"...to raise new ideas and improve policy debates through quality information and analysis on issues shaping New Hampshire's future."

One Eagle Square
Suite 510
Concord, NH 03301-4903

(603) 226-2500
Fax: (603) 226-3676

New Hampshire Center for PUBLIC POLICY Studies

Executive Compensation at New Hampshire's Non-Profit Hospitals

June 2012

Author
Daniel Barrick
Deputy Director

About this paper
This paper is one of a series published by the New Hampshire Center for Public Policy Studies on New Hampshire's healthcare system and the finances of the state's hospitals. This particular report was funded by a grant from the New Hampshire Attorney General's office. The analysis and opinions expressed here, however, are those of the Center alone.

We thank representatives from the following hospitals for their comments during the preparation of this report: Androscoggin Valley Hospital, Cheshire Medical Center, Concord Hospital, Elliot Hospital, LRGHealthcare, New London Hospital, Southern New Hampshire Medical Center, Speare Memorial Hospital and Wentworth-Douglass Hospital.

Copies are also available at no charge on the Center's web site: www.nhpolicy.org

Contact the Center at info@nhpolicy.org; or call 603-226-2500.
Write to: NHCPPS, 1 Eagle Square, Suite 510, Concord NH 033301

Table of Contents

Executive summary

The finances of New Hampshire's hospitals often figure prominently in state and local policy discussions for many reasons. Hospitals serve as economic engines in their communities, and are often the largest employers and property owners in their regions: New Hampshire hospitals provided nearly 28,000 jobs in 2010, representing more than 5 percent of total private sector employment in the state.[1] Moreover, as charitable organizations, the state's 23 non-profit hospital systems do not pay New Hampshire property and business taxes or federal taxes.[2] In return for that tax-exempt status, hospitals are expected to provide various community benefits, including charity care to the poor.[3] Thus, the financial picture of New Hampshire's non-profit hospital systems – including how (and how much) they pay their chief executives – is often a topic of public interest.

The New Hampshire Department of Justice, which regulates the state's non-profit sector through its Charitable Trusts Unit, asked the Center in 2011 to undertake a review of CEO compensation practices among the state's non-profit hospitals. The review involved an analysis of publicly available documents – mostly IRS Form 990 reports – and internal hospital records, including employment contracts, records from hospital board meetings, internal personnel memos and federal W-2 wage forms. The period under review spanned 2005 to 2010.

The purpose of this review was to answer several questions, including:

- How have CEO compensation levels changed in the past five years at the state's non-profit hospitals, and how do compensation levels in New Hampshire compare with those at hospitals in other states?
- What processes do New Hampshire non-profit hospitals follow in determining executive compensation, and how do those practices align with federal requirements?
- How are other states approaching these questions? What can we learn from other studies of hospital compensation?

Our conclusions: The majority of non-profit hospitals in New Hampshire meet the IRS standards for executive compensation practices, with some key caveats. Moreover, New Hampshire CEO compensation levels, on average, are roughly in line with those in other New England states. This may be more a function of hospitals' use of similar survey data in setting compensation levels, rather than a statement about the economic value of these positions.

[1] For more information on the role hospitals play in New Hampshire's healthcare system, see "Healthcare 101," New Hampshire Center for Public Policy Studies, May 2011, nhpolicy.org/reports/healthcarelnh2011.pdf.

[2] Some non-profit hospitals do make Payments in Lieu of Taxes (PILOTs) to their home municipalities, the amounts of which vary but that are intended to help compensate for the loss of property tax revenue and recognize the organization's impact on municipal services.

[3] New Hampshire also has two for-profit hospitals – Portsmouth Regional Hospital and Parkland Medical Center – which were not included in this study, since much of their financial and operations data is not publicly available. For this paper, we have combined financial and CEO information for Franklin Regional Hospital and Lakes Region General Hospital under LRGHealthcare, the parent organization that oversees both hospitals.

In fact, we were unable to draw any conclusions about whether a strong relationship exists between CEO compensation levels and any of three different measures of non-profit hospital missions: a ranking of quality of care, a measure of relative cost, and an assessment of the amount of charitable care provided.

Measured against broader wage trends, the average New Hampshire hospital CEO has seen compensation increase more quickly in recent years than the average New Hampshire private sector worker, or the average healthcare sector worker.

Among our other findings:

Variations in process

The majority of New Hampshire's non-profit hospitals meet the IRS's "rebuttable presumption" standard for setting executive compensation, though four appear to fall short on one or more key standards that regulators use to determine whether compensation is reasonable. Three of those hospitals appear not to document deliberations from meetings in which compensation packages are discussed and approved, and two appear not to use relevant comparative data in setting executive compensation each year. Both of those steps are required to meet the Internal Revenue Service's "rebuttable presumption of reasonableness" standard. Failure to do so could leave a hospital open to further regulatory scrutiny. (See Table 1, page 10.)

Variations in compensation

Compensation, benefits and other executive perquisites vary widely across New Hampshire's non-profit hospital sector. That variation – including differences in how bonuses are paid, how retirement and deferred compensation packages are structured, and the range of perquisites provided to CEOs – make it difficult to make direct comparisons between hospitals. But several patterns are clear.

In general, CEO pay increases with a hospital's operating expenses. The highest compensation packages are generally found among urban hospitals in the state's southern half, while compensation at hospitals in the northern and western reaches of the state lag behind the statewide average. Critical Access Hospitals – mostly small facilities located in rural areas – report the smallest compensation amounts and fewer perquisites.

In 2009, the most recent year for which total compensation figures are available for all non-profit hospitals, total compensation ranged between $150,300 for the CEO at Upper Connecticut Valley Hospital in Colebrook to $1,078,000 for at Catholic Medical Center in Manchester. That year, 15 of New Hampshire's 23 non-profit hospital systems awarded bonuses to their CEOs, in amounts ranging from $8,100 to $161,000. Six hospitals offer no supplemental retirement plans to their chief executives, while others provide tens of thousands of dollars a year in supplemental retirement and deferred compensation – over $150,000 a year in several cases.

When CEO pay is measured in relation to a hospital's overall finances, other trends emerge. Executive compensation tends to constitute a far smaller share of hospital expenses in those organizations that offer the most generous pay packages, since those tend to be the bigger

hospitals. And in general, CEO wages represent a smaller share of total hospital system salaries at facilities that offer higher total compensation to their chief executives.

We were unable to find definite relationships between a hospital's performance (as measured by quality, cost of services and provision of charity care) and CEO pay. We recommend further analysis on this topic.

Compensation in relation to other industry wages

Our analysis shows that, though pay packages at individual hospitals vary greatly, average hospital CEO compensation in New Hampshire has been increasing faster than private sector wages. Between 2006 and 2009 (the most recent year for which information on total compensation is available), average CEO compensation at non-profit hospitals in New Hampshire increased by roughly 18 percent (see Table 10, page 23.) That is higher than the increase in average wages for all private sector workers in the state over that same period (4.8 percent), for all healthcare sector employees (12.8 percent) and for all statewide hospital employees (14 percent.)

And though non-profit hospitals in the state saw an average CEO compensation increase of 18.2 percent over this period, there was great variation among hospitals, with several actually decreasing annual CEO compensation, and others reporting increases of greater than 50 percent (see Table 9, page 23.) Such fluctuations may be due to several factors, including one-time retention payments, the hiring of a new CEO at a different salary, or a change in an executive's retirement package.

Comparative data beyond New Hampshire

While non-profit hospital CEO wages in New Hampshire have seen strong increases in recent years, those increases place the state in the middle of compensation trends across New England. According to our analysis of publicly available information from non-profit hospitals in the region, CEO compensation at New England hospitals increased 29 percent between 2006 and 2009, compared to 18.2 percent for New Hampshire CEOs and 9.4 percent for CEOs at hospitals in Northern New England (New Hampshire, Vermont and Maine.)

The average New Hampshire CEO's compensation was considerably less than the New England average in 2009 ($489,000 in New Hampshire compared to $755,000 for New England.) But New Hampshire had a higher statewide average than Northern New England as a whole ($489,000 compared to $435,000.) However, there was some variation across states based on hospital size (see Table 11, Page 25.)

This analysis is incomplete, as information for several non-New Hampshire hospitals was not available for every year. The numbers also include several large, one-time payments to CEOs (including multi-year retention bonuses and vesting in retirement plans.) But the figures indicate that New Hampshire's non-profit hospitals, on average, lie somewhere in the middle of the pack when it comes to regional executive pay practices.

Data and methods

The Center's goal in this project was to collect data on executive compensation in New Hampshire hospitals in a way that would allow us to understand both the process used by hospitals and the way compensation varies across the state.

The Center relied on two main sources for this work. The first was a set of data collected by the New Hampshire Department of Justice. In August 2010, the Department's Charitable Trusts Unit asked every non-profit hospital in the state to submit information on executive compensation. The request specifically asked for the five most recent years' worth of the following data:

- Copies of annual W-2 and other federal reporting forms for compensation;
- Employment contracts detailing salary and compensation information;
- Documents describing the policies and procedures used to determine CEO compensation;
- Information on bonus and incentive pay, retirement plans and deferred compensation packages for executives;
- Information on loan agreements between the CEO and the hospital;
- Copies of minutes from board of directors meetings (or subcommittees of the board) in which executive compensation was discussed;
- Records on reimbursements, gifts and/or payments to CEOs for travel, entertainment, automobile expenses, and dues and membership fees, both for the CEOs and their spouses;
- Termination agreements in place during the period under review;
- Documents provided by any outside consultant or service used to determine executive compensation.

In early 2012, the DOJ made an additional request for information to clarify data from the previous request and to update the data through 2010 where possible.

In addition, the Center availed itself of data from the Internal Revenue Service on every non-profit hospital in the state. Because they are tax-exempt organizations, these hospitals are required to make an annual report to the federal government of their financial status, including salaries and compensation paid to their top executives and board members. Those reports, known as IRS Form 990s, are available to the public. While they are valuable sources of information, the 990 forms are also limited. The 990 forms, for instance, do not necessarily require detailed accounting of retirement plans or other types of deferred compensation. They lump together most forms of non-salary compensation in a single category, including automobile allowances and membership dues. And they provide limited information about the process used by hospitals in setting compensation. In addition, reporting standards vary by hospital or from year to year, since the IRS has revised the Form 990 and changed reporting requirements several times in recent years.

Wherever possible, we have used the broadest definition of "compensation" in this paper, including salary, annual bonuses, one-time incentive payments, retirement benefits, and other perquisites such as automobile allowances. But each set of data has its limits (discussed in

greater detail below) which – in some cases – compromised our ability to make direct comparisons across hospitals.

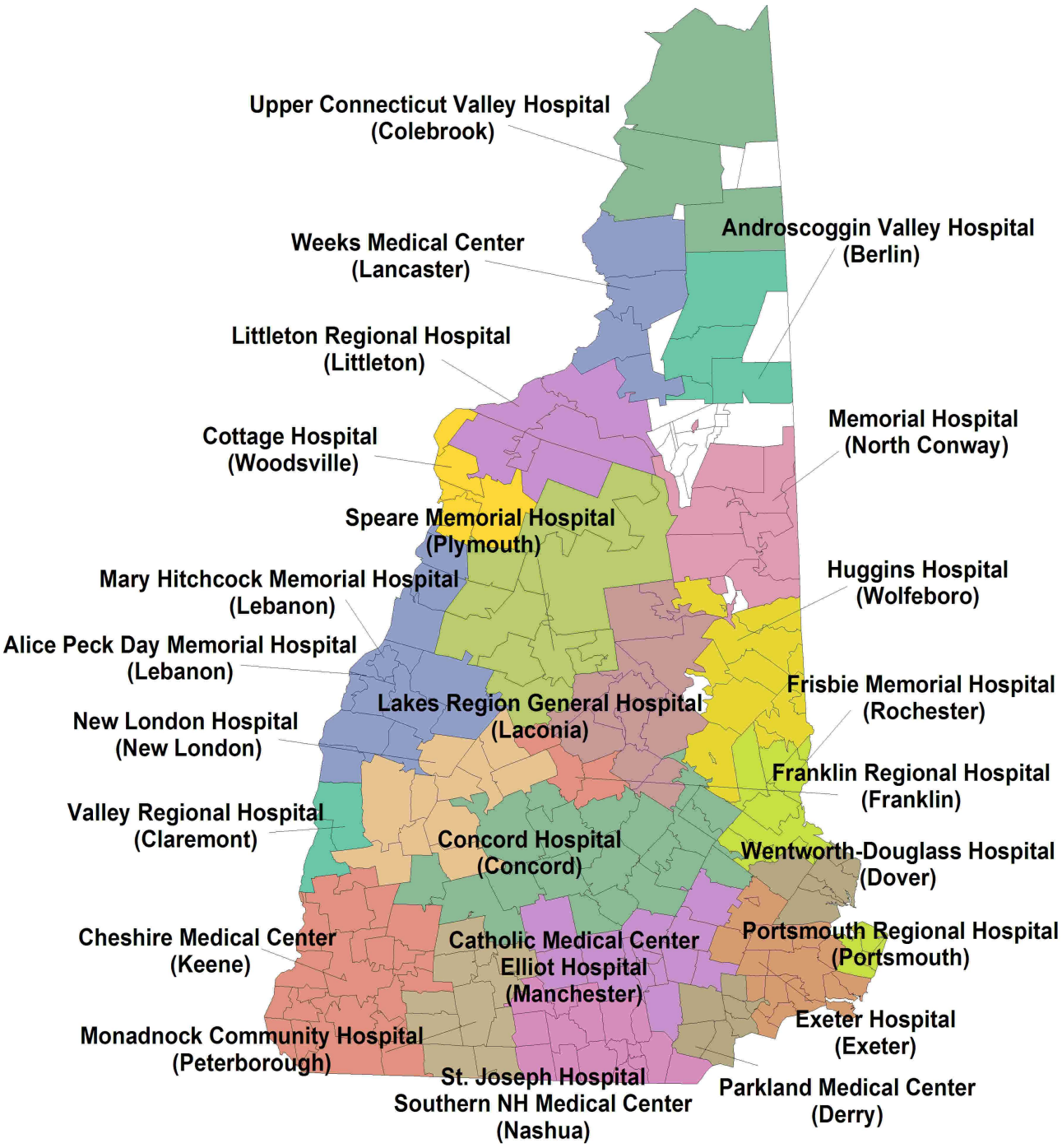
While understanding wages and benefits may appear straightforward, we caution readers not to over-interpret the data. In fact, the Internal Revenue Service, in a 2009 report, noted that federal standards regarding executive compensation "have proved difficult to administer," requiring the "application of imprecise legal standards to complex, varied and evolving fact patterns." In addition, the relatively small sample size (23 hospital systems in New Hampshire) and the wide variation among hospitals in compensation amounts, makes it difficult to draw strong conclusions based on statewide averages.

