Modern Healthcare | survey
EXECUTIVE COMPENSATION
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GOING UP

Surge in exec comp driven by pay-for-performance bonuses

By Michael Sandler

The one-year pause in big payouts to top officials at the nation's hospital systems is over.

Executives in many of the top-paying positions saw large pay bumps in 2015, driven in part by bonus packages triggered by improved quality and financial performance. The average compensation for CEOs at the 270 systems that participated in Modern Healthcare's latest survey of executive compensation surged to $1.2 million in 2015, an 8.2% increase over the previous year.

Last year's survey showed average system CEO pay declined by a half percentage point year over year.

The hefty increases were repeated across a number of titles, including chief operating officers (a 7.8% year-over-year increase in 2015); chief financial officers (up 8.4%); chief medical officers (up 6.4%); and chief nursing officers (up 7.7%). A year ago, those titles received average pay hikes of 2.2%, 1.6%, 2.5% and 1.6%, respectively. Most of the increases came from non-base compensation.

According to Modern Healthcare's 35th annual Executive Compensation Survey, total cash compensation for all titles increased 6.3% in 2015. Total cash compensation at the system level shot up 6.5% and rose 6% at the hospital level. Comparable average salaries rose last year only 3.2%.

An increase in complexity of the challenges facing top leaders at the system level has led to increased compensation, said Kathy Hastings, managing director and executive compensation practice leader at Sullivan, Cotter and Associates, the Chicago-based compensation consultant that provided data for the survey. With hospitals consolidating and under intense pressure to improve quality amid declining reimbursement, more systems are embracing performance-based pay for top executives. Pay is now even being linked to successful population health management, Hastings said.

Given the renewed upward march in pay packages, it would appear hospital system executives are performing well on the new metrics. The same appears to be true for pay packages at individual hospitals, where top officials generally did well this year with a few exceptions, according to the survey.

While CEOs at stand-alone hospitals saw a 4.4% average increase in 2015 compared with a 4.7% average increase the previous year, CEOs working at system-owned hospitals saw a 6.5% bump this year compared with the scant 0.1% pay boost in 2014. CMOs got 3.1% and 4% increases at stand-alone and system-owned hospitals in 2015 compared with 1% and 1.7%, respectively, a year ago. COOs at system-owned hospitals saw a 5.9% average increase in 2015 compared with only 0.6% in 2014.

As compensation for executives rises, many compensation committees of governing boards are trying to ensure rising pay packages are aligned with quality goals. Striking the right balance between base salary and bonuses presents a tricky challenge for board members, who must proceed cautiously in coming up with appropriate performance metrics, especially in the not-for-profit sector.

"We struggle with that. If the goals are too high, they'll never reach them," said Steve Morrissette, chairman of the board of trustees at Silver Cross Hospital in New Lenox, Ill.

Compensation is an emotional issue, and can be difficult to negotiate for both hospital executives and board members. For instance, the CEO usually makes more money than most volunteer board members, who have outside jobs and decide the executive's compensation.

And at many not-for-profit hospitals, the boards lack the checks-and-balances system that for-profit hospital boards use to placate shareholders. "Of a $100,000 bonus, how much is long-term and how much is short-term? Not-for-profits don't have stock, so we must create long-term incentives. We want to motivate management to make good long-term decisions," Morrissette said.

The quickly evolving pay-for-performance strategy used by many boards is driving pay packages higher. Board consultants usually recommend a similar peer group for comparison purposes,

Executive compensation by organization size

Key titles by organization revenue, ranked by average total cash compensation, 2015 ($ in thousands)

