

2023/2024 HEALTH INSURANCE EXECUTIVE
COMPENSATION INSIGHTS REPORT

Using Incentive Compensation to Drive Corporate Results





Introduction

Executive compensation plans are constantly being evaluated in order to attract and retain high performing talent that possess the right competencies and are empowered to lead the organization. An executive compensation package will typically include both financial and non-financial incentive components to drive individual and organizational performance. This insight article explores executive incentive compensation for health insurers as it relates to driving business results. The findings are based on the recently published [2023 BDO Health Insurance Industry Executive & Management Total Potential Remuneration \(TPR\) Survey](#), which is a valuable source of executive compensation information used by boards and management to make well-informed executive compensation decisions.

This summary is the second installment of a two-part series focusing on select high-level insights from the full report. Read the previous installment: [Top Executive Pay Matches or Exceeds Revenue Growth](#).

ADDITIONAL INSIGHTS

BDO's TPR Survey includes hard data, analysis, and insights related to compensation strategies and performance measures that are intended to drive desired business results. The extensive survey results report contains in-depth data and analysis that can help health insurance companies to address critical issues, including:



Designing pay programs and delivery mechanisms to attract and retain an executive leadership team that will drive the business strategy.



Determining how much of an executive's pay should be at risk (e.g., variable pay that is only earned if specific performance metrics are achieved).



Ensuring performance metrics support the behaviors that will achieve the goals of the business.



Designing effective supplemental executive retirement plans (SERPs) and change of control (COC) agreements.

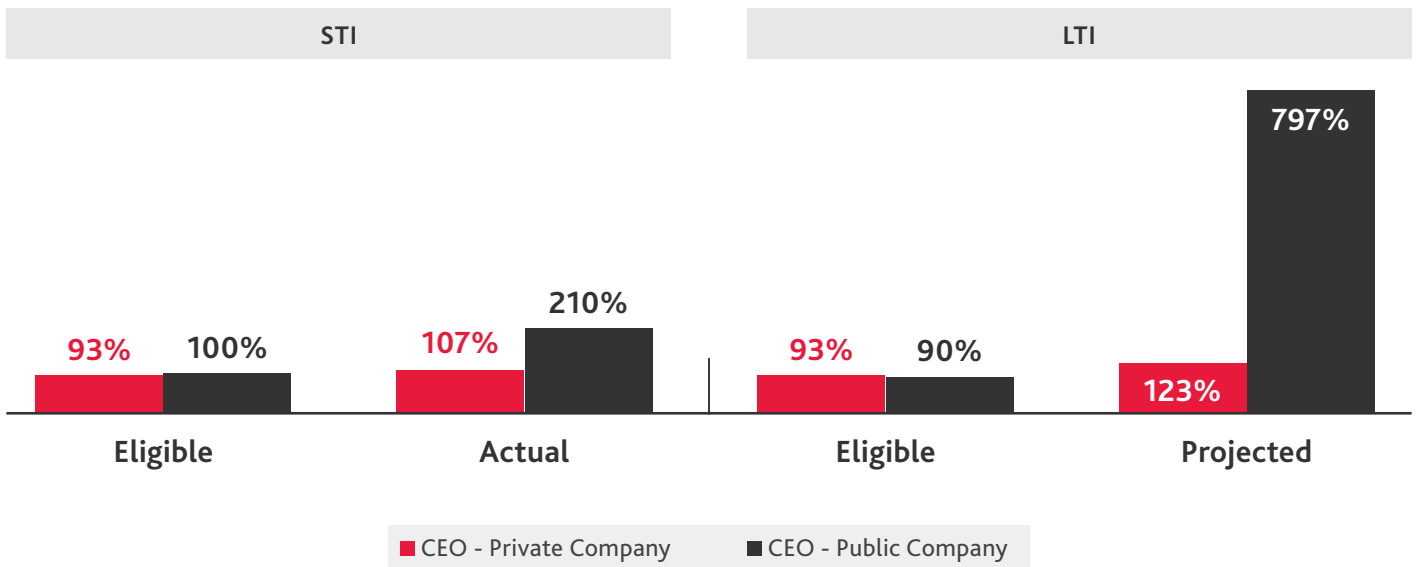
To get the full depth and breadth of analyses, [participate in our annual survey](#).

