



Compensation Insight

Top 10 Activities for the Board Compensation Committees of Not-for-Profit Hospitals and Health Systems

Review of recent developments lead us to recommend the following activities be completed:

1. **Rely on tally sheets to support executive compensation decision-making.** Tally sheets present the cost to the organization of each element of the executive compensation package and should be considered by the committee when making decisions. These sheets should include estimates of potential significant future costs such as SERPs, severance and maximum payouts under incentive programs.
2. **Identify and address any undisclosed executive compensation arrangements.** Specifically, address any arrangements that have not been communicated to the board or that have not been formally approved. These types of arrangements have the potential to be unreasonable or cause embarrassment to the organization if made public. Carefully review provisions of existing employment agreements to ensure complete understanding of current and future promises.
3. **Provide appropriate disclosure to the full board regarding executive compensation program design and decisions.** The organization is well-served if all board members understand the components and value of the executive compensation program, especially highly visible and costly arrangements that may have implications for the organization's image.

4. **Review potential “image” issues related to executive compensation.** Assess the business justification for special or highly visible program components (e.g., split-dollar life insurance, loans, housing allowances, private club memberships, first-class travel, spouse travel and expenses for meetings at resort locations), and understand the associated risks (i.e., public and regulatory scrutiny, tax compliance questions).
5. **Review high-cost program components in terms of their anticipated benefit to the organization.** Specifically, SERPs, retention awards, long-term incentive programs, forgivable loans and severance are compensation elements that may have significant cost but may no longer support their intended objectives.
6. **Enhance the committee’s independence.** Avoid appointing members who have (or are perceived to have) financial conflicts or close relationships with executives, and limit the involvement of senior executives to committee staff roles with appropriate recusal procedures.
7. **Evaluate the independence of the compensation consultant.** Approach with caution the use of firms that provide other significant services to the organization or its affiliates. The committee should directly retain its consultants/advisers and evaluate whether they have, or are perceived to have, major conflicts of relationship. Fully disclose products and services in which the consultant has a financial interest.
8. **Review procedures and practices related to executive expense reimbursement payments.** Ensure compliance with established financial control systems, current tax regulations and Form 990 requirements. Areas of focus include appropriate income reporting of the personal value of cell phone and computer usage, personal use of employer-provided automobiles, tax gross-ups and spouse/personal travel.

9. **Prepare to proactively respond to media questions regarding executive compensation by:**

- Preparing comprehensive public relations and communication strategies
- Developing appropriate supporting materials (e.g., talking points, community benefit outcomes, description of oversight process, relevant Form 990 responses from peer organizations)
- Identifying and preparing a designated spokesperson (not the CEO or other key executives) for this role.

10. **Ensure the necessary program documentation is in place. Include the following:**

- Committee charter
- Compensation philosophy statement that identifies peer groups for market comparison purposes, the organization's target market position, and the use of any supplemental benefits and perquisites
- Competitive assessment reports
- Policies and procedures, especially those related to conflict of interest and expense reimbursement
- Minutes of committee deliberations and decisions.

For further assistance preparing market assessments, communicating with your board, or answering any of your compensation questions, contact your SullivanCotter consultant today.

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, Denver, Detroit, New York, 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, 2006 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 affecting 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 and Washington, D.C. offices.

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