Modern Healthcare | EXECUTIVE COMPENSATION SURVEY

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THE ONLY HEALTHCARE BUSINESS NEWS WEEKLY | AUGUST 5, 2019

One of the constants of healthcare:

# Rising executive pay

By Alex Kacik

AVERAGE TOTAL CASH COMPENSATION for health system executives rose 6.5% from 2018 to 2019, extending a consistent rise in executive pay that governance experts do not expect to slow.

Annual and long-term performance-based incentives have driven pay hikes of 4% to 7% each of the last four years, according to Modern Healthcare's annual Executive Compensation Survey. Health systems' ongoing expansions coupled with a highly competitive executive market will continue to drive up their base salaries and bonuses, experts said. But this dynamic is drawing ire from rank-and-file employees who aren't happy with their pay and from consumers who are spending more on their care. It is also spurring new legislation.

Nevertheless, with baby boomers retiring in large numbers and demand soaring, the pay hikes aren't going away anytime soon. "Healthcare organizations are becoming more complex and leadership skills are evolving," which often translates to higher pay, said Bruce Greenblatt, a managing principal at SullivanCotter, the compensation consulting firm that has supplied data for Modern Healthcare's annual surveys since 2003.

"Qualified talent is in short supply, which requires a deliberate approach to talent strategy as new roles emerge and new responsibilities unfold," he said.

Providers look to select metrics and targets that will shape their organization for years to come. In doing so, they toe a delicate line ensuring their bonuses are attainable to keep executives engaged while not making them out of reach and damaging morale.

**THE TAKEAWAY**

Annual and long-term performance-based incentives have driven pay hikes of 4% to 7% each of the last four years, according to Modern Healthcare's annual Executive Compensation Survey. The trend does not appear to be abating.

With more pay based on performance, there's greater risk of poor program design, said Steve Sullivan, a managing director at executive compensation consulting firm Pearl Meyer. If you make a mistake, there is a lot of money on the line, he said.

"You don't want to have giveaways and you don't want to have plans so egregiously hard that they never have payouts because executives will disengage from the program," Sullivan said. "You have to strike a balance between responsible compensation and something that is motivating and incenting."

## Larger systems paying more

Health system executives' average base salaries increased 4.2% and ticked up even higher among orga-

# Executive compensation by organization size

Key titles by organization revenue ($ in thousands)

