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EXECUTIVE COMPENSATION

Use with discretion

As front-line workers suffer layoffs and furloughs, giving executives bonuses can stir resentment

GETTY IMAGES

By Alex Kacik

WHILE MOST HOSPITAL and health systems are reworking their executive incentive plans, only 16% eliminated bonus payouts entirely this year as COVID-19 roils the healthcare industry and the broader economy.

Annual and long-term performance-based incentives have driven pay hikes of 4% to 7% each of the last five years, according to Modern Healthcare's annual Executive Compensation Survey. Prior to the pandemic, weighted average total cash compensation, which encompasses base salaries and bonuses, for executives across 376 health systems surveyed increased 6.5%. Weighted average total cash compensation rose 3.2% for executives across more than 1,000 hospitals.

That trend shifted along with the rest of the industry as COVID-19 slashed revenue for many providers and costs surged, although federal bailout funds and revenue that wasn't fee-for-service have buffered some hospitals and health systems. (See related story, p. 12.)

As of the end of June, approximately 38% of organizations had implemented temporary executive salary reductions typically ranging from 10% to 30% and spanning three to six months, according to executive compensation experts at SullivanCotter, the consulting firm that has supplied data for Modern Healthcare's annual survey since 2003.

As of mid-May, nearly two-thirds of providers were considering revising, replacing or adding new incentives for COVID-19 or moving to a partially or entirely discretionary plan, where the amount, requirements and timing are not disclosed in advance and left to the compensation committee's discretion. Also as of mid-May, 16% of health systems and hospitals had reported plans to eliminate bonuses, so those results may have changed, SullivanCotter noted.

Around 15% of providers have already rolled back temporary salary reductions, June survey data show.

While COVID-19 has had varied impacts on providers based on their market, eligibility for relief funding and structure, the aggregate toll on the industry is significant, drawing scrutiny on rising base salaries or incentive payouts.

Reputation could be marred

Organizations that furlough, lay off or reduce the pay or incentives for lower-level staff while keeping executive bonus payouts intact, could damage their reputation, executive pay experts said. "In my view, executives should not be receiving bonuses until some actions have been reversed for the broader workforce," said Ed Steinhoff, a managing director at executive compensation consulting firm Pearl Meyer. "Some will argue that they have worked hard to achieve certain nonfinancial metrics and award executives, but the optics of doing so are pretty poor."

THE TAKEAWAY

Only 16% of providers are eliminating bonus payouts entirely this year as COVID-19 roils the healthcare industry and the broader economy.

Executive compensation by organization size

Key titles by organization revenue ($ in thousands)

