Top 5 Current Trends in Healthcare Executives’ Compensation
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A Fellow of the American College of Healthcare Executives and a popular program speaker, Ms. Greeter is frequently engaged by highly respected organizations across the nation to speak to health systems, medical groups, legal associations, and other healthcare constituents.
Overview
The healthcare industry continues to evolve; and, as a result, so, too, does executive compensation. As organizations move toward greater accountability, increased focus on value, and alignment of resources, there are definite changes within the clinical, operational, and financial aspects of care delivery. Likewise, these same factors drive changes to the structure and value of executives’ compensation.
The top five current trends in healthcare executives’ compensation include:

1. Emphasis on Gender Equality
2. Consideration of the Entire C-Suite
3. Increased Board Involvement
4. Utilization of Incentive Payments
5. Assessing Executive vs. Employee Compensation

In the following pages we will take a closer look at these dynamic trends.
Emphasis on Gender Equality
Gender equality is a hot topic in today’s workplace environment. The healthcare industry has already experienced changes in terms of how clinical care is delivered, with an increasing emphasis on safety, privacy, and protection. Now, differences in compensation based on an executive’s gender are also under greater scrutiny.

Interestingly, women make 80% of healthcare buying decisions and comprise 65% of the healthcare workforce. As a result, we can extrapolate that much of the healthcare industry is in the control of women. Somewhat surprising, then, is that women comprise only 13% of hospital CEOs. Further, compensation for females remains at approximately 85% of that of their male counterparts in equivalent positions. So, while women are incredibly influential within the broader healthcare industry, variances continue in terms of developing the potential of female leaders, promoting competent women to executive roles, and creating compensation parity between female and male peers.
Interesting fact: A study published by EY revealed that across all industries, there are more CEOs named John than there are all women combined. Thus, it is not only healthcare that experiences this expansive gap between the number of female versus male chief executives. Facts such as these continue to underscore the need to recruit and retain top talent, regardless of gender.
We see this emphasis on gender equality beginning to impact executive compensation in several ways. Most notably, making comparisons to market benchmarks and peer company compensation is becoming normative behavior when reviewing all executives’ compensation. Whether a single hospital or a national health system, when it comes to compensation, organizations that consider industry standards and similar companies are more successful in balancing role and performance, rather than opportunity and gender.
For example, look no further than Washington Hospital Healthcare System, which publishes its Board of Directors’ *Approach to CEO Compensation* on its public website. The health system has a female CEO, Nancy Farber, and made publicly available her then-current base salary ($840,320) but more interestingly, how it compares to market benchmarks (i.e., 3.29% below the 65th percentile of industry comparables). Additionally, the website shares the Board’s specific compensation philosophy:

*The District has a long-standing philosophy of wage parity for all employees, which includes the CEO. Wage parity means the CEO is not paid at the top of the scale, nor is she compensated towards the bottom. The District’s compensation philosophy of marketplace parity establishes a base salary for the CEO at around the 65th percentile of her peer group and total cash compensation for the CEO in the range of the 75th percentile of her peer group with a maximum possible “at-risk” award in the range of 20% of base salary. Benchmarking executive compensation based on peer group data is a standard practice for establishing reasonable compensation for executives working for non-profits. The District’s compensation philosophy not only reflects the District’s long-standing philosophy of wage parity for all employees but also acknowledges the CEO’s 30-plus years of experience as a health care executive.*
Finally, the website outlines the external review process the Board uses annually to ensure adequate and appropriate compensation. It is evident, in this example, how creating a compensation philosophy that focuses on market-driven base salary and total compensation helps ensure compensation is in line with the marketplace norms for executives’ compensation in similar organizations. Using both benchmarking and direct comparison to peers helps to eliminate any potential biases based on gender, and is an executive compensation method that is being used more widely than ever.
Consideration of the Entire C-Suite
Previously, CEOs were given the vast majority, if not the totality, of consideration when completing detailed executive compensation planning and reviews. However, with executive compensation rising, all members of the executive team (C-suite) warrant attention in terms of their compensation.