| | MEDIAN | | | | | | AVERAGE | | |
|---|---|---|---|---|---|---|---|---|---|
| | BASE | | | TOTAL CASH COMPENSATION | | | TOTAL CASH COMPENSATION | | |
| TITLE | 2019 | 2018 | CHANGE | 2019 | 2018 | CHANGE | 2019 | 2018 | CHANGE |
| **HOSPITALS WITH NET REVENUE LESS THAN $300 MILLION** | | | | | | | | | |
| President and CEO, stand-alone hospital | $524.3 | $500.0 | 4.9% | $627.7 | $557.1 | 12.7% | $666.0 | $616.3 | 8.1% |
| President and CEO, system-owned hospital | 310.0 | 300.0 | 3.3 | 357.6 | 345.0 | 3.6 | 375.8 | 359.0 | 4.7 |
| Chief operating officer, system-owned | 191.3 | 185.7 | 3.0 | 221.9 | 210.7 | 5.3 | 238.6 | 227.0 | 5.1 |
| Chief medical officer, system-owned | 324.9 | 315.0 | 3.1 | 374.2 | 345.0 | 8.5 | 376.7 | 361.0 | 4.4 |
| Chief financial officer, stand-alone hospital | 317.5 | 307.2 | 3.4 | 347.8 | 329.3 | 5.6 | 363.8 | 341.5 | 6.5 |
| Chief financial officer, system-owned | 196.0 | 190.3 | 3.0 | 226.5 | 213.2 | 6.2 | 232.6 | 221.3 | 5.1 |
| **HOSPITALS WITH NET REVENUE OF $300 MILLION OR MORE** | | | | | | | | | |
| President and CEO, stand-alone hospital | $777.0 | $728.0 | 6.7% | $888.6 | $773.5 | 14.9% | $931.1 | $846.7 | 10.0% |
| President and CEO, system-owned hospital | 475.0 | 450.0 | 5.6 | 614.1 | 581.6 | 5.6 | 654.6 | 625.7 | 4.6 |
| Chief operating officer, system-owned | 296.0 | 289.1 | 2.4 | 353.3 | 329.2 | 7.3 | 378.2 | 355.5 | 6.4 |
| Chief medical officer, system-owned | 369.1 | 362.3 | 1.9 | 439.8 | 423.6 | 3.8 | 455.2 | 431.6 | 5.5 |
| Chief financial officer, stand-alone hospital | 432.0 | 400.0 | 8.0 | 475.0 | 410.7 | 15.6 | 470.9 | 442.5 | 6.4 |
| Chief financial officer, system-owned | 289.1 | 280.0 | 3.2 | 333.3 | 321.3 | 3.7 | 355.5 | 336.8 | 5.5 |
| **SYSTEMS WITH NET REVENUE LESS THAN $1 BILLION** | | | | | | | | | |
| President and CEO | $700.0 | $658.8 | 6.3% | $790.6 | $774.6 | 2.1% | $847.9 | $815.4 | 4.0% |
| Chief operating officer | 435.8 | 433.5 | 0.5 | 500.0 | 495.0 | 1.0 | 516.7 | 486.6 | 6.2 |
| Chief medical officer | 446.7 | 434.2 | 2.9 | 515.1 | 485.3 | 6.1 | 520.5 | 495.3 | 5.1 |
| Chief financial officer | 434.5 | 415.0 | 4.7 | 470.9 | 444.1 | 6.0 | 486.4 | 463.4 | 5.0 |
| **SYSTEMS WITH NET REVENUE OF $1 BILLION UP TO $3 BILLION** | | | | | | | | | |
| President and CEO | $1,011.2 | $956.0 | 5.8% | $1,248.0 | $1,233.8 | 1.2% | $1,290.1 | $1,208.2 | 6.8% |
| Chief operating officer | 649.2 | 609.2 | 6.6 | 768.8 | 716.9 | 7.2 | 786.7 | 740.4 | 6.3 |
| Chief medical officer | 535.2 | 515.0 | 3.9 | 635.7 | 605.1 | 5.1 | 644.3 | 605.9 | 6.3 |
| Chief financial officer | 568.9 | 554.7 | 2.6 | 670.2 | 656.1 | 2.1 | 679.1 | 649.3 | 4.6 |
| **SYSTEMS WITH NET REVENUE OF $3 BILLION OR MORE** | | | | | | | | | |
| President and CEO | $1,438.5 | $1,360.3 | 5.7% | $2,096.9 | $1,883.4 | 11.3% | $2,211.0 | $2,070.0 | 6.8% |
| Chief operating officer | 865.0 | 830.0 | 4.2 | 1,206.2 | 1,083.4 | 11.3 | 1,252.8 | 1,171.3 | 7.0 |
| Chief medical officer | 650.0 | 650.0 | 0.0 | 860.6 | 781.7 | 10.1 | 918.5 | 870.0 | 5.6 |
| Chief financial officer | 754.0 | 720.6 | 4.6 | 954.3 | 862.2 | 10.7 | 1,053.2 | 937.6 | 12.3 |

Note: All numbers rounded.

*Source: SullivanCotter*

# Executive compensation—hospitals

Selected titles ($ in thousands)

| | MEDIAN | | | | | | AVERAGE | | |
|---|---|---|---|---|---|---|---|---|---|
| | BASE | | | TOTAL CASH COMPENSATION | | | TOTAL CASH COMPENSATION | | |
| TITLE | 2019 | 2018 | CHANGE | 2019 | 2018 | CHANGE | 2019 | 2018 | CHANGE |
| **C-SUITE EXECUTIVES** | | | | | | | | | |
| President and CEO, stand-alone | $650.3 | $604.0 | 7.7% | $758.3 | $686.2 | 10.5% | $803.7 | $736.0 | 9.2% |
| President and CEO, system-owned | 360.2 | 351.8 | 2.4 | 433.4 | 414.7 | 4.5 | 474.0 | 452.9 | 4.7 |
| Chief operating officer, system-owned | 224.7 | 218.5 | 2.8 | 272.3 | 254.6 | 6.9 | 300.9 | 284.4 | 5.8 |
| Chief medical officer, stand-alone | 390.8 | 390.0 | 0.2 | 450.0 | 433.0 | 3.9 | 460.7 | 455.1 | 1.2 |
| Chief medical officer, system-owned | 349.9 | 340.0 | 2.9 | 408.3 | 390.0 | 4.7 | 421.0 | 400.9 | 5.0 |
| Chief financial officer, stand-alone | 355.3 | 339.6 | 4.6 | 386.5 | 377.1 | 2.5 | 415.3 | 390.1 | 6.5 |
| Chief financial officer, system-owned | 225.0 | 216.5 | 3.9 | 261.0 | 242.0 | 7.8 | 274.4 | 260.7 | 5.3 |
| Chief Information officer | 272.8 | 261.0 | 4.5 | 285.5 | 279.9 | 2.0 | 305.9 | 294.3 | 4.0 |
| Chief nursing officer/top patient-care executive | 208.8 | 200.4 | 4.2 | 239.6 | 225.8 | 6.1 | 248.7 | 238.6 | 4.2 |
| **OTHER TOP EXECUTIVES** | | | | | | | | | |
| Chief human resources officer, stand-alone | 236.3 | 236.3 | 0.0 | 256.7 | 248.5 | 3.3 | 278.1 | 270.8 | 2.7 |
| Chief human resources officer, system-owned | 212.2 | 206.7 | 2.7 | 237.5 | 238.0 | -0.2 | 260.6 | 253.6 | 2.8 |
| Operations | 197.6 | 189.6 | 4.2 | 220.7 | 212.4 | 3.9 | 247.7 | 235.5 | 5.2 |
| Professional services | 210.1 | 202.5 | 3.7 | 253.1 | 244.9 | 3.3 | 257.8 | 246.4 | 4.7 |
| Foundation or fund development | 260.3 | 253.4 | 2.7 | 305.4 | 284.9 | 7.2 | 310.5 | 302.8 | 2.5 |
| Business development | 223.0 | 215.9 | 3.3 | 243.8 | 253.2 | -3.7 | 255.8 | 253.1 | 1.1 |