Variable Pay is a Key Element of Health Insurance Executive Compensation

Incentive compensation, including annual/short-term incentives (STIs) and long-term incentives (LTIs)/equity plans, is generally considered and used as an effective means of aligning the financial interests of top executives to that of the company and other stakeholders. However, the process in determining what metrics to use and how to set results-oriented goals is a constant challenge. The degree to which incentives are used will vary by organization type — private vs. public companies (see exhibit 1).

- ▶ STI and LTI eligibility for CEOs is comparable between private and public companies.
- ▶ Actual STI awards for CEOs are higher at public companies.
- ▶ On average, projected LTI awards for CEOs are significantly higher at public companies; however, it is important to consider the scenario where the projected valuation of these may be much more than their actual value, as is often occurring in today's market.

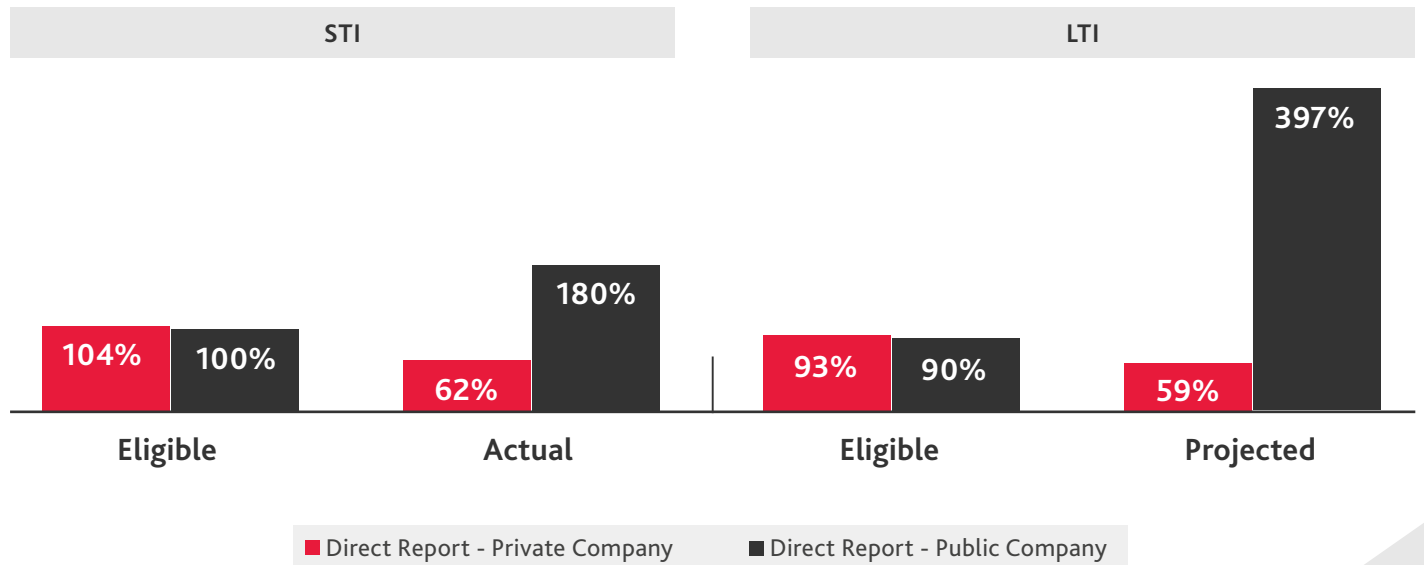
EXHIBIT 1: COMPARISON OF CEO STI AND LTI AS A MULTIPLE OF SALARY BY ORGANIZATION TYPE¹



¹ Actual/projected values are averages.

These observations are consistent with the use of STIs and LTIs, as well as the award amounts, for direct reports to the CEO (see exhibit 2).

EXHIBIT 2: COMPARISON OF STI AND LTI FOR DIRECT REPORTS TO THE CEO BY ORGANIZATION TYPE²



While this comparison is interesting, it is generally not practical for private companies to match the potential value of the equity portion of public company executive pay packages. However, effectively leading a public company comes with unique challenges, such as the management of the financial health of the company to meet quarterly financial projections. Private companies have more latitude to balance short- and long-term priorities. Some executives and board members are seeking to move to private companies where they are able to make smart business decisions with far less public scrutiny. If this trend continues, it may be a source of highly qualified talent.



