

The background image shows a modern office space with large windows. Several people are seated at desks, working. The office has a clean, professional look with a mix of grey and blue tones. A red vertical bar is on the left side of the image.

2020/2021 HEALTH INSURANCE EXECUTIVE INSIGHTS REPORT

Managing Compensation in the
Face of Continued Uncertainty

Introduction

The recently published [2020 BDO Health Insurance Industry Executive & Management Total Potential Remuneration \(TPR\) Survey](#) is a rich source of information about executive compensation relied upon by boards and management.

The BDO survey reveals insights to key questions related to compensation and performance measures that help health insurers focus on the right executive compensation strategies that yield desired results. This summary highlights a few of the key findings from the full report, which contains extensive data that can help insurance companies address a variety of issues, including:

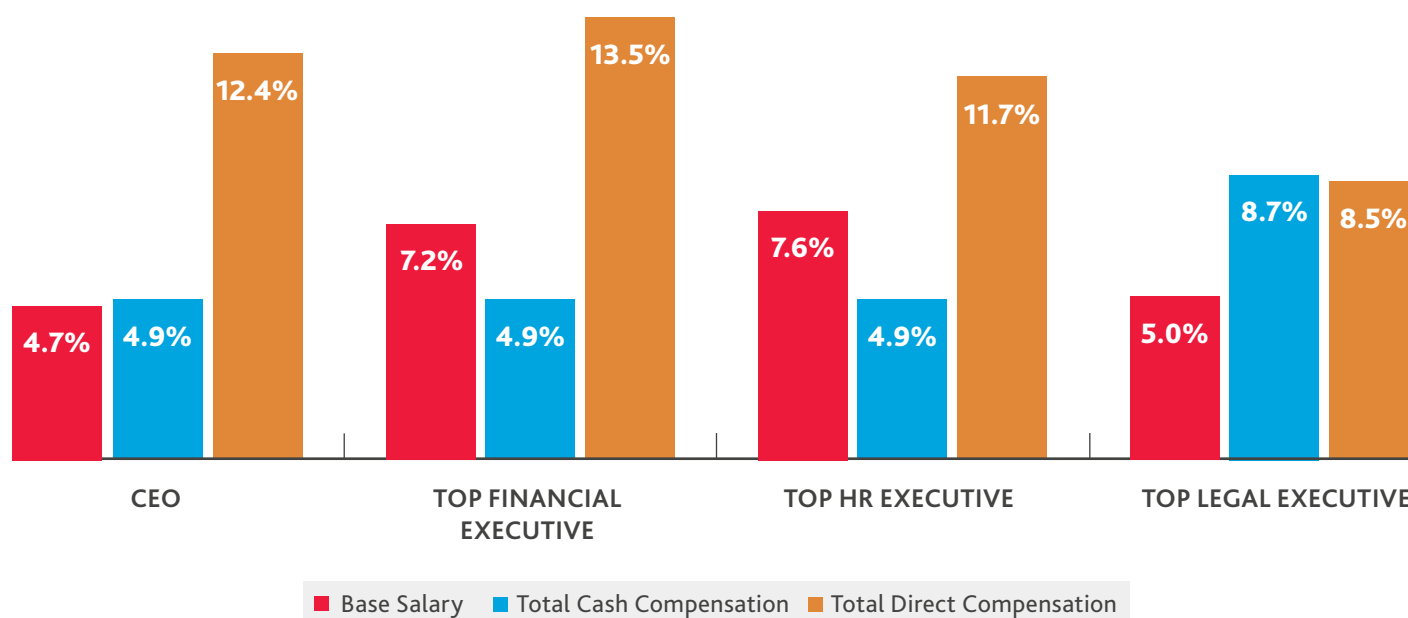
- ▶ Do companies need to restructure pay and delivery to retain their top team?
- ▶ Will performance metrics need to be adjusted, without lowering the bar, to more accurately account for real growth and performance?
- ▶ How do companies select performance metrics and set goals in the face of continued uncertainty?
- ▶ How much of an executive's pay should be at risk (i.e., variable pay that is only earned if specific performance metrics are achieved)? Is the mix of at-risk pay properly balanced with a clear line of sight to the business objectives?
- ▶ How much pay should be allocated to Supplemental Executive Retirement Plans (SERPs) and Change of Control agreements (COCs)?



