

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

The following report was presented by James F. Arens, MD, Chair:

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OF THE 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 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 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.

For this purpose the AMA General Officers are divided into the AMA Officers (President, President-Elect, Immediate Past President and Chair) and the AMA Non-Officer Trustees (all other Trustees, including the Resident and Student Trustees). The Committee is also required to report the total compensation of individual AMA General Officers for the prior elected year.

METHODOLOGY

In developing its compensation recommendations for the 2006-2007 elected year, the Committee followed the methodology outlined in the Appendix, which includes a set of compensation principles, substantial data collection, analysis of available information on board compensation and the development of recommendations and reports to the House of Delegates.

The Committee collected, reviewed and discussed the following: (1) prior testimony and actions from the House of Delegates, especially in the last two years; (2) input from the General Officers in face-to-face meetings; (3) AMA reports on the total compensation of the General Officers; (4) assignment and travel days; and (5) detailed expense reports.

The Committee also reviewed articles on Board compensation practices, and compensation survey data primarily from the following: American Association of Medical Society Executives, BoardSource, Medical Group Management Association, *Medical Economics*, the National Association of Corporate Directors, and the Governance Institute. Valuable insight was also obtained through discussions with consultants.

DISCUSSION

Cash Compensation

The cash compensation received by each individual AMA General Officer from July 1, 2004 to June 30, 2005 and their assignment and associated travel days for this period are listed below.

<u>AMA Officers</u>	<u>Position</u>	<u>Cash Compensation</u>	<u>Assignment/Travel Days</u>
John C. Nelson, MD	President	\$235,000	264.0
J. Edward Hill, MD	President-Elect	\$235,000	243.5
Donald J. Palmisano, MD	Immediate Past President	\$235,000	181.0
J. James Rohack, MD	Chair	\$235,000	130.0

<u>AMA Non-Officer Trustees</u>	<u>Position</u>	<u>Cash Compensation</u>	<u>Assignment/Travel Days</u>
John H. Armstrong , MD	Secretary	\$73,025	63.5
Duane M. Cady , MD	Chair-Elect	\$176,250	92.0
Nancy H. Nielsen, MD, PhD	Speaker	\$105,225	91.5
Jeremy A. Lazarus, MD	Vice Speaker	\$97,750	85.0
Herman I. Abromowitz, MD	Trustee	\$98,900	86.0
Peter W. Carmel, MD	Trustee	\$40,250	74.0
*Samantha L. Cramoy, MD	Trustee	\$1,150	2.0
Ronald M. Davis, MD	Trustee	\$88,550	77.0
William A. Hazel, Jr., MD	Trustee	\$59,225	51.5
Cyril M. Hetsko, MD	Trustee	\$78,775	68.5
Joseph M. Heyman, MD	Trustee	\$118,450	103.0
*Ardis D. Hoven, MD	Trustee	\$2,300	2.0
Edward L. Langston, MD	Trustee	\$81,650	71.0
Matthew C. Lawyer	Student	\$6,000	73.0
*Joe T. McDonald	Student	\$1,150	2.0
Robert R. McMillan	Trustee	\$64,975	56.5
Rebecca J. Patchin, MD	Trustee	\$73,600	65.5
William G. Plested III, MD	Trustee	\$118,450	103.0
Kevin C. Reilly, Sr., MD	Resident	\$15,000	54.0
*Robert M. Wah, MD	Trustee	\$3,450	3.0
Cecil B. Wilson, MD	Trustee	\$81,075	70.5

The Cash Compensation for the General Officers shown above will not be the same as compensation reported annually on IRS Form 990s because Form 990s are based on a calendar year, January-December. Assignment/Travel days include Board meetings, all other approved "representation days" and the travel days associated with both. The asterisked individuals were elected to the AMA Board at the 2005 Annual Meeting. They were approved by the Board Chair to receive per diem to attend a Board Orientation session during the reporting period.

In 2004-2005, each AMA Officer received an annual honorarium of \$235,000. This was an increase of \$5,000 over the previous 2003-2004 elected year. Officers spent 818 days on approved days for Board meetings, representing the AMA and AMA associated travel days. This is an average of 204.6 days per Officer, which is almost identical to the prior year and consistent with the average of 200 days that the Committee considered in its compensation determination.