Focusing solely on the expenses associated with CEO compensation ignores the fact that an individual's salary, benefits and other perquisites are often determined by a complex set of variables – many of which were not considered in this study. Those variables include the executive's industry experience, time served in the position, the attractiveness of the hospital as a work environment and other factors. Some research has shown, for instance, that variations in compensation for hospital CEOs result from many factors, including the executive's gender, education and experience.[4] In addition, it is difficult to determine the monetary value of some of the perquisites provided to executives, so drawing true comparisons across organizations is not always straightforward.

This paper does not account for those other factors that may influence how much a hospital chief executive is compensated for his or her duties. Individual hospital systems vary greatly in the type of population mix they serve, the medical services they offer and other critical factors that may influence executive pay. (See Figure 1 for a map of the service regions of New Hampshire's hospitals.) Therefore, the numbers contained here should be considered as just one element within the broader context of hospital and healthcare finances in New Hampshire.

[4] Rexford E. Santerre and Janet M. Thomas, "The determinants of hospital CEO compensation," *Health Care Manage Review*, Summer 1993.

Figure 1: New Hampshire's hospitals



Notes: This map shows all of the state's acute care and critical access hospitals, including the two for-profit hospitals (Portsmouth Regional and Parkland Medical Center) which were not included in this study. Lakes Region General Hospital and Franklin Hospital merged in 2002 to create LRGHealthcare, and the two facilities share a CEO.
Each colored region corresponds to a hospital's service area, with the boundaries corresponding to zip codes.

Comparing process

Before delving into the details of compensation for executives at New Hampshire's non-profit hospitals, it is worth reviewing the methods that hospitals and other charitable organizations use in this process. This issue has received much scrutiny from federal regulators in recent years, and has resulted in some changes in how hospitals – and other charities – are required to publicly report compensation procedures.

The IRS and 'rebuttable presumption'

Hospitals and other organizations defined as tax-exempt under section 501(c)(3) of the Internal Revenue Code are not permitted to pay more than "reasonable" compensation to their top executives, directors and trustees. The U.S. Internal Revenue Service defines reasonable compensation as "the amount that would ordinarily be paid for like services by like organizations in like circumstances."[5]

The IRS has established a standard to guide non-profit, charitable organizations in establishing salary, benefits and other compensation for officers, including CEOs. The standard, known as the "rebuttable presumption of reasonableness," outlines three requirements which must be met if an organization's process for setting compensation is to be presumed reasonable:[6]

1. The compensation arrangement must be approved by an authorized body of the organization (such as a Board of Trustees), and the members of that body cannot have a conflict of interest concerning the pay arrangement.
2. In setting compensation, the authorized body must rely on "appropriate data as to comparability" to similar organizations. In other words, compensation should be in line with what similar organizations would pay for the same service.
3. The authorized body must document the basis for its determination "concurrently with making that determination." That is, the deliberations from any meetings involving compensation must be recorded at the time of the meeting.

Meeting the rebuttable presumption threshold is not a measure of whether a hospital's CEO compensation is excessive or not, but rather an indication of the appropriateness of the process the hospital followed in setting compensation.[7] The IRS can challenge an organization's process for setting compensation "only if it develops sufficient contrary evidence to rebut the probative value of the comparability data relied upon by the authorized body."[8] In other words, if the requirements are met, compensation is presumed reasonable unless proven otherwise. The burden is then on regulators to develop evidence that an organization fell short of the rebuttable presumption by, for instance, using insufficient or inappropriate data in setting executive pay, or by not ensuring that disinterested parties decided executive pay.

---

[5] U.S. Treasury regulations are available at: taxalmanac.org/index.php/Treasury_Regulations,_Subchapter_A,_Sec._1.162-7

[6] Full requirements for "rebuttable presumption of reasonableness" can be found at: irs.gov/charities/charitable/article/0,,id=173697,00 html

[7] For more information on best practices in non-profit compensation, see: guidestar.org/rxa/news/articles/2003/best-practices-in-nonprofit-compensation.aspx

[8] IRS: "Rebuttable Presumption - Intermediate Sanctions:" irs.gov/charities/charitable/article/0,,id=173697,00 html

If the IRS determines that a charity is paying its CEO excessive compensation, it can levy intermediate sanctions against both the executive receiving the compensation and the organization that approved it. These sanctions take the form of penalty excise taxes imposed on the executive, which can be as high as 25 percent of the excess benefit. Further, steeper penalties are possible if action is not taken to address the matter. In addition, the organization's members who took part in setting the compensation can be held liable for an excise tax of 10 percent of the excess pay, with a maximum of $10,000 per penalty.

Increased scrutiny by the IRS, state regulators and the news media in recent years has heightened efforts at compliance with these regulations. And while the requirements of the "rebuttable presumption" may appear straightforward, complying with them requires organizations to take other steps – such as establishing a conflict of interest policy and gathering outside data prior to discussions about executive compensation.

Recent changes in the way charities are required to report annual compensation information to the IRS has increased the transparency of this process to a degree. Starting in 2009, the IRS required organizations to provide information on bonus and incentive pay and "non-taxable benefits" provided to officers on their annual Form 990s. The revised form also requires more detailed self-reporting on the processes organizations use to establish executive compensation and other perks provided for officers of the organization, including a checklist of the types of data used in the decision-making process. Those forms were a valuable source of data in this study.[9]

Process at New Hampshire's hospitals

In addition to these publicly available forms, the Center also reviewed documents provided by the hospitals to the state Department of Justice. Those documents included minutes from meetings of hospital boards of directors and executive committees, personnel manuals, surveys and consultant reports.

Our review of this material shows that, by and large, New Hampshire's non-profit hospitals appear to meet the IRS's "rebuttable presumption" standard (See Table 1, page 10). But there are several significant points of variation in process on a hospital-by-hospital basis:

- Three hospitals (St. Joseph Hospital, Upper Connecticut Valley Hospital, and Valley Regional Hospital) failed to provide evidence that written minutes are kept of meetings in which a chief executive's compensation package is discussed and/or voted on.[10]
- Two hospitals (Cottage Hospital and Upper Connecticut Valley Hospital) do not appear to use outside data – such as surveys, consultant reports, or compensation data from other hospitals – in setting their executives' pay packages.[11]

[9] The revised Form 990 also required hospitals to detail the charity care and other community benefits they provided relevant to their tax-exempt status.

[10] St. Joseph Hospital and Valley Regional Hospital provided documentation that the relevant committee entered into an executive session to discuss the CEO's pay, but they provided no records of discussions from those sessions, nor evidence (such as redacted minutes) that written records for those sessions exist.

- Two hospitals (Cottage Hospital and Upper Connecticut Valley Hospital) do not have formal written policies outlining how a CEO's compensation is set and amended.
- Two hospitals (Upper Connecticut Valley Hospital and Weeks Medical Center) do not appear to link annual increases in a chief executive's pay to specific, measurable performance goals for that executive.
- Three hospitals (Catholic Medical Center, Upper Connecticut Valley Hospital and Weeks Medical Center) do not require the full Board of Directors to approve changes in the chief executive's compensation package, though the full Board is informed of such changes.

In addition:

- Every non-profit hospital in New Hampshire has a written conflict of interest policy for board members.
- Every non-profit hospital in the state has an assigned committee, usually a subcommittee of the Board of Directors, responsible for completing annual reviews of CEO performance and compensation.

Several of these practices – including the failure to use outside comparability information and the lack of contemporaneous records from meetings in which compensation is discussed – appear to fall short of the IRS's "rebuttable presumption" standard and could thus leave a hospital open to a challenge from regulators. Non-profit hospitals should review their processes to ensure that they meet this threshold.

Table 1 (page 10) outlines the processes used by New Hampshire's non-profit hospitals in setting executive compensation.[12]

[11] While we noted that the remaining non-profits hospitals did rely on comparable data in setting executive compensation, we do not comment in this paper on whether that material meets the IRS's definition of "appropriate" data as part of its rebuttable presumption of reasonableness.

[12] Since 2003, New London Hospital has had a management agreement with Dartmouth-Hitchcock Clinic. Until Fiscal Year (FY) 2007, Dartmouth-Hitchcock was responsible for paying the salary, benefits and merit pay of New London Hospital's CEO, and also handled performance evaluations of New London Hospital's CEO. Since FY2007, the New London Hospital Board of Trustees has assumed responsibility for merit pay and the performance evaluation process. New London's CEO, Bruce King, is an employee of Dartmouth-Hitchcock, which pays his compensation, and New London Hospital pays a management fee to Dartmouth-Hitchcock equal to the costs of that compensation and other related expenses.

Table 1: Process used by New Hampshire's non-profit hospitals in setting chief executive compensation

	Compensation Committee?	Board Approval?	Formal written policy?	Conflict of interest policy?	Consultant?	Survey?	Full minutes?	Comp tied to specific goals?
ALICE PECK DAY MEMORIAL	Y	Y	Y	Y	N	Y	Y	Y
ANDROSCOGGIN VALLEY HOSPITAL	Y	Y	Y	Y	Y	Y	Y	Y
CATHOLIC MEDICAL CENTER	Y	N	Y	Y	Y	Y	Y	Y
CHESHIRE MEDICAL CENTER	Y	Y	Y	Y	Y	Y	Y	Y
CONCORD HOSPITAL	Y	Y	Y	Y	Y	Y	Y	Y
COTTAGE HOSPITAL	Y	Y	N	Y	N	N	Y	Y
ELLIOT HOSPITAL	Y	Y	Y	Y	Y	Y	Y	Y
EXETER HOSPITAL	Y	Y	Y	Y	Y	Y	Y	Y
FRISBIE MEMORIAL HOSPITAL	Y	Y*	Y	Y	Y	Y	Y	Y
HUGGINS HOSPITAL	Y	Y	Y	Y	Y	Y	Y	Y
LITTLETON REGIONAL HOSPITAL	Y	Y	Y	Y	N	Y	Y	Y
LRGHEALTHCARE	Y	Y	Y	Y	Y	Y	Y	Y
MARY HITCHCOCK MEMORIAL	Y	Y	Y	Y	Y	Y	Y	Y
MEMORIAL HOSPITAL	Y	Y	Y	Y	Y	Y	Y	Y
MONADNOCK COMMUNITY	Y	Y	Y	Y	Y	Y	Y	Y
NEW LONDON HOSPITAL	Y	Y	Y	Y	Y	Y	Y	Y
SOUTHERN NH MEDICAL CENTER	Y	Y	Y	Y	Y	Y	Y	Y
SPEARE MEMORIAL HOSPITAL	Y	Y	Y	Y	N	Y	Y**	Y
ST JOSEPH HOSPITAL	Y	Y	Y	Y	Y	Y	N	Y
UPPER CONNECTICUT VALLEY	Y	N	N	Y	N	N	N	Unclear
VALLEY REGIONAL HOSPITAL	Y	Y	Y	Y	N	Y	N	Y
WEEKS MEDICAL CENTER	Y	N	Y	Y	N	Y	Y	Unclear
WENTWORTH-DOUGLASS HOSPITAL	Y	Y	Y	Y	Y	Y	Y	Y

*Frisbie Memorial began requiring full Board approval of executive compensation in 2011, after the period covered by this study.
**Speare Memorial submitted minutes from its 2011 Compensation Committee meeting detailing the basis for CEO compensation decisions. However, minutes from previous years' meetings note only that the Board of Directors entered into executive session to discuss the matter of CEO pay, but they give no record of the substance of those discussions or the material being considered.

Source: IRS Form 990s; other materials provided by hospitals

Comparing compensation

A major challenge of this analysis was determining a common definition for "compensation." A hospital – like any organization – may compensate its top executive through a menu of items: annual salary, bonus and incentive pay, health and other insurance plans, retirement benefits, deferred compensation, automobile expenses, membership fees, and numerous other perquisites. As mentioned earlier, the Center reviewed a range of documents related to hospital executive compensation. These documents included publicly available records, such as IRS Form 990s, and those provided by the hospitals, such as employment contracts, W-2 forms, internal hospital memos, meeting minutes and personnel records.

While these documents provided a wealth of information, they also underscored the difficulty in comparing compensation from hospital to hospital, and from year to year at a single hospital. In the area of deferred compensation and retirement planning in particular, hospitals varied in the degree of transparency and detail they provided about how they structure packages and allocate funds to their CEOs. Since many supplemental executive retirement plans are not actually funded prior to the executive's retirement, calculating the present value of that plan is difficult and will vary significantly from hospital to hospital.

Because of these issues, the Center settled on two methods for measuring and comparing CEO compensation: "Medicare wages" as reported on the employee's annual W-2 filing, and the

combined compensation amount provided on the annual IRS Form 990 for each hospital (See Tables 2 and 3 on pages 12 and 13.)