Top Executive Pay Outpaces Revenue Growth

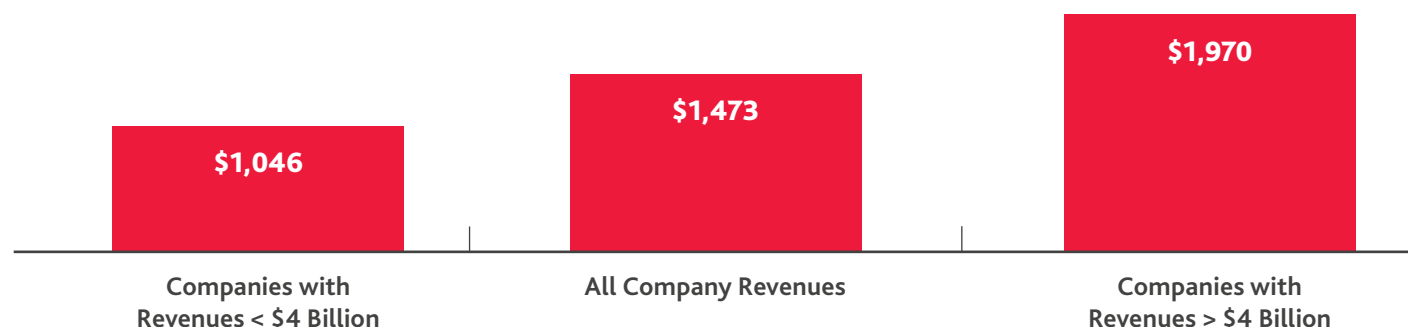
On average, total direct compensation (TDC)¹ for top executives increased between 8-14% year-over-year—higher than the 3% increase in total revenue² for these companies. Salaries for the CEO and most other top executives are increasing faster than the typical merit increase, which hovers around 3%.

AVERAGE CHANGE IN ACTUAL PAY FROM 2019-2020³



Executive pay levels typically increase alongside company size. For instance, the median salary for CEOs in companies with revenues greater than \$4 billion is about 20% higher than the median salary for CEOs at companies with revenues of less than \$4 billion. However, that does not necessarily mean that larger companies overpay their CEO. We compared pay levels relative to revenues and found that larger-sized companies seem more efficient with regard to the revenue earned per dollar of CEO pay.

AVERAGE REVENUE PER DOLLAR OF CEO TOTAL DIRECT COMPENSATION (IN THOUSANDS)



¹ Sum of base salary plus annual incentives (AI) and long-term incentives (LTI).

² 2019 and 2020 Health Insurance Industry Executive & Management Total Potential Remuneration (TPR) Survey editions.

³ Analysis is based on the companies matching the job in both the 2019 and 2020 TPR Survey editions.

Selecting Performance Metrics in the Face of Uncertainty

Incentive pay, including both short-term incentives (STI) and long-term incentives (LTI), is generally considered an effective approach for linking the financial interests of the top executives to that of the company and other stakeholders. However, the development of metrics and the goal-setting process can be incredibly challenging. Our survey identified some of the most commonly used metrics in annual and long-term incentive plans for health insurance executives. The prevalence of each is indicated below:

Annual Incentive Metrics	Long-Term Incentive Metrics
Contract/Member Growth (86%)	Risk Based Capital (54%)
Customer Satisfaction (86%)	Membership Growth (46%)
Net Income/Profit Growth (57%)	Net Income/Profit Growth (38%)
Individual Performance (43%)	Contribution to Surplus/Reserves (38%)
Revenue Growth (36%)	





While 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, profits can be impacted by reduced utilization. Market share metrics are the best indicator of true organic growth.

EFFECTIVENESS OF METRICS USED IN INCENTIVE PLANS

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

In addition to the shortcomings of these measures, it has become exceptionally difficult to model the impact of COVID-19 on future financial performance. Some of the challenges are detailed in the article [The Financial Impacts of COVID-19 on Health Insurers](#).

The challenges of selecting and weighting the appropriate metrics have escalated in the world of COVID-19. The disruption in the marketplace and the persistent uncertainty around recovery makes it difficult for boards to set reliable and realistic goals for the year ahead. There are hundreds of potential metrics for both STI and LTI programs to choose from, and some are much more difficult to track and analyze than others.

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Directors will be well served to use a rigorous framework for selecting incentive metrics for the year ahead. Doing so can help them ensure true value creation while factoring in the impact of the market on executive pay.