For example, consider two major U.S. health systems, HCA Healthcare and Tenet Healthcare. In 2018, the aggregated compensation of each organization’s top three leaders was over $59M (see individual values below in Figure 1).

<table>
<thead>
<tr>
<th>NAME AND TITLE</th>
<th>TOTAL COMPENSATION</th>
</tr>
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<tbody>
<tr>
<td><strong>HCA HEALTHCARE, INC.</strong></td>
<td></td>
</tr>
<tr>
<td>R. Milton Johnson, Chairman and CEO</td>
<td>$21,419,906</td>
</tr>
<tr>
<td>William Rutherford, Executive Vice President and CFO</td>
<td>$6,801,384</td>
</tr>
<tr>
<td>Samuel Hazen, President and COO</td>
<td>$10,006,950</td>
</tr>
<tr>
<td><strong>TENET HEALTHCARE CORPORATION</strong></td>
<td></td>
</tr>
<tr>
<td>Ron Rittenmeyer, Executive Chairman and CEO</td>
<td>$14,984,021</td>
</tr>
<tr>
<td>Dan Cancelmi, CFO</td>
<td>$3,026,544</td>
</tr>
<tr>
<td>J. Eric Evans, President of Hospital Operations</td>
<td>$2,944,122</td>
</tr>
</tbody>
</table>

These values, though only a snapshot of compensation in the industry, underscore the economic magnitude of executive compensation and highlight the reason more organizations are starting to pay closer attention to the entire cadre of C-suite executives. While not all organizations have executives compensated at the same dollar values as HCA and Tenet leadership, the relative expense for executives’ compensation is significant in nearly every organization.
Further, the evolution of physician executives continues to provide disruption in the traditional healthcare executive compensation arena. Data from 2,300 survey respondents indicate that emerging physician leadership roles (such as chief transformation officer, chief innovation officer, and physician-in-chief) had higher median compensation than that of the CEO/President.2

Thus, while the “big three” positions — CEO, CFO, and COO — have typically received the highest levels of compensation in healthcare organizations, this has begun to change. Moreover, there are additional roles that call for consideration, either because they are new to the organization and as a result, warrant further review, or because the compensation levels ascribed to them are rivaling, if not surpassing, that of the standard top three C-suite positions.
Increased Board Involvement
Board involvement in both the oversight and design of executive compensation plans has increased in recent years. Some of this is due to legal and regulatory matters, such as the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act, but it is also a reflection of evolving best business practices. Many organizations are approaching their compensation philosophy with an emphasis on defining its key components. This initiative is as true for community-based hospitals such as Washington Hospital Healthcare System, as previously discussed, as it is for national health systems such as Community Health Systems, Inc. (CHS).

As an example, CHS publishes the key principles of their executive compensation program, which are modified occasionally to remain consistent with best practices. Some of these principles include those listed in Figure 2, below.

**Figure 2. CHS’ Principles of Executive Compensation**

- **Pay for Performance** – A significant portion of compensation is in the form of at-risk variable compensation.

- **Multiple Performance Metrics** – Cash incentive compensation and performance-based restricted stock awards are based on multiple measures to encourage balanced initiatives.

- **Long-Term Performance Focus** – Half of the long-term equity awards are tied to three-year financial goals (for 2018, these were focused on adjusted EBITDA Growth and Adjusted EBITDA Margin Improvement).

- **Awards Caps** – All annual cash incentive compensation plans and performance-based restricted stock awards have caps on plan formulas.

- **Risk Assessment** – The Compensation Committee regularly assesses the risk levels of CHS’ executive compensation program.

- **Peer Group** – CHS uses a representative and relevant peer group in their compensation determination and evaluation.

- **Independent Expert** – CHS uses an independent compensation consultant to assess compensation and provide recommendations regarding structure and values.
The CHS Board created these principles to provide structure to the executive compensation review process, but also to ensure greater oversight in compensation design. By creating these specific parameters, it then becomes easier to adjudicate executives’ annual compensation and to make decisions regarding necessary changes. Beyond CHS, many organizations are now moving to a more formal definition of compensation principles, a process led by the Board.