These two figures provide different gauges of compensation that, considered together, offer a fuller picture of how much hospitals reward their top executives. The W-2 is a measure of annual cash compensation – the amount paid to an executive through his or her paycheck, including bonus and/or incentive payments. It also includes some types of deferred compensation and pre-tax contributions to some retirement accounts, such as 403(b) plans.[13] Since reporting requirements for this form have not changed significantly in recent years, it allows for relatively consistent comparisons over time.

The 990s provide a more detailed breakdown of compensation, though reporting inconsistencies across hospitals and over time make direct comparisons difficult. As discussed above, since 2009 the IRS has required hospitals to report executive compensation according to "base compensation," "bonus and incentive compensation," "other compensation," "retirement and other deferred compensation," and "nontaxable benefits." The total of these amounts provides a more complete compilation of how much executives receive, often beyond the amounts reported on the W-2 since they may include nontaxable benefits and some types of retirement compensation. But since the IRS has amended the Form 990's reporting requirements several times in recent years, detailed year-to-year comparisons at a single hospital are more difficult.

In addition, because of the lag in time between the close of many hospitals' fiscal years and the reporting deadline for the IRS, the most recent full calendar year for which Form 990 data is available for every New Hampshire hospital is 2009. We have thus also included W-2 information, for which we have 2010 data, to augment our analysis in some instances.

The Center, through the Attorney General's office, also asked hospitals to detail any non-wage compensation provided to their chief executives, especially so-called non-qualified retirement plans. Particularly at larger hospitals, such plans are often used to significantly bolster a CEO's total compensation. However, the details of such plans may not appear on documents such as the W-2 or Form 990, since they frequently do not take the form of actual cash set-asides but rather are guarantees of future payments to executives. Nonetheless, we have included information about the variation in such plans offered from hospital to hospital later in this paper.

Measuring compensation

As mentioned earlier, the annual W-2 forms for each hospital's CEO allow for consistent comparisons of cash compensation trends, since the reporting requirements have not changed in recent years. A review of the past five years shows sharp swings in annual pay – both increases and decreases – at many hospitals. (See Table 2, next page.) These shifts may result from many factors: a change in a CEO's amount of deferred compensation, thus reducing or increasing his or her taxable income; the hiring of a new CEO at a significantly higher or lower wage scale; a decision by a hospital's Compensation Committee to forgo executive bonuses one year; or the payment of a one-time retention bonus to an executive.

[13] Medicare wages do not, however, include certain pretax deductions, such as money set aside for health reimbursement accounts.

Table 2: Wages from annual W-2 forms for CEOs of New Hampshire's non-profit hospitals

	2006	2007	% increase	2008	% increase	2009	% increase	2010	% increase
ALICE PECK DAY	$276,241	$287,079	3.9%	$289,660	0.9%	$293,463	1.3%	$308,651	4.9%
ANDROSCOGGIN VALLEY	$289,047	$256,611	-11.2%	$294,294	14.7%	$349,347	18.7%	$445,725	21.6%
CATHOLIC MEDICAL CENTER	$578,308	$627,660	8.5%	$1,052,396	67.7%	$747,262	-29.0%	$776,940	3.8%
CHESHIRE MEDICAL CENTER	$362,417	$396,914	9.5%	$459,106	15.7%	$451,852	-1.6%	$496,516	9.0%
CONCORD HOSPITAL	$558,520	$583,222	4.4%	$636,480	9.1%	$666,366	4.7%	$661,322	-0.8%
COTTAGE HOSPITAL	$176,223	$187,937	6.6%	$211,167	12.4%	$207,234	-1.9%	$188,598	-9.9%
ELLIOT HOSPITAL	$516,531	$578,430	12.0%	$638,032	10.3%	$639,646	0.3%	$704,950	9.3%
EXETER HOSPITAL	$561,581	$692,995	23.4%	$710,198	2.5%	$704,206	-0.8%	$763,615	7.8%
FRISBIE MEMORIAL	$341,868	$361,411	5.7%	$380,637	5.3%	$388,806	2.1%	$393,072	1.1%
HUGGINS HOSPITAL	$198,522	$252,211	27.0%	$238,161	-5.6%	$217,153	-8.8%	$260,614	16.7%
LITTLETON REGIONAL	$103,503	$171,025	65.2%	$266,480	55.8%	$276,246	3.7%	$293,337	5.8%
LRGHEALTHCARE	$341,520	$478,710	40.2%	$438,529	-8.4%	$453,385	3.4%	$450,196	-0.7%
MARY HITCHCOCK MEMORIAL	$391,960	$556,500	42.0%	$667,393	19.9%	$757,755	13.5%	$783,533	3.3%
MEMORIAL HOSPITAL	$385,360	$390,515	1.3%	$356,175	-8.8%	$366,392	2.9%	$243,754	-50.3%
MONADNOCK COMMUNITY	$255,726	$254,836	-0.3%	$265,411	4.1%	$278,973	5.1%	$272,408	-2.4%
NEW LONDON HOSPITAL	$284,834	$322,426	13.2%	$333,741	3.5%	$358,332	7.4%	$329,095	-8.9%
SO. NH MEDICAL CENTER	$581,547	$589,398	1.4%	$637,053	8.1%	$649,414	1.9%	$669,530	3.0%
SPEARE MEMORIAL HOSPITAL	$164,377	$185,383	12.8%	$201,101	8.5%	$216,909	7.9%	$201,928	-7.4%
ST JOSEPH HOSPITAL	$442,295	$457,812	3.5%	$481,589	5.2%	$491,336	2.0%	$600,022	18.1%
UPPER CONNECTICUT VALLEY	$142,271	$118,126	-17.0%	$142,125	20.3%	$136,159	-4.2%	$125,262	-8.7%
VALLEY REGIONAL HOSPITAL	$241,043	$253,354	5.1%	$262,741	3.7%	$293,209	11.6%	$292,064	-0.4%
WEEKS MEDICAL CENTER	$167,401	$183,083	9.4%	$196,171	7.1%	$207,497	5.8%	$213,547	2.8%
WENTWORTH-DOUGLASS	$415,052	$1,488,816	258.7%	$606,335	-59.3%	$587,656	-3.1%	$605,303	2.9%

Note: St. Joseph Hospital hired a new CEO in mid-2010.
The figure listed for that year above includes compensation for the old and new CEOs.

But to better understand how hospitals compare in their compensation practices within a single year, the Form 990s are a more useful tool, since they require a more detailed breakdown of compensation categories than the W-2s do, and generally include a broader range of compensation.

The following two tables show the variance in the kinds of compensation tools that hospitals use in paying their CEOs. In 2008, base salaries ranged from 40 percent to 95 percent of total compensation, based on figures reported by hospitals in their annual IRS filings (See Table 3 below). That range is an indication of the very different weight that non-salary compensation – including bonuses, deferred compensation and retirement compensation – plays in compensation packages at hospitals across the state.

Bonuses, as measured as a percent of base salary, also covered a wide range – from 0 percent at the 10 hospitals that provided no bonus in 2008, to 84 percent at Catholic Medical Center. (The majority of that year's bonus was the result of a one-time longevity payout to Catholic Medical Center's CEO, representing several years of service, according to the hospital's IRS filing.)

Table 3: Base salary, bonus and total compensation paid to NH non-profit hospital CEOs, 2008

	IRS Form 990				
Hospital	Base salary	Total Comp	Salary as % of Total Comp	Bonus	Bonus as % of salary
ALICE PECK DAY	$255,045	$392,656	65.0%	$0	0.0%
ANDROSCOGGIN VALLEY	$250,936	$311,441	80.6%	$0	0.0%
CATHOLIC MEDICAL CENTER	$553,626	$1,359,848	40.7%	$467,158	84.4%
CHESHIRE MEDICAL CENTER	$309,353	$501,245	61.7%	$87,694	28.3%
CONCORD HOSPITAL	$507,616	$820,021	61.9%	$127,238	25.1%
COTTAGE HOSPITAL	$211,167	$232,317	90.9%	$0	0.0%
ELLIOT HOSPITAL	$465,096	$678,732	68.5%	$126,560	27.2%
EXETER HOSPITAL	$468,292	$747,948	62.6%	$174,136	37.2%
FRISBIE MEMORIAL HOSPITAL	$330,637	$494,900	66.8%	$50,000	15.1%
HUGGINS HOSPITAL	$218,461	$268,937	81.2%	$0	0.0%
LITTLETON REGIONAL HOSPITAL	$261,922	$286,941	91.3%	$0	0.0%
LRGHEALTHCARE	$438,529	$494,646	88.7%	$0	0.0%
MARY HITCHCOCK MEMORIAL	$592,758	$693,786	85.4%	$0	0.0%
MEMORIAL HOSPITAL	$241,396	$411,775	58.6%	$35,634	14.8%
MONADNOCK COMMUNITY	$222,521	$294,926	75.4%	$30,000	13.5%
NEW LONDON HOSPITAL	$227,220	$367,443	61.8%	$60,362	26.6%
SO. NH MEDICAL CENTER	$452,619	$748,743	60.5%	$136,000	30.0%
SPEARE MEMORIAL HOSPITAL	$201,101	$227,299	88.5%	$0	0.0%
ST JOSEPH HOSPITAL	$389,716	$533,492	73.1%	$52,350	13.4%
UPPER CONNECTICUT VALLEY	$142,125	$150,464	94.5%	$0	0.0%
VALLEY REGIONAL HOSPITAL	$216,889	$278,307	77.9%	$45,000	20.7%
WEEKS MEDICAL CENTER	$196,171	$220,906	88.8%	$0	0.0%
WENTWORTH-DOUGLASS	$371,052	$653,496	56.8%	$70,672	19.0%
STATE AVERAGE	**$327,141**	**$485,664**	**67.4%**	**$112,523**	**34.4%**

Note: Of the bonus paid to the CEO of Catholic Medical Center, the hospital reported that $342,467 represents payment of a retention bonus reflecting multiple years of service.

A similar range is found in data from the following year, with base salaries varying between 54 percent and 93 percent of total compensation, as reported in the 2009 Form 990s. (See Table 4, page 14.)

Table 4: Base salary, bonus and total compensation paid to NH non-profit hospital CEOs, 2009

	IRS Form 990						
Hospital	Base salary	% change over previous	Total Comp	% change over previous	Salary as % of Total Comp	bonus	Bonus as % of salary
ALICE PECK DAY	$235,767	-7.6%	$318,840	-18.8%	73.9%	$0	0.0%
ANDROSCOGGIN VALLEY	$317,656	26.6%	$374,786	20.3%	84.8%	$25,000	7.9%
CATHOLIC MEDICAL CENTER	$582,248	5.2%	$1,077,958	-20.7%	54.0%	$137,473	23.6%
CHESHIRE MEDICAL CENTER	$321,768	4.0%	$511,257	2.0%	62.9%	$87,175	27.1%
CONCORD HOSPITAL	$514,044	1.3%	$844,620	3.0%	60.9%	$150,000	29.2%
COTTAGE HOSPITAL	$210,383	-0.4%	$266,789	14.8%	78.9%	$0	0.0%
ELLIOT HOSPITAL	$408,259	-12.2%	$679,078	0.1%	60.1%	$108,711	26.6%
EXETER HOSPITAL	$456,384	-2.5%	$740,927	-0.9%	61.6%	$161,136	35.3%
FRISBIE MEMORIAL HOSPITAL	$338,806	2.5%	$496,356	0.3%	68.3%	$50,000	14.8%
HUGGINS HOSPITAL	$217,024	-0.7%	$273,724	1.8%	79.3%	$0	0.0%
LITTLETON REGIONAL HOSPITAL	$257,146	-1.8%	$331,034	15.4%	77.7%	$8,100	3.1%
LRGHEALTHCARE	$453,385	3.4%	$487,084	-1.5%	93.1%	$0	0.0%
MARY HITCHCOCK MEMORIAL	$651,504	9.9%	$784,594	13.1%	83.0%	$0	0.0%
MEMORIAL HOSPITAL	$267,750	10.9%	$393,656	-4.4%	68.0%	$68,183	25.5%
MONADNOCK COMMUNITY	$231,008	3.8%	$310,112	5.1%	74.5%	$30,000	13.0%
NEW LONDON HOSPITAL	$273,012	20.2%	$387,033	5.3%	70.5%	$85,320	31.3%
SO. NH MEDICAL CENTER	$469,182	3.7%	$772,779	3.2%	60.7%	$128,000	27.3%
SPEARE MEMORIAL HOSPITAL	$216,909	7.9%	$255,912	12.6%	84.8%	$0	0.0%
ST JOSEPH HOSPITAL	$385,770	-1.0%	$547,408	2.6%	70.5%	$58,926	15.3%
UPPER CONNECTICUT VALLEY	$140,359	-1.2%	$150,345	-0.1%	93.4%	$0	0.0%
VALLEY REGIONAL HOSPITAL	$244,781	12.9%	$309,697	11.3%	79.0%	$40,000	16.3%
WEEKS MEDICAL CENTER	$213,000	8.6%	$233,509	5.7%	91.2%	$0	0.0%
WENTWORTH-DOUGLASS	$407,885	9.9%	$698,128	6.8%	58.4%	$54,656	13.4%
STATE AVERAGE	**$339,740**	**3.9%**	**$488,940**	**0.7%**	**69.5%**	**$79,512**	**23.4%**

Note: Memorial Hospital hired a new CEO in the middle of 2009 and paid compensation to two CEOs that year.

Another way to analyze CEO compensation is to measure it against a hospital's financial position. The Center used two measures – Net Patient Service Revenues and Operating Expenses – to compare CEO pay across hospitals. (See Table 5, page 15.)

Net Patient Service Revenue is usually defined as the amount of money that a hospital actually collects, after billing patients and healthcare payers (such as insurance companies and Medicare/Medicaid) for services provided to patients. Rather than the "list price" for hospital services (usually called "gross patient revenues,") Net Patient Service Revenues represent the monies actually received from healthcare payers, and thus offer a good measure of a hospital's financial size. This is the largest single revenue source for hospitals, but they often rely on other sources to offset total expenses.