TITLE (NUMBER SURVEYED)	MEDIAN BASE 2015	MEDIAN BASE 2014	MEDIAN BASE % CHANGE	MEDIAN TOTAL CASH COMPENSATION 2015	MEDIAN TOTAL CASH COMPENSATION 2014	MEDIAN TOTAL CASH COMPENSATION % CHANGE	AVERAGE TOTAL CASH COMPENSATION 2015	AVERAGE TOTAL CASH COMPENSATION 2014	AVERAGE TOTAL CASH COMPENSATION % CHANGE
HOSPITALS WITH NET REVENUE LESS THAN $300 MILLION									
President and CEO, stand-alone Hospital (34)	$457.6	$425.8	7.5%	$517.1	$508.2	1.8%	$530.9	$508.2	4.5%
President and CEO, system-owned hospital (364)	303.9	295.6	2.8	380.3	359.8	5.7	383.7	360.6	6.4
Chief medical officer, system-owned hospital (72)	312.8	309.4	1.1	349.8	342.1	2.3	354.5	342.8	3.4
Chief financial officer, stand-alone hospital (36)	296.2	292.1	1.4	324.8	310.0	4.7	309.6	297.3	4.1
Chief operating officer, system-owned hospital (132)	200.4	197.4	1.5	241.1	226.2	6.6	256.2	241.5	6.1
Chief financial officer, system-owned hospital (188)	194.7	190.5	2.2	229.9	221.7	3.7	242.4	229.0	5.9
HOSPITALS WITH NET REVENUE OF $300 MILLION OR MORE									
President and CEO, stand-alone hospital (38)	$735.1	$719.9	2.1%	$883.7	$865.3	2.1%	$974.1	$932.8	4.4%
Chief operating officer, stand-alone hospital (33)	480.0	464.4	3.4	515.2	519.4	(0.8)	601.3	574.5	4.7
President and CEO, system-owned hospital (174)	433.3	418.5	3.5	537.7	505.2	6.4	575.7	540.4	6.5
Chief medical officer, stand-alone hospital (28)	441.5	436.3	1.2	507.9	498.2	1.9	548.3	532.0	3.1
Chief financial officer, stand-alone hospital (34)	438.8	419.1	4.7	518.2	466.6	11.0	521.8	494.5	5.5
Chief medical officer, system-owned hospital (76)	348.7	340.8	2.3	406.5	373.3	8.9	405.0	387.5	4.5
Chief operating officer, system-owned hospital (95)	269.2	260.0	3.4	324.8	299.4	8.5	341.9	323.6	5.7
Chief finacial officer, system-owned hospital (109)	265.0	258.2	2.6	320.1	303.9	5.3	327.7	309.9	5.8
SYSTEMS WITH NET REVENUE LESS THAN $1 BILLION									
President and CEO (107)	$656.6	$636.0	3.2%	$762.1	$713.6	6.8%	$795.3	$760.8	4.5%
Chief operating officer (58)	396.2	397.6	(0.4)	430.1	416.7	3.2	463.6	447.1	3.7
Chief financial officer (89)	394.9	377.5	4.6	426.1	414.6	2.8	446.8	430.1	3.9
Chief medical officer (66)	374.5	366.4	2.2	408.1	391.0	4.4	429.7	410.1	4.8
SYSTEMS WITH NET REVENUE OF $1 BILLION OR MORE									
President and CEO (163)	$1,000.0	$970.7	3.0%	$1,329.4	$1,200.0	10.8%	$1,480.8	$1,351.6	9.6%
Chief operating officer (94)	614.3	595.0	3.3	774.2	718.7	7.7	866.2	792.6	9.3
Chief financial officer (148)	525.0	500.0	5.0	645.0	598.9	7.7	736.4	668.3	10.2
Chief medical officer (96)	520.0	506.5	2.7	597.3	577.5	3.4	678.7	633.7	7.1

Note: Data are from a constant sample. All numbers rounded.

Source: Sullivan, Cotter and Associates

pick a set of financial and quality indicators for making non-base compensation awards, and then determine whether they want their organization to be in the middle, top or back of the pack. To compete, many consultants recommend boards err toward higher incentives, Morrissette said.

Linking pay to performance appears to be working. According to a recent study by Truven Health Analytics, there is a significant correlation between higher CEO direct compensation and a composite score of all equally weighted national, balanced scorecards for hospitals and health systems on the 2014 Truven Health 100 Top Hospitals and 15 Top Health Systems reports.

The study found that compensation increased by an average of 1.5% for each unit increase in the 100 Top Hospital performance percentile. Performance at the hospital level was associated with an average increase in compensation of 1.1% per each unit increase in the 15 Top Health Systems performance percentile.

The incentive packages developed for top officials often filter down through the entire organization. "We have a long history of linking executive and physician leadership rewards to our organization's performance based on multiple indicators," said Kathy Oswald, senior vice president and chief human resources officer at the Henry Ford Health System, Detroit. "These include measures related to quality, safety, patient satisfaction and employee and physician engagement, as well as the financial performance of the organization."

However, most hospitals choose a limited number of indicators to determine performance bonuses. Hospital management usually suggests what measures to use, which initiates the dialogue between management and the board. Picking the right measures and the levels needed to trigger bonuses isn't an exact science, Morrissette said. Financial and clinical outcomes, as well as patient satisfaction, can all be incentivized.

