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SURVEY

EXECUTIVE COMPENSATION

C-suite pay raises target transformational leaders

By Alex Kacik

Hospital and health system executives' compensation continues to soar and will likely maintain that pace as organizations search for a narrowing set of qualified executives to lead more complex operations across a consolidating healthcare landscape.

The most significant annual pay hikes are being doled out to executives who are believed to be best qualified to navigate the path to a system that increasingly favors value over volume. Incentive packages tend to focus on systemwide metrics, including reducing variation in care and unnecessary procedures, patient satisfaction and other measures that follow new reimbursement models.

Median total cash compensation across 36 health system executive positions rose 6% from 2016 to 2017, compared with a 3.1% annual increase for 11 hospital executive positions analyzed, according to Modern Healthcare's 37th annual Executive Compensation Survey. The survey reviewed nearly 1,200 healthcare organizations, including 831 hospitals and 360 health systems. It was the third consecutive year that health system administrators took home raises that mirrored pre-recession rates of about 6% to 8%, up from around 2% in 2014.

The biggest compensation bumps were being given to those who are leading changes in strategy, clinical transformation, operational integration and patient experience to comply with reimbursement models that favor a value-based system.

"There is increasing demand for physician leaders to take on quality, clinical informatics, integration, network development and other activities to redefine clinical care," said Bruce Greenblatt, managing principal at Sullivan, Cotter and Associates, the compensation consulting firm that has supplied data for Modern Healthcare's annual surveys since 2003. "That's where there is a limited number of physicians who have the management skills to lead these missions and where we're seeing upward pay pressure."

Overall, presidents and CEOs at health systems received a 7.6% year-over-year increase in median total cash compensation, from $1.04 million in 2016 to $1.12 million this year. Systems' chief operating officers drew the biggest annual increase in total cash compensation among top-tier executives, rising 10% to $843,400 for systems with more than $1 billion in net revenue and 7.5% to $506,000 at systems with less than $1 billion.

The biggest pay raises among all health systems went to the chief strategy officer, rising 13.9% to $548,900 a year; the top clinical research executive, up 11% to $455,300; top facilities executive, which increased 10% to $285,000; top compliance executive, climbing 9.2% to $291,000, and the chief operating officer, 8.7% higher at $701,000. Several new positions were added to the survey in 2017, including chief nursing officer/top patient care executive, chief technology officer, top public affairs executive, top community health executive, top clinical information/transformation executive and top quality executive.

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Executive compensation by organization size

Key titles by organization revenue, ranked by average total cash compensation, 2017 ($ in thousands)

	MEDIAN						AVERAGE		
	BASE			TOTAL CASH COMPENSATION			TOTAL CASH COMPENSATION		
TITLE (NUMBER SURVEYED)	2017	2016	CHANGE	2017	2016	CHANGE	2017	2016	CHANGE
HOSPITALS WITH NET REVENUE LESS THAN $300 MILLION									
President and CEO, stand-alone hospital (36)	$422.2	$419.7	0.6%	$464.5	$447.8	3.7%	$504.2	$497.5	1.4%
President and CEO, system-owned hospital (225)	328.4	320.5	2.5	383.5	381.9	0.4	406.5	397.7	2.2
Chief operating officer, system-owned hospital (68)	246.4	236.5	4.2	273.6	274.6	-0.4	275.0	271.0	1.5
Chief medical officer, system-owned hospital (55)	320.8	312.0	2.8	369.2	370.3	-0.3	381.4	369.6	3.2
Chief financial officer, stand-alone hospital (30)	282.5	277.7	1.7	328.5	314.5	4.4	313.8	306.5	2.4
Chief financial officer, system-owned hospital (64)	225.4	220.0	2.4	256.5	243.3	5.4	263.7	256.3	2.9
HOSPITALS WITH NET REVENUE OF $300 MILLION OR MORE									
President and CEO, stand-alone hospital (25)	$750.0	$750.0	0.0%	$950.0	$932.9	1.8%	$1,021.7	$982.3	4.0%
President and CEO, system-owned hospital (146)	470.8	455.1	3.4	588.3	588.6	-0.1	636.4	618.3	2.9
Chief operating officer, system-owned hospital (83)	305.8	302.7	1.0	376.1	363.7	3.4	406.6	392.3	3.6
Chief medical officer, system-owned hospital (85)	378.9	372.6	1.7	448.3	415.9	7.8	453.5	443.6	2.2
Chief financial officer, system-owned hospital (81)	285.4	277.0	3.0	338.5	327.3	3.4	352.9	338.9	4.1
SYSTEMS WITH NET REVENUE LESS THAN $1 BILLION									
President and CEO (97)	$720.1	$675.0	6.7%	$800.0	$789.6	1.3%	$852.8	$826.7	3.2%
Chief operating officer (54)	449.3	430.2	4.4	506.0	470.8	7.5	520.8	491.9	5.9
Chief medical officer (59)	420.0	400.0	5.0	468.7	448.8	4.4	484.4	459.6	5.4
Chief financial officer (78)	409.5	385.2	6.3	444.2	429.7	3.4	462.6	442.9	4.4
SYSTEMS WITH NET REVENUE OF $1 BILLION OR MORE									
President and CEO (187)	$1,041.5	$1,000.0	4.2%	$1,361.7	$1,295.3	5.1%	$1,526.3	$1,448.8	5.3%
Chief operating officer (101)	666.8	625.0	6.7	843.4	766.8	10.0	950.8	887.9	7.1
Chief medical officer (128)	527.6	507.1	4.0	630.7	616.6	2.3	704.4	688.5	2.3
Chief financial officer (162)	587.4	570.1	3.0	719.3	660.5	8.9	798.1	764.0	4.5