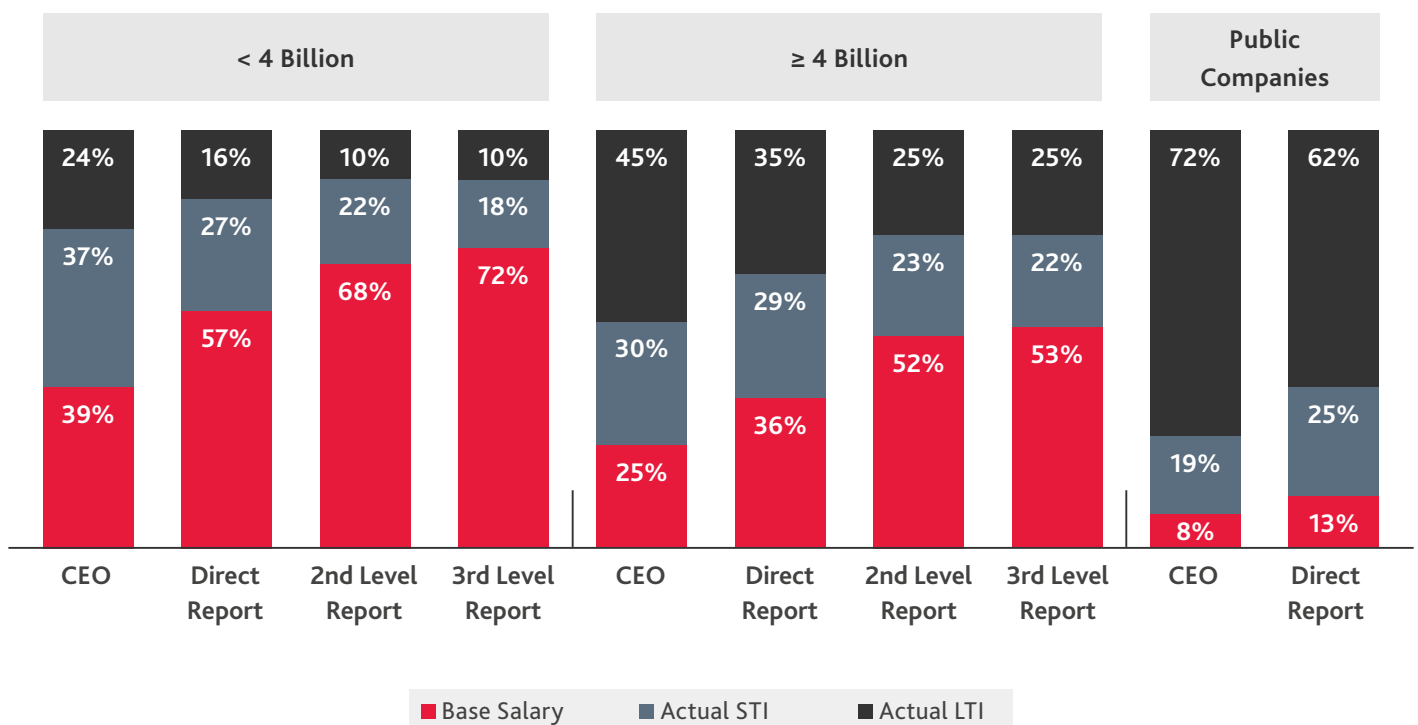
JUDY CANAVAN
Global Employer Services Managing Director

² Actual/projected values are averages.

Variable pay for health insurance executives continues to be prominent in terms of usage and the level of incentive opportunity. In fact, the 2023 TPR Survey results show that all but one company reported having a variable pay plan. Business performance goals for executive/management incentive awards are **established annually**, as reported by 93% of survey participants.

There is more pay at risk for executives of public companies, as illustrated below. This is in large part driven by LTIs (including equity), which represent the largest component of executive pay in public organizations. For private companies, there is more pay at risk for those with \$4 billion or more in revenues relative to those with less than \$4 billion in revenues. The significant difference in LTI levels puts public companies in a league of their own for CEOs and direct reports to the CEO.