	MEDIAN						AVERAGE		
	BASE			TOTAL CASH COMPENSATION			TOTAL CASH COMPENSATION		
TITLE	2020	2019	CHANGE	2020	2019	CHANGE	2020	2019	CHANGE
HOSPITALS WITH NET REVENUE LESS THAN $300 MILLION									
President and CEO, system-owned	$333.4	$324.0	2.9%	$372.0	$356.9	4.2%	$394.1	$377.9	4.3%
Chief operating officer, system-owned	223.9	221.1	1.3%	239.0	233.7	2.3%	258.3	250.9	3.0%
Chief medical officer, system-owned	333.3	327.8	1.7%	382.1	371.0	3.0%	393.7	377.5	4.3%
Chief financial officer, system-owned	204.0	197.7	3.2%	231.0	225.0	2.7%	236.9	232.3	2.0%
HOSPITALS WITH NET REVENUE OF $300 MILLION OR MORE									
President and CEO, system-owned	$519.0	$501.4	3.5%	$666.1	$621.4	7.2%	$720.8	$690.4	4.4%
Chief operating officer, system-owned	331.6	320.9	3.3%	394.1	375.4	5.0%	425.3	411.7	3.3%
Chief medical officer, system-owned	378.2	368.6	2.6%	447.1	445.0	0.5%	462.2	458.6	0.8%
Chief financial officer, system-owned	278.1	275.0	1.1%	319.3	318.9	0.1%	350.0	345.1	1.4%
SYSTEMS WITH NET REVENUE LESS THAN $1 BILLION									
President and CEO	$779.2	$750.1	3.9%	$875.4	$817.2	7.1%	$924.8	$897.8	3.0%
Chief operating officer	497.2	461.0	7.9%	540.4	550.5	-1.8%	541.6	516.1	5.0%
Chief medical officer	456.5	443.8	2.9%	494.3	482.6	2.4%	539.6	512.7	5.2%
Chief financial officer	440.5	425.8	3.4%	486.4	469.7	3.6%	511.5	479.3	6.7%
SYSTEMS WITH NET REVENUE OF $1 BILLION UP TO $3 BILLION									
President and CEO	$1,100.0	$1,058.7	3.9%	$1,414.7	$1,400.4	1.0%	$1,455.9	$1,404.1	3.7%
Chief operating officer	673.5	649.6	3.7%	843.3	780.6	8.0%	879.5	840.1	4.7%
Chief medical officer	529.4	514.0	3.0%	608.4	633.9	-4.0%	648.4	620.3	4.5%
Chief financial officer	596.5	570.1	4.6%	732.0	689.0	6.2%	746.4	707.2	5.6%
SYSTEMS WITH NET REVENUE OF $3 BILLION OR MORE									
President and CEO	$1,505.1	$1,489.3	1.1%	$2,229.7	$2,200.0	1.4%	$2,681.2	$2,421.3	10.7%
Chief operating officer	947.7	947.3	0.0%	1409.9	1299.2	8.5%	1487.1	1334.5	11.4%
Chief medical officer	746.1	686.1	8.8%	1005.6	969.9	3.7%	1039.7	958.6	8.5%
Chief financial officer	816.4	795.3	2.7%	1147.1	1025.5	11.9%	1219.6	1119.4	9.0%

Note: All numbers rounded.

Source: SullivanCotter

Executive compensation—hospitals

Selected titles ($ in thousands)

	MEDIAN						AVERAGE		
	BASE			TOTAL CASH COMPENSATION			TOTAL CASH COMPENSATION		
TITLE	2020	2019	CHANGE	2020	2019	CHANGE	2020	2019	CHANGE
C-SUITE EXECUTIVES									
President and CEO, stand-alone	$667.5	$606.0	10.1%	$754.1	$711.9	5.9%	$778.0	$743.2	4.7%
President and CEO, system-owned	401.7	398.7	0.8%	479.4	450.0	6.5%	533.5	511.2	4.4%
Chief operating officer, system-owned	296.0	288.9	2.5%	350.2	328.9	6.5%	364.8	353.5	3.2%
Chief medical officer, stand-alone	450.2	432.5	4.1%	489.6	450.0	8.8%	493.8	469.5	5.2%
Chief medical officer, system-owned	364.1	353.3	3.1%	419.9	418.3	0.4%	437.2	429.0	1.9%
Chief financial officer, stand-alone	329.6	322.4	2.2%	365.6	351.4	4.0%	400.3	384.1	4.2%
Chief financial officer, system-owned	237.2	232.0	2.2%	276.7	275.9	0.3%	290.0	285.2	1.7%
Chief information officer	256.8	249.3	3.0%	303.5	282.8	7.3%	307.3	294.0	4.5%
Chief nursing officer/top patient-care executive	221.1	214.0	3.3%	255.1	245.6	3.9%	262.6	254.6	3.1%
OTHER TOP EXECUTIVES									
Chief human resources officer	$232.4	$230.3	0.9%	$262.8	$250.8	4.8%	$287.5	$271.9	5.7%
Hospital administrator	320.2	307.5	4.1%	381.8	356.9	7.0%	386.1	375.4	2.8%
Operations	203.0	199.3	1.9%	226.8	221.1	2.6%	258.1	246.1	4.9%
Professional services	217.9	209.2	4.2%	243.2	249.4	-2.5%	254.7	253.8	0.4%
Foundation or fund development	252.8	246.6	2.5%	281.4	283.4	-0.7%	316.1	303.5	4.2%

Source: SullivanCotter

If an executive leaves an organization because they aren't earning a $30,000 bonus this year, that may not be a person the company wants on the team, Steinhoff said.