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

Source: Sullivan, Cotter and Associates

Executive compensation—hospitals

Selected titles, ranked by average total cash compensation, 2017 ($ in thousands)

	MEDIAN						AVERAGE		
	BASE			TOTAL CASH COMPENSATION			TOTAL CASH COMPENSATION		
TITLE (NUMBER SURVEYED)	2017	2016	CHANGE	2017	2016	CHANGE	2017	2016	CHANGE
C-SUITE EXECUTIVES									
President and CEO, stand-alone hospital (61)	$550.0	$530.0	3.8%	$648.7	$658.0	(1.4%)	$716.3	$696.2	2.9%
President and CEO, system-owned hospital (371)	384.6	371.4	3.6	468.8	447.2	4.8	497.0	484.5	2.6
Chief operating officer, stand-alone hospital (31)	360.0	376.7	(4.4)	411.3	410.8	0.1	440.3	435.9	1.0
Chief operating officer, system-owned hospital (151)	277.1	274.2	1.1	324.4	317.6	2.2	347.3	337.7	2.9
Chief medical officer, stand-alone hospital (31)	361.7	349.6	3.4	399.6	390.4	2.4	426.0	417.3	2.1
Chief medical officer, system-owned hospital (140)	356.9	348.2	2.5	408.0	399.2	2.2	425.1	414.6	2.6
Chief financial officer, stand-alone hospital (54)	343.9	325.8	5.6	380.2	363.4	4.6	395.5	384.6	2.8
Chief financial officer, system-owned hospital (145)	266.8	255.7	4.4	306.5	289.8	5.8	313.6	302.5	3.7
Chief information officer (37)	273.0	262.7	3.9	297.4	291.3	2.1	303.2	297.8	1.8
Chief nursing officer/patient care executive (532)	206.0	200.2	2.9	238.3	238.1	0.1	247.0	244.5	1.0
OTHER TOP EXECUTIVES									
Human resources executive (103)	$212.6	$208.0	2.2%	$242.2	$231.1	4.8%	$256.5	$247.9	3.4%
Professional services executive (55)	202.4	184.5	9.7	240.8	210.2	14.6	246.6	230.7	6.9
Legal services executive (general counsel) (26)	307.5	291.8	5.4	349.9	319.2	9.6	365.4	350.8	4.1
Foundation/fund development executive (62)	227.9	219.5	3.8	273.7	256.4	6.8	287.5	275.3	4.4
Business development executive (54)	211.1	202.6	4.2	250.2	233.3	7.3	257.3	255.2	0.8

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

Source: Sullivan, Cotter and Associates

The pay increases and expanded roles represent the most sought-after expertise in an evolving healthcare landscape. Three years ago, IT leaders received some of the largest raises as organizations focused on integrating electronic health records, said Tom Pavlik, a managing principal at Sullivan Cotter.

Of the 47 executive positions surveyed for both hospitals and health systems, only CEOs of independent hospitals and chief technology officers at systems (both down 1.4%) and top medical informatics executives at systems (down 1%) had lower median total compensation year over year. Presidents and CEOs of stand-alone hospitals saw their median total compensation drop to $648,700 this year while chief executives of hospitals owned by a parent organization rose by 4.8% to $468,800.