EXHIBIT 3: AVERAGE ACTUAL MIX OF PAY FOR ORGANIZATIONAL REPORTING LEVELS BY REVENUE SIZE³

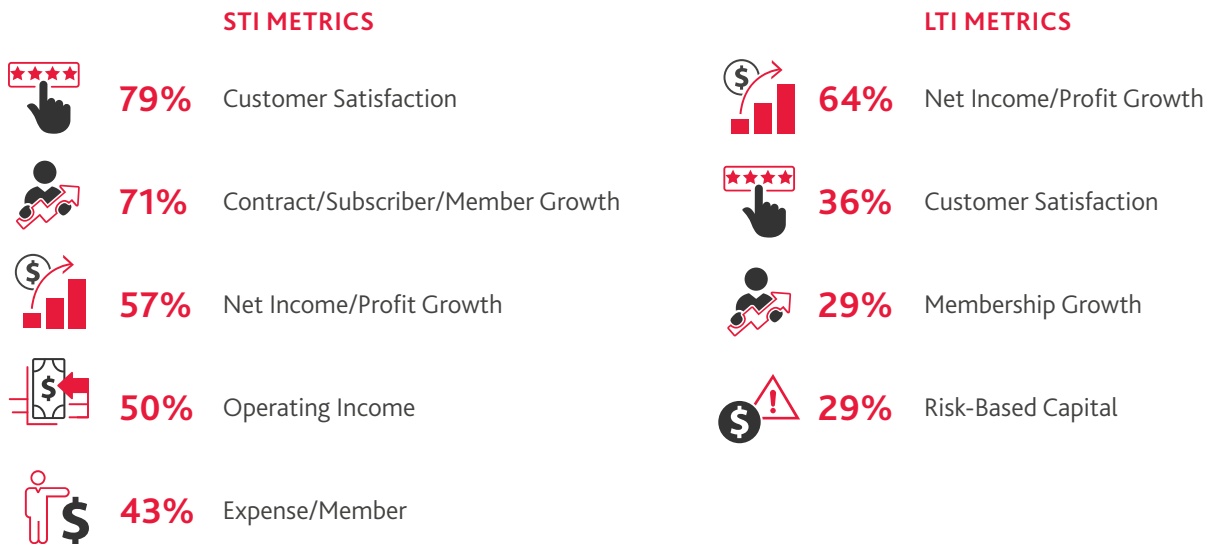


³ Values may not sum to 100% due to rounding. Data not available for Public Companies 2nd and 3rd Level Reports.

Selecting Metrics to Align Executive Incentive Pay to Corporate Results

Our survey identified the metrics that companies most often use in the design of STI and LTI plans for health insurance executives (see exhibit 4). Topping the leaderboard for STI non-financial metrics are customer satisfaction and contract/subscriber/member growth – which are excellent indicators of true organic growth. Organizations are balancing this with an eye on other financials in their long-term plan such as net income/profit growth. This will challenge executives as business expenses are rising rapidly due to inflation pressures, as well as higher wage prices driven by more demand for health-related resources than current supply. The prevalence of each metric used is shown below.

EXHIBIT 4: PREVALANCE OF METRICS USED FOR INCENTIVE PLANS



Though increases in revenue and profits are commonly used measures, it is important to keep in mind that they do not necessarily reflect true organic growth. Revenue increases can be a result of pricing increases and profits can be impacted by reduced utilization (which we saw during the COVID-19 pandemic). Market share metrics are the best indicator of true organic growth.

EXHIBIT 5: EFFECTIVENESS OF METRICS USED IN INCENTIVE PLANS

← INDICATOR OF GROWTH →		
MODERATE	BETTER	BEST
<p>Revenue Growth</p> <p>Can be influenced by price increases</p>	<p>Net Income/Profit</p> <p>Can be influenced by operating costs, revenues, expenses</p>	<p>Membership/Enrollment/Market Share</p> <p>Signifies new membership</p>

No health insurer reported utilizing environmental, social, and governance (ESG) metrics in their executive incentive plans at the time the 2023 TPR Survey was conducted; however, we are continuing to see health insurers working towards doing so. In a recent pulse survey⁴ conducted by BDO, we asked how companies were progressing towards linking ESG and executive compensation:

- ▶ 40% of the health insurance participants reported that they plan to incorporate ESG measures in their executive STI plans.
- ▶ 50% of health insurance participants reported that they plan to incorporate ESG measures in their executive LTI plans.
- ▶ Of the health insurance participants who currently or plan to assess performance and determine executive incentive pay, 60% use social metrics and 20% use governance metrics. No organization reported using environmental metrics.