*Source: SullivanCotter*

nizations with more than $3 billion in revenue based in high-cost cities, according to Modern Healthcare's 39th Executive Compensation Survey, made up of data aggregated from 1,149 hospitals and 401 health systems. System CEOs earned an average total cash compensation of $1.4 million in 2019, a 6.3% increase.

Executives who saw the highest total cash compensation hikes of 6.6% up to 13.3% were business development officers, administrative officers, internal audit executives, chief financial officers, planning executives, reimbursement executives, chief nursing officers, chief human resources officers and chief operating officers.

Incentives are typically tiered with a minimum threshold, a target and a stretch goal. They are often based on quality, safety and patient experience as well as financial performance. They may be related to ambulatory market share, employee and patient engagement, facilitating access to capital, bolstering physician alignment, inking successful joint partnerships and mergers, emergency department wait times and utilization, population health, shared risk, readmissions, hospital-acquired infections and length of stay, among other metrics.

The types of incentives offered are heavily dependent on the provider and the market. Some hospitals and health systems have stuck to the more traditional financial and market-share-based measurements, while more progressive organizations are targeting outcomes.

The bonuses differ based on short- and long-term goals, the latter becoming more prominent in recent years as boards and compensation committees emphasize the entire organization's performance. Sometimes there is a trigger, such as operating margin, where executives miss out on all bonuses if it isn't reached. For instance, Mercy Health, which is now Bon Secours Mercy Health, did not pay executives an incentive in 2016 since the system did not reach its incentive thresholds, the Cincinnati-based Catholic health system said.

"You want to make sure everyone is rolling in the right direction," said Tom Giella, chairman of healthcare services for executive recruiter Korn Ferry. "You want to do what is right for the system, not an individual hospital or inpatient versus outpatient. It creates an incentive for everyone to work together."

But even if the baseline isn't reached, there typically isn't a penalty, experts said. It will only lower their earning potential. "In some industries there can be a negative adjustment," Sullivan said. "I haven't seen that in healthcare. In healthcare, if there is a modifier it is going to be positive."

# Executive compensation—healthcare systems

Ranked by average total cash compensation ($ in thousands)