Non-Officer Trustees received Cash Compensation that includes a \$40,250 in honorarium for 35 Board meeting and travel days at \$1,150 per day. 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 per day.

There are several exceptions: (1) The Chair-Elect was approved for an annual honorarium of seventy-five percent of the AMA Officer honorarium beginning with the 2004-2005 elected year, and received \$176,250 during this reporting period; and (2) the Resident and Student Trustees received a stipend of \$15,000 and \$6,000 respectively for their assignment and travel days. However, the stipend for the Student and Resident Trustees was increased by House action at the 2005 Annual Meeting 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 Non-Officer Trustees are eligible for compensation of other assignment days (\$575).

The Total Assignment/Travel days for all Non-Officer Trustees in the 2004-2005 elected year were 1,370, of which 595 days were for Board meetings and 775 days were representation or per diem days. This is an average of 46 days for each Non-Officer. While this is slightly higher than last year, it is below the average of 50 days the Committee considered in its compensation recommendations.

In determining whether to recommend changes to the cash component of the General Officer's compensation, the Committee recognized the increasing governance requirements on Board members and the recent positive financial and membership results at the AMA. From the Committee's analysis it is also clear that compensation for board members is increasing in comparable for-profit organizations. Although similar growth has not been substantiated in the non-profit sector, the number of non-profit boards receiving compensation has increased.

It is also becoming increasingly important for both for-profit and non-profit organizations to ensure that the compensation for their board members is reasonable; is consistent with the trends in comparable organizations; and aligned with shareholder (member) perceptions. The Committee is sensitive to the financial pressures physicians are facing which are reflected in the data that shows median physician income is not keeping pace with inflation.

The following summarizes the Committee's findings and recommendations on cash compensation.

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

- The spokesperson role of the Presidents and the daily operational oversight role of the Board Chair are critical to the success of the AMA. The value attached to these positions and the time commitments required of them justifies an annual honorarium.
- These individuals continue to average over 200 days on the road on AMA business, not to mention the time commitment required at home. Because this time commitment is so much greater than leadership positions on comparable for-profit boards, the Committee looked to the non-profit sector. The current compensation is not out of line with other medical associations or trade organizations of a similar "hybrid" nature. Although comparable organizations usually compensate each of their Officers differently, the Committee continues to view the presidency as a three-year cycle and the Board Chair position with equal value and comparable time requirements.
- The Committee recommends that the annual honorarium for the AMA Officers remain the same for the 2006-2007 elected year.

Non-Officer Trustees (Excluding the Resident and Student Trustees)

- As a board member of a "hybrid" organization, Non-Officer Trustees must be business focused as well as member oriented. In addition to fulfilling their board responsibilities they are playing an extremely active role in the AMA's representational program. This continues to warrant a reasonable honorarium level for Board meeting days and a per diem level for assignments to represent the AMA.
- The current annual honorarium received by Non-Officer Trustees for board meeting days is comparable to what "small" for-profit companies pay in cash retainer and fees and to what large non-profit organizations compensate their non-officer trustees.
- The average number of assignment and travel days, other than for Board meetings, was 46 days. The Committee observed that several were considerably higher. Given that the time requirements for Non-Officer Trustees average 85 days when Board meetings are included, the Committee expressed concerns about the implications for an individual's work and life style.
- For their value and time for travel on for AMA representational activities, the Committee believes at this time that the daily per diem rate should be the same as the daily honorarium rate given the current rationale for this compensation.

- The Committee reviewed the annual honorarium level created at the 2004 Interim Meeting for the Chair-Elect and supports the current level. Special pay for Board committee assignments was discussed but not supported because of the frequent rotation of the committees membership.
- The Committee recommends that the current honorarium and per diem rates for Non-Officer Trustees and the annual compensation of the Chair-Elect remain the same for the 2006-2007 elected year.

Resident and Student Trustees

- The compensation for the Resident and Student Trustee was increased at A-05 and it is too early to evaluate the impact.
- The Committee recommends no changes to the cash compensation for the Resident and Student Trustees for the 2006-2007 elected year.