As ESG garners more attention from customers, investors, and employees, companies are increasingly linking ESG factors to their executive compensation plans.



4 BDO's 2023 ESG Metrics for Executive Incentive Plans Pulse Survey for Health Insurers

Conclusion

Incentive compensation is a critical tool for attracting and retaining executives, as well as driving business strategy. Business conditions are anticipated to remain uncertain and changeable, thereby complicating the design of executive incentive compensation. The industry continues to grow in competition, even as larger health insurers acquire smaller companies and smaller health insurers merge with similarly sized peers. It is important to know what other companies are doing; however, it is also important to align your program with your company's unique market, mission, and strategy and to structure your program to balance the needs of all stakeholders.

ABOUT OUR SURVEY

BDO's annual [Health Insurance Industry Executive & Management Total Potential Remuneration \(TPR\) Survey](#) reports compensation, benefits, perquisites, and contract agreements for over 40 executive and senior management positions in health insurance organizations. Survey responses are gathered annually from participating health insurance organizations with three categories of analyses:



COMPENSATION
LEVELS



TOTAL POTENTIAL
REMUNERATION LEVELS



POLICIES AND
PRACTICES



About BDO's Global Employer Services Practice

The professionals in BDO's Global Employer Services practice are dedicated to helping companies achieve their business and financial goals by effectively managing their most important asset—**their people**.



GLOBAL MOBILITY

Expatriate Tax

Working with multinational employers to minimize tax burdens and compliance risk while providing integrated services and essential tools, such as our business traveler tracking application, to enable seamless global and domestic employee transitions.

Mobility Consulting

Developing strategies with company stakeholders to determine key objectives and create or modify a global mobility program to meet these objectives through enhanced assignee selection criteria, policy design, repatriation strategies, cost analysis, market analysis, and effective communication.

Global Equity

Helping employers with multinational stock compensation programs to minimize tax burdens and compliance risk through our international network and tools like the BDO Global Equity Mobility Solution and Global Equity Rewards Matrix.



GLOBAL REWARD TAXATION

Global Payroll

Providing payroll review, recommendation and implementation; assignment benefit and compensation gathering; and compensation schedules to reconcile U.S. and foreign payrolls.

U.S. Employment Tax

Identifying and implementing strategies to help reduce current and future employment tax burden and exposures; taking advantage of federal, state, and local opportunities to recover overpayments and maximize credit opportunities; and managing the unique complexities of remote and flexible work arrangements.

Executive Tax

Providing tax consulting for nonqualified deferred compensation plans, stock options and other equity-based plans, golden parachute (280G) analysis, 162(m) compliance, fringe benefits, transfer of partnership interests and review for IRC 409A compliance.



PEOPLE AND ORGANIZATION STRATEGY

Employee Stock Ownership Plan (ESOP) Advisory

Helping companies evaluate and transition to a shared ownership with employees through an ESOP, a tax-advantaged mechanism for business owners who are looking for liquidity for part or all of their business while maintaining a legacy for valued employees.

Compensation Consulting & Surveys

Providing total compensation program design and benchmarking, long-term incentive strategy development, board briefings and support on the executive compensation regulatory environment, preparation of executive compensation disclosures and performance management.

Workforce in Transactions

Helping companies assess risks, costs, and exposures relating to the people and HR elements of all transaction types by providing workforce due diligence and post-deal strategy services spanning the full people and organization continuum.



RETIREMENT PLANS

ERISA Consulting

Providing design, administration and support for qualified retirement plans, including traditional defined benefit pension and cash balance plans, 401(k) Profit Sharing, 403(b) and ESOPs; annual compliance testing, preparation of plan documents and government filings, plan corrections, compliance reviews and M&A due diligence.

Actuarial Services

Providing cash balance and other tax-qualified defined benefit plan services in addition to retiree health/welfare and non-qualified plans; design, implementation and administration of employer-tailored cash balance plans; resources for long- and short-term planning, funding, accounting, termination, and M&A.

Contact Us

If you have any questions, comments, or suggestions, please contact us.



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