TOPIC: University of Maryland, Baltimore: Amendment of Medical Service Plan

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: March 12, 2015

SUMMARY: In 1983, the Board of Regents approved a policy titled “Medical Service Plan” (Plan). This request concerns the first proposed substantive amendment of the Plan.

The Plan, requested by UMB, approved establishment of a number of tax-exempt organizations with the primary purpose of supporting the School of Medicine (School) by managing clinical faculty medical practices, billing third party payors for medical services provided by School faculty, and managing faculty practice revenues. Consistent with the Plan, revenues from billable clinical activity have been applied to faculty salaries, costs of faculty fringe benefits, operating costs of faculty medical practices, and donations for the School’s benefit to support educational missions. The Plan has enabled the School to attract, support and retain a strong full time clinical faculty without relying solely on State funds for faculty support. Before the Plan’s adoption and implementation, the School historically had a large complement of part-time faculty with limited availability for patient care and education at the University of Maryland Hospital.

The President of UMB is responsible for oversight of the Plan on behalf of the University. An umbrella organization, University of Maryland Faculty Physicians, Inc. (FPI), and tax-exempt clinical practice groups set up along the lines of clinical specialty departments or interdepartmental clinical practices (for example, the Cancer Center faculty) are authorized by the Plan. A current list of the Plan organizations and a copy of the Plan as amended to date are attached. The Dean of the School is a board member of FPI, and currently is FPI’s President.

Consistent with Internal Revenue Service requirements related to the tax-exempt status of the Plan organizations, faculty physician compensation from the Plan organizations is subject to the authority of the Dean of the School of Medicine and the approval of the President of UMB.

Business operations of the Plan organizations are carried out independent of State and University administrative systems, as intended by the Plan. The Plan organizations bear a substantial part of the cost of both salaries and fringe benefits for School clinical faculty. The Plan does not address or authorize employment of non-faculty physicians by Plan organizations.

Because of FPI’s expertise in management of medical practices, the School recommends that the Plan be amended to add to its purposes establishing and working with tax-exempt health care practices that are not faculty practices. Through business relationships with FPI and Plan organizations, as well as academic relationships with the School, affiliated health care organizations that are community-based can improve their management practices and operating efficiencies. Relationships with FPI and the School can lead to recruitment and retention of high quality physician and allied health staff in community practices, education opportunities for medical and allied health professionals who are not faculty of the School, and development of community based education opportunities for School students and other trainees.
UMB seeks the Board’s approval for an amendment of the Practice Plan to add a new purpose clause to read as follows:

To encourage the School, with UMB’s approval, to work through the organizations created pursuant to this Plan to develop and maintain relationships with other tax-exempt health care organizations, as well as establishing and coordinating networks of community physicians and/or other clinicians, in order to support Maryland health care policy and School missions.

A copy of the Plan, as amended to date, and showing the proposed change on page 5, is attached to this agenda item.

**ALTERNATIVE(S):** Not amending the Plan, and limiting Plan activities to the faculty practice activities specified in the Plan as adopted. This is not recommended, as it would prevent UMB and the School from relying upon the Plan organization to enter into business relationships with other organizations as approved by UMB to support health care delivery in Maryland and fulfillment of education missions.

**FISCAL IMPACT:** No direct fiscal impact to UMB or the School is anticipated.

**CHANCELLOR’S RECOMMENDATION:** That the Finance Committee recommend that the Board of Regents approve the above-stated amendment of the Medical Service Plan.

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**COMMITTEE RECOMMENDATION:**

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**BOARD ACTION:**

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**SUBMITTED BY:** Joseph F. Vivona (301) 445-1923
UNIVERSITY OF MARYLAND
SCHOOL OF MEDICINE

MEDICAL SERVICE PLAN

Revised, November 9, 1982

Approved by Board of Regents

June 17, 1983

Amended May 3, 1991

Amended October 26, 1991

Amended October 7, 1994

Amended November 22, 2011

Amended (Substantive), 2015
APPROVED BY: Executive Committee November 29, 1982

School of Medicine Council December 13, 1982

Office of the Attorney General May 20, 1983

University of Maryland Board of Regents June 17, 1983

NON-SUBSTANTIAL AMENDMENT: May 3, 1991

NON-SUBSTANTIAL AMENDMENT: October 26, 1991

NON-SUBSTANTIAL AMENDMENT: October 7, 1994

NON-SUBSTANTIAL AMENDMENT: November 22, 2011
NOTE: THIS IS A REVISED TEXT OF THE 1983 MEDICAL SERVICE PLAN. REFERENCES TO A POINT IN TIME (E.G., “NOW”) REFER TO 1982-1983. PROPER NOUNS ARE CURRENT FOR 2015; UPDATES ARE INDICATED IN FOOTNOTES.

