University of California
Clinical Enterprise Management Recognition Plan 2 (CEMRP2)
For Plan Year July 1, 2016 through June 30, 2017

The University of California Clinical Enterprise Management Recognition Plan 2 ("Plan") is governed by *Personnel Policies for Staff Members 34 (Incentive and Recognition Award Plans – Managers & Senior Professionals and Professional & Support Staff)*.

Plan Purpose

The purpose of the Plan is to provide the opportunity for at risk variable financial incentives to those employees below the Senior Management Group level responsible for attaining or exceeding key Clinical Enterprise objectives. Achievement is measured based on specific financial and/or non-financial objectives, e.g. quality of care or patient safety, and strategic objectives which relate to the Clinical Enterprise's mission.

The Plan encourages the teamwork required to meet challenging organizational objectives. The Plan also uses individual performance objectives to encourage participants to maximize their personal effort and to demonstrate individual excellence.

Plan Oversight

Development, governance, and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President–Business Operations
- Chancellor of every campus with a medical center
- Vice President–Human Resources
- Executive Director–Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, will consult with the Executive Vice President (EVP) – UC Health, and representatives from the medical centers comprised of a Chief Medical Officer, a Chief Nursing Officer, and a Chief Human Resources Officer each selected from a UC medical center. The Senior Vice President – Chief Compliance and Audit Officer will assure that periodic auditing and monitoring will occur, as appropriate.

Plan Approval

The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. Once approved by the President of the University, the Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changes in the award opportunity levels, the AOC will obtain the approval of the President before implementing such changes. Reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the end of the current Plan year. However, if changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC

after consultation with the President and will then be implemented by the AOC at an appropriate time. The President will receive reports of all changes to the Plan.

Chancellors have authority to modify certain features of the Plan for their locations, as set forth below. If a Chancellor chooses to make any of the permissible modifications identified below, a local version of this Plan Document ("Local CEMRP2 Plan Document") will be prepared that reflects those modifications but is otherwise consistent with this CEMRP2 Plan Document. The Chancellor will obtain AOC's approval of the Local CEMRP2 Plan Document prior to implementation. Once a Local CEMRP2 Plan Document is approved by the AOC and implemented at a location, it will govern the administration of CEMRP2 at that location.

Plan Year

The Plan year will correspond to the University's fiscal year, beginning July 1 and ending the following June 30.

Eligibility

Employees in the following classifications who make contributions that enable their medical center to attain or exceed key Clinical Enterprise objectives are eligible to participate in the Plan:

- Managers and Senior Professionals (MSP)
- Professional and Support Staff (PSS)
- Exclusively represented employees, provided that their applicable collective bargaining agreements do not prohibit Plan participation

Employees in the foregoing categories may participate regardless of their appointment type unless the Chancellor has elected to restrict participation to employees in particular types of appointments at the location in Local CEMRP 2 Plan Document. Senior Management Group (SMG) members are not eligible to participate.

Participants must have at least a "Meets Expectations" overall rating on their performance evaluation for the Plan year to be considered for an award under the Plan. (*PPSM 23* requires that written performance evaluations be completed annually.) A manager may reduce an award according to the participant's overall performance rating. However, an overall performance rating below "Meets Expectations" will eliminate the total award for that participant.

Participants must be employees of the University at the end of the Plan year to be eligible to receive an award for that Plan year, unless they have retired or involuntarily separated from the University as set forth in the Separation from the University provision below.

A participant who has been found to have committed a serious violation of state or federal law or a serious violation of University policy at any time prior to the distribution of an incentive award will not be eligible to receive an incentive award for the Plan year. If such allegations against a participant are pending investigation at the time of the incentive award distribution, the participant's award for that Plan year may be withheld pending the outcome of the investigation.

Likewise, when it has been determined that a participant's own actions or the participant's negligent oversight of other University employees played a material role in contributing to a serious adverse development that could harm the reputation, financial standing, or stability of the participant's Medical Center (*e.g.*, the receipt of an adverse decision from a regulatory agency, placement on probation status, or the adverse resolution of a major medical malpractice claim), the AOC has the discretion to decide that the participant will either not be eligible for an award under the Plan that year or will receive an award that has been reduced as a result of and consistent with the participant's role with regard to the adverse development. If the participant's role with regard to the adverse development is still under investigation at the time of award distribution, the participant's award for that Plan year may be withheld pending the outcome of the investigation.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

Participants in this Plan may not participate in any other incentive plan during the Plan year, including the Health Sciences Compensation Plan, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University incentive plan for the other portion of the Plan year. Concurrent participation in this Plan and another University incentive plan is not permitted.

Prior to the beginning of the Plan year, each location's Chief Human Resources Officer (CHRO) will submit a spreadsheet to the AOC that provides a detailed summary of information regarding the population eligible to participate in the Plan at their location. The Executive Director–Compensation Programs and Strategy will provide the template for the CHRO to use.

