CASE STUDY

Executive Incentive Plans:
Recalibrating Goals to Balance Risk and Reward

Circuit Breaker Assessment

A large, multi-state health system had **missed its incentive plan circuit breaker for several consecutive years** amid persistent financial headwinds and ongoing transformation.

SullivanCotter helped reset the balance of risk and reward by establishing a realistic and achievable circuit breaker calibrated to approximately a 90% probability of achievement, while calibrating performance goals and the plan to approximately a 70% probability of achieving target performance.

See what this partnership looked like in practice!

CHALLENGES

- Margin erosion over the past few years tripped the circuit breaker – causing the plan to pay out substantially less than the target level.
- Rising base pay and labor costs added complexity and cost pressures over the same timeframe.
- Recruitment and retention risks were increasing due to incentive plan payouts significantly below target.
- Incentive plan goals and the circuit breaker were no longer realistic during a period of transformation.

APPROACH

- Discussed intent and purpose of the circuit breaker with executive leadership at the system level.
- Modeled the probability of achievement for the circuit breaker from 10% to 90% using historical data.
- Incorporated expected impact of operational efficiency efforts within financial performance modeling.
- Examined each organizational metric to ensure the plan had a weighted 90%/70%/30% probability of achievement at threshold, target and maximum, respectively, with an expected payout at 100% of the target.

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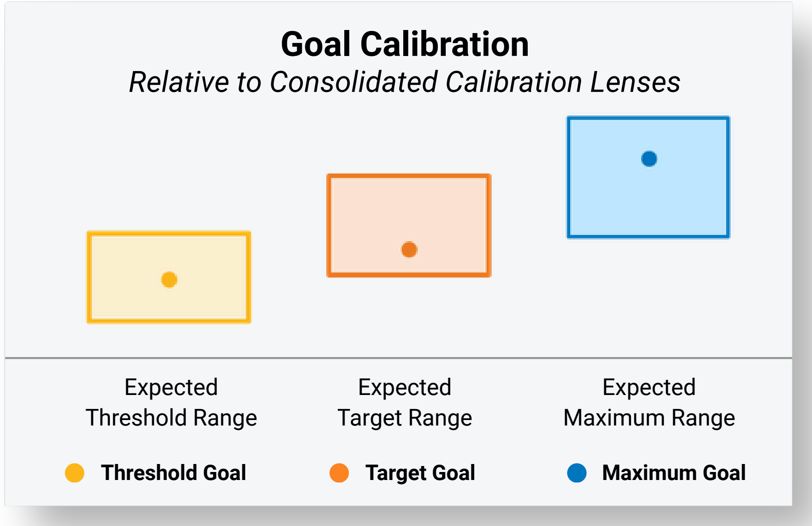
SPOTLIGHT

Goal Calibration

Utilized three different lenses to pressure-test proposed goal levels.

Together, these serve as a practical "fit test" to determine whether goals are appropriately calibrated and aligned to market norms and expectations.



Goal	Lens 1 Forecasted Probabilities of Achievement	Lens 2 Historical Performance Distribution	Lens 3 Market Rates of Change	Consolidated Lens
Threshold	✗ Higher than expected range	✓ Within expected range	✓ Within expected range	✓ Within expected range
Target	✓ Within expected range	✗ Lower than expected range	✗ Higher than expected range	✓ Within expected range
Maximum	✓ Within expected range	✓ Within expected range	✗ Higher than expected range	✓ Within expected range

OUTCOMES

Assurance

Identified and mitigated risks related to the circuit breaker – keeping it in the plan with a high degree of attainability.

Alignment

Ensured that the overall plan was aligned with the reported probability of achievement philosophy.

Stability

Pinpointed performance areas in need of more aggressive targets for the upcoming plan year to ensure organizational stability.

Balance

Achieved appropriate overall degree of difficulty by balancing aggressive improvement goals for areas of opportunity with incremental or maintenance goals for areas of strength.

Strengthen how performance is measured and rewarded!

See how we can help >

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CASE STUDY

Executive Incentive Plans:
Aligning Goal-Setting with Industry Best Practices

Reviewing Plan Rigor

A large, single-state health system had spent a decade delivering industry-leading performance across financial and clinical measures — but that success came with a catch.

Consistent payouts above target for both annual and long-term incentive plans left compensation committee members questioning whether goals were being set with enough rigor and aligned with market best practices.

Here's how we helped leadership independently verify the answer:

CHALLENGES

- Compensation committee members expressed skepticism about the goal-setting process, given payouts consistently above target level.
- Leadership wanted independent confirmation that financial performance and clinical outcomes are truly top tier within the industry, not just exceeding internal targets.
- Beyond validating performance, the organization required assurance that the goal-setting methodology itself was aligned with industry best practices.

APPROACH

- Worked with leadership to aggregate historical performance over the past 3-5 years across all relevant performance domains and measures for finance and quality.
- Analyzed performance at the measure level as well as the performance domain level and compared performance against industry peers.
- Reviewed the probability of achievement of prior plans to ensure that goals were set with the appropriate rigor and remained strongly positioned relative to market peers.

SPOTLIGHT

Probability of Achievement

Summary of findings across the metric level and in aggregate.

SullivanCotter conducted an independent third-party assessment of the historical short-term incentive plan and long-term incentive plan goals to evaluate the probability of achievement across individual measures and in aggregate.

			Goals			Probability of Achievement		
System Measure	**Weight %**	**Baseline**	**Minimum**	**Target**	**Challenge**	**Minimum**	**Target**	**Challenge**
Operating Margin	20%	4.75%	4.00%	5.00%	6.00%	70%	40%	10%
New Patient Ratio	15%	18.7%	19.0%	19.5%	20.5%	75%	45%	15%
Hospital-Acquired Infections Composite	15%	0.675	0.650	0.600	0.550	85%	55%	25%
Inpatient Experience Top Box	15%	77.5	77.2	77.9	78.6	75%	45%	15%
Medical Practice Experience Top Box	15%	85.0	84.7	85.3	85.9	80%	50%	20%
Employee and Physician Engagement Score	10%	4.15	4.12	4.18	4.24	85%	55%	25%
Employee Turnover (Excluding Physicians)	10%	13.00%	13.5%	12.9%	12.3%	90%	60%	30%
Aggregate Annual Incentive Plan Probability of Achievement						**80%**	**50%**	**20%**

OUTCOMES

Validation

Verified that the health system's performance compared to peers in aggregate is industry-leading.

Awareness

Identified variances in probability of achievement at the measure and domain levels.

Alignment

Confirmed that the overall plan was set in accordance with the goal-setting philosophy and tied to industry best practices.

Consensus

Shared findings with leadership to align on methodology and reduce variability, then presented them to the Committee for transparency into goal rigor and expected achievement.

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