In Table 5, we have divided New Hampshire's non-profit hospitals into three subgroups, based on 2010 operating expenses. Group A includes those hospitals whose operating expenses were less than $100 million (12 hospitals); Group B includes hospitals with operating expenses between $100 million and $275 million (five hospitals); and Group C includes hospitals whose operating expenses exceeded $275 million (six hospitals.) The table shows the marked differences in CEO compensation for the hospitals in these three groups. CEOs at hospitals in Group A received average compensation of $300,453 in 2009 (the most recent year for which

total compensation figures are available). Group B CEOs received, on average, $548,047 in compensation; and Group C CEOs averaged $816,659 in compensation – an amount more than two and half times the average figure for CEOs at the state's smallest hospitals.

Table 5: Hospital CEO Compensation 2009 as a percentage of Net Patient Service Revenues and Hospital Operating Expense (Hospitals organized by Operating Expense)

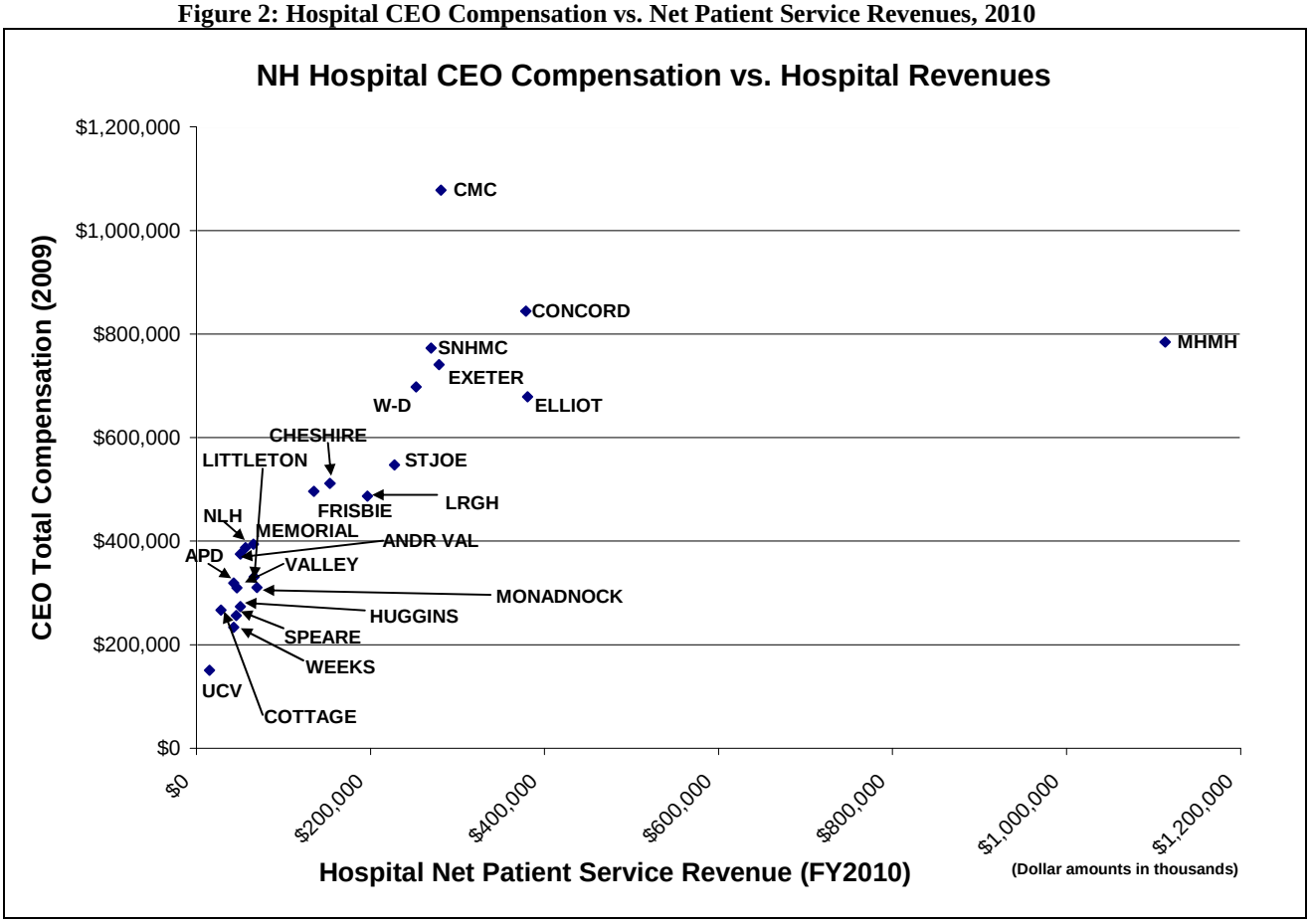
HOSPITAL	CEO Comp (2009 990)	NET PTSERV REVENUE (FY10)	Wages as % Rev	TOTAL OPER EXPENSE (FY10)	Wages as % Exp
GROUP A (OpExp<$100m)					
UPPER CONNECTICUT VALLEY HOSPITAL	$150,345	$15,311,159	0.98%	$15,566,280	0.97%
COTTAGE HOSPITAL	$266,789	$28,252,307	0.94%	$27,997,589	0.95%
VALLEY REGIONAL HOSPITAL	$309,697	$46,788,722	0.66%	$36,016,976	0.86%
WEEKS MEDICAL CENTER	$233,509	$43,005,149	0.54%	$44,628,667	0.52%
ALICE PECK DAY MEMORIAL HOSPITAL	$318,840	$43,084,581	0.74%	$46,777,468	0.68%
SPEARE MEMORIAL HOSPITAL	$255,912	$45,953,913	0.56%	$47,150,643	0.54%
ANDROSCOGGIN VALLEY HOSPITAL	$374,786	$50,567,163	0.74%	$51,842,457	0.72%
HUGGINS HOSPITAL	$273,724	$50,762,721	0.54%	$54,939,747	0.50%
NEW LONDON HOSPITAL	$387,033	$56,423,955	0.69%	$59,070,469	0.66%
MEMORIAL HOSPITAL	$393,656	$65,575,081	0.60%	$65,465,177	0.60%
LITTLETON REGIONAL HOSPITAL	$331,034	$66,353,220	0.50%	$66,569,739	0.50%
MONADNOCK COMMUNITY HOSPITAL	$310,112	$69,662,405	0.45%	$72,428,123	0.43%
Group A Average	$300,453	$48,478,365	0.62%	$49,037,778	0.61%
Group A Total	**$3,605,437**	**$581,740,376**	**0.62%**	**$588,453,335**	**0.61%**
GROUP B (OpExp = $100m - $275m)					
FRISBIE MEMORIAL HOSPITAL	$496,356	$134,842,085	0.37%	$133,068,866	0.37%
CHESHIRE MEDICAL CENTER	$511,257	$153,475,049	0.33%	$157,383,361	0.32%
LRGHEALTHCARE	$487,084	$196,758,925	0.25%	$205,278,442	0.24%
ST JOSEPH HOSPITAL	$547,408	$227,552,000	0.24%	$226,644,000	0.24%
WENTWORTH-DOUGLASS HOSPITAL	$698,128	$252,450,995	0.28%	$250,493,477	0.28%
Group B Average	$548,047	$193,015,811	0.28%	$194,573,629	0.28%
Group B Total	**$2,740,233**	**$965,079,054**	**0.28%**	**$972,868,146**	**0.28%**
GROUP C (OpExp>$275m)					
SOUTHERN NH MEDICAL CENTER	$772,779	$269,689,067	0.29%	$279,394,945	0.28%
EXETER HOSPITAL	$740,927	$278,822,071	0.27%	$284,010,897	0.26%
CATHOLIC MEDICAL CENTER	$1,077,958	$281,086,694	0.38%	$290,715,188	0.37%
CONCORD HOSPITAL	$844,620	$378,606,000	0.22%	$390,194,000	0.22%
ELLIOT HOSPITAL	$679,078	$380,629,536	0.18%	$392,122,872	0.17%
MARY HITCHCOCK MEMORIAL HOSPITAL	$784,594	$1,113,077,000	0.07%	$1,187,390,000	0.07%
Group C Average	$816,659	$450,318,395	0.18%	$470,637,984	0.17%
Group C Total	**$4,899,956**	**$2,701,910,368**	**0.18%**	**$2,823,827,902**	**0.17%**
STATEWIDE TOTAL	**$11,245,626**	**$4,248,729,798**	**0.26%**	**$4,385,149,383**	**0.26%**

As Table 5 shows, CEO compensation represented a smaller share of the overall financial activity at the state's larger hospitals, with a few exceptions, even as those hospitals averaged higher compensation packages for their CEOs. For the state's smaller hospitals – those with operating expenses below $100 million in FY2010 – CEO compensation made up 0.61 percent of operating expenses. That was more than twice the statewide average (0.26 percent).

At the state's largest hospital – Mary Hitchcock Memorial Hospital – the chief executive's compensation represented just 0.07 percent of operating expenses in 2010, the lowest rate of any non-profit hospital in the state.

Figure 2 illustrates in a different fashion the relationship between a hospital's revenues and the compensation of its CEO. It shows that higher Net Patient Service Revenues at a hospital correlate with higher CEO compensation levels, with a few exceptions. For instance, Catholic Medical Center paid the highest total CEO compensation in 2009, though the hospital's Net Patient Service Revenue ranked fourth-highest in the state.

Figure 2: Hospital CEO Compensation vs. Net Patient Service Revenues, 2010



The ranking of New Hampshire's hospitals by operating expense also serves as proxy for geographic variation. All 12 hospitals with operating expenses below $100 million in 2010 are in the state's more rural northern and western areas, including all five hospitals in Coos and Carroll counties.

Compensation falls along similar geographic lines, with the hospitals in the state's southern region generally paying higher compensation. (See Table 6 below.) Of the nine hospitals that paid total compensation of more than $500,000 in 2009, all but two were located in New Hampshire's southeastern counties, near the population centers of Nashua, Manchester, Concord, and the Seacoast. (One exception was Mary Hitchcock Memorial Hospital, the flagship facility of the Dartmouth-Hitchcock Medical Center which draws patients from a greater geographic radius than any other New Hampshire hospital and offers more sophisticated medical care than most other facilities.)

Table 6: CEO Compensation (2009) by hospital

Hospital	Total Comp	Town/City	County
UPPER CONNECTICUT VALLEY	$150,345	Colebrook	Coos
WEEKS MEDICAL CENTER	$233,509	Lancaster	Coos
SPEARE MEMORIAL HOSPITAL	$255,912	Plymouth	Grafton
COTTAGE HOSPITAL	$266,789	Woodsville	Grafton
HUGGINS HOSPITAL	$273,724	Wolfeboro	Carroll
VALLEY REGIONAL HOSPITAL	$309,697	Claremont	Sullivan
MONADNOCK COMMUNITY	$310,112	Peterborough	Hillsborough
ALICE PECK DAY	$318,840	Lebanon	Grafton
LITTLETON REGIONAL HOSPITAL	$331,034	Littleton	Grafton
ANDROSCOGGIN VALLEY	$374,786	Berlin	Coos
NEW LONDON HOSPITAL	$387,033	New London	Merrimack
MEMORIAL HOSPITAL	$393,656	North Conway	Carroll
LRGHEALTHCARE	$487,084	Laconia	Belknap
FRISBIE MEMORIAL HOSPITAL	$496,356	Rochester	Strafford
CHESHIRE MEDICAL CENTER	$511,257	Keene	Cheshire
ST JOSEPH HOSPITAL	$547,408	Nashua	Hillsborough
ELLIOT HOSPITAL	$679,078	Manchester	Hillsborough
WENTWORTH-DOUGLASS	$698,128	Dover	Strafford
EXETER HOSPITAL	$740,927	Exeter	Rockingham
SO. NH MEDICAL CENTER	$772,779	Nashua	Hillsborough
MARY HITCHCOCK MEMORIAL	$784,594	Lebanon	Grafton
CONCORD HOSPITAL	$844,620	Concord	Merrimack
CATHOLIC MEDICAL CENTER	$1,077,958	Manchester	Hillsborough
Note: Memorial Hospital paid compensation to two CEOs in 2009.			

Source: IRS Form 990 reports.

Finally, comparing CEO wages to total hospital salaries and workforce size reveals similar correlations. (See Table 7, page 18.) CEOs at hospitals with larger total payrolls tend to earn more, and their earnings represent a smaller portion of total hospital salaries, than do CEOs at smaller hospitals. A similar relationship exists between the number of full-time employees at a hospital and CEO compensation. At hospitals with more full-time workers, CEOs tend to earn less per-employee than CEOs at hospitals with smaller staffs. (For this comparison, we used W-2 wages information for CEOs as a measure, as that number compares most clearly with "salary" as counted in the total hospital system salaries figure.)[14]

[14] The "hospital system salary" figures include physician fees.

