MAYO CLINIC

Faculty Compensation

The Mayo Clinic Model

“Honey, we fooled them again!”

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APD Chicago Sept 13, 2014

A Little History

- William Worrall Mayo settled in Rochester, Minnesota 1864
  - Medical Examiner Union Army
- Devastating tornado 1883
- Sisters of St. Francis were building St. Mary's Hospital
- Sr. Alfred Moes asked Worrall to staff the hospital
- Worrall reluctantly agreed

Private Practice

- Dr. Worrall's sons
  - *William James Mayo*
  - *Charles Horace Mayo*
- Will graduated in 1883
  - University of Michigan Medical School
- Charlie graduated in 1888
  - Northwestern University Medical School
- Built "State of the Art" operating theatres at SMH to attract Will and Charlie back to Rochester
- Physicians with different areas of expertise invited as partners in practice
- Created an integrated care model
- Innovators – Dr. Henry Plummer
  - In-house telephone communication system
  - A power plant
  - Pedestrian subway
  - Cross-indexed patient records
  - Pneumatic tube delivery system (1st EMR?)

Creation of Mayo Clinic

- The brothers gave $1.5 million in 1915 *($35 million in 2014 dollars)* to the University of Minnesota
  - Established the Mayo Foundation for Medical Education and Research in connection with their clinic to offer graduate training in medicine and related subjects

- The brothers & their partners created Mayo Properties Association in 1919
  - The private practice became a not-for-profit organization
  - Donated the property, furnishings, and a substantial portion of their wealth to what became Mayo Clinic

History of Tax Exempt Sector

Revenue Act of 1913
Established income tax system with tax exemption for certain organizations.

Revenue Act of 1917
Introduced individual income tax deduction for charitable donations.

Revenue Act of 1918
Estate tax deduction for charitable bequests added.

"The clinic is not and never has been a profit sharing institution."
- William J. Mayo, 1932

Mayo Clinic Model of Care

Patient Care

Collegial, cooperative, teamwork

True multi-specialty integration

An unhurried examination

Environment

Highest quality professional staff; culture of Mayo Clinic

Valued allied-health staff

A scholarly environment of research and education

Physician leadership

Integrated medical record

Common support services for all patients

Professional compensation

Fosters a focus on quality not quantity

Primary Value:

The needs of the patient come first

"All the monies beyond a reasonable return to workers have been added to the endowment fund with the view that the clinic should be made an institution that should continue into the future." WJM - 1932

Mayo Clinic Bylaws - 2013

"…the founders and partners voluntarily relinquished their partnership and personal rights to participate in the earnings. They reorganized and founded the Mayo Clinic as an Association. Since that reorganization the Associates of Mayo Clinic are entitled to and receive only fixed amounts annually."

Mayo Clinic Academic Medial Centers

MN, AZ, Fl


Eau Claire - Luther Campus
MAYO CLINIC
HEALTH SYSTEM


Minnesota
Wisconsin
Iowa


MAYO CLINIC
HEALTH SYSTEM

Dermatology

Gonda 16 (60,000 sq. ft.)

Professional Compensation Decisions

- Annual adjustments based on the market and affordability
- Affordability = Mayo's overall financial performance
- *Not* a department chair's decision
- Salary increases approved by:
  - Mayo Clinic Salary & Benefits Committee
- Endorsed by:
  - Mayo Clinic Board of Trustees Compensation Committee
- Implemented organization-wide

Mayo Clinic Salary & Benefits Committee

Accountable for planning and approving all pay actions for physicians and scientists

Guiding Principles

Compensation is salary-based

- No merit pay
- No productivity pay
- Pay must support integration among specialties
- Focus on the patient and not on pay
- Pay is by specialty and not by individual

National market approach

- Attract and retain physicians and scientists, nationally
- Target market
  - National multi-specialty group practices

Mayo Clinic-wide approach

- Oversight
- Governance
- Administration
- Compliance

Pay increases (target adjustments)