INTRODUCTION

The current and projected growth of the University of Maryland School of Medicine (School) is dependent on strong basic science and clinical departments. The faculty must have the interest, time and freedom to promote excellence in patient care, teaching, research, administration and academic growth.

A successful medical school has both a full-time and part-time clinical faculty. Each is essential. A large full-time clinical faculty is necessary for the tutorial system of teaching that is required in the clinical years. However, it is generally recognized that the University System of Maryland (USM),¹ as most other universities, cannot create competitive, hard money salaries for an entire full-time clinical faculty. Clinical departmental chairmen and some members of the clinical departments must be free of many of the responsibilities of day-to-day patient care and the necessity to earn a living from private medical practice. Since some patient care is essential for teaching and the development of academic excellence, and since fees are available to health care providers as the result of these services, it is common practice for this income to be used for partial support of clinical faculty and to enhance the growth and academic status of the clinical departments and the medical school. However, if faculty members are to have the time and freedom to meet their academic responsibilities, monetary incentives must be controlled and the

¹ Formerly University of Maryland System.
motivation for practice must be based on the need for continued academic growth in patient care, teaching and research. For these reasons, a revised practice plan to update the current Medical Service Plan (MSP or Plan) is essential for the clinical faculty of the School. This Plan develops faculty affiliations in the form of departmental corporations or professional associations (Participants) and a coordinating corporation whereunder the faculty can most effectively function as an academic community, yet effectively expend funds derived from professional fees for service. Fundamental to this Plan is the philosophy that the Dean of the School and the chairmen of all basic science and clinical departments in the School shall utilize the Plan in mutual cooperation and for the mutual benefit of the School and the University of Maryland Medical System (UMMS). In so doing, a closer relationship should develop between the faculty of the basic science and clinical departments. It is not intended, however, that this Plan should interfere with the status or the freedom of the voluntary faculty.

The purposes of this Plan are:

1. To attract and retain high quality faculty to teach, do research and engage in patient care.

2. To enable faculty of the School to maintain their skill as health care providers in addition to their duties as teachers and researchers.

3. To encourage and assist each clinical department to develop and mature within itself in relation to other departments so that the full clinical potential of the School and UMMS can be reached.

4. To assist the department chairmen in utilizing their personnel, space and finances
such that all departmental functions and duties are carried out in the most efficient manner.

5. To assist the faculty in understanding and influencing outside economic forces such as third-party carriers, governmental agencies and public, regarding health care provided by the faculty of the School.

6. To create a mechanism wherein competitive fringe benefits and amenities are provided to each faculty member.

7. To encourage the School, with UMB’s approval, to work through the organizations created pursuant to this Plan to develop and maintain relationships with other tax-exempt health care organizations, as well as establishing and coordinating networks of community physicians and/or other clinicians, in order to support Maryland health care policy and School missions.

SUCCESS TO DATE

Since 1972, the Medical Service Plan of the School has grown in importance to the School and the academic departments and has become a significant source of salary and operating support. In one form or another the Plan has been in existence for approximately 30 years. The concept set forth in the original Plan was that faculty members would be primarily geographic full-time appointees in the School, that is, an appropriate part of the salary income would be paid by the School for teaching and research, an appropriate payment should be made by UMMS for the work of physicians in maintaining the health care capacity of UMMS and the supervision of housestaff, and the remaining part of the salary would be generated from clinical practice fees—or would not...
be received. USM is now convinced that this geographic full-time appointment with the setting of total salary by the University is the preferred arrangement and the new Plan will maintain the best parts of the “1972 Plan.” The Plan encourages the faculty to devote full time to support the tripartite mission of the School: education, service, and research. At the heart of the successful operation of the Plan is the maintenance of the incentive of the individual faculty physician to maintain high quality clinical competence, to charge professional fees in accordance with a specific professional service rendered, and the provision of a financial reward commensurate with his overall performance and contribution to the School and UMMS.

The current Plan places the professional fees that are earned by the provider as one part of his designated total salary and includes definite arrangements for additional earnings to be utilized to improve the teaching and research of the School. This current situation, which endeavors to provide adequate compensation to attract and retain the highest caliber of clinical faculty, represents a cooperative partnership relationship that is enhanced by the revised [1983 and later] Plan.