| | MEDIAN | | | | | | AVERAGE | | |
|---|---|---|---|---|---|---|---|---|---|
| | BASE | | | TOTAL CASH COMPENSATION | | | TOTAL CASH COMPENSATION | | |
| TITLE | 2019 | 2018 | CHANGE | 2019 | 2018 | CHANGE | 2019 | 2018 | CHANGE |
| **C-SUITE EXECUTIVES** | | | | | | | | | |
| President and CEO | $968.5 | $927.6 | 4.4% | $1,196.4 | $1,173.2 | 2.0% | $1,442.8 | $1,357.0 | 6.3% |
| Chief operating officer | 644.2 | 600.0 | 7.4 | 750.6 | 700.6 | 7.1 | 861.9 | 808.8 | 6.6 |
| Chief administrative officer | 583.1 | 562.5 | 3.7 | 696.7 | 641.6 | 8.6 | 785.7 | 713.4 | 10.1 |
| Chief financial officer | 558.4 | 550.0 | 1.5 | 669.6 | 631.5 | 6.0 | 750.9 | 694.5 | 8.1 |
| Chief medical officer | 522.6 | 514.8 | 1.5 | 630.7 | 610.8 | 3.3 | 708.4 | 669.9 | 5.8 |
| Chief strategy officer | 500.2 | 459.0 | 9.0 | 589.6 | 532.2 | 10.8 | 637.5 | 608.7 | 4.7 |
| Legal services (general counsel) | 471.0 | 445.0 | 5.8 | 560.5 | 529.0 | 5.9 | 618.7 | 583.3 | 6.1 |
| Chief information officer | 420.1 | 400.0 | 5.0 | 484.3 | 455.0 | 6.4 | 534.5 | 502.6 | 6.3 |
| Chief technology officer | 267.2 | 259.7 | 2.9 | 298.9 | 293.3 | 1.9 | 323.6 | 317.3 | 2.0 |
| **TOP CORPORATE DEPARTMENT EXECUTIVES** | | | | | | | | | |
| Academic affairs | $410.0 | $388.0 | 5.7% | $473.4 | $473.1 | 0.1% | $606.3 | $607.1 | -0.1% |
| Clinical integration/transformation | 462.1 | 443.2 | 4.3 | 538.9 | 551.2 | -2.2 | 544.8 | 551.3 | -1.2 |
| Population health | 403.3 | 391.3 | 3.1 | 460.1 | 452.4 | 1.7 | 543.8 | 529.0 | 2.8 |
| Quality (M.D.) | 460.0 | 429.1 | 7.2 | 530.5 | 510.4 | 3.9 | 535.4 | 513.9 | 4.2 |
| Business development | 347.2 | 330.0 | 5.2 | 444.2 | 418.5 | 6.1 | 497.7 | 439.4 | 13.3 |
| Chief human resources officer | 380.4 | 367.0 | 3.6 | 443.0 | 406.8 | 8.9 | 495.3 | 464.2 | 6.7 |
| Clinical research | 341.2 | 337.6 | 1.1 | 386.9 | 379.1 | 2.1 | 457.3 | 478.9 | -4.5 |
| Operations | 341.8 | 293.4 | 16.5 | 365.2 | 334.9 | 9.0 | 447.1 | 435.0 | 2.8 |
| Medical informatics | 357.3 | 339.6 | 5.2 | 418.6 | 401.4 | 4.3 | 440.9 | 418.7 | 5.3 |
| Chief nursing officer/patient care exec | 329.1 | 321.2 | 2.5 | 401.3 | 381.7 | 5.1 | 423.7 | 395.9 | 7.0 |
| Foundation/fund development | 305.6 | 299.6 | 2.0 | 341.9 | 332.0 | 3.0 | 403.7 | 380.3 | 6.2 |
| Managed care | 312.1 | 298.0 | 4.8 | 364.1 | 343.9 | 5.9 | 401.3 | 379.7 | 5.7 |
| Ambulatory care | 306.4 | 302.7 | 1.2 | 349.1 | 325.7 | 7.2 | 388.4 | 370.9 | 4.7 |
| Professional services | 288.4 | 274.5 | 5.1 | 345.8 | 320.9 | 7.8 | 371.8 | 352.3 | 5.5 |
| Marketing | 290.6 | 280.0 | 3.8 | 339.5 | 313.9 | 8.1 | 369.3 | 353.1 | 4.6 |
| Supply chain management | 300.0 | 288.4 | 4.0 | 339.6 | 330.5 | 2.7 | 365.2 | 347.0 | 5.3 |
| Facilities | 284.1 | 266.3 | 6.7 | 328.2 | 307.1 | 6.9 | 362.1 | 341.2 | 6.1 |
| Communications | 270.8 | 263.4 | 2.8 | 343.0 | 319.1 | 7.5 | 358.2 | 340.0 | 5.3 |
| Revenue cycle | 290.9 | 278.7 | 4.4 | 336.6 | 322.0 | 4.5 | 355.4 | 342.1 | 3.9 |
| Planning | 294.2 | 280.8 | 4.8 | 350.7 | 305.2 | 14.9 | 351.7 | 326.8 | 7.6 |
| Mission services | 246.9 | 235.0 | 5.1 | 275.2 | 279.9 | -1.7 | 346.4 | 340.0 | 1.9 |
| Government relations | 266.7 | 260.3 | 2.4 | 324.5 | 308.2 | 5.3 | 344.9 | 332.5 | 3.7 |
| Reimbursement | 271.3 | 262.0 | 3.5 | 315.5 | 304.1 | 3.8 | 342.2 | 318.2 | 7.5 |
| Facilities planning/construction | 282.4 | 269.8 | 4.7 | 331.3 | 308.0 | 7.5 | 340.1 | 347.4 | -2.1 |
| Process/performance improvement | 260.0 | 255.4 | 1.8 | 307.4 | 300.2 | 2.4 | 337.0 | 321.9 | 4.7 |
| Support services | 286.3 | 270.4 | 5.9 | 317.1 | 312.0 | 1.6 | 333.5 | 316.6 | 5.3 |
| Compliance | 270.1 | 259.1 | 4.3 | 312.7 | 294.6 | 6.1 | 333.0 | 313.8 | 6.1 |
| Quality (non-M.D.) | 265.0 | 255.0 | 3.9 | 302.4 | 294.3 | 2.8 | 327.5 | 307.4 | 6.5 |
| Risk management | 260.7 | 252.1 | 3.4 | 283.6 | 274.7 | 3.2 | 321.4 | 309.3 | 3.9 |

