \$15,000, respectively, to 50 percent of the annual honorarium received by Non-Officer Trustees for Board meeting days (\$575) and 50 percent of the daily per diem compensation of Non-Officer Trustees for other assignment days (\$575). For 2005-2006, the Medical

Student and the Resident/Fellow received \$37,088 (64.5 days compensated) and \$29,613 (51.5 days compensated) respectively.

The Total Assignment/Travel days for all Non-Officer Trustees in the 2005-2006 elected year were 1,400 days of which 646 days were for Board and standing committee meeting days and 754 were representation or per diem days. The average number of representation days per Non-Officer Trustee was 44.4. This is approaching the upper limit of 50 days that the Committee established in its compensation recommendations. These numbers are close to last year's and reflect an increase in the number of days for Board and committee meetings from 35 to 38. The Committee expresses concern with the time commitment necessary to serve on the AMA Board and its implications for attracting member physicians to serve on the Board.

From the data available on board compensation trends and levels for "comparable" for-profit organizations and the limited data on comparable non-profit entities, the Committee highlights the following:

- The impact of legal and regulatory requirements on for-profit organizations is migrating to the non-profit sector. With the AMA's "hybrid" corporate nature, the expectations on directors, along with the required time commitment continues to increase.
- Almost 90 percent of the leading not-for-profits do not compensate their trustees/directors or have a policy for avoiding payment of "unreasonable compensation"; however, the number providing compensation is expected to increase.
- Based on limited data, it appears that the significant majority of trade and association organizations either don't provide cash compensation to their directors or it is smaller or limited to the officer directors, e.g., President.
- Cash compensation elements in for-profits include an annual cash retainer, Board meeting fees, Committee member and other fees, and stock options.
- Director cash compensation in "Small" for-profit organizations (\$200-600 million in revenues) increased to \$40,047 from 2004-2005, a 20% increase—it went up by 10 percent to \$34,544 in "Smaller" ones (\$50-200 million in revenues). This does not address other fees and stock options which are clearly a for-profit compensation characteristic.
- The fee per Board and Committee meeting day ranges from \$1,000 to \$2,000.

As has been the Committee's practice, it also reviewed physician compensation data to assess the Committee's compensation recommendations in light of the AMA members' compensation environment. Lost practice income does not drive the Committee's recommendations.

- Surveys show compensation is up an average of 7.2 percent but differs significantly by specialty.
- Median compensation levels range from \$168,111 for primary care specialties to \$316,620 for all other specialties.
- Further geographic variation exists as does the impact between single specialty and multi-specialty group practices.
- Any gains are likely to be dramatically impacted by the potential Medicare reimbursement cuts.

Based on the above findings the Committee is recommending that the honorarium and per diem levels remain at \$1,150 per day for the 2007-2008 elected year for all Non-Officer Trustees except the Medical Student and Resident/Fellow whose honorarium and per diem levels should also remain at \$575 per day. The Committee also recommends that the compensation of the Chair-elect remain at the current honorarium level which is 75 percent of the Officer Trustee honorarium. This forum and level of compensation will be also addressed by the consultant in their report and in the Committee's recommendations in the A-07 report to the HOD.

Benefits, Perquisites, Services and In-Kind Payments

Current benefits, perquisites, services and in-kind payments are listed and policies defined in the "AMA Board of Trustees Standing Rules on Travel and Expenses". The Committee found no elements with a legal or regulatory risk nor inconsistent with those found in other programs in either the non-profit or for-profit sector. There also have been no substantive changes to these rules except those implemented as approved by the HOD at I-05:

- Permit first-class domestic airfare for only the President for travel over 1,000 miles or two hours flight duration.

- Increase the allowance of spousal travel for only the President to \$10,000 annually.

At A-06, the HOD referred Resolution 602, “Comprehensive Health Care Coverage for the AMA President-elect, President and Immediate Past-President”. In October, the Board provided a recommendation to the Committee on the provision of a health care insurance benefit to the Presidents. In order to thoroughly assess the provision of this benefit, the committee intends to address this recommendation along with those from the consultant in its report at A-07.

The Committee recognizes the additional difficulties and concerns related to the impact of the extensive travel schedule of the Presidents on family. Last year, the Committee provided an allowance up to \$10,000 per year for only the President. The President-Elect’s and Past President’s allowance remained at \$6,000 per year. The Committee is not recommending a change to this allowance at this time.

Expenses

Almost 49 percent of leading not-for-profits set a limit on the expense reimbursement for trustees and 75 percent require advance approval of exceptional expenses. The Committee reviewed the Board’s expense policies and found them reasonable and consistent with these leading practices.

The Committee reviewed 14 categories of annual expenses for the period July 1, 2005—June 30, 2006. Total expenses increased to \$899,633 as compared to \$795,743 for the prior period. This increase was due to the additional 51 Board meeting days and increases in travel and meeting costs. Reimbursement to Trustees for appearances decreased to \$48,001 as compared to \$78,468 for the prior period. Both observations will be raised to the Board. The Committee found that the expenses are reasonable and in line with current policy and guidance in the AMA Board’s “Standing Rules Relating to Travel and Expenses of General Officers”.

RECOMMENDATIONS

1. No changes from the current levels for annual honoraria, daily honoraria and per diems for the period July 1, 2007 to June 30, 2008.
2. No changes to the current benefits, prerequisites, services and in-kind payments for July 1, 2007-June 30, 2008.