FACULTY APPOINTMENTS IN CLINICAL DEPARTMENTS

1. Full-Time

A full-time faculty member, as described under Clinical Departmental Organizations, is one who devotes all of his/her time and professional effort to the School and UMMS or to one of the affiliated teaching hospitals, provided the appointment does not conflict with the regulations of the affiliated hospitals. He/she engages primarily in the academic and medical service program and, in
making his/her professional contribution, may develop a private practice within the University of Maryland Baltimore (UMB)\(^2\) and UMMS facilities, or at an affiliated hospital, in accordance with the system defined by this revised Plan. The academic program takes precedence over other responsibilities assumed by the full-time faculty member. A full-time faculty member receives an approved salary, set by the University. A full-time faculty member in a clinical department who provides and bills for direct patient care, must participate in this Plan.

2. **Part-Time**

A part-time faculty member is one who devotes a portion of his/her time to a private practice outside of UMB, UMMS, or an affiliated hospital, but who also may devote a portion of his/her time to private practice within UMB, UMMS or an affiliated hospital. A part-time faculty member of a clinical department who receives a salary approved by UMB which includes a required practice income component must participate in this Plan with respect to private practice within UMB and UMMS or the affiliated hospitals.

**FACILITIES AND OPERATIONAL SUPPORT**

UMB, through the School and/or UMMS, will supply all full-time faculty members with:

1. Necessary facilities and personnel to carry out School and UMMS functions within the available resources.

2. Research space for productive faculty members.

\(^2\) Formerly University of Maryland at Baltimore.
3. Teaching facilities.

These facilities and operational support may be supplied to part-time and volunteer faculty members, at the discretion of the Department Chairman.

If departmental funds are available from professional fees, these funds may be used in the interest of improving medical education or patient care in this institution. These funds may be used to supplement departmental personnel or to provide other necessary items within the department when such funds are not available through the UMB budget or while waiting for the establishment of these funds within the University budgetary system.

CLINICAL DEPARTMENT ORGANIZATIONS

The faculty of each clinical department shall practice as a group so that funds derived from professional fees will benefit the department in accordance with the Participant’s Agreement with University of Maryland Faculty Physicians, Inc. (FPI).\(^3\) (See AGREEMENTS.) As the Plan is developed, programs may be functionally defined and treated as departments for Plan purposes.

Within the framework of this Plan professional fee income for faculty members shall be considered to include all fees generated in the care of patients and all other professional fees earned with the exception of the following:

1. Honoraria, royalties, editorial fees, patent fees and lecture fees.

2. Consultation fees as a regional or national consultant to a branch of the United States Government or other governmental agencies, when mutually agreed upon by the Department Head and Dean of the School.

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\(^3\) Formerly University Physicians, Inc.
3. Fees from non-recurring, non-patient consultations.

DISBURSEMENT OF PROFESSIONAL FEE INCOME

Disbursements of professional fee income and other income shall be made in the following manner.

1. Medical School Development Funds

Funds available for institutional faculty development shall be deducted from the gross income and placed in the Medical School Enrichment Fund to be managed by the Dean for the operational support of the School and a Medical Service Plan Trust Fund to provide funds to FPI for special projects of UMB or FPI. The deduction for the Enrichment Fund shall be 7-1/2% of gross income; the deduction for the Trust Fund shall be 1-1/2% of gross income.

2. Cost of Practice

The remainder of the funds shall first be used to pay the normal operating expenses incurred by clinical faculty, departments or by FPI in the earning of professional fees and the payment of required practice income, standard fringe benefits, malpractice insurance, etc. Required practice income is the practice component of total salary; both total salary and the constituent amounts are approved by UMB. Normal operating expenses must be consistent with Internal Revenue Service guidelines applicable to business expenses of tax-exempt organizations.

3. Balance of Professional Fee Income

The balance of the professional fee income, after payment of distributions to the
Medical School Development Funds and for costs of practice expenses, shall be allocated and paid to the following Participant accounts:

a. At least 50% of the balance to the Department Development Fund Account - to support the education and research mission of the department, and

b. Up to 50% of the balance to the Incentive Practice Income and Fringe Benefit Account -- for incentive practice income and supplemental fringe benefits.

FACULTY INCOME

The income of paid clinical faculty members shall be determined annually, subject to the available funds and specific recommendations of the Department Head, with approval of the Dean of the School and the President of UMB (President).

1. **Base salary** from State appropriations or from other UMB-administered funds other than Required Practice Income. The base salary of each faculty member shall be determined annually upon the recommendation of the Department Chairman with the concurrence of the Dean and the President.