- Common pay period
- Common percentages
- *Not based on Cost of Living*

Incremental pay

- Leadership assignments and special situations
- Determined by department/division size
- Increment remains throughout career

All Salary Model

Pros

- Pay is not linked to doing anything more or less for the patient than what is needed
- Pay is not linked to individual performance; fosters a team based approach
- Does not penalize for time doing administrative, research or education
- Simple and much less costly to administer than incentive based systems

Cons

- Insurance reimbursements are based on productivity
- Perceived disparities in performance
- Difficulty introducing “additional work”
- Requires cultural acceptance

Groups in the Professional Compensation Plan

- Consulting Staff: Physicians & Scientists
  - Arizona, Florida and Rochester, MN (~2,800)
    - Multi-shield: clinical, research & education
  - Mayo Clinic Health System (~900)
    - Single-shield: clinical (pay for production)
- Executive Staff (Non-physician, top tier administrators [~80])
- Senior Leadership
  - President/CEO
  - Direct reports to President/CEO (*n* = 7)

Structure of Physician Compensation

- *Academic Medical Center* sites, 3-Shield ~ 2800 physicians
  - All salaried
  - Grades & pay common across all sites
    - Different grade for all specialties, most subspecialties
    - ~100 grades, independent of others
  - Creating a new grade (DMOHS 1986)
    1. Adequate market data
    2. Physicians at Mayo practicing in that specialty
    3. ABMS certification - if available
    4. Adequate work to justify paying at least one full-time physician in new grade

- *Mayo Clinic Health System* sites, 1-Shield ~ 900 physicians
  - Pay for production, patient satisfaction, safety, quality

Step Structure at Academic Sites

- Each specialty assigned a grade
  - Grades have 6 steps
  - An M.D. just out of residency enters at step 1
  - Every year the M.D. advances to the next step
  - 5th anniversary the M.D. reaches step 6
    - commonly known as the ***target*** salary for M.D.'s in that grade

- The entire grade moves annually according to market and affordability
  - Two pay increases per year for the first six years
  - One pay increase per year after that
    - Can vary based on affordability
    - Only one decrease in Mayo's history (Great Depression)

Salary Grade Step - Methodology

- Determine top step (target) using market data
  - $500,000 (example)
- Number of steps = 6
- Multiply target by 60%
  - $500,000 x .60 = $300,000
  - The value of Step 1

- Divide difference between Step 6 and Step 1 by number of step increases (6-1=5)
  - $\frac{500,000 - 300,000}{5} = 40,000$
- Physician starts at Step 1 after residency and advances one step annually

1	2	3	4	5	6
300,000	340,000	380,000	420,000	460,000	500,000

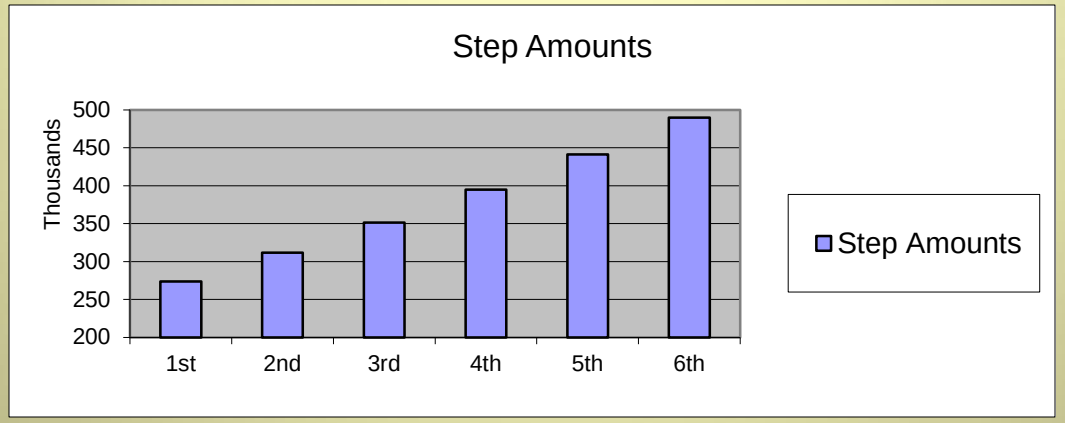
Step Graduation

Independent of Annual Market Adjustments

10Z	Specialty XXX

Current Annual Step Structure					
1st	2nd	3rd	4th	5th	6th
273,500	**311,500**	**351,500**	**394,750**	**441,500**	**490,000**