JUDY CANAVAN

Managing Director, Global Employer Services

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To better understand and visualize incentive plan metrics, BDO has categorized performance metrics into five potential dimensions. Learn more about this approach in our article [Dimensionality of Incentive Metrics](#).

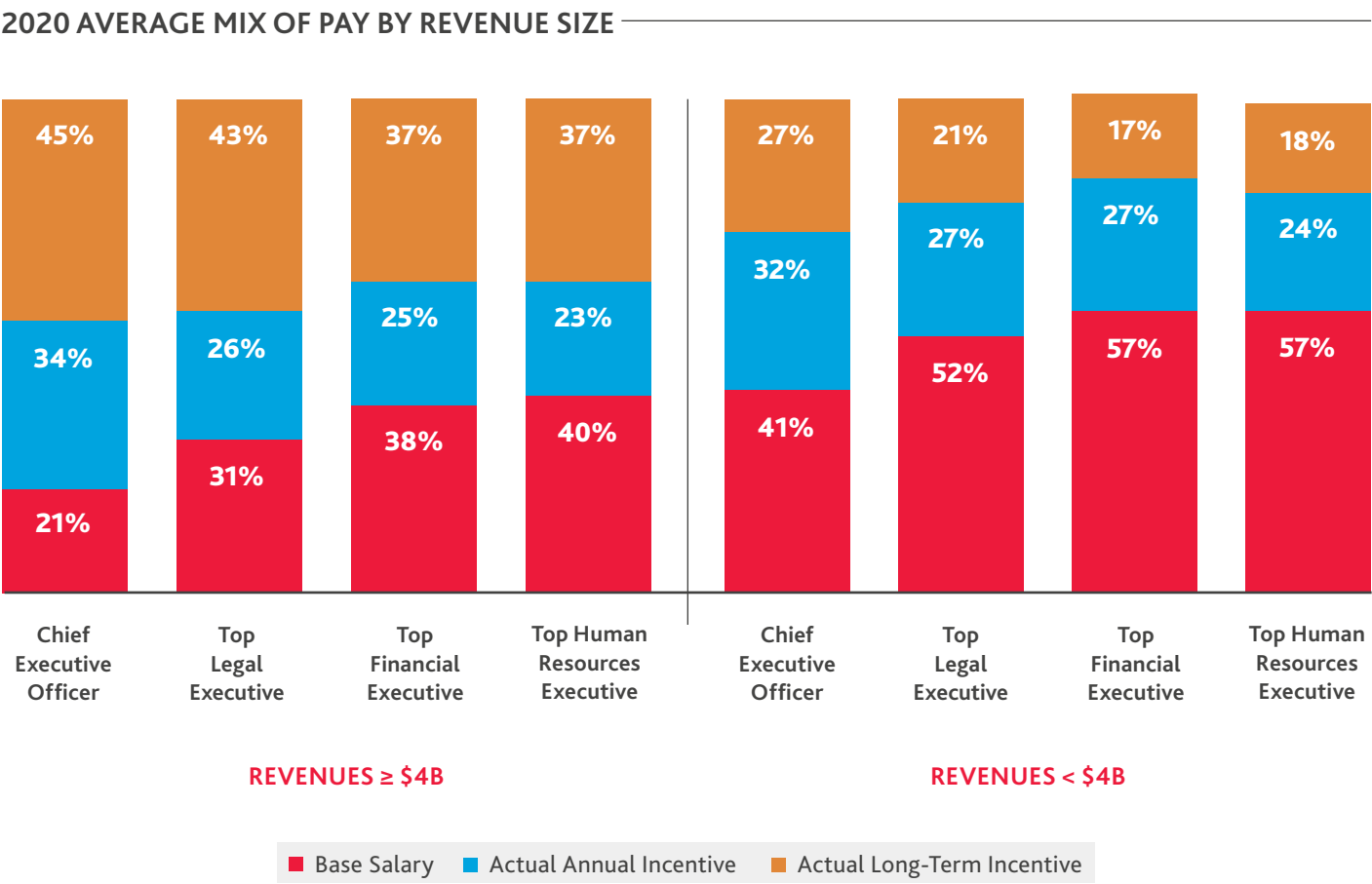
This article presents this concept and offers an analysis of each category of short- and long-term metrics by industry classification for the companies comprising the [BDO 600 Study](#). Find out if your company has aligned its metrics appropriately for your industry.



