System Focus

July 2025

The Governance Institute

Board Compensation in Health Systems: Balancing Mission, Talent, and Governance Demands

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As healthcare governance grows more complex and demanding, the competition for skilled board members intensifies. Many not-for-profit health systems are considering compensating board members as a tool to attract and retain directors with the necessary skills and expertise to navigate the industry's growing list of challenges.

This article examines some of the factors prompting these conversations—from market pressures to mission alignment—and offers practical guidance for organizations as they decide whether or not compensation is appropriate in light of evolving needs.

Prevalence Is Low, But Interest Is Growing

Although board compensation remains a minority practice for not-for-profit health systems, interest is on the rise as organizations grow in scale and broaden their operational footprint. It is most common, and continues to grow, in the largest health systems where many are no longer defined by a single community or region. These systems, which usually operate across multiple states and serve diverse populations through various delivery models, often encompass insurance operations, integrated delivery networks, strategic partnerships, innovation centers, and research institutes.

Many of these organizations are changing as they look to expand their reach and diversify their revenue streams—whether through mergers and acquisitions, joint ventures, or innovation and commercialization efforts—and invest more resources in critical initiatives such as digital transformation, cybersecurity, and health equity.

As organizations increase in size, scope, and complexity, so does their risk exposure and associated governance demands. These changes underscore the need for strong and steady oversight and require board members to have a greater understanding of the internal and external dynamics impacting the organization. The board's composition must now reflect a greater blend of experience, skills, and perspective, which has increased the pressure to recruit directors from outside of traditional local volunteer circles. Additionally, these large not-for-profit systems are increasingly competing for board member talent with for-profit businesses, where board compensation has been a long-standing practice.

As a result, organizations are considering board compensation to help:

- Attract and retain the most qualified candidates, particularly those with experience in digital transformation, consumerism, financial risk, strategy, commercialization, transformation, and other related fields.
- Signal the importance of the board's role amidst growing operational complexity.
- Recognize the significant time commitment and expertise that modern board roles demand.
- Mitigate competition from for-profit boards and other major not-for-profit sectors that often offer board compensation.

However, any such program must be carefully evaluated in light of increased regulatory and public scrutiny. It's also important to consider local and broader industry sector market dynamics and peer practices.

While increased board compensation has been observed, this is not true for all large health systems. The practice is far less common in academic medical centers, pediatric systems, and independent cancer centers, which often maintain a volunteer ethos and have strong networks for qualified board members with the requisite skill sets. In addition, some organizations cite concerns regarding conflicts of interest, potential stakeholder or public scrutiny (including Form 990 disclosure), and legal considerations such as state attorney general oversight and IRS standards requiring independent approval of compensation.

Snapshot

Prevalence of Board Compensation Programs

~15%

of organizations with more than $1 billion in revenue

~30%

of organizations with more than $5 billion in revenue

~40%

of organizations with more than $10 billion in revenue

Common Practices and Design Considerations

When utilized, compensation programs for board members often reflect a simple retainer-based approach rather than providing pay tied to specific activities such as meeting attendance. This generally includes a flat retainer for all members, but with some differentiation for leadership positions such as board chairs and committee chairs. The philosophy behind this is to provide compensation for board members that reflects their contributions and judgment rather than having pay tied to activities such as meeting attendance. Importantly, compensation is provided for independent system board members only and not to physicians or other leaders employed within the system.

For health systems with greater than $1 billion in revenue, retainers for independent board members typically range from $15,000 to $60,000 annually. While committee chairs generally receive a modest incremental amount above the standard member retainer, board chairs usually receive between $25,000 and $100,000. The largest and most operationally complex systems may offer higher compensation. However, variability is common and influenced by factors such as organizational scale, geographic footprint, and governance demands.

For this reason, compensation levels are best determined through rigorous benchmarking against peer organizations. Compensation in the not-for-profit healthcare sector remains significantly lower than that of public company boards, where annual compensation for directors often exceeds $100,000. Payments are typically structured on a fixed schedule, most commonly every quarter. Additionally, board members are typically provided the option to accept the compensation, donate it to the organization's foundation or other approved charity, or decline it.

Considerations before Implementing a Board Compensation Program

Compensating board members requires careful consideration to ensure transparency, defensibility, and alignment with organizational values and applicable legal and compliance standards. We recommend the following steps as part of the decision-making process:

1. **Clarify the purpose:** Begin by articulating why the organization is considering board compensation. Is it to attract and retain experienced talent? To recognize time commitments and reinforce accountability? To remain competitive with peer organizations? Clearly define the rationale and objectives of the program.
2. **Assign ownership:** Identify which board committee will evaluate and oversee the compensation discussion. Depending on how responsibilities are structured, this is often the governance or compensation committee. In some cases, a joint subcommittee may be appropriate.
3. **Conduct a market analysis:** Research what other organizations are doing to understand competitive practices. The analysis should be rooted in the most relevant recent data, often drawn from publicly available IRS Form 990 disclosures and compensation benchmarking surveys specific to non-profits or health systems. In some instances, consideration of practices outside of not-for-profit health systems may be appropriate. Select a peer group that aligns with your organization's size, scope, complexity, and/or geography to ensure meaningful comparisons.

4. **Prepare for disclosure and external scrutiny:** Because board compensation is publicly disclosed—most notably on Form 990—it's essential to anticipate questions from media, donors, employees, or the public. Develop a set of proactive talking points that explain the rationale, process, and oversight behind the decision. Transparency and consistency in messaging are key to maintaining trust.
5. **Address legal requirements:** Consult with legal counsel to ensure the program meets all regulatory requirements and does not create any unintended consequences. What is permissible under organizational bylaws? Are there state restrictions or statutory processes that must be followed? Engaging legal counsel early in the process can help to support compliance and mitigate potential regulatory scrutiny. Additionally, compensation for voting board members falls under the scope of Intermediate Sanctions regulations. Because board members are involved in approving their own compensation, it may not be feasible to establish the Rebuttable Presumption of Reasonableness through the standard approval process. Therefore, conducting a thorough and well-documented competitive compensation analysis is especially important to support the reasonableness of the compensation.
6. **Establish a review cycle:** Organizations should stay current with sector trends, evolving expectations of board service, and peer practices within similarly situated organizations. Regular benchmarking, environmental scans, and input from independent advisors can help ensure that board composition and compensation are aligned with the organization's needs and mission. Board compensation should be revisited periodically to ensure it remains appropriate and competitive. A formal review at least every three years is recommended. This review should include updated market benchmarks, organizational needs, and governance expectations.

Looking Ahead

It's clear that not-for-profit boards face increasing demands related to oversight, strategy, and accountability. In this evolving landscape, governance practices must keep pace. While compensation is not the right fit for every organization, it can be a strategic tool to attract, retain, and engage qualified board members, especially when sustained involvement or specialized expertise is required.

Organizations should regularly review their governance structures and assess whether board compensation aligns with their mission, context, and stakeholder expectations. Any approach should be guided by clear policy, market benchmarking, and transparent processes. Thoughtful communication and documentation will help to support alignment with organizational values and ensure the organization upholds its responsibility to the communities it serves.

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