Increments between steps				
1 to 2	2 to 3	3 to 4	4 to 5	5 to 6
$38,000	**$40,000**	**$43,250**	**$46,750**	**$48,500**
13.89%	**12.84%**	**12.30%**	**11.84%**	**10.99%**

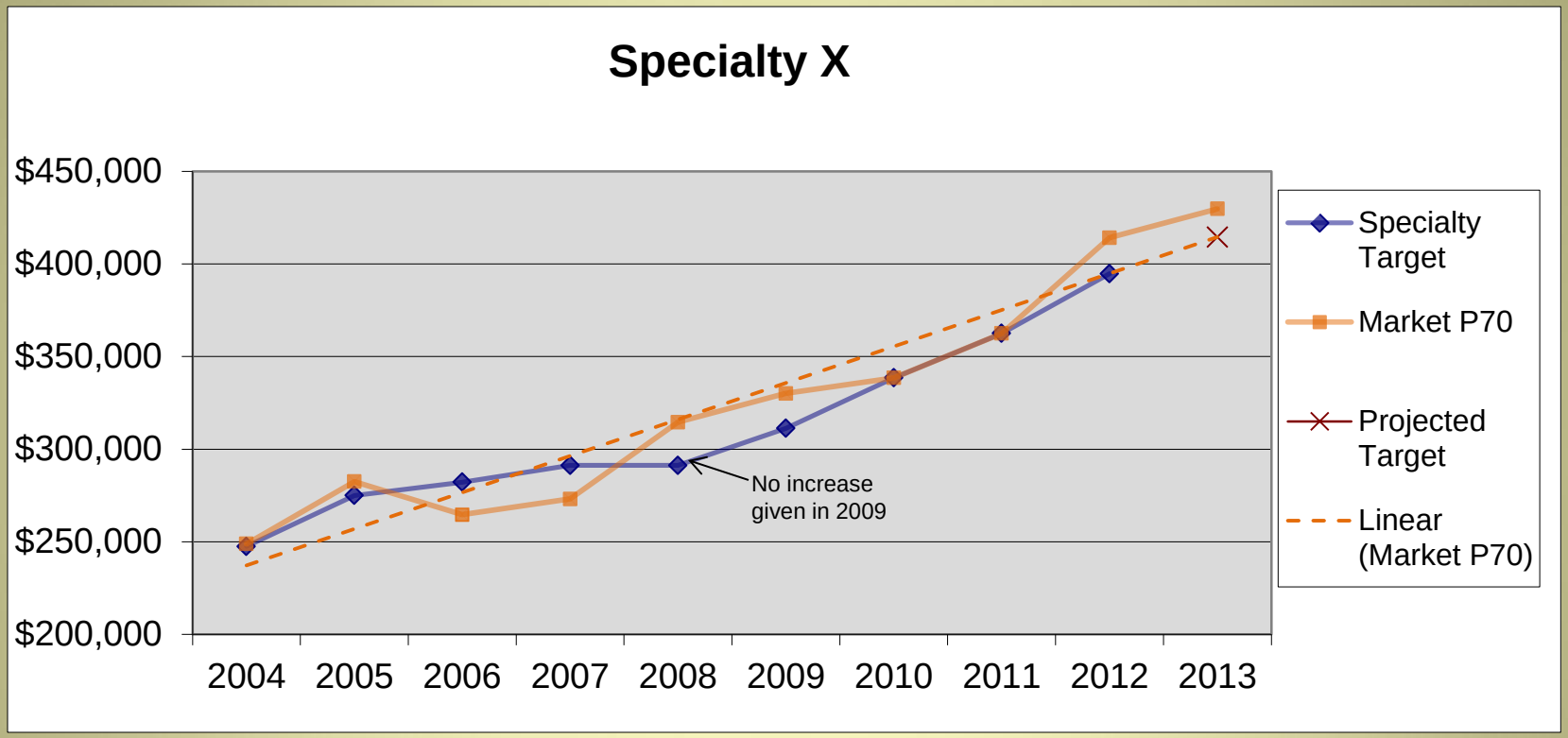