Award Opportunity Levels

As part of their competitive total cash compensation package, Plan participants are assigned Threshold, Target, and Maximum Potential award opportunity levels, expressed as a percentage of their salary. These award opportunity levels serve to motivate and drive individual and team performance toward annually established objectives. Target award opportunity levels will be calibrated to expected results while Maximum Potential award opportunity levels will only be granted for superior performance against established performance standards.

A participant's award opportunity level will depend on the tier to which the participant is assigned. Each location will determine which tier in the table below applies to each participant based, in part, on the participant's position within the organization, the relative scope of the participant's responsibilities, and the potential impact of the participant's decisions. The award opportunity levels shown in the table below for Threshold, Target, and Maximum Potential represent the highest award opportunities available for each level of performance for the participants in each tier.

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Chancellors may elect to establish award opportunity percentages for Threshold, Target, and Maximum Potential award opportunity levels, at their location, that are lower than those stated in the table below if they implement a Local CEMRP2 Plan Document.

Chancellors may also elect to state Threshold, Target and Maximum Potential award opportunity levels in terms of flat dollar amounts instead of percentages at their location if they implement a Local CEMRP2 Plan Document.

Actual awards to individual Plan participants may not exceed the levels stated in the table below for the Plan participant's tier and actual performance level during the Plan year. A Plan participant's tier may be amended during the Plan year if the participant changes positions within the organization and the new position has a higher or lower tier. The participant's new position must be eligible to participate in the Plan for the tier to be adjusted. In the event of such a transfer, the participant's actual award should be adjusted in accordance with the changes in tier and salary, taking into account the amount of time spent in each position (tier).

Position within Organization	Threshold Opportunity (as % of Salary)	Target Opportunity (as % of Salary)	Maximum Potential Opportunity (as % of Salary)
Tier A	5%	10%	15%
Tier B	4%	7.5%	10%
Tier C	2%	3.5%	5%

For the purpose of calculating awards using the table above, "salary" is defined as a participant's annual base salary, unless the Chancellor elects to adopt a broader definition of salary for that location. Specifically a Chancellor may choose to include other components of compensation (e,g., stipends) in the definition of "salary," provided that a uniform definition is used for all participants at that location.

Chancellors may elect to permit concurrent participation in this Plan and a University recognition award plan if they implement a Local CEMRP2 Plan Document. However, a participant's combined award amount (cash awards under this Plan and the recognition award plan) for a Plan year may not exceed the Maximum Potential Award opportunity level of the Plan participant's CEMRP2 Tier." Awards are calculated on the salary in effect on June 30 of the Plan year.

Performance Standards

Each Plan participant will be assigned Performance Objectives which have standards of performance defined as Threshold, Target, and Maximum Potential performance consistent with the following:

Threshold Performance – Represents the minimum acceptable performance standard for which a recognition award can be paid. This level represents satisfactory results, but less than full achievement of stretch objectives.

Target Performance – Represents successful attainment of expected level of performance against stretch objectives.

Maximum Performance – Represents results which clearly and significantly exceed all performance expectations for the year. This level of accomplishment should be rare.

Performance Objectives

Prior to the beginning of each fiscal year, financial and/or non-financial objectives will be established consistent with the mission and objectives of each medical center in the Clinical Enterprise. Each Plan participant should be assigned an overall minimum of three performance objectives that fall into the categories below. It is recommended that no more than three objectives be established per category utilized, with no more than nine objectives in total per participant. Objectives should each relate to one of the following:

- Financial Performance
- Quality Improvements
- Patient Satisfaction
- Key Initiatives in Support of the Strategic Plan
- People and other Resource Management

In addition, the participants' performance toward their assigned objectives will be measured across three organizational levels, when appropriate: Institutional (defined as the participant's medical center), Departmental (defined as the participant's department), and Individual. Institutional objectives encourage cross-departmental teamwork and recognize the joint effort needed to meet challenging organizational objectives. Departmental objectives encourage team and individual effort. Individual objectives are designed to encourage participants' maximum effort and demonstration of individual excellence. Each location may establish weightings for each of these three organizational levels to properly align participants' efforts with the clinical objectives.

Annual objectives at the Institutional level will be established and administered by the individual CEOs of each medical center in consultation with their Vice Chancellors–Health Sciences and/or Chancellors. Objectives at the Departmental level will be established by the CEO's cabinet members. Objectives at the individual level will be established and administered by each participant's supervisor in consultation with the appropriate cabinet member.

Objectives must be established for each participant in advance of or shortly after the beginning of the Plan year. Objectives must be specific, measureable, and stretch. Assessment of participants' performance and contribution relative to these objectives will determine their actual award amount. The Chief Human Resources Officer will be responsible for monitoring the

objectives for their location's participants to ensure they are established in a timely manner and that they represent stretch objectives.

The AOC will periodically request that the Senior Vice President – Chief Compliance and Audit Officer, in an independent advisory capacity, review a sampling of Plan participants' objectives to ensure that objectives are being set appropriately.

Financial Standards and Plan Funding

A financial target will be set by each medical center for the Plan year. These financial targets will be reviewed by the AOC in consultation with the Executive Vice President (EVP) – UC Health and the Executive Vice President and Chief Financial Officer, and approved by the President in advance of the beginning of the Plan year.