Table 7: CEO salaries as a percentage of total hospital salaries and full-time employees

	CEO 2010 wages	Total Hospital System Salaries	CEO wages as % of sal.	Full-time emps, 2010	CEO wages per full-timer
ALICE PECK DAY	$308,651	$23,090,223	1.34%	317	$974
ANDROSCOGGIN VALLEY	$445,725	$22,604,339	1.97%	303	$1,471
CATHOLIC MEDICAL CENTER	$776,940	$121,643,712	0.64%	1,629	$477
CHESHIRE MEDICAL CENTER	$496,516	$57,935,530	0.86%	990	$502
CONCORD HOSPITAL	$661,322	$175,136,000	0.38%	2,203	$300
COTTAGE HOSPITAL	$188,598	$11,294,739	1.67%	181	$1,042
ELLIOT HOSPITAL	$704,950	$182,998,728	0.39%	2,544	$277
EXETER HOSPITAL	$763,615	$129,072,509	0.59%	1,012	$755
FRISBIE MEMORIAL	$393,072	$50,649,036	0.78%	701	$561
HUGGINS HOSPITAL	$260,614	$25,123,951	1.04%	342	$762
LITTLETON REGIONAL	$293,337	$26,754,889	1.10%	296	$991
LRGHEALTHCARE	$450,196	$86,045,209	0.52%	836	$539
MARY HITCHCOCK MEMORIAL	$783,533	$567,848,000	0.14%	7,078	$111
MEMORIAL HOSPITAL	$243,754	$25,065,131	0.97%	357	$683
MONADNOCK COMMUNITY	$272,408	$34,786,582	0.78%	438	$622
NEW LONDON HOSPITAL	$329,095	$27,446,467	1.20%	422	$780
SO. NH MEDICAL CENTER	$669,530	$129,925,337	0.52%	1,259	$532
SPEARE MEMORIAL	$201,928	$19,205,311	1.05%	261	$774
ST JOSEPH HOSPITAL	$338,932	$103,017,000	0.33%	1,015	$334
UPPER CONNECTICUT VALLEY	$125,262	$6,381,950	1.96%	~	~
VALLEY REGIONAL HOSPITAL	$292,064	$23,387,601	1.25%	330	$885
WEEKS MEDICAL CENTER	$213,547	$21,921,632	0.97%	~	~
WENTWORTH-DOUGLASS	$605,303	$111,714,163	0.54%	1,031	$587
STATEWIDE	$9,818,892	$1,983,048,039	0.50%	23,545	$417

Source: 2010 New Hampshire Hospital Association audits; W-2 forms provided by hospitals. Two hospitals (Upper Connecticut Valley and Weeks Medical Center) did not provide full-time employee numbers.
Note: Androscoggin Valley Hospital's CEO also functions as that organization's Chief Financial Officer.

Compensation and hospital performance

Another important benchmark against which to examine a CEO's compensation is how well his or her hospital ranks in various performance measures. We did not have access to each hospital's strategic plan, but it seemed reasonable to test whether hospital CEO compensation was associated with three measures of hospital performance which one might expect are part of every non-profit hospital's mission: a ranking of quality of care, a measure of relative cost, and an assessment of the amount of charitable care provided.

The quality measures come from NHQualityCare.org and are based on composite scores on a variety of measures of how often hospitals provide the recommended care to patients. The measures include patient survey results; surgical infection prevention rates; heart attack management; congestive heart failure management; and pneumonia management. In this measure, 100 percent is the highest score.[15] These are not the only measures that could be identified, but they were chosen by a set of independent reviewers as appropriate.

Lacking a pure measure of the cost of care at the state's hospitals, we have adopted the New Hampshire Insurance Department's Cost Index, which scores inpatient and outpatient prices

[15] See NHQualitycare.org for more information on these measures. NHQualitycare.org is a partnership between Foundation for Healthy Communities and Northeast Health Care Quality Foundation.

charged by hospitals to private insurers for the same set of services.[16] Each hospital's score is pegged relative to a statewide cost average of 1.0. Hospitals with scores above 1.0 generally charge more than the statewide average, whereas hospitals scored below 1.0 charge less.

Finally, we have compiled a measure of one part of the community benefit provided by each hospital. For this measure, we aggregated the total dollar amount of charity care charged by each hospital (as reported on their annual financial audits). We then divided that amount by the number of people at or below the poverty level in the hospital's service area (according to the U.S. Census American Community Survey). This calculation provides one indication of the level of charity care provided among its service population. (For those service areas with more than one hospital, such as Manchester and Nashua, we divided the number of people in poverty according to each hospital's market share within that service area.)

We compared the amount of charity care provided per person in poverty to the 2010 W-2 wages for each hospital's CEO to see if a relationship exists between the two figures. Since non-profit hospitals are meant to provide community benefits, such as charity care, in exchange for their tax-exempt status, this measure helps assess CEO compensation against the hospital's benefit to the community at large.

Each of these measures has drawbacks, and none give a flawless illustration of how well an individual hospital is performing against its mission and goals.[17] But they do provide one approach to comparing CEO compensation levels as they relate to hospitals' mission as non-profit organizations to provide high-quality, low-cost care that also serve community needs. (See Table 8, page 20.)

[16] For information about the New Hampshire Insurance Department's hospital cost index, go to www.nh.gov/insurance/media/documents/nhhf_hosptierrpt-cy2011.pdf.

[17] For instance, areas with high college-aged populations tend to have higher poverty rates because of the way the federal government calculates this number. But that high rate does not necessarily reflect a higher level of need. We did not control for this effect in our calculation of charity care, but removing college students from the poverty rate calculation would likely have resulted in higher amounts of charity care spending per person in poverty for hospitals that serve areas that are home to a college or university. Refer to the Center's previous work on this subject at: policyblognh.org/policy_blog_nh/2011/11/a-study-in-poverty-or-how-college-towns-skew-census-data.html.

Table 8: CEO salaries relative to hospital performance measures

HOSPITAL	CEO Wages (2010 W2)	Quality Measure	Cost Index	Charity Care (2010)	Charity care as % of Rev	Charity $ per person in poverty	Charity $ pp as % of CEO wages
GROUP A (OpExp<$100m)							
UPPER CONNECTICUT VALLEY HOSPITAL	$125,262	88.3%	1.08	$918,308	6.00%	$1,352	1.08%
COTTAGE HOSPITAL	$188,598	93.5%	0.97	$1,672,496	5.92%	$2,363	1.25%
SPEARE MEMORIAL HOSPITAL	$201,928	92.8%	0.84	$3,120,526	6.79%	$1,128	0.56%
WEEKS MEDICAL CENTER	$213,547	87.3%	1.11	$2,540,995	5.91%	$4,052	1.90%
MEMORIAL HOSPITAL	$243,754	79.8%	1.11	$3,513,172	5.36%	$1,455	0.60%
HUGGINS HOSPITAL	$260,614	83.4%	0.90	$3,404,343	6.71%	$1,559	0.60%
MONADNOCK COMMUNITY HOSPITAL	$272,408	91.6%	0.89	$3,277,777	4.71%	$1,349	0.50%
VALLEY REGIONAL HOSPITAL	$292,064	78.0%	1.02	$2,233,861	4.77%	$1,083	0.37%
ALICE PECK DAY MEMORIAL HOSPITAL	$308,651	71.0%	0.82	$862,750	2.00%	$840	0.27%
NEW LONDON HOSPITAL	$329,095	85.2%	0.91	$2,114,790	3.75%	$754	0.23%
ANDROSCOGGIN VALLEY HOSPITAL	$445,725	81.2%	1.24	$2,750,567	5.44%	$1,245	0.28%
LITTLETON REGIONAL HOSPITAL	$293,337	71.0%	1.13	$3,493,647	5.27%	$1,818	0.62%
Group A Average	$264,582	83.6%	1.00	$2,491,936	5.14%	$1,583	0.60%
GROUP B (OpExp = $100m - $275m)							
LRGHEALTHCARE	$450,196	81.0%	1.00	$15,294,447	7.77%	$1,995	0.44%
ST JOSEPH HOSPITAL	$338,932	86.6%	0.95	$6,912,000	3.04%	$1,885	0.56%
FRISBIE MEMORIAL HOSPITAL	$393,072	89.4%	1.09	$6,408,209	4.75%	$1,106	0.28%
CHESHIRE MEDICAL CENTER	$496,516	88.8%	0.87	$5,619,620	3.66%	$900	0.18%
WENTWORTH-DOUGLASS HOSPITAL	$605,303	91.2%	0.94	$16,416,166	6.50%	$2,037	0.34%
Group B Average	$456,804	87.4%	0.97	$10,130,088	5.25%	$1,584	0.35%
GROUP C (OpExp>$275m)							
CONCORD HOSPITAL	$661,322	90.0%	0.92	$33,243,001	8.78%	$3,864	0.58%
SOUTHERN NH MEDICAL CENTER	$669,530	91.4%	0.77	$18,111,941	6.72%	$2,881	0.43%
ELLIOT HOSPITAL	$704,950	87.0%	0.87	$15,526,171	4.08%	$1,687	0.24%
EXETER HOSPITAL	$763,615	90.6%	1.47	$11,421,328	4.10%	$1,646	0.22%
CATHOLIC MEDICAL CENTER	$776,940	91.6%	1.04	$23,684,639	8.43%	$3,677	0.47%
MARY HITCHCOCK MEMORIAL HOSPITAL	$783,533	86.4%	1.05	$51,554,000	4.63%	$21,517	2.75%
Group C Average	$726,648	89.5%	1.02	$25,590,180	5.68%	$5,879	0.81%
STATEWIDE AVERAGES	$426,908	86.0%	1.00	$10,178,033	5.51%	$2,704	0.63%

Source: NHQualityCare.org, New Hampshire Insurance Department, hospital audit reports

Table 8 groups the state's non-profit hospitals into three categories (Groups, A, B, and C) based on operating expenses, similar to the group in Table 5 on page 15. As we have already identified that a hospital's level of CEO compensation is correlated to the size of that hospital's operating budget, this table helps us see whether, within these groupings, there is any correlation between a hospital's performance and the compensation paid to its CEO.

The data (which is illustrated in Figures 3-5 on the next page) shows virtually no correlation between hospital pay and either quality of care or hospital cost. Though the average quality measure for each group increases with hospital size, there appears to be little relationship between size and quality within each grouping. The same is true with the hospital cost index.

While larger hospitals tend to provide more total charity care, that is because they cover larger service areas with greater populations. But according to the data in Table 8 and Figure 5, there appears to be, at best, a weak relationship between the amount of charity care provided per person in poverty and CEO wages.

Figure 3

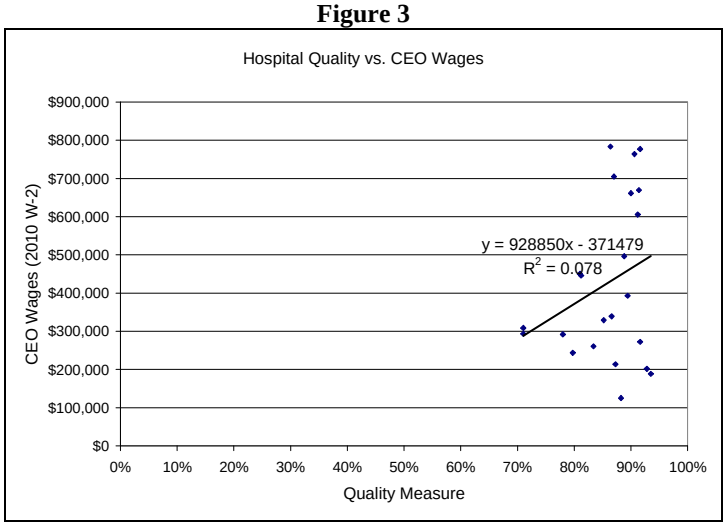


Figure 4

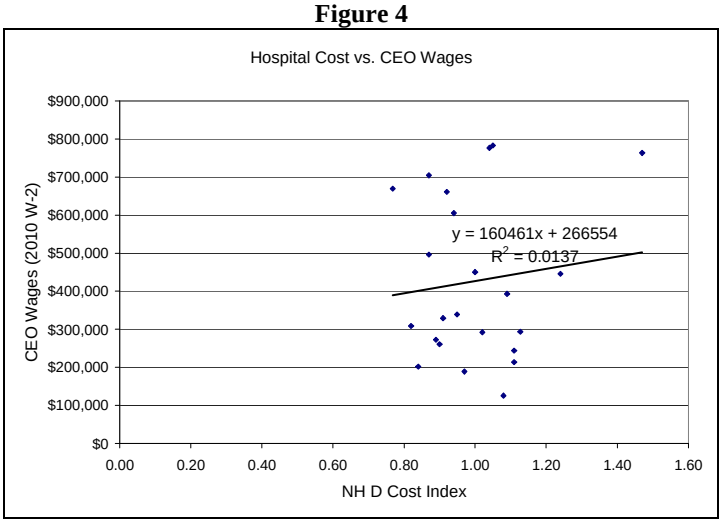
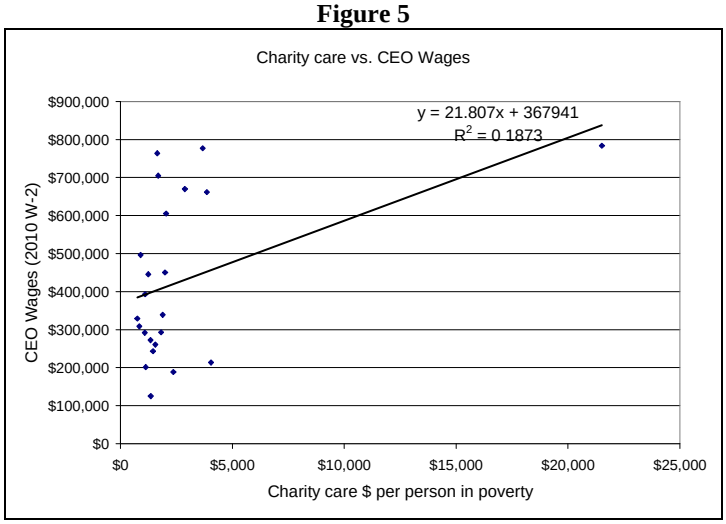


Figure 5



Finally, the gap between the amount of charity care provided per person in poverty and a CEO's pay tends to increase as a hospital's size increase, and as the CEO's pay rises, as well – though, again, this relationship is not a strong one. This relationship becomes clearer when you remove data outliers such as Mary Hitchcock Memorial Hospital – which provides the highest rate of charity care of any hospital by far – from the calculation. Charity care dollars per person in poverty represents 0.6 percent of CEO pay at the state's smallest hospitals, whereas it represents 0.38 percent at the largest hospitals (when Mary Hitchcock Memorial is removed from the calculation.)