Market Based Salary Targets
70th percentile

Target market - multi-specialty groups nationwide

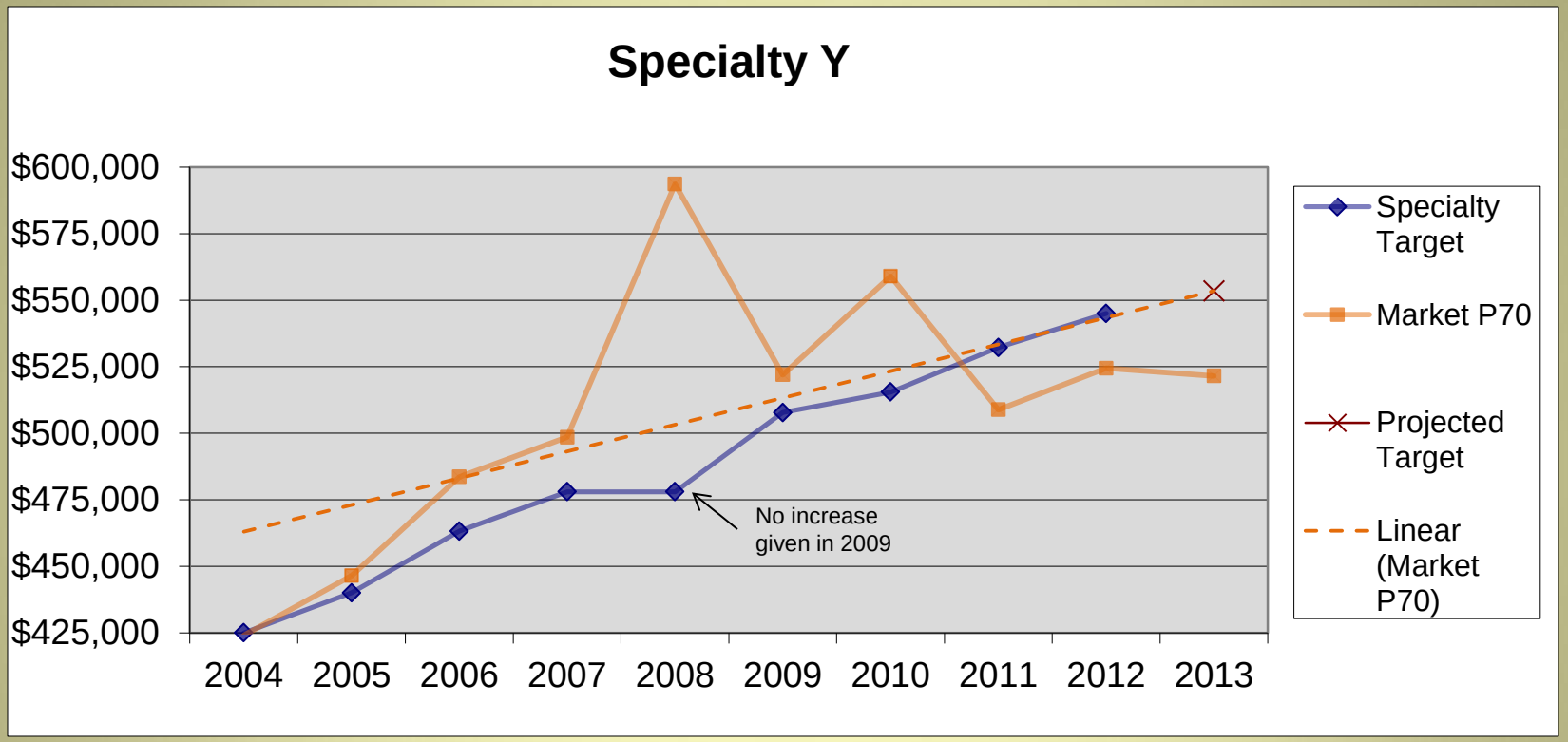
- Six primary surveys
- 30 secondary surveys
  - Sullivan-Cotter, Large Clinic Survey