2. **Required Practice Income** from professional fee income. Each faculty member’s level of augmentation from professional fees shall be determined annually upon the recommendation of the Department Chairman with the concurrence of the Dean and the President. The base salary assures the School and UMMS an adequate coverage of instruction, research, administrative, and appropriate medical service assignments. In a complementary way, the faculty member is protected from the
pressures of patient care. It is recognized that no single ratio is applicable to all departments, or to all divisions within a department. Considering these appointments from a fiscal point of view, it appears that the estimates of the ratio of required practice income to base salary can only be made on the basis of past experience and that there will be need for adjustments from year to year to conform to new experiences.

In determining the ratio of base salary and required practice income, guidelines for evaluation are the faculty member’s contributions to

1. Medical education
2. Patient care
3. Research
4. Administration

with appropriate consideration of his/her time in UMB service and exceptional value to the institution in the form of committee memberships, consultancies, recruitment and similar activities.

In addition to the annual income from base salary and required practice income, a clinical faculty member may receive an incentive practice income as noted in the section on DISBURSEMENT OF PROFESSIONAL FEE INCOME.

BASIC FRINGE BENEFITS

Competitive fringe benefits will be provided to all faculty members and shall be based
upon the entire salary received by the faculty member. For required practice income (RPI) paid through the UMB payroll system, the State fringe benefits, including retirement benefits, will be available and provided through practice income.\(^4\) For salary paid directly by the Participants or FPI, the fringe benefits which will be provided will be complementary with the State benefits and competitive with benefits of similar organizations.

**UNIVERSITY OF MARYLAND FACULTY PHYSICIANS, INC.**

A non-profit corporation (University of Maryland Faculty Physicians, Inc. or “FPI”) shall be established outside USM/UMB system, maintained jointly by the clinical departments, to coordinate (alone or with the assistance of one or more separately formed corporations) the provision of professional care and the billing and collecting of clinical practice fees.

FPI shall be developed to serve as the coordinating corporation and to implement this Plan. The Dean of the School, with the consent of the President, will develop the necessary agreements to carry out the tasks of the Plan and thereby provide services to the community.

**AGREEMENTS**

At the option of the Dean with the consent of the President, agreements may be developed between FPI and any of the organizations listed below:

(a) the School;

(b) UMMS; or

(c) any of the Participants

\(^4\) State laws and benefit plans relevant to benefits may apply and may not be consistent with the Plan. The law and the State plans will prevail in the event of conflicts.
to state the relationships between the various parties.

The agreements will describe services provided by or to the others, the flow of funds for faculty and other personnel, facility usage, and other expenses incurred by one on behalf of the others. The agreements will require FPI and the Participants to obtain annual audits of their respective fiscal affairs by independent certified public accountants. Each audit shall be in sufficient detail to allow one to ascertain the purposes of expenditures including the assurance that expenditures, and especially transfers to USM or UMB, are made in accordance with the Plan. The audits may be examined by the USM Chancellor (Chancellor), the President, or the Dean, upon request.

The agreements shall also describe the salary support for teaching, administration, and supervision, including the method by which salaries are set by the Dean with the approval of the President. The total salary is made up of a base salary and a required practice income component. The agreements will establish the approval process for the payment of incentive practice income.

Pursuant to the agreements, each Participant will function according to an approved organizational and operating structure relating to all matters, including but not limited to membership requirements, financial and management audit requirements and dissolution plans. The agreements with the various Participants shall define part-time and full-time faculty terminology and establish common language for all faculty employment contracts with the Participants, compatible with the School faculty contract.

The agreements implementing this Plan shall be made between FPI, the School and UMB, FPI and UMMS, and FPI and each Participant. The Chancellor or his designee shall act as the
USM signatory for all such agreements.

FPI’s Articles of Incorporation, By-Laws, and amendments thereto must be recorded and approved by the President and Chancellor and must be in conformity with the Plan. The Participants’ Articles of Incorporation and By-Laws must be recorded with FPI and must be in conformity with the Plan. Any proposed changes must be submitted to FPI and must also be in conformity with the Plan. To avoid possible confusion or misrepresentation to the general public, all correspondence, billing, and other activities in the name of a Participant or FPI shall be clearly identified as an activity of that entity.

AMENDMENTS

Operational amendments to the Plan shall be made by the Dean with the approval of the Executive Committee of the School of Medicine Council, the President, and the Chancellor. Amendments that substantially change the Plan will be submitted to the USM Board of Regents for approval.

TERMINATION

This Plan may be terminated by the Board of Regents after 18 months notice.