A lot of hospital board members have called after work hours to discuss how to handle discretionary bonuses, said Steve Sullivan, a managing director at Pearl Meyer. If awards are doled out, they will likely be a fraction of the original target, he said.

"There has to be some sense of equity," he said. "If there were a lot of furloughs and the organization isn't hiring people back now—or from what I hear they are starting to furlough again—it is awfully tough to offer discretionary awards."

Weighing liquidity, sustainability

For incentive plans that remain intact, financial sustainability and liquidity will likely be more heavily weighted, said Bruce Greenblatt, a managing principal at SullivanCotter. Adjusted incentive plans will also factor in employee safety related to personal protective equipment and infection rates, patient safety, quality of care and recovery of inpatient volumes.

Short-term performance measures will likely be shortened to quarterly or semi-annual benchmarks. Long-term incentives might be revamped to account for current uncertainties.

Those adjustments are expected to be a drag on total compensation at least through 2021, executive compensation experts said. "Healthcare will continue to adapt to the current environment and executive compensation programs will adapt as well," Greenblatt said, emphasizing a flexible and fluid approach. "We expect 2021 salary increases to be modest, if there are any at all."

The U.S. median hospital and health system operating margin could drop as low as negative 7% by the end of 2020 without additional support from the federal government, the American Hospital Association recently warned.

As a result of falling margins, nearly half of healthcare organizations surveyed by SullivanCotter at the end of June reported planning or considering a freeze on executive salaries, while about 32% were planning or considering deferring executive salary increases to a later date.

Southfield, Mich.-based Beaumont Health furloughed 2,475 employees, permanently eliminated 450 positions and cut executive salaries 45% to 70%—the latter for CEO John Fox—as it prepares for a 20% to 40% dent in its 2020 annual revenue.

"While many front-line employees have never been busi-

Executive compensation—healthcare systems

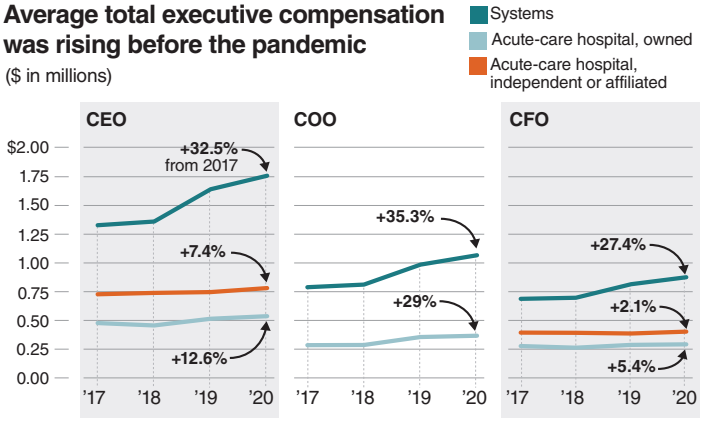
Ranked by average total cash compensation ($ in thousands)