Market Data – 10 yr. Linear Trend



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Ave. annual growth 10yrs	Last yrs growth
Specialty Target	$247,500	$275,000	$282,165	$291,250	$291,250	$311,250	$338,500	$362,500	$394,750		6.0%	8.9%
Market P70	$248,887	$282,533	$264,664	$273,181	$314,566	$330,106	$338,554	$362,500	$414,148	$429,797	6.3%	3.8%
Projected Target										$414,500	Increase: 5.0%	
All Clinics n	131	133	143	159	190	209	235	232	275	256		

Market Data – 10 yr. Linear Trend

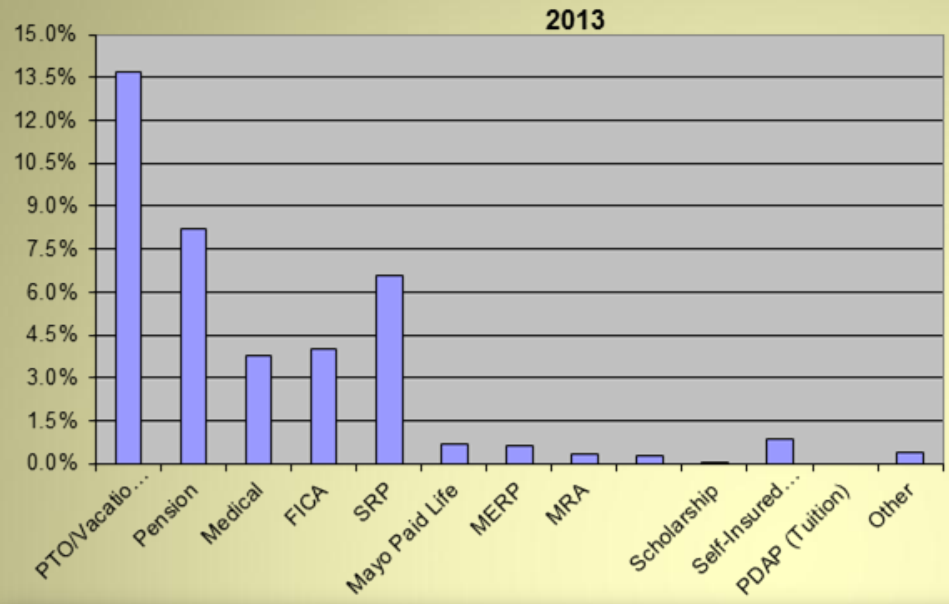


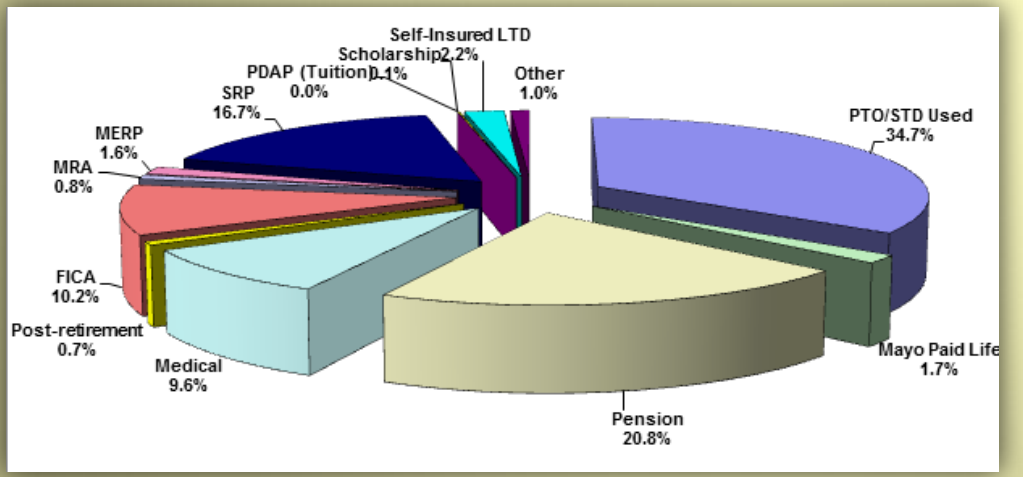
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Ave. annual growth 10yrs	Last yrs growth
Specialty Target	$425,000	$440,000	$463,218	$478,000	$478,000	$507,750	$515,500	$532,250	$545,000		3.2%	2.4%
Market P70	$424,067	$446,485	$483,587	$498,492	$593,645	$521,983	$559,010	$508,849	$524,473	$521,538	2.3%	-0.6%
Projected Target										$553,500	Increase: 1.6%	
All Clinics n	124	127	132	121	154	148	131	133	135	132		

Leadership Pay

- Salary increments given for leadership
  - Department Chair
  - Executive Dean (Practice, Education, Research)
  - CEO, CAO, CFO
- Increments based on size of the department or group
  - *Not* taken away when you step down from the position
  - Removes financial disincentive to step down
  - Encourages rotational leadership

Benefits (~40% of Salary)





- ✓ Paid Vacation and Trips
