



Compensation Insight

Finally, an Easy-to-Understand Way to Compare Benefits: Presenting CompPlus360°.

Creating retirement packages for executives becomes more complicated every day. Regulatory bodies continue to look closely at non-profits' deferred compensation practices, perhaps due to scandals in the private sector. As of this writing, supplemental executive retirement plans (SERPs) are virtually the only option available for non-profit healthcare organizations to provide their executives attractive tax-deferred retirement benefits. Yet because of their complexity, SERP costs and values can be difficult for compensation committees and board members to understand.

That's why SullivanCotter created CompPlus360o. This new valuation tool allows us to distill cash compensation, SERPs, and other retirement benefits into a single annual value. As a result, CompPlus360o enables apples-to-apples comparisons between executives and plans, and helps organizations ensure that

their programs are competitive, reasonable, and meet regulatory requirements.

The Old Way: Interpreting Complex Reports

Historically, SERP costs and values could best be measured by information entered in an organization's annual Form 990 tax return, and more recently, in tally sheets. Unfortunately, neither of these lends itself to clear interpretation by board members.

By looking at the Form 990 and tally sheets, trustees and compensation committee members may be able to glean some information, such as benefits accrued during the year, benefit payments, annual

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costs, and potential future benefit payments. But these do not provide any context for determining whether a SERP is reasonable or consistent with market practices. Further complicating the matter are IRS reporting requirements. For example:

- There are two main kinds of SERPs—defined contribution and defined benefit programs. Each is reported differently, and there are differences in how an organization can demonstrate that benefits are reasonable.
- SERP amounts must be reported twice—when the benefit is earned and when it’s paid. This frequently results in double reporting.
- Different methods can be used to calculate reported amounts, so the organization must fully understand the selected method and be able to offer a strong rationale for its use.

Each of these points can further confound a board’s ability to compare programs between executives and with the market as a whole. Even when yearly costs are clear, they do not accurately portray a SERP’s reasonableness and consistency in relation to market practices. Instead of using annual SERP costs, trustees should evaluate the SERP’s annual value. But how do you arrive at that number? That’s where CompPlus360° comes in.

Today: Focus on Value

If a board looks only at tally sheets or Form 990 information, it becomes difficult to assess whether a SERP is competitive with the market as a whole, or whether it will stand up to the reasonableness test used by regulatory bodies.

Consider this example, based on an actual SullivanCotter engagement. In table 1, you can see that the annual cost of the president’s SERP is significantly higher than the CEO’s, even though the projected retirement benefit is the same. The higher cost results from the president accruing the benefit over five years, compared to 20 years for the CEO (*see table 1*).

A better comparison would be the value of a SERP, rather than its cost. SullivanCotter’s CompPlus360° methodology normalizes SERP values over a full career with the organization—in this case, 20 years for both executives.

In table 2, the CompPlus360° value for the CEO and president shows that the SERP benefit spread over 20 years is equivalent (*see table 2*).

The CompPlus360° methodology is then applied to each executive’s cash compensation and all retirement benefits to create a total value, as illustrated in table 3.

Finally, using SullivanCotter’s proprietary market data—perhaps the largest single store of executive compensation statistics in the

U.S.—we can determine how those values compare to organizations of similar size and type, in similar markets. In this case, the total value of each executive’s compensation package is about average for similar organizations (see table 3).

Armed with this information, your board is equipped to make decisions that can be defended to regulatory bodies, outside stakeholders, and the media.

How Can CompPlus360° Work for You?

CompPlus360° simplifies compensation and benefits decisionmaking by employing a value-based, rather than cost-based, model. CompPlus360° provides trustees with a clear, accurate means for comparing

the total value of cash compensation, SERPs, and other retirement benefits, helping you meet your recruitment and retention goals, as well as regulatory and media challenges.

Talk to your SullivanCotter consultant for help calculating executive compensation, preparing market comparisons, and communicating with your board. For more information about CompPlus360°, or answers to any of your compensation questions, call us today.



Table 1

Sample Case: SERP Costs and Benefits*	CEO	President
Projected SERP benefit at retirement	\$1,500,000	\$1,500,000
2006 SERP cost	\$40,000	\$250,000
Service at normal retirement age from date of hire	20 years	20 years
Service at retirement since SERP inception	20 years	5 years

*Values have been modified for confidentiality and simplicity.

Table 2

Cost vs. Value	CEO	President
2006 SERP cost	\$40,000	\$250,000
CompPlus360° SERP value	\$40,000	\$40,000

Table 3

CompPlus360° Market Comparison for 2006*	CEO	President
Base salary	\$600,000	\$500,000
Performance bonus	\$100,000	\$100,000
CompPlus360° SERP value	\$40,000	\$40,000
CompPlus360° value for other retirement benefits	\$25,000	\$100,000
CompPlus360° total value	\$765,000	\$740,000
Approximate market percentile	58th	53rd

*Data based on SullivanCotter’s proprietary database effective December, 2006.

About Sullivan, Cotter and Associates, Inc.

Since 1992, SullivanCotter's innovative yet practical compensation solutions have created tremendous value for the healthcare organizations it serves. In this capacity, SullivanCotter specializes in the development and implementation of strategic compensation and reward programs for its healthcare clients.

As a leader in healthcare executive, physician and employee compensation consulting, SullivanCotter has served many of the nation's leading and largest health systems, academic medical centers and community healthcare organizations, and has developed some of the top healthcare compensation surveys in the United States.

SullivanCotter strives to help our healthcare clients develop and implement creative, comprehensive and compliant compensation programs that bridge the needs of organizational stakeholders.

SullivanCotter has offices in Atlanta, Boston, Chicago, Dallas, Detroit, New York City, Parsippany, San Francisco and Westport.

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About McDermott Will & Emery LLP

With an over 50-year history of serving the healthcare industry, McDermott Will & Emery has one of the United States' largest and most prestigious health law departments.

The American Lawyer rated the health law practice No. 1 in the United States in its most recent rankings. *Chambers USA: America's Leading Lawyers For Business, 2005 Client's Guide* ranked the health law practice in the top tier of all such practices nationwide.

McDermott Will & Emery provides advice on all aspects of executive compensation, including benefits, tax, securities, labor and litigation issues. Members of the Executive Compensation Group include former IRS officials who participated in many of the rulings and regulations impacting the executive compensation area and attorneys who have leadership positions within the bar.

McDermott Will & Emery's health lawyers are resident in the firm's Boston, Chicago, Los Angeles, Miami, New York City and Washington, D.C. offices.

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