Skills dealing in operational synergies are highly valued in today's rapidly consolidating industry, particularly as more care is delivered outside of hospitals. In just the second quarter of 2017, the number of hospital transactions rose by 15% compared with the same period last year, and the deals are getting bigger, a recent analysis from PricewaterhouseCoopers found. As systems buy up more hospitals and physician practices and grow their market share, they need to align operations and engage physicians across the care continuum to generate the best outcomes and return on investment, Pavlik said.

"Systems are getting larger and more complex, which makes the job more difficult," he said. "More competitive compensation packages are being offered to find the best-qualified executive to lead these organizations."

Risk skills highly valued

As health systems start to take on more risk by developing accountable care organizations, launching their own health plans,

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Executive compensation—healthcare systems

Ranked by average total cash compensation, 2017 ($ in thousands)

	MEDIAN						AVERAGE		
	BASE			TOTAL CASH COMPENSATION			TOTAL CASH COMPENSATION		
TITLE (NUMBER SURVEYED)	2017	2016	CHANGE	2017	2016	CHANGE	2017	2016	CHANGE
TOP CORPORATE EXECUTIVES									
President and CEO (284)	$886.8	$856.9	3.5%	$1,120.4	$1,041.1	7.6%	$1,296.2	$1,236.3	4.8%
Chief operating officer (155)	576.8	550.0	4.9	701.3	645.0	8.7	801.0	750.0	6.8
Chief medical officer (187)	481.8	467.0	3.2	566.5	564.4	0.4	635.0	616.2	3.0
Chief financial officer (240)	512.7	491.5	4.3	619.1	593.2	4.4	689.0	659.6	4.5
Chief administrative officer (46)	514.1	478.1	7.5	612.2	593.6	3.1	695.7	652.6	6.6
Chief strategy officer (81)	432.2	405.9	6.5	548.9	482.1	13.9	602.6	562.6	7.1
Chief information officer (187)	385.8	371.3	3.9	440.7	424.4	3.9	481.8	454.2	6.1
Compliance executive (112)	252.5	244.6	3.2	291.1	266.7	9.2	297.5	282.2	5.4
Chief nursing officer/patient care executive (174)	314.7	305.0	3.2	363.1	348.1	4.3	382.4	365.7	4.6
Chief technology officer (33)	245.9	236.4	4.0	287.1	291.3	-1.4	307.6	301.5	2.0
TOP CORPORATE DEPARTMENT EXECUTIVES									
Medical informatics executive (69)	$315.0	$309.2	1.9%	$351.7	$355.4	(1.0%)	$388.5	$372.9	4.2%
Human resources executive (208)	340.5	325.0	4.8	398.5	371.0	7.4	435.3	410.1	6.1
Professional services executive (47)	266.5	250.3	6.5	321.3	295.3	8.8	344.7	325.9	5.7
Support services executive (31)	243.7	236.5	3.0	283.3	270.5	4.7	306.6	286.2	7.1
Ambulatory care executive (42)	291.0	285.1	2.1	332.4	310.6	7.0	358.3	343.5	4.3
Facilities executive (55)	247.5	240.3	3.0	285.0	259.0	10.0	316.5	305.9	3.5
Facilities planning/construction executive (49)	250.0	249.5	0.2	275.3	275.3	0.0	296.0	288.0	2.8
Legal services executive (general counsel) (173)	416.1	396.4	5.0	500.8	471.3	6.3	546.9	522.7	4.6
Government relations executive (88)	251.5	247.0	1.8	307.7	291.3	5.6	324.2	309.2	4.9
Public affairs executive (36)	232.6	220.9	5.3	256.2	242.2	5.8	292.2	272.7	7.2
Marketing executive (90)	264.2	249.3	6.0	313.1	306.2	2.3	344.2	327.6	5.1
Foundation/fund development executive (115)	267.9	260.1	3.0	312.0	303.0	3.0	363.6	349.7	4.0
Planning executive (44)	268.6	253.1	6.1	299.4	277.1	8.0	318.2	306.8	3.7
Business development executive (54)	289.7	286.9	1.0	327.2	306.7	6.7	389.7	359.0	8.6
Clinical research executive (36)	358.9	350.2	2.5	455.3	410.4	11.0	560.3	533.4	5.1
Risk management executive (42)	239.3	235.4	1.6	267.3	263.4	1.5	310.2	299.5	3.6
Revenue cycle executive (87)	274.6	263.8	4.1	324.5	308.9	5.1	345.2	329.2	4.9
Internal audit executive (35)	235.0	227.1	3.5	283.2	277.9	1.9	302.7	296.0	2.3
Community health executive (26)	260.2	250.2	4.0	335.1	311.4	7.6	354.6	337.4	5.1
Mission services executive (37)	212.2	206.8	2.6	249.7	245.8	1.6	311.0	305.0	2.0
Supply chain management executive (67)	292.0	276.0	5.8	326.9	313.3	4.3	343.7	331.4	3.7
Home health executive (28)	231.0	225.9	2.2	267.6	247.7	8.1	287.4	277.5	3.5
Clinical integration/transformation executive (29)	396.9	370.4	7.2	485.3	485.3	0.0	481.2	460.2	4.6
Quality executive (physician) (46)	417.5	405.1	3.1	464.9	459.5	1.2	495.0	475.8	4.0
Quality executive (non-physician) (35)	262.1	253.2	3.5	300.0	278.5	7.7	325.0	316.1	2.8
Managed-care executive (60)	293.3	286.1	2.5	336.6	321.1	4.8	392.9	377.1	4.2

