

SullivanCotter Research: The Increase in Health Care Executive Compensation Moderated in 2023 as Incentive Award Payouts Were Reduced Due to the Challenging Performance Environment

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Health care organizations and boards should continue to balance competitive talent markets with an uncertain performance environment.

CHICAGO--(BUSINESS WIRE)-- SullivanCotter, the nation's leading independent consulting firm in the assessment and development of total rewards programs, workforce solutions and data products for health care and not-for-profits, has released its **2023 Health Care Management and Executive Compensation Survey** report.

Base Salaries

The report details year-over-year changes in median base salaries for health care leaders (i.e., salary, merit, across-the-board, market adjustments). This year's 4.1% increase for all health care executives is slightly lower than the 2022 increase (4.3%). The findings represent the largest and most comprehensive resource for hospitals and health systems, surveying more than 3,000 organizations representing roughly 42,160 individual incumbents.

"Health systems have been under pressure to ensure that leaders have the skills needed to address a complex operating environment, including workforce shortages, increased labor, supplies and borrowing costs, and ongoing revenue shortfalls due to service mix changes, access limitations and low volumes," said **Bruce Greenblatt**, Executive Workforce Practice Leader, SullivanCotter.

As a result, base salary levels are trending up, as health systems seek to attract, retain and motivate the right

leaders in a competitive market. And compensation committees are working to balance the financial, operational, and talent risks as they oversee the executive compensation program.

Incentive Awards

While 2023 salaries increased, incentive awards moderated. Incentive plan payouts were lower for 2022 performance compared to 2021, reflecting a more challenging operating environment and sustained financial headwinds. As a result, the year-over-year increase in 2023 total cash compensation (TCC, equal to base salaries plus annual incentive awards) was lower than the increase in base salaries. While health system executives' base salaries increased by 4.8%, median TCC levels increased by 3.5%. Median annual incentive payouts for 2022 were moderately below target, compared to payouts that were moderately above target last year. The data showed no significant shifts in annual incentive plan prevalence or award opportunity levels.

"The year-over-year change in TCC was more modest due to a dip in incentive plan payouts in 2022, which reflected more pressures and variability in performance," said **Tom Pavlik**, Managing Principal, SullivanCotter. "Incentive plans are working as designed, given the challenges in meeting performance goals."

Differentiation in Salary Adjustments for Select Roles

Given the increasing complexity of health systems and the focus on integration, health system executive salary increases (4.8% at median) outpaced subsidiary hospital executive salary increases (3.9% at median), continuing a trend observed over the past several years.

Health system positions that noted higher increases in pay (roles with median base salary increases of 5.0% or higher) tended to be those focusing on strategy/planning, technology, financial sustainability and risk, integration, and workforce strategy:

- Top Leadership Roles: Chief Executive Officer, Chief Operating Officer, Chief Financial Officer
- Technology Roles: Chief Information Officer, Top Information Security Executive
- Business/Operating Roles: Top Planning Executive, Top Risk Management Executive, Top Internal Audit Executive
- Workforce Leadership Roles: Chief Human Resources Officer, Diversity, Equity, and Inclusion Officer

Planning for 2024 and Beyond

Health care organizations and their boards should ensure that executive compensation programs and governance are able to adapt to today's challenging environment. As it relates to compensation and talent strategy,

organizations should consider the following:

- Anticipate base salary increase budgets for FY2024 that include both core merit increases (estimated to be 3.0% at median) and market adjustments to retain key contributors and address pay equity issues.
- Focus incentive plan measures and goals on key operating and strategic priorities, including quality of care, efficiency, growth, access, and employee wellness/engagement.
- Differentiate rewards so limited dollars are directed to address retention/recruitment needs and reward high performers critical to the organization's short and long-term leadership plans; ensure that the compensation philosophy allows for flexibility to differentiate rewards and programs.
- Conduct a risk assessment to determine where there may be potential retention concerns for critical roles; develop an intervention plan to mitigate risks, considering compensation, professional development, and other tactics.
- Focus on internal leadership development and talent-building to help retain and grow the current leadership team – such an approach reinforces the organization's desired culture and may potentially reduce costs related to external recruitment.
- Regularly review and refine succession plans; memorialize professional development plans; ensure a strong talent pipeline; determine gaps or emerging skills where external hires may be necessary.
- Review the leadership organization structure, to assess if the executive headcount, distribution, and spans of control are optimal; consider if executive leveling criteria should be evaluated to support integration and talent strategy.
- Ensure adequate flexibility to support recruitment, retention, and performance, including using a range of peer groups, tailored competitive positioning based on criticality and performance, and individualized compensation arrangements (including tailored incentives and multi-year retention awards for select individuals).

About SullivanCotter

SullivanCotter partners with health care and other not-for-profit organizations to understand what drives performance and improve outcomes through the development and implementation of integrated workforce strategies. Using our time-tested methodologies and industry-leading research and information, we provide data-driven insights, expertise, and data products to help organizations align business strategy and performance objectives – enabling our clients to deliver on their mission, vision, and values.

For more information on SullivanCotter's surveys, please visit our website at www.sullivancotter.com or **contact us** via email or by phone at 888.739.7039.

Note to media: Additional data and interviews are available on request.

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