Full funding of awards for participants at a medical center in the Plan year is contingent upon that medical center's ability to pay out the awards while maintaining a positive net cash flow from operations before intra-institutional transfers. In the event that the medical center cannot meet that financial standard for the Plan year, but the medical center attains key Institutional non-financial objectives, the AOC may consider and approve, in consultation with the Chancellor and Senior Vice President–Health Sciences and Services, partial award payouts for some or all of that medical center's Plan participants based on the Award Opportunity Levels defined above and participants' achievement of their assigned objectives for the Plan year.

Administrative Provisions and Award Approval

The Plan will be administered under the purview of the Executive Director–Compensation Programs and Strategy, at the Office of the President, consistent with the Plan features outlined above, and as approved by the President. The Plan features and provisions outlined in this document (or the Local CEMRP2 Plan Document, if applicable) will supersede any other Plan summary.

The assigned Description of Service (DOS) code of "XCI" specific to this Plan **must** be used when paying awards to employees.

The supervisor of each Plan participant will provide him/her with an annual Terms and Conditions document that (a) identifies the participant's individual performance objectives for the Plan year, (b) defines the standards that will be used to measure Threshold, Target, and Maximum Potential performance for each objective, and (c) assigns any performance weightings to the participant's objectives. The Terms and Conditions document should state that administration of the Plan is governed by this Document (or the Local CEMRP2 Plan Document, if applicable) and should either attach a copy of or provide the web address for this Document (or the Local CEMRP2 Plan Document, if applicable).

At the end of each fiscal year, the CHROs will update the participant spreadsheet previously submitted to the Executive Director–Compensation Programs and Strategy to reflect each participant's proposed award and the overall performance rating they received on their most recent performance appraisal. Award recommendations must be

approved by the CEO and Chancellor, prior to being submitted to the Executive Director–Compensation Programs and Strategy for presentation to the AOC for final approval. If any participants become eligible to participate in the Plan after the start of the Plan year, they should be included on this spreadsheet with a notation indicating that they were not included on the spreadsheet submitted at the beginning of the Plan year.

Review and approval of all awards under the Plan will be the responsibility of the AOC, which will review recommended awards within 60 days of the end of the Plan Year. Approved awards will be processed as soon as possible unless they have been deferred pursuant to the provision set forth below. The AOC will consult the Senior Vice President–Chief Compliance and Audit Officer in an independent advisory capacity during its review of proposed awards.

The Executive Director–Compensation Programs and Strategy will provide the President with an analysis of the award recommendations before the awards are scheduled to be paid. The awards will be reported annually to the President and/or the Regents consistent with applicable reporting requirements.

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The University will not place restrictions or conditions on an employee's use of any cash awarded under this Plan. As explained in the Award Opportunity Levels provision above, awards will be based on each participant's salary. "Salary" is defined as a participant's annual base salary unless the Chancellor has elected to use a broader definition of "salary" for the location as stated in the Local CEMRP2 Plan Document

This Plan may be terminated or replaced at any time for any reason by the President, in consultation with the AOC and the Executive Vice President (EVP) – UC Health. Reasonable efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, awards for the current year will still be processed based on participants' performance during the portion of the Plan year prior to termination.

Notwithstanding any other term in the Plan, current year awards may be deferred if the Regents issue a declaration of extreme financial emergency upon the recommendation of the President or if the Clinical Enterprise experiences a system-wide negative cash flow. In such situations, the deferral would be made upon the recommendation of the AOC and require the approval of the President. In such a case the deferred awards will earn interest at the Short Term Investment Pool (STIP) rate. Award payments that have been approved, but deferred, will be processed and distributed as soon as possible. In no event will awards be deferred longer than one year.

The University may require repayment of an award that has been made as a result of inappropriate circumstances.

Separation from the University

Participants who retire or who involuntarily separate due to reorganization, restructuring, or total disability during the current Plan year are eligible to receive a prorated incentive award for the

current Plan year based on the date of separation from the University. Retirement and total disability status will be determined based upon applicable University policies. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.

Participants whose employment terminates as a result of death during the current Plan year are similarly eligible to receive a prorated incentive award for the current Plan year based on the date of death. In this situation, award payments will be made to the estate of the deceased participant. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.

Involuntary separation during the current Plan year for any other reason will be handled on a case by case basis.

Partial Year Awards

Participants must have a minimum of six months of service to participate in the Plan and will receive a prorated award in their first year of participation. Similarly, participants who were not working for a significant portion of the Plan year may receive a prorated award. Participants who transfer within the University to a position that would not be eligible for participation in the Plan are eligible to receive a prorated award for that Plan year.

Treatment for Benefit Purposes

Incentive awards under this Plan are not considered to be compensation for University benefit purposes, such as the University of California Retirement Plan or employee life insurance programs.

Tax Treatment and Reporting

Under Internal Revenue Service Regulations, payment of CEMRP2 incentive awards must be included in the employee's income as wages subject to withholding for federal and state income taxes and applicable FICA taxes. The payment is reportable on the employee's Form W-2 in the year paid.