Once they are chosen, setting the basis for a reward is tricky, especially for quality measures. Picking the correct measures leads to the CEO spending time and energy on the correct issues. The converse is equally true. "High performance isn't about working hard, it's about doing the right things," he said.

A shift toward putting more pay in the bonus package is underway. Base salaries will be less prominent in total compensation of the C-suite over time, said Steve Sullivan, principal at Pearl Meyer & Partners, a New York-based compensation consulting firm. More long-term incentives, which can be two years or more, will work in conjunction with short-term incentives, he said.

According to Sullivan Cotter's Manager and Executive Compensation in Hospitals and Health Systems Survey, 57% of not-for-profit healthcare organizations with more than $3 billion in net revenue used long-term incentive plans for executives in 2014, compared with 39% in 2009. Also, 38% of organizations with more than $1 billion in net revenue used long-term incentive plans, compared with 25% in 2009.

Boards are using more long-term incentive plans because of the complex benchmarks executives are being asked to meet, Sullivan said. An already challenging role has only become more so for executives. Compensation boards want to create a long-range perspective among the executive team, and monitor it in multiyear increments, he said. "Boards think years in advance," Sullivan said. "That's their job."

The measures used in long-term incentive plans are undergoing a significant change. There's a greater emphasis on quality. The survey found 53% of organizations used clinical quality measures in the plans in 2014, up from 31% in 2009.

It's fairly recent that hospital organizations have included quality measures as part of CEO compensation, said Dr. Christine Cassel, president and CEO of the National Quality Forum, a Washington, D.C.-based organization that works to set standards on quality measurement. Boards used to think only about financial metrics for compensation purposes, she said.

Now, with hospitals responsible for patients' lives beyond the hospital door because of accountable care organizations or other population health-based reimbursement schemes, boards are experimenting with new metrics. Quality is just beginning to be rigorously measured in a scientific way. "It's complicated, but not impossible," Cassel said.

The more complicated metrics of population health will increasingly factor in to bonuses of healthcare executives, experts said, and those with skills in that emerging area will draw higher compensation. Beyond inpatient care, providers are trying to figure out how to influence the health of the community, said Don Gallo, consulting director at Towers Watson.

Providers must learn how to measure population health. To do that, some are turning to executives from the insurance industry, he said. Executives who have worked in the insurance sector are familiar with calculating risk, a skill that escapes many executives with long careers at provider organizations.

The downside from a compensation perspective is that while salaries are similar, annual incentive bonuses can be two to three times larger at insurers. "You need to pay for top talent to get you there," Gallo said.

The emphasis on quality hasn't led to financial performance bonuses being tossed overboard. Merger-and-acquisition skills are still amply rewarded, said Michael Kesner, leader of national compensation practice at Deloitte Consulting. With the continued push for consolidation in healthcare, M&A specialists and people who can manage integration are in demand at larger, complex organizations that are aggressively growing through acquisition. They have to pay a premium for that, Kesner said. ●

MH TAKEAWAYS

Belt-tightening and cost control at the nation's hospitals hasn't extended to the executive ranks, where pay increases for most titles posted hefty gains in 2015, driven largely by pay-for-performance increases.

Executive compensation—healthcare systems

Ranked by average total cash compensation, 2015 ($ in thousands)