*Source: SullivanCotter*

## Long-term view

Nearly half of larger health systems surveyed report using long-term incentive plans.

Dignity Health said a "substantial portion" of executive compensation is linked to organizational performance related to key clinical-quality and patient-satisfaction measures as well as community health investments and financial performance. Similarly, Kaiser Permanente said a third to half of pay is based on performance, linked to membership growth, expenses, operating income, and clinical and service quality improvements. Bon Secours Mercy said each of its employees are rewarded under the same incentive program, which includes quality, growth, financial and community benefit targets.

More providers are using deferred compensation programs, which can amount to hefty payouts at the end of an executive's tenure.

In a related Modern Healthcare analysis of more than 2,000 not-for-profit hospitals, the 25 highest-paid not-for-profit health system executives received a combined 33.2% increase in total compensation in 2017, as their compensation rose to $197.9 million from $148.6 million in 2016 (June 14, p. 18).

The pay increases have spawned rallies and protests from more than 1,000 employees at Beaumont Health and Providence St. Joseph Health, both of which had chief executives in the top 25. Beaumont and Providence said in prepared statements that their CEO pay are not outliers compared to their peers.

California policymakers introduced a bill, recently passed by a state Senate subcommittee, that aims to boost not-for-profit health systems' public disclosure requirements for executives' deferred compensation.

"What surprises people I think as compensation becomes very generous because it is a competitive market, some think a hospital administrator shouldn't expect to make more than the average physician," said Paul Keckley, an industry consultant and managing editor of the Keckley Report. "Those days are long gone."

Executives' pay along with their respective C-suites are growing as health systems expand. New C-suite positions in 2019 included reimbursement executive, communications executive, academic affairs executive and operations executive, according to SullivanCotter's data.

Physician leaders continue to be in high demand as providers look to influence clinical delivery redesign, population heath activities and quality improvement, said Tom Pavlik, a managing principal at SullivanCotter. Administrative roles in finance, consumer experience, IT, marketing and human resources are being filled by healthcare industry outsiders, he said.

"There is a lot of change as organizations are realigning to be operationally efficient and integrate clinical care delivery," Pavlik said.

Among hospital executives, average base salaries rose 3.7% for hospitals that exceeded $300 million in revenue compared to 3.2% for smaller facilities. System-owned hospitals saw slightly lower base salary hikes than independent ones.

Average total compensation increased 5.3%, while CEOs of independent hospitals took home the highest raises at 9.2%, followed by chief financial officers of independent hospitals (6.5%), chief operating officers of system-owned hospitals (5.8%) and chief financial officers of system-owned hospitals (5.3%). Independent hospital CEOs earned an average of $758,300.

Providers rely on third-party consultants for accurate portrayals of market-based compensation reports that inform their compensation structures. But some of Pearl Meyer's prospective clients are concerned about how their current adviser is interpreting the market, Sullivan said.

"With all the M&A, you have to create larger peer groups to generate a bigger sample," he said.

This is a relatively new dynamic as the number of megasystems have swelled, Giella said.

"There is a war for talent and a big demand as systems have amalgamated so quickly," he said. "They are getting through these growing pains where they have never dealt with this scale before, so it's hard to look at historical trends. It's very fluid so it's hard to tell if you are paying someone fair compensation."

One of Keckley's regional health system clients told him that they are trying to figure out the most efficient and lean model.

"When I asked him what is keeping him awake, he said, 'I want to be sure we are market-focused and that we are not just busy moving the deck chairs around.'" ●

"What surprises people I think as compensation becomes very generous because it is a competitive market, **some think a hospital administrator shouldn't expect to make more than the average physician**. Those days are long gone."

**Paul Keckley**
Managing editor
The Keckley Reportt