	MEDIAN						AVERAGE		
	BASE			TOTAL CASH COMPENSATION			TOTAL CASH COMPENSATION		
TITLE	2020	2019	CHANGE	2020	2019	CHANGE	2020	2019	CHANGE
C-SUITE EXECUTIVES									
President and CEO	$1,164.1	$1,106.4	5.2%	$1,541.1	$1,484.8	3.8%	$1,755.5	$1,637.9	7.2%
Chief operating officer	743.8	721.0	3.2%	931.9	889.9	4.7%	1063.7	982.2	8.3%
Chief financial officer	638.3	615.3	3.7%	768.8	732.3	5.0%	872.6	812.1	7.4%
Chief administrative officer	556.3	555.6	0.1%	675.4	679.5	-0.6%	751.9	715.0	5.2%
Chief medical officer	568.0	528.2	7.5%	670.2	633.9	5.7%	751.2	705.6	6.5%
Chief strategy officer	550.8	515.0	7.0%	656.5	601.9	9.1%	683.3	628.3	8.7%
Legal services (general counsel)	485.4	464.1	4.6%	578.8	565.9	2.3%	653.7	612.8	6.7%
Chief information officer	438.0	420.8	4.1%	510.3	474.0	7.7%	552.1	523.6	5.4%
Chief technology officer	284.6	271.8	4.7%	329.6	311.5	5.8%	357.3	333.5	7.1%
TOP CORPORATE DEPARTMENT EXECUTIVES									
Academic affairs	$423.7	$422.2	0.3%	$492.8	$475.7	3.6%	$666.1	$605.8	9.9%
Clinical integration/transformation	478.3	459.7	4.0%	580.9	581.7	-0.1%	645.8	621.5	3.9%
Population health	443.9	420.9	5.5%	538.1	496.3	8.4%	595.0	565.9	5.2%
Quality (M.D.)	470.9	460.6	2.2%	557.0	538.9	3.4%	582.4	547.1	6.5%
Clinical research	373.9	362.3	3.2%	425.7	429.6	-0.9%	544.5	469.0	16.1%
Chief human resources officer	404.5	387.0	4.5%	474.6	452.1	5.0%	535.2	498.9	7.3%
Business development	343.2	326.7	5.1%	428.2	418.2	2.4%	470.3	451.3	4.2%
Medical informatics	360.4	354.7	1.6%	411.9	418.3	-1.5%	445.5	425.8	4.6%
Chief nursing officer/patient-care executive	338.8	326.0	3.9%	409.9	397.6	3.1%	434.3	418.6	3.7%
Ambulatory care	333.1	324.7	2.6%	376.2	383.9	-2.0%	420.4	398.1	5.6%
Managed care	321.5	312.1	3.0%	377.1	362.6	4.0%	418.0	392.8	6.4%
Foundation/fund development	303.8	298.9	1.6%	354.1	336.8	5.1%	413.1	396.9	4.1%
Professional services	313.2	293.1	6.9%	345.9	332.1	4.1%	405.8	377.5	7.5%
Marketing	309.2	300.0	3.1%	367.7	348.9	5.4%	405.7	376.5	7.7%
Planning	307.0	298.0	3.0%	367.4	357.4	2.8%	378.8	369.0	2.6%
Operations	278.8	269.2	3.5%	328.7	303.2	8.4%	378.1	358.1	5.6%
Government relations	291.2	276.4	5.4%	350.0	332.0	5.4%	374.9	356.2	5.2%
Facilities	294.8	281.6	4.7%	335.2	325.4	3.0%	372.6	358.4	4.0%
Revenue cycle	306.2	295.8	3.5%	366.0	347.0	5.5%	372.3	350.8	6.1%
Supply chain management	298.4	286.8	4.1%	357.2	338.2	5.6%	368.7	354.3	4.1%
Reimbursement	282.6	273.2	3.4%	342.8	336.6	1.9%	356.4	348.8	2.2%
Facilities planning/construction	282.9	265.9	6.4%	342.4	325.8	5.1%	353.4	334.9	5.5%
Mission services	264.1	243.8	8.3%	296.2	280.0	5.8%	350.5	326.3	7.4%
Compliance	284.2	270.7	5.0%	329.8	319.9	3.1%	349.6	335.5	4.2%
Support services	280.8	277.5	1.2%	323.8	308.6	4.9%	334.6	322.5	3.7%
Risk management	257.5	245.1	5.1%	292.4	286.9	1.9%	334.5	319.5	4.7%
Internal audit	251.4	241.9	3.9%	315.5	284.5	10.9%	328.2	308.6	6.4%
Information Security	268.7	255.6	5.1%	311.7	296.5	5.2%	325.0	305.9	6.3%
Quality (non-M.D.)	263.8	252.5	4.5%	313.9	281.3	11.6%	310.7	293.3	5.9%
Pharmacy	256.5	247.4	3.7%	289.8	282.8	2.5%	306.5	294.6	4.1%

Source: SullivanCotter

Average total executive compensation was rising before the pandemic

($ in millions)



Note: No COO pay was included for independent or affiliated acute-care hospitals

Source: SullivanCotter

er, other parts of our operations have drastically declined or ceased," Fox said in a statement. "We must make difficult, quick decisions now to protect and readjust to an uncertain future."

