Maryland Hospital Association

Talking Points

Hospital Executive Compensation

June 2013

- Compensation for CEOs is determined through a thorough and thoughtful process that is managed by each hospital's Board of Trustees.

- The Boards of Maryland's hospitals are made up of members of each hospital's community, who volunteer their time to ensure that the hospital meets its mission of delivering high-quality health care while remaining financially healthy. They share a fiduciary duty of acting in a reasonable, informed manner, in the best interest of the organization, when making Board decisions.

- Boards use a rigorous process to set CEO compensation, which is based on a number of factors:

    - Complexity of the job
    - Skills needed to do the job
    - Experience
    - Leadership
    - Level of responsibility
    - What comparable organizations are paying

- Trustees also set performance expectations for CEOs; they include:

    - How well the organization is being run
    - How resources are being managed
    - The hospital's scores on quality measures
    - Patient satisfaction measures
    - Whether the health of the community being served is improving
    - Staff vacancy and turnover rates
    - Ability to recruit physicians

- The hospital Board typically hires an external compensation consulting firm to ensure that comparative market pay data is used to develop a compensation plan that is fair, equitable, and within accepted national standards.

- Tax exempt organizations file forms (Form 990) with the Internal Revenue Service that provide the public with specific information about executive compensation, including the process used to determine compensation, and the elements of that compensation. Maryland's hospitals report this information to the IRS and submit their Form 990s to the state's hospital rate setting Commission.

- Health care management requires today's CEO to have a multifaceted set of skills. An effective CEO and executive team must be able to navigate among conflicting priorities of the public, medical staff, regulators, lawmakers, businesses and insurers. Such leadership requires long study, difficult training and extensive experience. To stay competitive and maintain quality care, organizations must work just as hard to retain effective executives as they do to attract them.

Potential Questions on Executive Compensation

- If hospitals are in financial difficulty, then how can you justify these high salaries?

  Maryland's hospitals today, as a whole, are in dire financial straits. It is a product of several factors, from the cost-cutting constraints of health care reform to the high cost of new drugs and technology. But the biggest impact has been hospital rates that are not keeping up with the cost of taking care of people. Maryland is the only state in the country that determines the rates hospitals can charge, and for the past four years hospital have been provided with rate updates that have fallen far below the rate of inflation. In response, hospital leaders have had to deftly navigate between ensuring that patients and communities continue to get the care they need, and crafting budgets and operating plans under which the hospital can, in a phrase, do more with less. That takes expert leadership.

- Don't these executive pay levels contribute to high hospital charges?

  Executive salaries make up a very small fraction of the total operating expenses of a hospital. Even cutting a CEO's salary to zero would have a negligible effect on the costs of the organization. And it takes a strong executive team to run a more efficient organization. This means providing quality care and better levels of service for the community, while maintaining the financial health needed to keep the doors open 24 hours a day, every day.

- How are these executive pay levels determined? Who authorized these salaries?

  The hospital Board typically hires an external compensation consulting firm to ensure that comparative market pay data is used to develop a compensation plan that is fair, equitable, and within accepted national standards.

- Other non-profit organizations don't pay these kinds of salaries. Why does the hospital?

  Health care organizations are considerably larger in scope and infinitely more complex than other non-profit organizations. As famed author and management expert Peter Drucker has said, hospitals are among the most complex and demanding management jobs in our society.

  And hospitals are among the largest employers in the community. In Maryland, hospitals are a $15 billion industry that employs nearly 100,000 people and pumps some $26 billion into the economy. This is a significant and complex_management responsibility, on a much larger scale than other non-profit organizations.

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- Some consultants have suggested that CEO salaries should be no more than a multiple, such as 20 times, the salary of the average or lowest-paid worker in the organization.

  The compensation of a hospital CEO is established primarily with regard to the competitive standards for similar organizations in the health care industry. For any hospital to be successful and serve the community requires strong, stable, and effective leadership. To achieve this leadership, hospitals need leaders of the highest quality and the highest standards. This requires a compensation plan that is comparable to competing organizations in the industry.

- How about "fringe benefits" like country clubs and health clubs? Are they really necessary?

  Hospitals in Maryland were created by their communities and continue to be nurtured by those communities. The importance of hospital leaders maintaining a relationship with community leaders cannot be overstated. Membership and attendance at many functions falls into this important category. The cost of this type of benefit is a part of the total compensation plan evaluation to ensure that they are reasonable and necessary. This information is also reported on the IRS Form 990.

- Are incentive plans appropriate in a non-profit organization? Who develops the goals and measures achievement of them? Are the goals all related to financial performance, or do they include mission/quality/community relations elements?

  Incentive plans are an integral part of the total compensation plan and are designed to focus management's efforts on the most important priorities or goals of the organization. A well-designed incentive plan puts at least part of a CEO’s pay at risk, making the incentive payments self-funding for the organization. Not all of the goals relate to financial performance. Most plans include goals related to:

  - How well the organization is being run
  - How resources are being managed
  - The hospital’s scores on quality measures
  - Patient satisfaction measures
  - Whether the health of the community is improving
  - Staff vacancy and turnover rates
  - Ability to recruit physicians