  21-35 vacation; 18 trip (paid away plus $14,000 for professional travel expenses)
- ✓ Pension (three parts)
  Defined Benefits Plan
  Defined Contribution Plan
  Supplemental Retirement Plan
  ~$120,000/yr.
- ✓ Medical Insurance (Includes Air Evacuation)
  Medical Expense Reimbursement Plan
  Dental/Orthodontics/Out of Network Costs)
  Medical Reimbursement Plan
  (Dental/Vision/Hearing Aid)
  ~ $20,600/yr.
- ✓ Scholarship for kids ($3000/yr.)
- ✓ Self-Insured (professional liability)
- ✓ Survivor benefit; AD&D ~$3500/yr.
- ✓ Professional Development Assistance Program – dues, books ~$2200/yr.
- ✓ Income Tax Preparation, Parking, Emeritus benefits ~$700/yr.
- ✓ Office of Staff Services
- ✓ Editors, graphics for publications

MAYO CLINIC

Money Is Not The Best Motivator (Forbes 2010)

"There is little relationship between pay and job or pay satisfaction"
Judge, et. al. *J. Voc. Behavior*, 2010, p.157-167

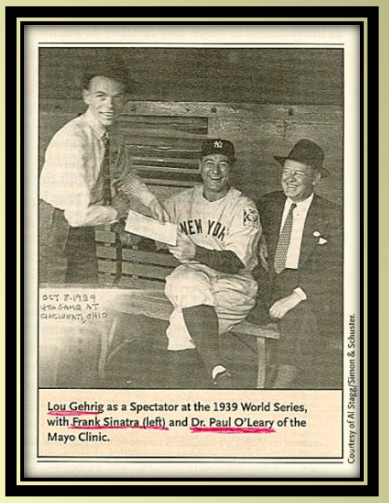
Paul O'Leary Chair Dermatology 1924-1953

Founder & President ABD, AAD, etc….

World Series (1939); Frank Sinatra, Lou Gehrig and Dr. Paul O'Leary

Luckiest Man: The Life and Death of Lou Gehrig (2005)

"Letters between Lou Gehrig and Paul O'Leary, a renowned dermatologist and expert in syphilis; O'Leary was charming enough to be the designated physician for celebrity patients."



Mayo Dermatology 1950

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