There was some discord between the medical staff and executives at the temporarily shuttered Beaumont Hospital Wayne regarding its reopening, Chief of Staff Dr. Muzammil Ahmed told Crain's Detroit Business in April. "We have a family medicine program for residents and deliver 100 babies each month. We want them to open it up. We are not pleased with their priorities."

Maintaining an open dialogue with physicians and staff is key for executives as they make these decisions, said Jess Jones, managing director and chief operating officer in Huron's Studer Group business. "You have to reengage and reestablish that trust," Jones said.

Freezes and furloughs

Ohio-based Bon Secours Mercy Health said it expects operating losses of $100 million per month, forcing it to freeze wages and furlough employees. Dallas-based Tenet Healthcare Corp. furloughed 500 full-time-equivalent positions—none of whom are involved in patient care—and postponed its 401(k) match for most employees.

"Wage cuts need to be seen as an equal sacrifice and not disproportionally borne by those that can least afford it," said Paul Keckley, healthcare analyst and managing editor of the Keckley Report. "Hourly FTEs can't take disproportionate whacks of 10% to 15% and then the CEO takes a 10% base compensation cut—it doesn't hurt the same as someone who is sitting at home for six weeks and doesn't know if they will have a job."

Many of the providers that were cutting executive salaries were typically also furloughing staff, Sullivan said, demonstrating that they are sharing the burden.

For organizations that give employees bonuses, most hospitals and health systems knew amid COVID-19 they wouldn't be able to satisfy the financial trigger, which uses a benchmark around metrics like annual revenue or income that sets a minimum level of performance before bonuses are awarded. That caused them to consider a quality-related threshold, accelerating a trend from prior years shifting more incentive pay from measures like operating margin to patient satisfaction, he said.

Generally, executives seem to be sharing more of the burden via pay cuts than in past recessions, Steinhoff said.

"The healthcare industry has been moving a long time toward more paying being at risk; that may stabilize or plateau I suppose," he said. "COVID-19 makes it nearly impossible to set targets and administer variable pay, so we may see comp committees rely on base salaries and resort to having a discretionary rewards program."

Return to normalcy uncertain

The average base salary for health system CEOs managing an organization with more than $3 billion in revenue was $1.7 million as of Jan. 1. Average total cash compensation was $2.7 million.

Generally, the larger the system, the bigger the pay increases. Health system executives overseeing an organization with more than $3 billion in net revenue saw weighted average base salary increases of 4.6% and average total pay increases of 10.2% as of Jan. 1. That compared to 3.4% and 4.5%, respectively, for executives at systems with less than $1 billion in revenue.

Large organizations have scaled up significantly in prior years through mergers and acquisitions, driving up salaries and incentive payouts, said Tom Pavlik, a managing principal at SullivanCotter. "When the economy was robust, there was more focus on finding and retaining top talent to lead the organization through higher salaries or incentives plans," he said. "Right now there is so much uncertainty—most are focused on recovery and what lies ahead in the fall, so it's hard to speculate when things may return to what it looked like previously."

While larger systems typically doled out higher pay increases, SullivanCotter couldn't specify whether those salary or incentive bumps were linked to improved financial performance.

"One of the implications of COVID-19 is accelerating the need for cost efficiencies and revenue growth," Greenblatt said. "From the compensation committee's perspective, I think this is going to elevate the imperative for performance, and compensation is an important tool to drive that performance."

Outside of salary and incentive cuts, many hospitals have stopped any matching contributions during the pandemic. They can also try to renegotiate the fees firms charge to manage retirement plans, which can yield 25% savings, said John Lowell, partner and actuary at October Three, an actuarial firm specializing in retirement plans.

Looking ahead, providers should still track executives' and companywide performance against original incentive thresholds, Sullivan said. A lot of boards still want to offer some type of bonus, albeit a smaller one, and it will be good to have some benchmarks to see how executives and companies rose of to the occasion or fell short, he said.

"Then they can see how well they are doing on patient satisfaction, engagement, safety, clinical quality and other areas to help the committee come up with some type of variable pay," Sullivan said. ●