

Sample Performance Standards for Evaluating Annual Incentive Plans

Overview

As health care organizations face a number of emerging challenges, the compensation committee of the not-for-profit hospital and health system board is well served to review and update the executive compensation program periodically.

According to SullivanCotter's 2018 *Manager and Executive Compensation in Hospitals and Health Systems Survey Report*, annual incentive plans (AIPs) are the norm (84 percent prevalence). With evolving organizational strategies and greater transparency regarding performance, the board compensation committee should review and, if appropriate, enhance AIP performance measures to ensure an optimal measurement focus. Questions to review include:

- Do the measures align with the organization's key objectives in a value-based environment? The survey indicates the most commonly used AIP measures include:
 - Quality
 - Patient engagement
 - Patient safety
 - Financial results

The survey also reports increasing use of the following AIP measures:

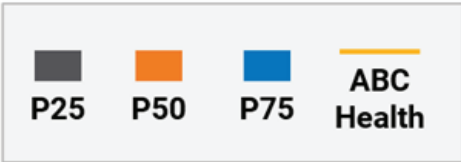
- Efficiency
- Access
- Lives under risk contracts
- Condition-specific process outcomes and measures
 - Is the focus of performance measurement at the appropriate level? The SullivanCotter survey indicates an increasing focus on shared goals at the system level rather than at the subsidiary hospital level in order to support alignment and encourage collaboration.
 - How much "stretch" is included in the performance standards? The committee should ensure that some or all of the same organizations that compose the compensation benchmarking peer group are considered when establishing performance standards for the incentive measures. Relative performance data abstracted from audited financial statements, Centers for Medicare & Medicaid Services Star Ratings and value-based programs and the like can help to ensure the resulting executive compensation levels are aligned with organizational performance and that AIP metrics are set considering the actual performance levels of peer institutions.

To learn more about reviewing and updating an executive compensation program, [click here](#).

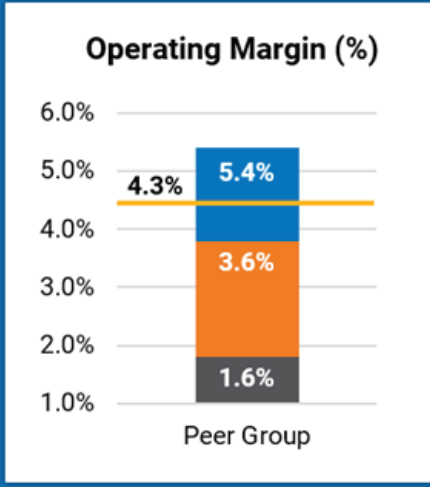
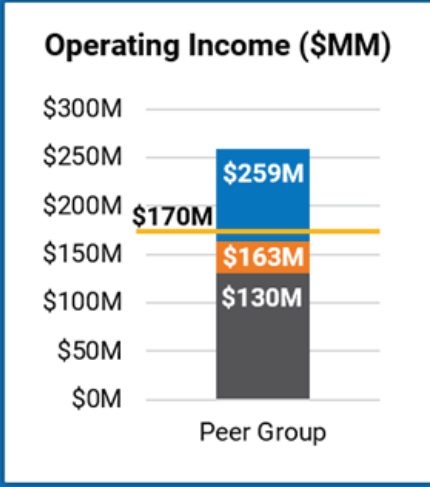
Excerpted from "Key Action Steps for the Compensation Committee in 2019," by Timothy Cotter and Kathryn Hastings (Trustee Insights, March 2019).

Performance Standards

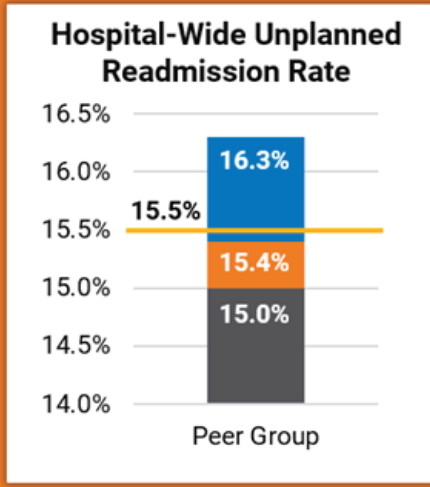
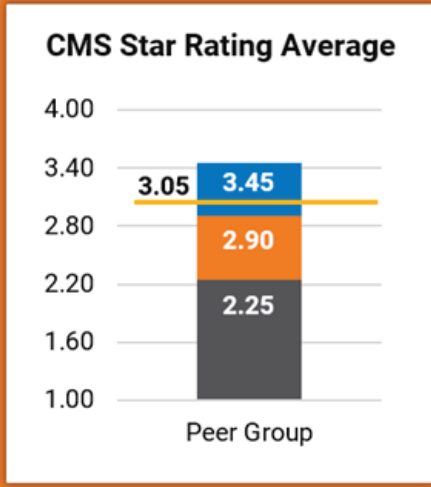
Sample



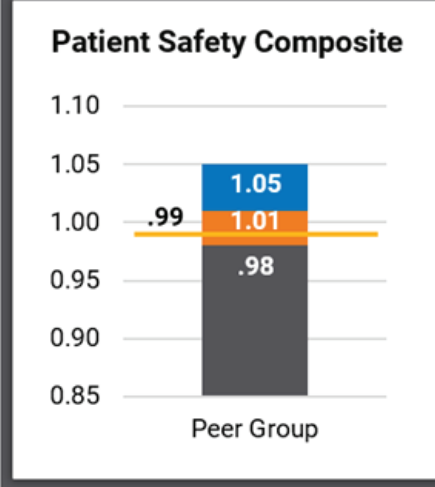
Financial



Quality



Safety



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