Health Capital Topics
Volume 10
Issue 10
October 2017
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Percent Annual Increase Triples for C-Suite Executive Pay

Compensation for hospital c-suite executives is rising substantially, with overall median total cash compensation rising six percent from 2016 to 2017,[1] compared to an increase of two percent from 2013 to 2014.[2] Among these executives, presidents and *chief executive officers* (CEOs) experienced a 7.6 percent increase in median total cash compensation from 2016 to 2017, while *chief operating officers* (COOs) and *chief strategy officers* (CSOs) experienced median total cash compensation increases of 10 percent and 13.9 percent, respectively.[3] Hospitals are justifying these pay raises by the increasingly complex healthcare industry, which healthcare organization decision makers, especially those executives identified above, must navigate.[4] Factors such as increased hospital consolidations, through mergers and acquisitions, as well as the shift toward *value-based reimbursement* (VBR), have led to this increased complexity.[5] Many of these compensation packages come in the form of performance-based contracts, in which value-based metrics are used to determine annual payouts.[6] Leaders who can demonstrate an ability to integrate VBR models strategically, operationally, and clinically, experience some of the largest pay increases, according to an August 2017 survey conducted by *Modern Healthcare*.[7]

Performance-based contracts are not just limited to hospital executives, as there has been a steady increase in the number of health systems using incentive payment plans throughout their organizations, such as those for department managers.[8] Overall, 71 percent of health systems reported the use of an annual incentive plan for lower-level managers.[9] Further, performance-based contracts have been applied to physicians, in which they can receive financial bonuses for high performance in clinical quality, patient experience, access, cost, and effectiveness of care.[10] These compensation packages serve the purpose of clinically aligning physicians, administrators, and hospital staff, which alignment has become an important feature of a successful health system, as the healthcare industry increasingly consolidates, and reimbursement is contingent upon the achievement of certain quality metrics.[11] Further, hospitals often analyze an individual's performance on these value-based metrics to identify those future physician leaders for the system who have the rare combination of management skills to successfully lead health systems into this new era of healthcare reimbursement.[12]

The push for performance-based compensation packages emerged as CMS has engaged in several initiatives aimed at promoting VBR.[13] For example, in 2015, the *Medicare Access and CHIP Reauthorization Act* (MACRA) was signed into law, which mandates the reporting of certain quality metrics and the attainment of high scores on these metrics by providers, in return for increased Medicare reimbursement adjustments.[14] Providers also have the option to contract with CMS to form *alternative payment models* (APMs), such as *accountable care organizations* (ACOs), or to form risk-based payment contracts, such as bundled payments.[15] To date, 75 percent of respondents surveyed by *Modern Healthcare* reported being an ACO participant, or having some part of their net patient revenue derived from risk-based contracts.[16] However, the transition from traditional models of payment to VBR has been slow, as many providers lack the resources, infrastructure, and confidence to implement APMs.[17] As a result, 75 percent of survey respondents noted that less than five percent of their revenue is derived from risk-based contracts.[18] Many providers have opted for low-risk, one-sided contracts, in which providers are rewarded for achieving certain performance metrics (but not penalized if they fall short of achieving these metrics), as a way to mitigate financial risks.[19]

Health systems are changing the way in which they compensate providers and managers, prompted by the shift in the healthcare reimbursement environment and the increase in hospital consolidations.[20] Consequently an increasing number of healthcare enterprises are seeking to incentivize: (1) their hospital staff, through performance-based compensation,[21] to aid these enterprises in their shift from volume-based to VBR payment models[22]; and, (2) healthcare executives (by offering enhanced compensation packages) to successfully navigate their healthcare enterprise through the increasingly complex healthcare industry.[23] Despite the significant ongoing uncertainty related to healthcare reform,[24] this compensation trend does not appear to be abating in the near future, as 40 percent of CEOs believe that, within two to five years, 25 percent of their health systems' net patient revenue will be tied to VBR models.[25]

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20 Of note, the number of hospital transactions has risen by 15 percent since the second quarter of 2017, with the size of these transactions also growing. Kacik, August 14, 2017.
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