

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

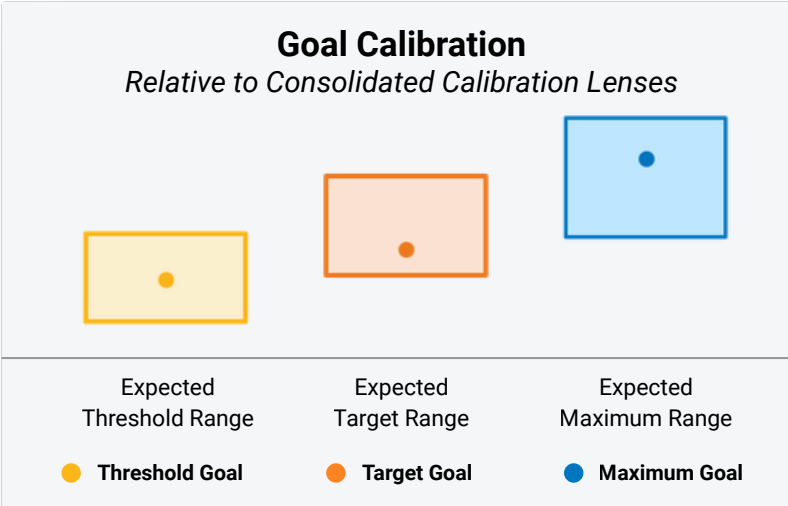
- Discussed intent and purpose of the circuit breaker with executive leadership at the system level.
- Modeled the probability of achievement for the circuit breaker from 10% to 90% using historical data.
- Incorporated expected impact of operational efficiency efforts within financial performance modeling.
- 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.



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 >](#)