

Nonprofit Hospital Executive Salaries Outpace Those of Clinicians

Healthcare management and other nonclinical workers are essential for the efficient functioning of a modern healthcare system, which has become increasingly complex given the growing “burden” of nonclinical tasks such as documentation.¹ As healthcare costs continue to rise, the wages and value of nonclinical staff, especially CEOs, have been examined more critically.² Over the past decade, nonclinical healthcare workers, including executives, have seen large increases in compensation, outpacing their clinical counterparts.³ A recent study in *Clinical Orthopaedics and Related Research* compared the wages of nonprofit hospital chief executive officers (CEOs) and chief financial officers (CFOs) to categories of clinical workers over a 10-year period, and found an increasing wage gap between executives and clinical staff at 22 major nonprofit hospitals.⁴ Despite this wage gap, the study did not find a similar increase in healthcare utilization, suggesting that the wages paid to these executives did not result in the addition of any significant value to the hospital.⁵

In 2005, nonprofit hospital CEOs made 3 times as much as orthopedic surgeons, 7 times as much as pediatricians, and 23 times as much as registered nurses.⁶ By 2015, nonprofit hospital CEOs were making 5 times as much as orthopedic surgeons, 12 times as much as pediatricians, and 44 times as much as registered nurses; the average compensation for nonprofit hospital CEOs increased 93% from 2005 to 2015.⁷ In addition to the increased wages of nonclinical executives, the sheer number of nonclinical workers grew during the 10-year period; in

2015, for every physician, a hospital had (on average) one nonclinical management worker and 10 nonclinical workers, a 17% increase from 2005.⁸

From 2005 to 2015, national healthcare expenditures increased from \$2.5 trillion to \$3.2 trillion, with healthcare wages being accountable for more than 25% of that growth, growing from \$633 billion to \$865 billion; nonclinicians accounted for 27% of that growth.⁹ When comparing the relatively stagnant utilization of healthcare services over this time period to the dramatic increases in the mean compensation for nonprofit hospital executives, it appears that these wage increases “outpace plausible growth in value,” meaning that it is unlikely that the “near-doubling of mean compensation to hospital executives is justified by the value added by their work.”¹⁰

With the affordability of healthcare at the forefront of national healthcare policy debates, the value of each nonclinical healthcare worker, especially hospital executives, is likely being scrutinized closely so as to assure that their compensation is justified by the value of their work.¹¹ The government already appears to be paying attention, as evidenced by the passage of the *Tax Cuts & Jobs Act of 2017*, which implemented a new 21% excise tax on compensation over \$1 million that is paid to a nonprofit organization’s five highest-paid employees, bringing nonprofits more in line with their for-profit counterparts.¹² Whether further action will be taken by the federal or state governments in response to the study’s findings remains to be seen.

1 “The Growing Executive-Physician Wage Gap in Major US Nonprofit Hospitals and Burden of Nonclinical Workers on the US Healthcare System” By Jerry Du, Alexander Rascoe, & Randall Marcus, *Clinical Orthopaedics and Related Research*, Vol. 00 (2018), https://journals.lww.com/clinorthop/Abstract/publishahead/The_Growing_Executive_Physician_Wage_Gap_in_Major.98438.aspx (Accessed 8/27/18), p. 1.
 2 *Ibid*, p. 6.
 3 “Nonprofit Exec Pay Growth Outpaces Doctor, Nurse Raises” By John Commins, *Health Leaders*, August 15, 2018, <https://www.healthleadersmedia.com/finance/nonprofit-exec-pay-growth-outpaces-doctor-nurse-raises> (Accessed 8/27/18).
 4 Du, Rascoe, & Marcus, 2018, p. 5.

5 *Ibid*, p. 2, 6.
 6 *Ibid*, p. 3, 5.
 7 *Ibid*, p. 5.
 8 *Ibid*, p. 9.
 9 Commins, August 15, 2018; Du, Rascoe, & Marcus, 2018, p. 6.
 10 Commins, August 15, 2018; Du, Rascoe, & Marcus, 2018, p. 6-7.
 11 Commins, August 15, 2018.
 12 “Individual Tax Reform and Alternative Minimum Tax” Pub. L. 115-7, § 13001(b) (2017). “Seven key changes the new tax law will force hospitals to consider” By Harris Meyer, *Modern Healthcare*, <http://www.modernhealthcare.com/article/20180102/NEWS/180109995> (Accessed 7/31/18).



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