TITLE (NUMBER SURVEYED)	MEDIAN BASE 2015	MEDIAN BASE 2014	MEDIAN BASE % CHANGE	MEDIAN TOTAL CASH COMPENSATION 2015	MEDIAN TOTAL CASH COMPENSATION 2014	MEDIAN TOTAL CASH COMPENSATION % CHANGE	AVERAGE TOTAL CASH COMPENSATION 2015	AVERAGE TOTAL CASH COMPENSATION 2014	AVERAGE TOTAL CASH COMPENSATION % CHANGE
TOP CORPORATE EXECUTIVES									
President and CEO (270)	$826.1	$800.0	3.3%	$1,019.6	$964.9	5.7%	$1,209.1	$1,117.5	8.2%
Chief operating officer (152)	531.4	507.2	4.8	597.6	571.6	4.6	712.6	660.8	7.8
Chief financial officer (237)	464.7	450.0	3.3	552.6	510.6	8.2	627.6	578.8	8.4
Chief administrative officer (45)	466.0	449.5	3.7	582.9	549.0	6.2	623.0	578.2	7.8
Chief medical officer (162)	449.9	426.4	5.5	535.1	475.0	12.7	577.2	542.6	6.4
Chief strategy officer (65)	375.5	365.5	2.7	461.9	425.0	8.7	498.0	470.8	5.8
Chief information officer (174)	352.1	336.7	4.6	401.1	380.7	5.4	439.3	410.4	7.0
Chief nursing officer (129)	283.6	280.5	1.1	328.0	302.3	8.5	339.4	315.3	7.7
Top compliance executive (99)	222.8	211.7	5.3	247.2	229.0	7.9	263.3	248.7	5.9
CORPORATE DEPARTMENT EXECUTIVES									
Health plan president/CEO (30)	$388.6	$379.8	2.3%	$473.5	$441.2	7.3%	$524.9	$498.2	5.4%
Legal services executive, general counsel (167)	380.2	368.3	3.2	433.1	417.4	3.7	482.0	452.8	6.4
Clinical research executive (34)	341.4	333.8	2.3	390.5	379.4	2.9	458.5	418.4	9.6
Quality management executive, M.D. (37)	365.7	358.8	1.9	441.8	408.3	8.2	441.2	411.1	7.3
Human resources executive (198)	308.3	298.2	3.4	354.2	332.5	6.5	389.8	365.8	6.6
Business development executive (37)	292.3	282.5	3.5	358.0	337.5	6.1	377.4	355.2	6.3
Managed-care executive (50)	290.8	270.3	7.6	320.3	303.8	5.4	363.1	332.5	9.2
Medical informatics executive (53)	296.0	300.0	(1.3)	338.7	322.0	5.2	358.9	341.4	5.1
Ambulatory-care executive (39)	263.0	241.6	8.8	293.3	275.0	6.7	326.5	309.8	5.4
Foundation/fund development executive (89)	250.0	247.8	0.9	291.1	282.7	3.0	326.2	308.5	5.7
Supply chain management executive (62)	270.0	266.4	1.4	312.4	296.6	5.3	321.3	302.0	6.4
Revenue-cycle executive (70)	252.6	242.1	4.3	302.0	279.3	8.1	311.4	286.8	8.6
Planning executive (40)	252.4	242.8	3.9	291.3	275.7	5.7	310.4	297.6	4.3
Marketing executive (78)	240.7	231.0	4.2	273.1	259.1	5.4	308.3	291.8	5.7
Government relations executive (74)	250.3	244.0	2.5	291.4	275.0	6.0	307.5	290.1	6.0
Internal audit executive (30)	221.7	218.6	1.4	274.7	266.8	3.0	295.3	279.7	5.6
Professional services executive (47)	236.0	229.5	2.9	277.9	255.8	8.7	289.5	275.2	5.2
Support services executive (33)	223.0	223.0	0.0	255.1	236.7	7.8	288.1	282.0	2.2
Risk management executive (36)	230.8	231.0	(0.1)	260.0	256.8	1.3	286.2	285.4	0.3
Mission services executive (31)	186.9	181.9	2.7	207.6	195.7	6.1	286.2	261.8	9.3
Community health executive (26)	222.4	220.0	1.1	250.4	227.9	9.9	283.4	267.2	6.1
Facilities planning/construction executive (43)	238.0	229.4	3.8	256.1	243.6	5.1	282.9	267.5	5.8
Facilities executive (49)	234.1	230.4	1.6	251.3	256.3	-2.0	278.9	274.1	1.7
Home health executive (28)	218.4	216.7	0.8	256.2	250.5	2.3	272.6	269.6	1.1
Quality management executive, non-M.D. (53)	211.9	207.0	2.4	243.3	235.7	3.2	267.8	255.1	5.0
Pharmacy executive (35)	223.8	219.2	2.1	261.6	247.3	5.8	263.5	255.5	3.2

Note: Data are from a constant sample. All figures rounded.

Source: Sullivan, Cotter and Associates

Executive compensation—hospitals

Selected titles, ranked by average total cash compensation, 2015 ($ in thousands)