Source: Sullivan, Cotter and Associate

entering into bundled payments and other types of risk-based contracts, the providers are expanding their sources of executive talent and upping pay to attract the most qualified leaders.

Increasingly, those candidates are physicians, and their compensation packages will often involve value-based metrics, Greenblatt said. "You are seeing an evolution in more value-based measures used in determining payouts. Incentive programs and annual measures are focused on clinical quality, patient experience, access, cost and effectiveness of care. Larger systems are incorporating longer-term incentives targeted to select senior leaders."

As providers slowly wade deeper into risk-based contracting, clinical alignment takes on a bigger role, said Steven Sullivan, a principal at consulting group Pearl Meyer who specializes in executive pay. Employee, patient and physician engagement often serves a more prominent role in incentive plans. If that's not the case, providers are likely already behind, he said.

"What I see driving executive pay is where they are on risk-based contracting," Sullivan said. "The clinical measures have a renewed importance. Back 10 years ago, systems measured it just because they had to. Now, as more enter partnerships and strategic alliances, you come to the table with high clinical scores and efficiency so you have an advantage in doing a deal."

Some of those measures of executive performance will factor in hospital consumer assessment scores; readmission, mortality and infection rates; patient loyalty and executive relationships with medical staff as well as an organization's ability to avoid regulatory issues and its readiness for provisions of the Medicare Access and CHIP Reauthorization Act.

Financial goals, which are still important metrics, have also evolved. There is more focus on cost per unit of care to measure efficiency, following cash flow and EBITDA to ensure sustainable operations or pursue growth opportunities, experts said.

"Balance sheets are probably more important now because margins are a lot thinner, expectations are higher from staff, wages are up and payer reimbursement has gotten tighter," said Lowell Brown, national leader of the healthcare practice at Arent Fox. "Providers are getting squeezed on both ends so they have to do more with less."

Spreading use of incentives

Annual incentive plans are also being extended beyond the top-level executives to managers throughout the organization, data show. In 2017, 71% of health systems reported having an annual incentive plan for management positions specific to their department, marking a steady increase in the use of those plans over the past three years.

Many providers are trying to grow volume and increase patient safety, which presents challenges in setting targets for compensation packages due to unanticipated changes in the payer mix, population fluctuations and shifting utilization, said Ed Steinhoff, a managing director at Pearl Meyer who also specializes in executive pay. Metrics aren't all or nothing, they are a moving target, he said.

"Systems are setting targets on a relative basis, which helps balance the uncertainty of today's system and external influences," Steinhoff said.

Shifts in compensation packages signify the conflict hospitals are experiencing in transitioning to new delivery models. Integrating EHRs into the workflow, forming ACOs, aligning clinical processes and removing unnecessary utilization and variation require significant investment in infrastructure and training.

"It's a conundrum health systems face now that they own outpatient clinics, ambulatory surgery centers or doctors' groups," said Julie Coffman, who leads the healthcare and organization practice at Bain & Co. "If you still have hospital leadership packages solely based on profit and loss, that is completely at odds with value-based care. You have to harmonize that."

"You are caught in the middle if you switch too quickly—there are a lot of costs to rationalize and if you still make productive margins on fee-for-service, then that is working against you," Coffman said.

Yet, it takes more than changing incentive packages to alter the trajectory of a health system; compensation is an important lever to drive outcomes but it's not the only one, she said.

"To ensure the operating model is aligned with the strategic intent, you need proper structure, defined roles, accountability, the right metrics and mix of incentives for organizations to succeed in today's industry." ●