Table 8 also includes a calculation of each hospital's charity care in FY2010 as a percent of Net Patient Service Revenues that year (fifth data column in Table 8). Similar to other gauges of hospital performance, this measure shows no strong correlation to CEO compensation.

This analysis is, of course, not precise enough to draw any definitive conclusions. However, it does raise more clearly the question of the how hospital CEO compensation relates to the value of that position. The public policy debate on CEO compensation typically focuses on the level of pay, but it has not attempted to link the level of compensation to the goals of the non-profit hospital sector. Our aim here is to lay the ground for further analysis of the issue of hospital charitable care – and other performance measures – as they relate to executive compensation.

Changes in compensation over time

Looking at data provided by the hospitals' annual IRS filings, we can draw some conclusions about how total executive compensation has changed in recent years. In the four years between 2006 and 2009 (the most recent year for which such information was available for every hospital), average total CEO compensation increased 18.2 percent at non-profit hospitals in New Hampshire, from $413,760 in 2006 to $488,940 in 2009 (see Table 9).[18]

Table 9: Annual changes in total compensation for CEOs at non-profit New Hampshire hospitals

	2006	2007	Percent Change	2008	Percent change	2009	Percent change	Change 2006-09
ALICE PECK DAY MEMORIAL HOSPITAL	$352,534	$289,376	-17.9%	$392,656	35.7%	$318,840	-18.8%	-9.6%
ANDROSCOGGIN VALLEY HOSPITAL	$334,999	$275,809	-17.7%	$311,441	12.9%	$374,786	20.3%	11.9%
CATHOLIC MEDICAL CENTER	$695,803	$907,550	30.4%	$1,017,381	12.1%	$1,077,958	6.0%	54.9%
CHESHIRE MEDICAL CENTER	$397,006	$454,643	14.5%	$501,245	10.3%	$511,257	2.0%	28.8%
CONCORD HOSPITAL	$734,030	$742,493	1.2%	$820,021	10.4%	$844,620	3.0%	15.1%
COTTAGE HOSPITAL	$207,579	$225,677	8.7%	$232,317	2.9%	$266,789	14.8%	28.5%
ELLIOT HOSPITAL	$539,616	$603,733	11.9%	$678,732	12.4%	$679,078	0.1%	25.8%
EXETER HOSPITAL	$703,127	$778,752	10.8%	$747,948	-4.0%	$740,927	-0.9%	5.4%
FRISBIE MEMORIAL HOSPITAL	$501,386	$472,720	-5.7%	$494,900	4.7%	$496,356	0.3%	-1.0%
HUGGINS HOSPITAL	$258,929	$271,036	4.7%	$268,937	-0.8%	$273,724	1.8%	5.7%
LITTLETON REGIONAL HOSPITAL	$124,095	$279,109	124.9%	$286,941	2.8%	$331,034	15.4%	166.8%
LRGHEALTHCARE	$493,622	$464,072	-6.0%	$494,646	6.6%	$487,084	-1.5%	-1.3%
MARY HITCHCOCK MEMORIAL HOSPITAL	$554,170	$673,820	21.6%	$693,786	3.0%	$784,594	13.1%	41.6%
MEMORIAL HOSPITAL	$415,175	$407,486	-1.9%	$411,775	1.1%	$393,656	-4.4%	-5.2%
MONADNOCK COMMUNITY HOSPITAL	$360,737	$291,106	-19.3%	$294,926	1.3%	$310,112	5.1%	-14.0%
NEW LONDON HOSPITAL	$325,682	$332,499	2.1%	$367,443	10.5%	$387,033	5.3%	18.8%
SOUTHERN NH MEDICAL CENTER	$701,946	$705,708	0.5%	$748,743	6.1%	$772,779	3.2%	10.1%
SPEARE MEMORIAL HOSPITAL	$211,760	$232,995	10.0%	$227,299	-2.4%	$255,912	12.6%	20.9%
ST JOSEPH HOSPITAL	$566,114	$496,715	-12.3%	$533,492	7.4%	$547,408	2.6%	-3.3%
UPPER CONNECTICUT VALLEY HOSPITAL	$125,700	$147,736	17.5%	$150,464	1.8%	$150,345	-0.1%	19.6%
VALLEY REGIONAL HOSPITAL	$270,898	$262,052	-3.3%	$278,307	6.2%	$309,697	11.3%	14.3%
WEEKS MEDICAL CENTER	$196,679	$215,989	9.8%	$220,906	2.3%	$233,509	5.7%	18.7%
WENTWORTH-DOUGLASS HOSPITAL	$444,898	$642,896	44.5%	$653,496	1.6%	$698,128	6.8%	56.9%
State average	**$413,760**	**$442,347**	**6.9%**	**$470,774**	**6.4%**	**$488,940**	**3.9%**	**18.2%**

Source: IRS Form 990 filings

How do those changes compare to wage fluctuations in the wider New Hampshire employment market? Over that period, the average private sector salary[19] in the state increased 4.8 percent, while average salaries in the state's healthcare sector increased 12.8 percent and average salaries for all state hospital employees increased 14 percent (See Table 10.)

Table 10: Annual increases in average wages, selected NH healthcare employees

	Pct increase, 2006-07	Pct increase, 2007-08	Pct increase, 2008-09	Pct increase, 2006-09
Hospital CEOs	6.9%	6.4%	3.9%	18.2%
Total private employment	3.0%	2.1%	-0.4%	4.8%
Healthcare sector	4.4%	5.2%	2.7%	12.8%
Hospitals employees	5.0%	5.5%	2.9%	14.0%

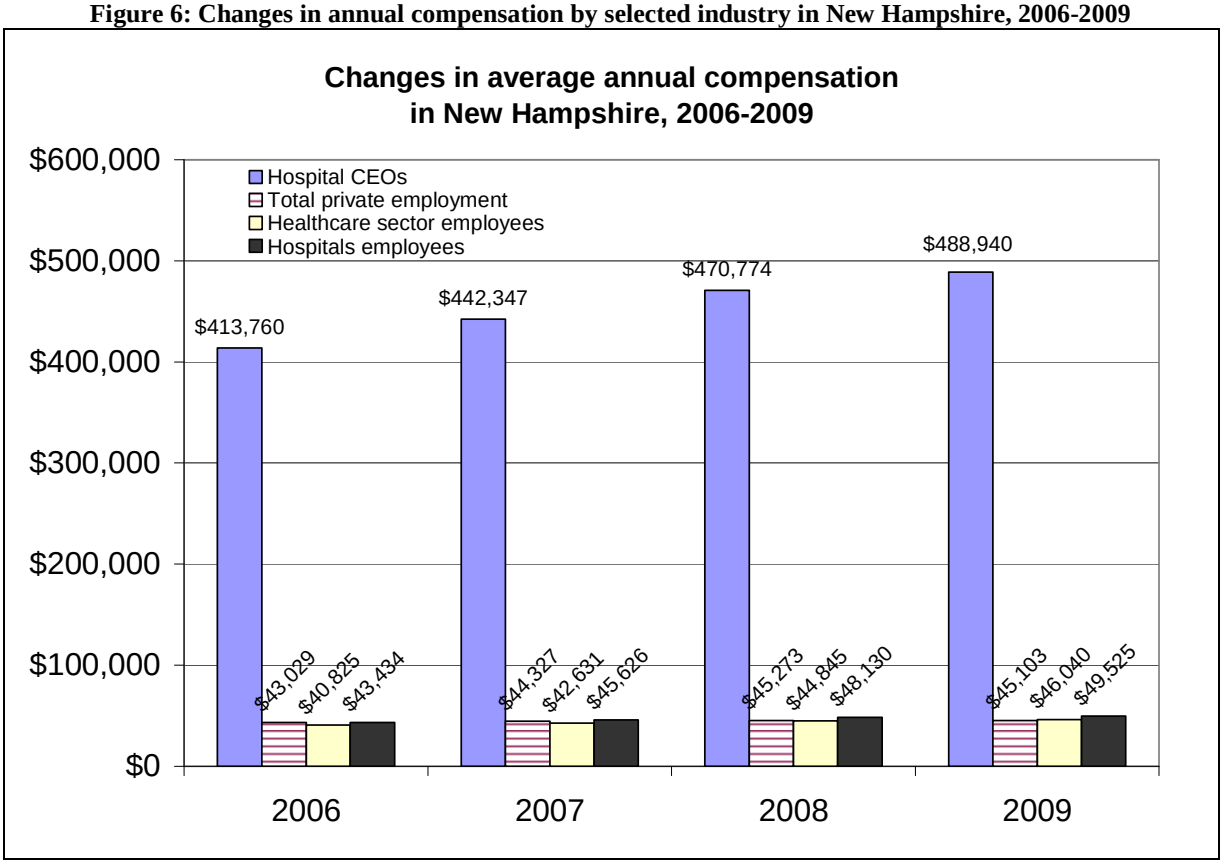
Source: NH Department of Employment Security Annual Census of Employment and Wages

[18] This calculation does not include two special one-time payments to CEOs at Wentworth-Douglas Hospital ($997,000 in 2007) and Catholic Medical Center ($342,000 in 2008.) These amounts were omitted from this particular calculation so as to better reflect annual changes in compensation. See later in this report for a discussion of one-time payments at non-profit hospitals.

[19] The New Hampshire Department of Employment Security defines "private sector" as "private enterprises and corporations; as opposed to the public sector, which includes all operations of all levels of government."

These numbers show that hospital CEO pay is increasing at a faster rate than statewide wages, as well as wages of the average hospital employee, and the average healthcare sector worker (See Figure 3 below). In another measure, the average New Hampshire non-profit hospital CEO earned 10.1 times as much as the average state healthcare worker in 2006. That figure increased to 10.5 by 2009.

Figure 6: Changes in annual compensation by selected industry in New Hampshire, 2006-2009



Sources: IRS 990 filings (CEOs); NH Department of Employment Security Annual Census (all other)

Compensation across New England

Comparing New Hampshire's hospital CEO compensation packages to those offered by non-profit hospitals in other states offers another lens through which to examine the "reasonableness" of executive compensation. This is in fact the approach most non-profit hospital boards take in setting annual compensation levels for their executives. One common source for such a comparison is the series of annual surveys compiled for state hospital associations in New England conducted by the consulting firm Olney/HR Advantage. The survey reports provide average and mean amounts for CEO compensation according to hospital operating expense, and thus provide a benchmark for hospital compensation committees when setting annual pay packages.

Several hospitals provided copies of these annual surveys, covering 2005 to 2010, in their responses to data requests from the state Department of Justice for the purposes of this analysis. Representatives from Olney/HR Advantage, however, declined the Center's request to include

data from those surveys in this report. In the absence of those surveys, the Center conducted its own review of CEO compensation for all non-profit, non-specialty hospitals in New England for which we could obtain IRS filings for the fiscal years 2007 through 2010. That yielded information for 155 hospitals, including New Hampshire's 23 non-profit hospitals. This compilation actually provides a more complete body of data than the surveys, since it includes all non-profit hospitals for which compensation information is publicly available, not just those hospitals that responded to the survey requests. (See Table 11, below.)

Table 11: Percent increase (2006-2009) in average total cash compensation for hospital CEOs

	Hospital OpExp FY10	Total Comp 2006	Total Comp 2007	Total Comp 2008	Total Comp 2009	Ann. % Increase	4-year % Increase
GROUP A (OpExp<$100m)							
New Hampshire Average (12 hospitals)	$49,037,778	$265,397	$269,239	$286,951	$300,453	4.22%	13.21%
No. New England Average (44 hospitals)	$50,916,957	$292,371	$300,144	$309,515	$317,065	2.74%	8.45%
New England Average (61 hospitals)	$54,497,433	$319,099	$339,293	$346,405	$376,358	5.66%	17.94%
GROUP B (OpExp = $100m - $275m)							
New Hampshire Average (5 hospitals)	$194,573,629	$480,605	$705,649	$535,556	$548,047	4.47%	14.03%
No. New England Average (16 hospitals)	$161,098,442	$411,067	$500,378	$475,150	$492,015	6.17%	19.69%
New England Average (56 hospitals)	$162,973,431	$504,476	$624,846	$631,950	$668,914	9.86%	32.60%
GROUP C (OpExp>$275m)							
New Hampshire Average (6 hospitals)	$470,637,984	$654,782	$735,343	$841,513	$816,659	7.64%	24.72%
No. New England Average (10 hospitals)	$580,028,627	$797,644	$844,795	$907,393	$856,508	2.40%	7.38%
New England Average (38 hospitals)	$649,902,494	$1,121,122	$1,082,060	$1,445,883	$1,533,449	11.00%	36.78%
NEW HAMPSHIRE AVERAGES (23)	$190,658,669	$413,760	$485,703	$485,664	$488,940	5.72%	18.17%
No. NEW ENGLAND AVERAGES (70)	$151,688,678	$397,611	$421,765	$431,540	$434,987	3.04%	9.40%
NEW ENGLAND AVERAGES (155)	$239,659,035	$586,394	$624,145	$718,502	$755,205	8.80%	28.79%

Source: IRS 990 filings, FY2007-2010.

Table 11 shows the annual increases in cash compensation for those three groups of CEOs (New Hampshire, Northern New England and all New England) from 2006 to 2009, with the hospitals organized by size of annual operating expenses. Compensation for New Hampshire hospital chief executives, on average, rose more slowly than for CEOs from all New England hospitals, but increased at nearly twice the rate for hospital CEOs in Northern New England as a whole. While that general trend held true for the smallest and largest hospitals in the region, it was not the case for mid-size hospitals. Among mid-size hospitals (those with operating expenses between $100 million and $275 million in FY2010), New Hampshire CEOs saw compensation increase slightly slower than for the Northern New England average and at less than half the rate of the New England-wide average.