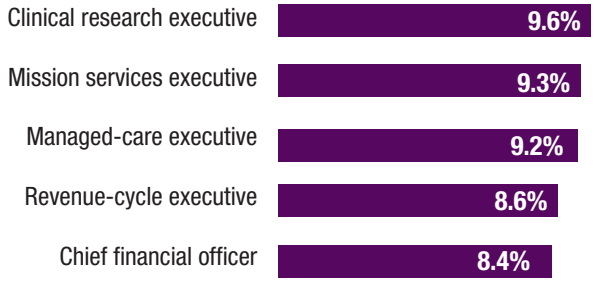
	MEDIAN						AVERAGE		
	BASE			TOTAL CASH COMPENSATION			TOTAL CASH COMPENSATION		
TITLE (NUMBER SURVEYED)	2015	2014	% CHANGE	2015	2014	% CHANGE	2015	2014	% CHANGE
C-SUITE EXECUTIVES									
President and CEO, stand-alone hospital (72)	$602.5	$569.1	5.9%	$657.9	$624.9	5.3%	$764.8	$732.3	4.4%
Chief operating officer, stand-alone hospital (48)	408.6	397.9	2.7	443.7	432.5	2.6	505.5	485.8	4.0
Chief medical officer, stand-alone hospital (48)	401.4	390.8	2.7	436.6	406.2	7.5	469.0	454.7	3.1
President and CEO, system-owned hospital (538)	341.4	330.0	3.5	426.0	405.1	5.2	445.8	418.7	6.5
Chief financial officer, stand-alone hospital (70)	355.1	339.9	4.5	393.4	365.3	7.7	412.6	393.1	5.0
Chief medical officer* (198)	336.8	330.4	1.9	385.6	360.6	6.9	402.5	388.0	3.8
Chief medical officer, system-owned hospital (148)	330.2	325.1	1.5	369.9	351.8	5.1	380.4	365.8	4.0
Chief operating officer* (280)	243.5	236.7	2.9	287.5	274.9	4.6	330.4	313.6	5.3
Chief information officer* (55)	257.6	255.0	1.0	270.0	274.1	(1.5)	316.3	297.9	6.2
Chief financial officer* (371)	230.0	226.2	1.7	280.0	265.1	5.6	301.0	285.0	5.6
Chief operating officer, system-owned hospital (227)	219.7	216.1	1.7	270.7	252.3	7.3	292.0	275.8	5.9
Chief financial officer, system-owned hospital (297)	212.2	208.9	1.5	264.8	249.3	6.2	273.7	258.6	5.8
Chief nursing officer* (361)	191.8	188.1	2.0	235.8	215.0	9.7	235.3	220.0	7.0
OTHER EXECUTIVES									
Legal services executive, general counsel (37)	$281.8	$276.3	2.0%	$297.8	$289.8	2.7%	$349.5	$334.5	4.5%
Foundation/fund development executive (59)	220.2	216.0	1.9	234.3	228.6	2.5	264.4	254.5	3.9
Patient-care executive (136)	225.6	219.4	2.8	244.5	248.7	(1.7)	254.5	248.1	2.6
Human resources executive (146)	198.0	190.4	4.0	219.1	206.3	6.2	243.6	228.3	6.7
Marketing executive (29)	195.8	193.8	1.1	216.3	208.0	4.0	232.6	223.1	4.3
Professional services executive (68)	198.5	192.9	2.9	228.7	215.5	6.1	231.5	220.4	5.1
Business development executive (65)	186.6	180.0	3.7	210.3	190.5	10.4	226.8	212.5	6.7
Support services executive (37)	177.7	177.6	0.1	199.7	195.2	2.3	222.0	215.0	3.2
Business development executive (50)	166.8	164.9	1.2	181.6	177.3	2.4	195.3	192.0	1.7

Note: Data are from a constant sample. All numbers rounded. *Average of compensation for this title in all settings. *Source: Sullivan, Cotter and Associates*

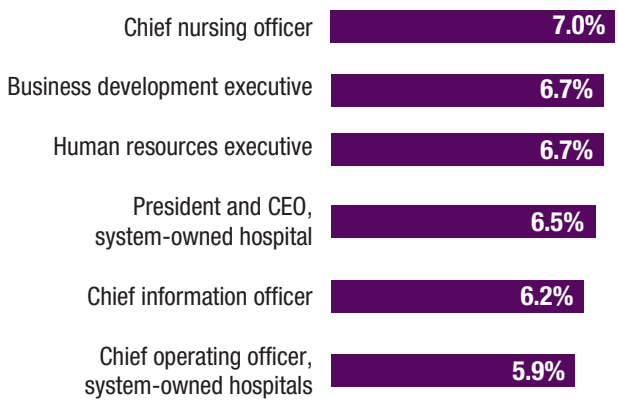
Biggest gainers

Executive positions that saw the largest percentage increases in average total cash compensation from 2014 to 2015

Executives at healthcare systems



Executives at hospitals



Source: Sullivan, Cotter and Associates