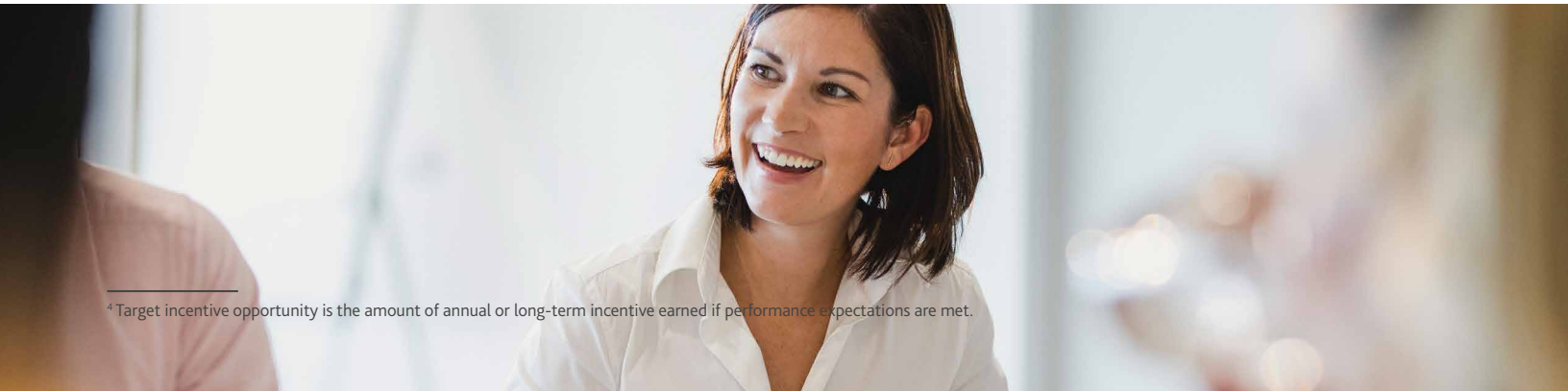
Variable Pay Continues to Gain Prominence for Health Insurance Executives

Variable pay for health insurance executives continues to be prominent in terms of usage and target incentive opportunity⁴. In fact, the 2020 TPR Survey results showed that all but one company reported having an annual incentive plan; and all but two companies reported having a long-term incentive plan.

Pay is more leveraged for executives of larger companies, as illustrated below. This is partially driven by LTI, which represents a larger percentage of pay for the bigger players.



⁴ Target incentive opportunity is the amount of annual or long-term incentive earned if performance expectations are met.



SERPs and COC Agreements Are Common, but Carry Potential Risks

In addition to cash compensation, executives may be eligible for Supplemental Executive Retirement Plans (SERPs) or Change of Control (COC) agreements:

- ▶ SERPs provide benefits above and beyond those covered in other retirement plans.
- ▶ COC agreements may provide a severance, bonus payments or accelerated vesting of equity awards. They are designed to incentivize executives to remain with the company upon a change in control/acquisition by another company.

