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Compensation and Retention Strategies for Healthcare Executives

To thrive today, healthcare organizations must provide competitive compensation and implement strategies to recruit and retain talented executives. Short- and long-term incentive plans – along with retention arrangements – are increasingly being tied to successfully vying for healthcare’s top talent.

Healthcare organizations compete for the best leadership talent by offering a unique and compelling value proposition that includes a balance of mission served, performance challenges, engagement of diverse stakeholders, and competitive compensation.

It’s essential that these organizations use total rewards strategies to successfully guide the design, administration and governance of their pay and benefit programs. The strategy should be developed and designed to support the organization’s strategy (i.e. incent growth and performance, utilize the financial resources of the organization, etc.) and culture. Top-performing health systems have written strategy statements that are board-approved and shared with existing and potential employees.

The value of benefits and perquisites make up a smaller percentage of executive total rewards. There are fewer executive benefits (i.e. executive medical insurance, supplemental disability plan, etc.) and many organizations are offering executives the same benefits offered to other employees. Limited executive perquisites are the new norm and any enhanced benefits and/or perks must be justified as having a legitimate business purpose.

Establish a Compensation Strategy for Executive Talent

Compensation is a key element of the total rewards strategy to attract and retain the best leadership, and healthcare systems should develop a compensation framework that includes:

- Base salary
- Short-term incentives
- Long-term incentives
- Retention incentives

Base Salary

Base salary is fixed compensation that typically does not vary according to performance or organizational results. It pays for experience, knowledge and individual performance. It is common practice to establish and maintain a salary administration program with two objectives: providing base compensation that is competitive with the market, and controlling fixed costs. In addition, the program should ensure that pay is internally equitable when compared to similar positions within the organization.

The majority of organizations target base salaries at the market median, which is the 50th percentile. Likewise, recent surveys and Findley’s industry experience indicates 65% of healthcare organizations target leadership base salaries at the market median. The next most popular target, used by 15% of organizations, is to set the range at the 60th or 65th percentile of market.

In practice, not all salaries will be equal to the target and there are a number of valid reasons why salaries may vary from the target. The salary administration program has pay ranges that allow management and the board flexibility to determine salaries by evaluating factors that include individual experience, market rates, length of service and business needs.

Short-Term Incentives

Top-performing organizations design short-term incentive plans, (also known as annual incentive plans), to award incentives using an objective and disciplined approach. The plan should reinforce the philosophy that executives are connected to organizational results; it should motivate and drive appropriate behaviors and deliver rewards that are in alignment with organizational success and growth.

Recent research and Findley's industry experience indicate formal short-term incentive plans are used in more than 75% of healthcare organizations.

Long-Term Incentives

Long-term incentive plans are emerging as important components in compensation strategies for healthcare systems as the plans prove valuable in retaining and recruiting top talent. Based on market studies and Findley's experience, offering long-term incentive plans varies by the size of the organization, with more than 40% of organizations with net revenue greater than \$2 billion featuring long-term incentive plans in their compensation programs.

As organizations look for long-term performance-based compensation solutions, there are a variety of options to consider. One solution that is growing in popularity is a performance-based long-term incentive plan that awards cash at the end of a multi-year performance period based on the achievement of predetermined goals.

Another approach that is becoming more common is the "performance-based" SERP. This combines the planning and techniques used for defined contribution SERPs, along with the performance measurements of an annual incentive pay plan. This option offers competitive long-term compensation, assuming adequate levels of sustained annual performance.

Long-term incentive plan options vary, too, between for-profit and non-profit healthcare organizations. For-profit healthcare systems are able to include some type of "equity" award in the total compensation package for executives. Executives in the non-profit, tax-exempt healthcare environment lack the opportunity of real "ownership." Measuring long-term value is even more important with a tax-exempt organization because the "shareholders" are taxpayers and members of the community.

Historically, long-term plans have been merely an accumulation of short-term metrics over a multi-year period. The trend has shifted and long-term or value-focused metrics force a more strategic or visionary view of future guideposts for success. While financial results remain important, organizations are including more measures that focus on growth, market share, community impact, and employer brand.

Retention Incentives

One component that has seen significant growth over the last several years is the implementation of retention compensation. The healthcare industry in particular has been on the forefront due to the recent and expected future consolidation of hospitals and healthcare systems.

Often, retention incentives occur in instances of an anticipated transaction which requires continuity in order to execute transition plans and maintain the ongoing value of the enterprise. It can be essential to ensure that key talent is retained, operating functions are held intact, and relationships are maintained during a significant transition (i.e. pending sale, reorganization or new leadership).

The structure of retention arrangements varies as some organizations may choose to incorporate retention benefits within individual employment agreements, while others create standard agreements or policies for groups of executives.

Design and Implement an Effective Compensation Strategy

The healthcare industry is going through significant transformation and it is imperative for organizations to have well-designed executive compensation programs with retention strategies to recruit and retain top talent. Designing and implementing effective plans requires:

- Taking a total rewards and total compensation planning perspective;
- Aligning the compensation plan design with the mission and strategies of the organization;
- Creating and maintaining conditions that are favorable to delivering competitive compensation and;
- Designing retention strategies that align the interests of the executives with the stakeholders.

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