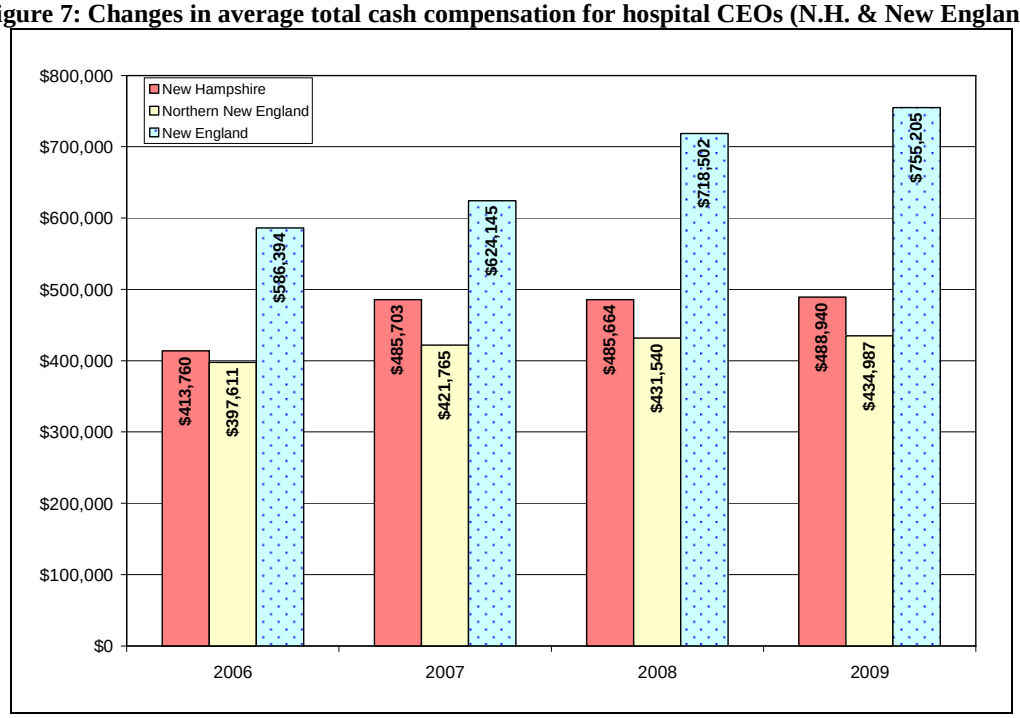
Statewide, average compensation for New Hampshire CEOs in 2009 was about 35 percent lower than the average for CEOs across New England ($488,940 for New Hampshire vs. $755,205 for New England.) At the same time, New Hampshire CEOs averaged compensation of about 12.5 percent higher than the Northern New England average. That pattern was not the same across hospital sizes, however. New Hampshire CEOs at the smallest and the very largest hospitals averaged lower compensation totals than executives at similarly-sized institutions in Northern New England and New England as a whole. That trend held true for the preceding three years.

These figures include all categories of compensation for which the IRS requests information, including base salary, bonus pay, deferred compensation and other non-taxable benefits. The

numbers also include several large, one-time payments to CEOs, such as retirement packages for departing executives, multi-year retention bonuses and other payments. These large sums can skew the data, especially when tracking annual changes at a single hospital. But since the details of these payments are not always clearly outlined in the IRS filings, and we could not be certain that we could remove the sums for all hospitals, we left them in our calculations. That includes those cases of one-time payouts at New Hampshire hospitals of which we were aware. (Earlier in this report, we analyzed annual increases in New Hampshire CEO compensation and removed two one-time payments at two hospitals. See Table 9, page 21.)

Figure 4 below simply charts the average compensation packages for CEOs in New Hampshire, Northern New England and all New England over the four-year period under review.

Figure 7: Changes in average total cash compensation for hospital CEOs (N.H. & New England)



Source: IRS 990 filings, FY2010-2007

Variations in perks

In addition to variations in salary and benefits, there are considerable differences in the perquisites New Hampshire hospitals offer their chief executives. First, we will examine some of the various ways hospitals provide retirement benefits for their CEOs. We will then highlight a few other, non-salary perks offered, including automobile privileges and cash bonuses.

Retirement and deferred compensation plans

New Hampshire's non-profit hospitals offer a range of retirement savings plans to their CEOs, with great variation from hospital to hospital. In many cases, it is not clear whether the structure and funding levels of these plans is determined by hospital Boards in the same way that annual salary and bonus amounts are. Details about retirement plans often appear to go unmentioned in

annual Compensation Committee meetings, so it is unclear how some hospitals determine the annual funding amount for these plans.

Most New Hampshire hospitals offer some form of a so-called "non-qualified" retirement plan, which are employer-sponsored, tax-deferred plans designed specifically for highly-compensated top executives. Those plans go beyond the standard 403(b) retirement plan offered at most non-profit organizations and come in several varieties, including 457 plans, Supplemental Executive Retirement Plans, and split-dollar insurance policies.

These plans are called "non-qualified" because they do not have to meet the requirements of the Internal Revenue Code or the Employee Retirement Income Security Act of 1974 (ERISA.) Thus, they offer employers and employees greater flexibility in plan design, though they don't provide as favorable a tax benefit as more common "qualified" plans. Non-qualified plans can be funded by the employee, the employer or a combination of the two, and they allow a higher level of salary deferral than traditional plans. One advantage of these types of plans is that they allow executives to reduce taxable income by deferring a potentially unlimited portion of their annual salaries. The goal is for the executive to wait to withdraw the deferred income until retirement, when he or she will presumably be in a lower tax bracket.

The most common type of non-qualified plan offered by New Hampshire hospitals are 457 plans. Contributions – whether from the employer or the employee – and earnings in these plans remain untaxed until they are withdrawn. Money deferred into a 457 plan remains the property of the employer until the employee retires, and is thus subject to claims of the employer's creditors, so these plans come with an added element of risk. The 457 plans come in two varieties: 457(b) and 457(f). The main difference is that contributions to 457(b) plans tend to come from the employee (though employers can match contributions) and are limited to $16,500 per year (increasing to $17,000 in 2012.) By contrast, 457(f) plans allow unlimited annual contributions and often include employer contributions.

Another variety of non-qualified plan offered by some New Hampshire hospitals is the Supplemental Executive Retirement Plan (SERP.) With a SERP, an employer agrees to provide a top executive with a set post-retirement benefit, funded entirely by the employer. In this way, they can be thought of as a kind of defined-benefit plan.

Like 457 plans, SERPs offer an additional avenue for select executives to accumulate retirement savings when they reach contribution limits on other traditional plans. SERPs also provide a way for organizations to attract and retain high-level executives. Plans may also come with so-called "golden handcuff" clauses that stipulate that plan participants forfeit their rights to plan benefits if they leave the current employer. SERPs are typically unfunded, meaning that no money is actually set aside in advance. So the plan "assets," in a sense, are owned by the employer until distributed to the employee, when they are paid from the employer's general assets. The plans can, however, be informally funded through annuity accounts, life insurance policies or other investments.

Seventeen of New Hampshire's non-profit hospitals offer some variety of non-qualified retirement plan to their CEOs. Three-quarters (13 hospitals) offer some variant on a 457 plan, while six provide a SERP for their CEO. (See Table 12 below.)

Table 12: Perquisites offered by New Hampshire's non-profit hospitals as part of CEO compensation in 2009

Hospital	Auto expenses	Tax gross ups	Supplemental retirement	Bonus pay	Bonus amount (2009)
ALICE PECK DAY MEMORIAL HOSPITAL	x		457b		$0
ANDROSCOGGIN VALLEY HOSPITAL	x		457b	x	$25,000
CATHOLIC MEDICAL CENTER	x		457f	x	$137,473
CHESHIRE MEDICAL CENTER	x		SERP, 457b	x	$87,694
CONCORD HOSPITAL	x		457f, split dollar life insurance	x	$150,000
COTTAGE HOSPITAL			457b, 457f, split dollar life insurance		$0
ELLIOT HOSPITAL	x		457f	x	$108,711
EXETER HOSPITAL	x	x	457b, 457f, split dollar life insurance	x	$161,136
FRISBIE MEMORIAL HOSPITAL	x		457f, split dollar life insurance	x	$50,000
HUGGINS HOSPITAL	x		457b, 457f		$0
LITTLETON REGIONAL HOSPITAL	x		457f	x	$8,100
LRGHEALTHCARE	x		none		$0
MARY HITCHCOCK MEMORIAL HOSPITAL	x		457b, SERP, 401a		$0
MEMORIAL HOSPITAL	x		none	x	$68,183
MONADNOCK COMMUNITY HOSPITAL	x		SERP (Split dollar life insurance)	x	$30,000
NEW LONDON HOSPITAL	x		SERP, split dollar, 401a	x	$85,320
SOUTHERN NH MEDICAL CENTER	x		SERP, defined benefit, split dollar	x	$128,000
SPEARE MEMORIAL HOSPITAL			none		$0
ST JOSEPH HOSPITAL	x	x	Rabbi trust	x	$58,926
UPPER CONNECTICUT VALLEY HOSPITAL			none		$0
VALLEY REGIONAL HOSPITAL			none	x	$40,000
WEEKS MEDICAL CENTER			none		$0
WENTWORTH-DOUGLASS HOSPITAL	x	x	457b, 457f, SERP	x	$54,656

Note Bonus amount for Memorial Hospital is for two CEOs. The hospital hired a new CEO in 2009 and paid bonuses to the departing and incoming CEOs.

Bonus and incentive pay

Most non-profit hospitals in the state offer some form of bonus or incentive pay to their chief executives, though the payment amounts and methods of determining those amounts vary widely.

Beginning in 2009, the IRS began requiring non-profit organizations to report the amount of compensation considered "bonus or incentive pay." In addition to those filings, the Center also reviewed employment contracts, Compensation Committee meeting minutes, internal memos and other documents to gather information on bonus payments made to hospital CEOs since 2005.

Fifteen out of 23 non-profit hospitals awarded bonuses to the chief executives in 2009, the most recent year in which information was available for all hospitals. Bonuses that year ranged from $8,100 for the CEO of Littleton Regional Hospital to $161,136 for Exeter Hospital's chief executive. The previous year, 13 hospitals awarded CEO bonuses. Eight hospitals did not award bonuses to the CEOs in 2009.

The methodology for awarding bonuses varies from hospital to hospital, as well. In some hospitals, the amount of the annual bonus depends on a CEO's annual performance as measured against a list of predetermined goals, with a detailed scoring method determining what percentage of the potential bonus is distributed that year. At other hospitals, it appears that a

simple up-or-down vote of the Compensation Committee is sufficient to award an annual bonus, which does not vary much from year to year. Such is the practice at Frisbie Hospital, for instance, which – with a single exception – has awarded a $50,000 bonus to its CEO every year since 2005.

One-time payments

At least four hospitals made substantial one-time payments to their CEOs during the time under review in this report.

In 2007, Wentworth-Douglas CEO Gregory Walker, in addition to his salary, deferred compensation and retirement funding, received $997,197 that represented "the cumulative supplemental retirement plan benefit for his full-term service as CEO from 1997 to 2007," according to the hospital's 2007 IRS filing. That year Walker vested in the supplemental retirement plan, which was initiated 10 years earlier when he was named the hospital's CEO.

In April 2007, New London Hospital CEO Bruce King received a one-time "service award" of $8,250. At the same time, King began receiving monthly "continued service payments" of $2,750. (The payments increased to $2,860 per month in July 2009.) Both payments – the one-time service award and the continued service payments – were outlined in a contract that took effect when New London Hospital amended its management services agreement with Dartmouth-Hitchcock Clinic (See footnote on page 9 of this paper for a fuller explanation of the relationship between New London Hospital and Dartmouth-Hitchcock.)

In 2008, Catholic Medical Center paid a one-time retention bonus of $342,467 to CEO Alyson Pitman Giles. That was in addition to an annual bonus of $124,688 that year. The retention bonus was "attributable to multiple years of services," according to a note in the hospital's subsequent IRS filing. Because the terms of that non-recurring bonus were presumably negotiated 10 years prior to its payment (i.e. 1998), it is unclear from our review what process Catholic Medical Center's Compensation Committee followed in establishing it.

Valley Regional Hospital paid CEO Claire Bowen $25,000 as a "one-time bonus payment" in 2009, the tenth anniversary of her employment as chief executive. Because the hospital did not provide minutes from its Executive Committee meetings, the basis for awarding this bonus is not clear.

In 2010, St. Joseph's Hospital paid a one-time signing bonus of $10,000 to incoming CEO David Ross at the time of his hiring.

Automobile benefits

Eighteen hospitals offer some form of coverage for a CEO's automobile expenses (See Table 12, page 26.) This compensation can come in the form of monthly stipends, the use of a company car, or regular reimbursements for gas and vehicle maintenance. Five hospitals offer no automobile-related perks, beyond mileage reimbursement for business-related driving.

