

# Effective Methods for Building Competitive Compensation

**AHA Executive Leaders Series**  
Session 2

February 18, 2025

**AON**



# Your Presenters



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Senior Partner and Leader  
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# Executive Compensation Scrutiny – Intermediate Sanctions: IRS Section 4958

## What it Requires:

- Independent oversight
- Valid data
- Documented processes
- Independent goal setting
- Independent goal review
- Independent approval of payouts
- Full term management of plans
- Market positioning within acceptable zone

## What it Allows:

- Industry and other relevant data
- Payment for incentives well above market
- Performance linked benefit contributions
- Different market positions for different roles/jobs
- Individualized plans for key retention/business needs

## What to Watch for:

- A structure above the 90<sup>th</sup> percentile
- Soft performance targets/goals
- Guaranteed payments irrespective of performance
- Weak governance processes

# Revisiting the Market

Competitive Market Values – 50<sup>th</sup> Percentile

Pay Component	Health Care CEO \$4B System	General Industry CEO \$4B Revenue	Life Sciences CEO \$4B Revenue
Base Salary	\$1,735	\$1,152	\$1,158
Target Short-Term Incentive %	<b>50%</b>	<b>135%</b>	<b>128%</b>
Target Short-Term Incentive \$	\$871	\$1,503	\$1,533
Target Total Cash	\$2,572	\$2,700	\$2,765
Target Long-Term Incentive %	<b>65%</b>	<b>555%</b>	<b>748%</b>
Target Long-Term Incentive \$	\$1,128	\$6,647	\$9,169
Target Total Direct Compensation	\$3,699	\$9,365	\$11,819

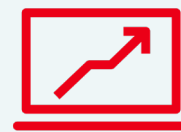
Data Source: Aon's Total Compensation Data Base

1. Make sure salaries and STI are producing competitive total annual cash
2. Look to LTI for opportunity:
  - Move to **100%–150%** for LTI value for CEO
  - Set tough goals
  - Look at a sizable percentage in deferred plans
  - Create a performance/retention positive alignment
3. How aggressive can we be in goal setting and opportunity levels?  
**Mission / Values / Opportunity**

# Long-Term Incentives



Include: **Senior management and high potentials**



**Tough Metrics:** Must show real growth, improvement, or efficiency over previous years



**Value Creation:** Through greater achievement; doing it sooner or better; real growth; greater efficiency; better outcomes



**Mission Preservation:** keeping true to your values; creating the productive tension with growth



Remember your three sources of revenue: **Operations, Debt, and Philanthropy**



Prioritize your growth to effect value creation and to make your organization more sustainable

# Key LTI Metrics – A Sample

## Growth of Operations and/or New Service Lines/Markets

- 3-year growth in Enterprise revenue
- Targeted 3-year growth in selected service lines
- Opening new services with a specific level of realized revenue
- Acquisition of X and integration into operations
- Increase number and type of specialized physicians
- Growth in covered lives



## Reduction in Debt Service

- Reduction of debt by X\$ over 3 years
- Refinancing debt service or selected covenants
- Creating alternative sources of revenue for investment



## Growth in Philanthropy

- Growth in annualized revenue over 3 years
- Growth in targeted giving by all groups
- Growth in average per capita gift levels by specific level or type of supporters



# LTIP Design Must Look to Comparative Measures

Higher Growth Over Your Competition Commands Greater LTIP Funding

## Increases to an LTIP Should Represent More

- Substantial, comparative measures against a select peer group
  - 3-year timeframe
- You need to **beat your competition** to justify a higher benefit
- Absolute and relative metrics comprise the fundamentals



### Absolute Metrics

- Growth targets specific to the organization
- Deciding factor on whether or not LTIP is funded



### Relative Metrics

- Comparative growth targets relative to competitive peers
- Determinant of the level of LTIP funding

### Example

Organization's 3-year percentage growth in EBITDA vs. that organization's percentage growth in EBITDA **over and above its peers** for the same 3-year timeframe

- LTIP is funded upon achievement of overall EBITDA growth target, with the amount of funding determined by the percentage growth over the peer group

# LTIP Targets Tie to Measurable Value Creation

Example LTIP: \$100,000 at Target

Performance Dimension	Weight	Performance		
		Threshold	Target	Maximum
3-Year Cumulative Growth in System Revenues	40%	Goal – \$20,000	Goal \$40,000	Goal + X% \$60,000
Specific Growth in Service Lines: A, B, & C/	30%	Goal – \$15,000	Goal \$30,000	Goal + Y% \$45,000
Reduction in Debt Service	15%	Goal – \$7,500	Goal \$15,000	Goal + Z% \$22,500
Increase Number of \$10K/ Donor Gifts	15%	Goal – \$7,500	Goal \$15,000	Goal + \$22,500
	<b>100%</b>	<b>\$50,000</b>	<b>\$100,000</b>	<b>\$150,000</b>



# Involve Your Board



**Education** – Bring them along



**Upgrade Board and Compensation Committee** with business savvy Directors

- Chair of the Compensation Committee is key



Create a **partnership in understanding** where you are trying to go and why



**Always play it straight** – a deal is a deal

- Do not ask for “special treatment” except under the most extreme circumstances

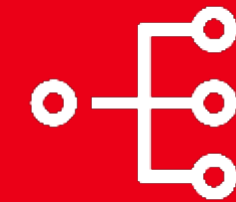


**Show the value created to remind the Board of the progress being achieved**

# Other Creative Additional Plans for the Portfolio



3- to 5-Year Retention  
Plans for Key Resources



Asset-Based Plans



Linking Additional Retirement  
Contributions  
to STI and LTI Performance



Participation in For-Profit  
Operations Revenue

# Thank You

See you at our final session, when we look at wealth accumulation strategies.

## Session 3

### Effective Methods for Competitive Total Rewards Planning

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March 26, 2025

2:00 pm – 3:00 pm CT