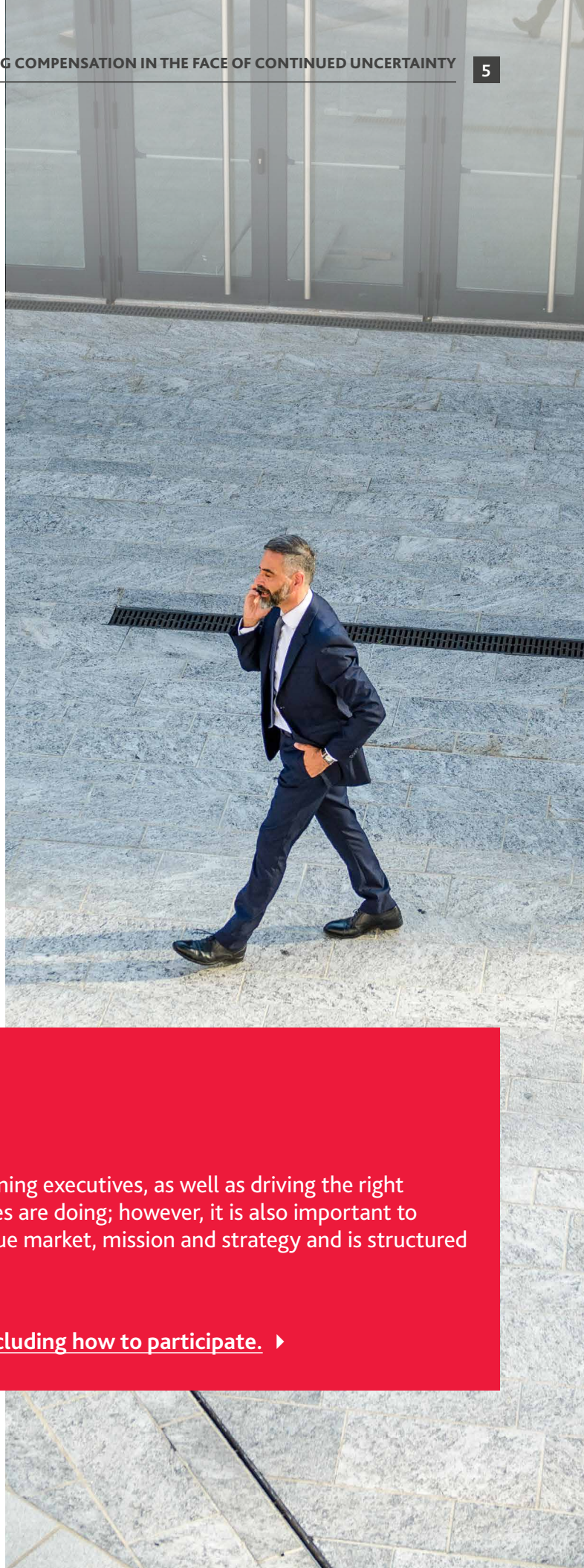
These plans are very common, offered by 67% of health insurance companies. They serve as important executive retention devices. Unfortunately, upon a triggering event⁵ (nearly two-thirds of surveyed companies require a double trigger), the size of the payouts can be newsworthy. Boards, management and other stakeholders are advised to be cognizant of the size of these potential payouts and ensure that the amounts are defensible.

Conclusion

Compensation is a critical tool for attracting and retaining executives, as well as driving the right strategy. It is important to know what other companies are doing; however, it is also important to ensure your program aligns with your company's unique market, mission and strategy and is structured correctly to balance the needs of all stakeholders.

[Learn more about BDO's Compensation Surveys, including how to participate.](#) ▶

⁵ Examples of a triggering event include the sale or merger of the company or termination of the executive without cause.



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

[BDO's Global Employer Services practice](#) consists of an experienced and dedicated team of professionals who are committed to assisting organizations in developing strategies and compensation programs designed to attract, retain and reward employees. Our services include designing and benchmarking compensation programs including cash- and equity-based incentive programs, board remuneration, nonqualified and deferred compensation plans, sales compensation, advising on compensation-related tax and accounting issues, and other related services. Our services are tailored and scalable, and designed to accommodate the unique needs of public, private and nonprofit clients of all sizes and across all industries including multinational Fortune 500 companies.

Retirement Plan Consulting	Executive Tax Consulting	Global Payroll Services	Expatriate Tax Services
Working with our clients on retirement programs which strategically align with short- and long-term business goals. We provide comprehensive design and operational support for all qualified retirement plans, including traditional defined benefit pension and cash balance plans, 401(k) and various profit sharing plans, and Employee Stock Ownership (ESOP) plans.	Tax consulting for nonqualified deferred compensation plans, stock options and other equity-based plans, golden parachute issues, transfer of partnership interests, and review for IRC 409A compliance.	Providing companies preliminary payroll review and recommendation, implementation, assignment benefit and compensation gathering, and compensation worksheets to reconcile U.S. and foreign payrolls.	Working with multinational companies to minimize tax burdens and compliance risk while providing integrated services and essential tools, such as our business travelers tracking application to enable seamless global and domestic employee transitions.
ESOP Advisory Services	Compensation Consulting	Employment Tax Services	Global Mobility Consulting
Helping companies evaluate and transition to a shared ownership with employees. ESOPs are one of the most tax-advantaged mechanisms for business owners who are looking for liquidity for part or all of their business, while maintaining a legacy for valued employees.	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.	Identifying and implementing reductions in current and future employment tax burden and exposures, and taking advantage of federal, state, and local opportunities to recover overpayments from previous years.	Developing strategies with a company's 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 Services	Compensation Surveys		
Helping employers around the globe minimize tax burdens and compliance risk through BDO's international network and tools like our BDO Global Equity Mobility Solution and Global Equity Rewards Matrix.	Delivering valuable insights and benchmarking data that can be used to design industry-specific and data-driven compensation programs.		

Contact Us

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