Tax "gross-ups"

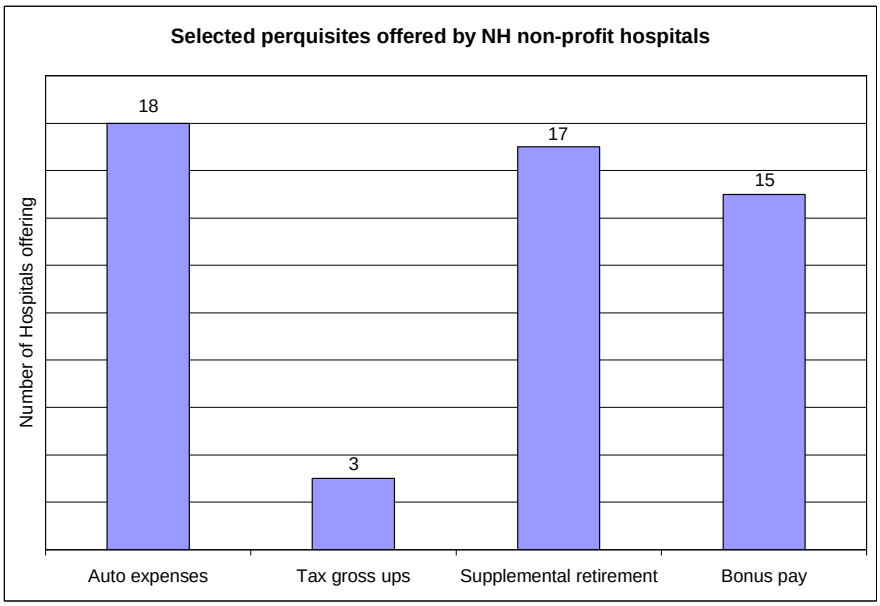
Three hospitals (Exeter, St. Joseph and Wentworth-Douglass) provide "tax gross-ups" for their chief executives. Tax gross-ups are payments made to an executive to cover the tax deduction on a specific payment or benefit. In practice, it means the employer is reimbursing the employee for his or her tax burden. IRS rules require tax gross-ups to be reported on Form 990s, included as "other compensation," though not lumped with base wages.

According to its most recently available Form 990, Exeter Hospital provides tax gross-ups to its CEO (and six other executives) for the acquisition of long-term disability insurance; the hospital reports that it treats the gross-up amount as taxable income.

Wentworth-Douglass Hospital, in its Form 990, states that tax gross-ups were applied on "certain retirement and fringe benefits" for its CEO, "as the most efficient and cost-effective means to fulfill the target benefit goal at retirement." According to a review done by a third-party consultant of the hospital's CEO compensation package, that "gross-up" was valued at $64,021.

St. Joseph reports that tax gross-ups it provides for executives are included in taxable income "and are part of the analysis of the overall reasonableness of the executive compensation."

Figure 8: Frequency of perquisites offered by New Hampshire's non-profit hospitals in 2010



Beyond New Hampshire: Other approaches

The issue of executive compensation in the healthcare industry has been a topic of considerable interest in recent years, stemming from several intersecting trends: the wider interest in executive pay in the wake of the federal "bailout" of banks, car manufacturers and other for-profit firms; the ongoing national debate over healthcare reform; and a move toward greater transparency in federal non-profit tax filings.[20]

This has resulted in other attempts to understand and measure this practice across the country. Those include large-scale studies undertaken by federal regulators, and a handful of more targeted state-specific initiatives. Some of these efforts helped inform the Center's analysis and may raise additional questions in New Hampshire.

Government Accountability Office study

The United State Government Accountability Office, in 2006, completed a year-long review of selected non-profit hospital systems across the country, with a focus on executive compensation policies and practices.[21] This study focused on three key questions:

- What corporate governance structure do selected hospital systems have in place over executive compensation?
- How are compensation and benefits for executives determined by these selected hospital systems?
- What internal controls do these hospital systems report as having in place over executive travel, entertainment, gifts and other perks?

The GAO study, which was conducted at the request of the House Ways and Means Committee, relied on an electronic survey sent to 100 hospital systems based on geographic diversity. Sixty-five hospitals responded to the survey.

According to the GAO, the hospital systems reported similarities in governance and compensation practices, including the use of a special board to set and approve CEO pay and the reliance on comparable market data in making decisions on compensation. All 65 hospital systems reported having a conflict-of-interest policy that covers members of their executive compensation committees. Similar to the Center's review of New Hampshire hospitals, the GAO study reported a range of practices when it came to perquisites provided to CEOs. Among the findings from the GAO survey:

- 63 of 65 hospitals reported hiring an outside compensation consultant in the two years prior to the survey;
- All 65 hospitals reported relying on comparable market data before making decisions on CEO compensation;

[20] For an overview of some of these outside influences, see "Regulation of Executive Compensation at Nonprofit Health Care Organizations: Coming Changes?" David Albert Bjork, *Inquiry*, Spring 2010.
[21] The full GAO study can be found at www.gao.gov/products/GAO-06-907R.

- All but one of the hospitals reported that they document the basis for compensation decisions at the time those decisions were made;
- 51 of the 65 hospitals reported providing SERPs (Supplemental Executive Retirement Plans – see above) to their CEOs;
- Roughly half of the responding hospitals (33 of 65) reported offering 457(f) plans to their CEOs; while more than two-thirds (46 of 65) provide 403(b) plans for their CEOs;
- 55 hospitals reported providing automobile-related expenses for CEOs.

The GAO study offered no recommendations and was not intended to draw any conclusions about the adequacy of compensation policies at individual hospital systems. And since the hospitals surveyed were not randomly sampled, the GAO cautioned that it could not draw any generalizations from its results.

IRS non-profit hospital survey

The most wide-ranging and influential review of hospital compensation in recent years is one released by the Internal Revenue Service in 2009. The IRS initiated this review with a desire to better understand the assets and revenues of the non-profit hospital sector, especially in light of marked changes in this sector and the environment in which hospitals operate. In particular, the report examined the various ways non-profit hospitals define and provide community benefits through charity care and other programs.[22]

The review was based on questionnaires sent to more than 500 tax-exempt hospitals. A further analysis of 20 select hospitals was undertaken to more closely examine executive compensation practices. These hospitals were selected based on their apparently excessive levels of compensation relative to other hospitals in the study.

Among the IRS report's findings:

- Almost every hospital surveyed reported using comparability data and independent personnel when setting executive compensation. This was consistent across hospital revenue sizes and community types.
- The largest compensation packages were reported by hospitals in high-population, urban and suburban areas, with Critical Access Hospitals reporting the lowest compensation levels.
- Nearly all compensation levels were determined to be "reasonable" under the current regulatory standard (i.e., the rebuttable presumption doctrine).

In the words of the report: Compensation "amounts reported appear high, but also appear supported under current law. For some, there may be a disconnect between what, as members of the public, they might consider reasonable, and what is permitted under the law."

Among other steps, the IRS recommended further examination of the quality of comparability data used to establish compensation levels, especially when data from for-profit institutions is included. In addition, the study noted that since tax-exempt hospitals often compete with for-

[22] For the full IRS report, see irs.gov/charities/charitable/article/0,,id=203109,00.html.

profit hospitals, it would be useful to have a better understanding of how those for-profit organizations operate.

Other regulatory approaches

While the IRS study did not reach any conclusions on whether non-profit hospital compensation was excessive or not, it spurred discussions at the federal and state level about the issue. For instance, soon after the report's release, U.S. Senator Charles Grassley proposed shifting the burden to hospital boards to prove that CEO salaries are *reasonable*, rather than requiring the IRS to prove that compensation is *unreasonable*. That proposal never became law, though it remains a topic of interest for some.

In New Hampshire, state regulators have no specific statutory authority over how non-profits set executive pay, though the Charitable Trusts Unit of the state Department of Justice does have common law authority over non-profits, including the power to regulate the fiduciary responsibility of their Boards of Directors. In addition, tax-exempt charities – including all non-profit hospitals – are required to file a copy of their IRS Form 990 with the New Hampshire Department of Justice.

One drawback to this reliance on the federal return is the lag between the period covered in the report and the time that report is made public, especially for hospitals that operate on a fiscal year that does not align with the calendar year. Because of various reporting requirements, data on executive compensation in these reports are often out of date by a year and a half or more by the time the state receives them. State regulators may want to consider whether requesting more timely information on compensation – concurrent with the issuance of W-2 forms, for example – would provide a clearer, more immediate body of data.

Massachusetts is moving towards such an approach. In that state, the Attorney General already requires non-profit hospitals to make annual reports of executive compensation, distinct from the federal filings. In addition, three years ago, that office announced an effort to change its system of reviewing limited information that was already out of date by the time it had been collected, to one of more "proactive" examinations of executive compensation. This effort is intended to extend to the state's entire healthcare industry, not just hospitals.

Other states have attempted to regulate the issue more aggressively. New York Governor Andrew Cuomo earlier this year signed an executive order that placed a $199,000 limit on the amount of state money that certain non-profits can use towards executive compensation. Though the order may have little practical impact on non-profit hospitals in New York, which get most of their money from federal sources or private donors, the move came amid intense scrutiny of high compensation at Medicaid-funded health facilities in the state. Proposed regulations for the pay limit were released in May and will be finalized in July, so it remains to be seen how non-profit hospitals respond.[23]

In Washington State, the budget passed in April requires the state health department to create a system for hospitals to report executive compensation. That state already has a law limiting how

[23] "Cuomo Limits State Money for Salaries of Contractors," John Eligon, *New York Times*, January 18, 2012.

much hospitals can pay their executives, though it appears to be rarely – if ever – enforced. The law requires that hospital executive pay be comparable to what public employees in the state earn in similar jobs.

And in Providence, R.I., a city facing severe fiscal trouble, city leaders have suggested that non-profit hospitals should contribute funds to the city budget – or be forced to pay taxes – since several top executives at those institutions earn salaries in the millions of dollars. In late April, one of Providence's non-profit hospital systems announced it would contribute $2.4 million over three years to the city to help close a budget deficit. Providence Mayor Angel Taveras said he hoped the decision would inspire other non-profit hospitals in the city to make similar contributions.[24]

Recommendations

While the data presented in this report sheds light on recent trends in executive compensation at the state's non-profit hospitals, it still leaves many unanswered questions. In particular, this data tells us little about the value of hospital CEO compensation relative to other industries, both for-profit and non-profit. We recommend the following topics for further analysis.

1. A broader set of comparisons. What other comparisons might help us determine whether non-profit executive compensation levels in New Hampshire are reasonable and competitive? Would comparing hospital CEO pay to that of the presidents at other large non-profits in the state – including colleges and universities, major social service providers or statewide charitable institutions – be appropriate? Should regulators look at these other industries, and the processes they follow in setting compensation, when assessing the appropriateness of hospital pay? Gathering data on executive compensation at other non-profit organizations would broaden the set of data against which hospital CEO pay could be assessed.

2. Connecting compensation to hospital performance. How can we better relate variations in compensation across hospitals to hospital performance, in terms of quality, cost and provision of community benefit? What might a more long-term examination of charity care tell us about its relationship to changes in CEO pay? In theory, hospital executives should be rewarded for providing more charitable care, since such community benefits are a key part of a non-profit hospital's mission. Research indicates that, at least in some instances, non-profit hospitals are driven by financial pressures to increase the number of patients with private insurance at the expense of uncompensated care.[25] More data on charity care – and other hospital performance measures – would help us better understand that dynamic in New Hampshire.

3. Annual data collection and reporting. We recommend that the New Hampshire Department of Justice or some other organization update the information reported here on an annual basis, using the IRS Form 990s as data sources. Such regular updates will help establish long-term trends in executive compensation at non-profit hospitals and also shed light on the relationship between compensation levels and other trends in hospital finances.

[24] "Lifespan agrees to $2.4 million in payments to Providence," Alisha A. Pina, Providence Journal, April 30, 2012.
[25] "Not-for-profit hospital CEO performance and pay: some evidence from Connecticut," Kramer and Santerre, Inquiry, Fall 2010.

Our Supporters

The Center's continued service to New Hampshire is possible because the following individuals, organizations, and corporations have made generous unrestricted donations to the Center. The Center's supporters do not necessarily endorse, nor has the Center asked them to endorse, any of the findings or recommendations in our reports.

Corporate Donors

Anthem BC/BS
Citizens Bank – NH
Harvard Pilgrim Healthcare
IPG Employee Benefits
Lavallee/Brensinger Architects Fund*
Merrimack County Savings Bank
Northeast Delta Dental
Public Service of NH
Sheehan Phinney Green + Bass, P.A.
Unitil
BAE Systems
Fidelity Investments
Hitchiner Manufacturing Co.
Laconia Savings Bank
Ledyard National Bank
Millyard Communications
People's United Bank
Sheehan Phinney Capitol Group
Southern New Hampshire University
University of NH

Sustaining Benefactors

Endowment for Health
Lovett-Woodsum Foundation
Putnam Foundation
Harold Janeway
New Hampshire Charitable Foundation

Subscribers

Geoffrey E. & Martha Fuller Clark Fund*
William Dunlap
Stephen Gorin
Doug Hall
David W. Hess
A. E. Lietz
The McIninch Foundation
Mike Smith
Jack and Pat Weeks
John Garvey & Cotton Cleveland
Steve Duprey
Martin Gross
Eric Herr
Hoffman Family Foundation
Lynch Family Charitable Foundation
James & Judy Putnam
John Swope
Kimon and Anne Zachos*

Friends

David Alukonis
Anonymous
James & Ellen Adams Bassett
Michael Buckley
CAP-Belknap Merrimack Counties, Inc
Crotched Mountain Foundation
Whit & Closey Dickey*
John & Patricia Dunn
Lewis M. Feldstein
Greater Manchester/Nashua Board of Realtors
JSI Research & Training Institute
Chuck Morse
NH Association of Insurance Agents
John B & Alice Pepper
Charlotte Houde & William Quimby
Donald Shumway
Paul & Paula Trombi
Brian Walsh & Linda Patchett
Scott Workman
John B. & Sharon B. Andrews
Sherwood Bain
John Blackford
Thomas & Emilie Burack
Contoocook Board of Realtors
Harte Crow
Jane Difley
Families First of the Greater Seacoast
Sheila T. Francoeur
William & Erika Johnson
Meredith & Center Harbor Democratic Committee
Arthur Mudge
NH Bankers Association
Walter & Dorothy Peterson
Todd Selig
John and Donna Sytek
Fred Upton
Daniel & Beverly Wolf
Mark & Susan Zankel

* An Advised Fund within the New Hampshire Charitable Foundation