A second way that Boards are increasing their involvement in executive compensation is through performance evaluations. According to a study by the American College of Healthcare Executives (ACHE), 82% of CEOs had some or all of their hospital or health system Board participate in their overall performance evaluation. The same survey demonstrates that for 43% of respondents, their performance review determined their salary, and for nearly an equal percentage (45%), their performance review determined the size of their incentive bonus.⁹

"Not only are Boards continuing to take an active role in CEO performance appraisals but also their work has a direct influence on the CEO’s compensation."
Utilization of Incentive Payments
Most organizations now include the opportunity for incentive payments for their CEO. According to a 2018 study, 76% of hospitals pay their CEO a bonus, with the average bonus being equal to 33.2% of the CEO’s base salary. In most organizations, the value of the incentive continues to increase, both in real dollar terms and as a percent of base salary.
While the metrics and corresponding baselines that ultimately determine a CEO’s bonus should tie to their organization’s individual needs and goals, ACHE reports the metrics that are most frequently linked to CEO incentive payments (see Figure 3, below).

<table>
<thead>
<tr>
<th>METRIC</th>
<th>% OF CEOs</th>
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<tbody>
<tr>
<td>Financial performance</td>
<td>69%</td>
</tr>
<tr>
<td>Patient satisfaction and/or engagement</td>
<td>66%</td>
</tr>
<tr>
<td>Clinical quality</td>
<td>65%</td>
</tr>
<tr>
<td>Safety of care</td>
<td>58%</td>
</tr>
<tr>
<td>Employee satisfaction and/or engagement</td>
<td>49%</td>
</tr>
</tbody>
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These overarching categories are exceedingly prevalent across the country, with many executives’ incentives based on specific measures that fall within them. The anticipation is that most organizations will continue to utilize incentive payments, and their value will be driven by these factors.
Assessing Executive vs. Employee Compensation
Discussions of compensation parity between executives and employees are also growing in prevalence. One substantiating example is the recent unrest surrounding the compensation of Beaumont Health’s CEO, John Fox. In response to Mr. Fox’s 82% increase in compensation in 2017, healthcare workers organized a rally to advocate for better wages, more affordable health care, and stronger staffing. The SEIU Michigan released a statement saying:

“...a small group of Beaumont executives at the top are getting extremely rich while patient care standards are being compromised and the state’s healthcare industry is being pushed in the wrong direction” and “Beaumont executives are making millions while the actual caregivers are struggling to just make ends meet.”

These strong feelings about “haves-versus-have-nots” recur routinely throughout the healthcare industry, but these concerns are intensifying and occurring with increased frequency.
The yield is a current pay gap ratio of 44:1 between CEOs and nurses. This type of disparity between employees and executives is continuing to draw more attention as organizations face increasing financial pressures while also inflating executives’ compensation. The net result of these massive differences in compensation can be the inability to recruit or retain top-notch employees, lower employee morale, and reduced productivity.

Data is available to support these feelings of inequality.

One study shows that salaries of CEOs at non-profit hospitals have increased by 93% since 2005, while average nursing wages have increased only by 3% during this same period.
Nevertheless, along with this comparison of executive-to-employee compensation comes fresh tactics on how to navigate the issue. Several organizations are moving to ratio models, in which executive compensation cannot exceed a ratio of nursing wages and is capped when it reaches the maximum value. Other organizations are reviewing and adjusting pay annually for all employees, from the front-line caregivers to their executives. Others are developing additional roles within their organization to ensure that job responsibilities match job roles, which align with appropriate compensation. The result of these tactics, however, should be the same—to confirm that compensation parity exists within an organization.
In Conclusion
Executive compensation is always an issue of interest, and as it continues to evolve relatively quickly within the healthcare industry, it will likely garner constant attention. Organizations are best served to assess and modify executive compensation to remain current with best practices in the industry, reflect economic, operational, and governance priorities thoughtfully, and ensure appropriate and equitable compensation.
Sources


5. https://www.sec.gov/Archives/edgar/data/860730/000119312519076774/d718518ddef14a.htm#toc718518_32 (HCA)

6. https://www.sec.gov/Archives/edgar/data/70318/000119312519083708/d680735ddef14a.htm#toc680735_8 (Tenet)


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