

## Executive Compensation

### KEY MESSAGES:

**Recruiting, retaining and rewarding the most able leaders available is part of the hospital's obligation to the public it serves.**

- **The CEO is accountable for the organization.** He or she is accountable to ensure the organization is meeting community needs. The CEO's job is challenging and demanding. Successful hospital leaders not only have a commitment to the mission of the organization, but also possess business management acumen on par with corporate executives. In order to attract the level of experience that these larger organizations need, competitive compensation packages are offered.
- **There is a rigorous process prescribed by the IRS for setting executive compensation.** The process requires an impartial panel drawn primarily from the board of trustees, which is charged with setting CEO compensation and documenting their deliberations. To help determine appropriate compensation, this impartial panel relies on comparability data from similar organizations. The compensation package is approved by the entire board of trustees.
- **CEO searches are conducted nationally, even for small hospitals.** Today, almost every organization, regardless of its size and location, considers candidates from across the country. The result is a more diverse and highly qualified pool of candidates whose compensation will reflect their experience and skills.

**Hospital CEOs face unique challenges, and their pay reflects the complexity of the job.**

- Being a hospital leader is one of the most demanding jobs in any community. Health care organizations may be among the most complex organizations to manage.
- CEOs spend significant time assuring patient needs are met, as well as forecasting future patient needs and determining how to meet those needs cost-effectively. At the same time, they must navigate the often conflicting priorities of the public, the medical staff, government, business and insurers. And they do this within a constantly shifting local, state and federal regulatory environment.

- Many hospital CEOs also manage an array of complementary services that support the hospital's mission, including physician groups, home health, skilled nursing facilities and primary care clinics.
- A hospital leader goes through years of specialized training. The job of a hospital leader today requires extensive knowledge of health and business administration. He or she may have spent more than 25 years in the health care field in a variety of management positions.
- The job of a hospital CEO is to help improve the community's health. The "return on executive compensation investment" is based on several criteria: management skill, productive use of resources, and the ability to lead the organization toward improving the health of the community.

## MESSAGING TIPS:

**Review your three most recent IRS Form 990 reports, paying particular attention to Section VI, Part B, line 15:** Nonprofits filing IRS Form 990 must describe the process they use to approve executive compensation as part of the nonprofit's responses on the annual return, [IRS Form 990](#).

**Assess your internal communications on compensation philosophy.** CEO pay is becoming an increasingly public topic, especially now that publicly-traded U.S. companies are required to disclose the so-called "CEO pay ratio" (how pay of CEOs compares to compensation of median employees). Consider addressing your organization's CEO pay directly with staff as part of a broader education on compensation philosophy. It's better for staff to hear it from you than through the media.

**Understand and acknowledge the point-of-view of constituents.** The salary of a hospital CEO is large to the majority of people in the community you serve. Patients are shouldering the costs of care, and are right to ask whether everything is being done to ensure that costs are managed and quality is reliable.