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,” dated June 2005. Except for the changes approved by the House of Delegates at the 2005 Annual Meeting to increase the Presidents’ allowance for spousal travel allowance to \$6,000 per year, the items within these compensation elements have not changed.
- The Committee did not identify any of the items in these compensation elements to be inconsistent with those found in other board compensation programs. The Committee found that the trend is to move to more cash compensation and fewer benefits and perks. The addition of health benefits was considered but not recommended.
- In response to the travel demands on the Presidents, the Committee discussed whether the President should be approved to fly first-class on longer flights for domestic AMA business. In addition, they addressed the need to increase the President’s allowance for spousal travel.
- The Committee recommends first-class travel for only the President for domestic flights over 1,000 miles and two hours in duration; and an increased allowance to only the President of up to \$10,000 for spousal travel under the current appropriateness criteria established by the Board.

Expenses

- The Committee reviewed 14 categories of annual expenses for the period July 1, 2003 through June 30, 2004.
- Total expenses for the period July 1, 2004 to June 30, 2005 were \$795,743, down \$174,463 from the prior year period. The difference is primarily due to a decrease of \$157,500 in airfare and hotel costs. Since assignment and travel days were not significantly different from the prior year, the Board is to be commended for the reduction in these costs.
- It was noted that reimbursements from organizations for Trustee appearances were down almost \$20,000 to \$78,468.
- The Committee found that expenses are reasonable and in line with current policy and guidance in the “AMA Board’s Standing Rules on Travel and Expenses.”

RECOMMENDATIONS

The Committee recommends that the following be adopted and the remainder of this report be filed:

1. That all annual honorarium, honorarium rates, per diem rates and stipends for the AMA General Officers remain at their current levels for the period July 1, 2006 to June 30, 2007.
2. That the current Standing Rules of the AMA Board of Trustees be changed to permit first-class domestic airfare for only the President for travel over 1,000 miles or two hours flight duration.
3. That the allowance to the President for spousal travel be increased to \$10,000 annually using the same appropriateness criteria as stated in the current Standing Rules. The allowance to the Immediate Past President and President-Elect remains at the current authorized annual level of \$6,000.

APPENDIX - COMPENSATION METHODOLOGY

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.

COMPENSATION PRINCIPLES

After careful consideration the Committee has adopted the following principles to be used in recommending the structure, form and level of total compensation for the AMA's General Officers:

- 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.
- Compensation should be aligned with the long-term interests of AMA members and the fulfillment of the fiduciary responsibilities of the Board of Trustees.
- Compensation should adequately remunerate General Officers for their value, time and effort.
- Compensation should be used to motivate director behavior.
- 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.

COMPENSATION COMPONENTS

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.

DATA COLLECTION AND ANALYSIS

- Identify current compensation practices to include those in the "AMA Board of Trustees Standing Rules Related to Travel and Expenses; meet with the Board of Trustees' representatives; identify interests of other internal stakeholders; and collect data on current benefits, and perquisites.
- Collect data on cash compensation for Officer, Non-Officer, Resident and Student Trustees. Develop tables and graphs showing all assignment, travel and compensated days by individual with a breakout of per diem days. Develop tables and graphs showing total and individual Board member expenses for the listing of fourteen expense categories. A more detailed review of a random set of individual Board members expenses is conducted by the Board Committee on Organization and Operation and any variance from the Standing Rules must be approved by the Board Chair.

- Review published data sources to include available surveys, periodicals and reports for both non-profit and for-profit organizations. If indicated, conduct survey of comparable organizations. Primary criteria for comparative analysis with non-profit organizations include total revenues and size of membership and staff. Also considered are the size, composition, meeting and time requirements for the comparable boards of directors/trustees. For the for-profit comparisons, the Committee uses the classification categories from the National Association of Corporate Directors, which puts the AMA in a “Small Company” category (greater than \$200 million and less than \$600 million in revenues).

ANALYSIS AND FINDINGS

- Analyze data, and identify key findings and their implications on compensation of the AMA General Officers.

DEVELOP RECOMMENDATIONS AND REPORTS

- Based on the data collected and the findings from its analysis, the Committee develops its compensation recommendations to the House of Delegates. Meetings are normally held by conference call and at the AMA Annual and Interim Meetings.
- A report to the House of Delegates is required annually at the AMA Interim Meeting but the Committee may submit reports at the Annual Meeting if necessary.