



# THE 2018 BDO 600 CEO AND CFO COMPENSATION TRENDS IN THE HEALTHCARE INDUSTRY

The U.S. healthcare system is comprised of a broad spectrum of organizations that provide an array of services and products, including hospitals, research institutions and pharmaceutical companies. And, those organizations are increasingly converging or working together to improve care. Government regulations have a heavy influence on this industry, including the Affordable Care Act, which continues to be a battle ground for Congress and the courts. Other key influencers on the healthcare industry include an aging population, FDA reviews, technology advancements, disposable income and consolidation.

Demand is high for leaders that can both navigate the complexities of government regulations and anticipate what is coming as the industry is redefined. When competing for top leadership talent, Boards want to pay competitively while creating an incentive package that balances performance goals with cautious risk taking. In addition, it is important to ensure that pay decisions can be substantiated to stakeholders.

Healthcare industry pay levels tend to be highly competitive. When we compare the pay levels for CEOs and CFOs in this industry to other industry sectors reviewed in this year's BDO 600 Compensation Study, pay is higher than average for healthcare overall. Both CEO and CFO salaries rank third of the eight industry groups studied, behind Retail and Real Estate. CEO and CFO total direct compensation (TDC) ranks fourth behind the Technology, Real Estate, and Energy sectors.

While healthcare executives are highly paid, their pay packages are also highly leveraged. The percent of pay delivered through bonus and equity is ranked a very close fourth of the eight industries we reviewed with only 16 percent of pay delivered through a regular paycheck (i.e., salary). Thus, fluctuations in the value of the equity portion of the compensation package have a large impact on TDC. Despite the fact that pay levels for CEOs and CFOs in the

healthcare industry ranked in the top third of the industries we reviewed, actual pay increases in 2017 were limited. TDC for CEOs in the healthcare industry increased by 0.9 percent compared to the 4.4 percent increase overall for all industries in the study. Healthcare CFO TDC increased by 2.9 percent compared to 4.5 percent overall for all industries studies. The smaller increase year-over-year is due to a drop in the value of long-term incentives (LTI).

Healthcare executives also saw slight rebalancing with regard to equity. Compensation committees and management are finding new life in options. The market is performing well for most industries (including healthcare, whose performance improved in 2017), and earnings metrics are easier to attain, especially for boards who have moved away from stretch goals over the last three years. A balanced use of options can have better optics to shareholders and proxy watchdog organizations.

## Key takeaways and trends to watch

Looking forward, healthcare will continue to be a growth industry with a growing set of players and many factors that impact success. Demand for talent will continue. The value of the LTI portion of the executive compensation package will be highly dependent on the ability of the executive team to anticipate changes to government regulations and technology transformation.

In addition, the industry is seeing unprecedented merger and acquisition activity, as organizations look for ways to increase capital and capabilities to provide the best health services and experience. New entrants and technology players are also increasing competition. Companies will need to develop pay packages to attract, retain and reward for both long term vision and short-term successes.

### Planning for the future

To stay ahead of these issues, healthcare organizations and boards need to consider strategic compensation issues including:

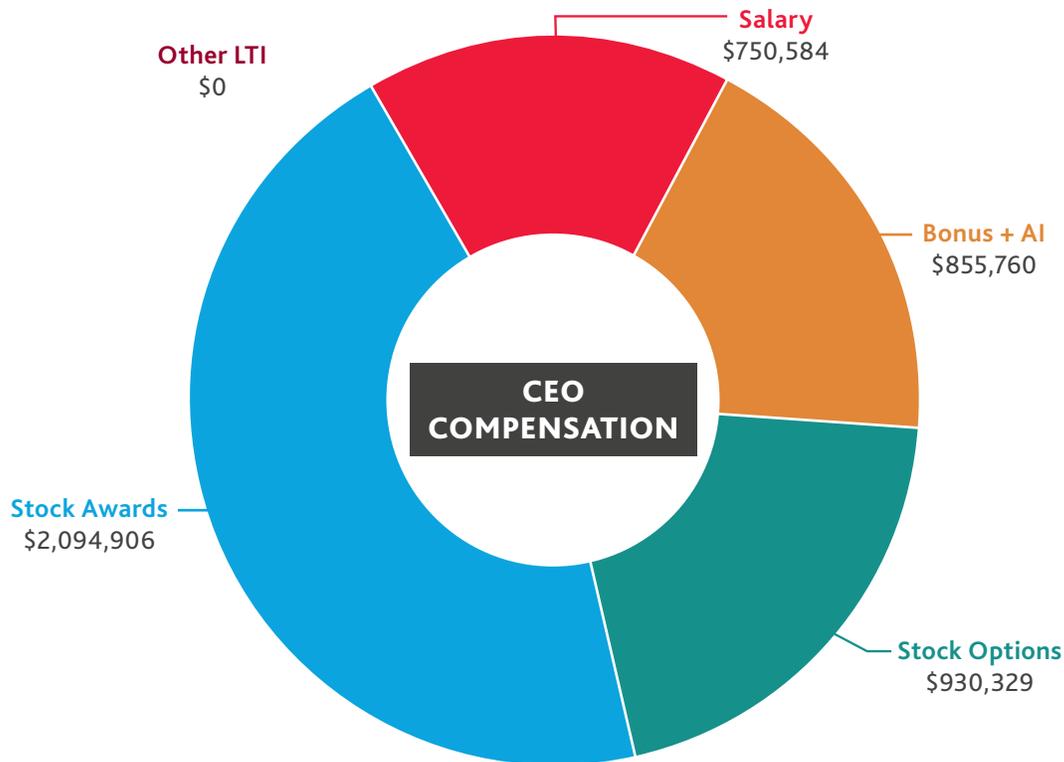
- ▶ **The total rewards package:** Ensure that the total package can be substantiated, especially if any special arrangements are triggered such as a change in control agreement or a Supplemental Executive Retirement Plan (SERP).
- ▶ **Employment agreements:** Ensure that potential payouts are appropriately sized and cover the employee while not exposing the company to undue financial liability.
- ▶ **Change of control agreements:** Ensure they are in place to enable executives to look for opportunities that will benefit their organization without needing to be concerned about their job stability.
- ▶ **Balancing incentives with fixed pay:** Ensure that pay rewards achievement of the strategic goals of the company, including reinvestment, and does not reward excessive risk taking.
- ▶ **Succession planning:** Ensure that the company has a talent pipeline for senior level positions that have institutional knowledge and dedication to the success of the company.

### ABOUT THE BDO 600 STUDY

The BDO 600 Study examines CEO and CFO compensation plans of 600 middle market public companies, reviewing the key components of pay packages and providing comparisons by title, company size and industry. Companies in the six non-financial services industries have annual revenues between \$100 million and \$3 billion. Companies in the two financial services industries have assets between \$100 million and \$6 billion. Data in our 2018 study were extracted from proxy statements that were filed between April 2017 and March 2018. Consolidated proxy data were provided by Salary.com.



## BDO 600 Study Results in the Healthcare Industry - CEO



The average total direct compensation paid to healthcare industry CEOs for fiscal years 2017 and 2016 is listed below. Although total direct compensation for CEOs remained relatively consistent year-over-year, the use of both annual incentives and stock options each increased by 18 percent. Compensation paid as long-term incentives and equity decreased by 3 percent between 2016 and 2017.

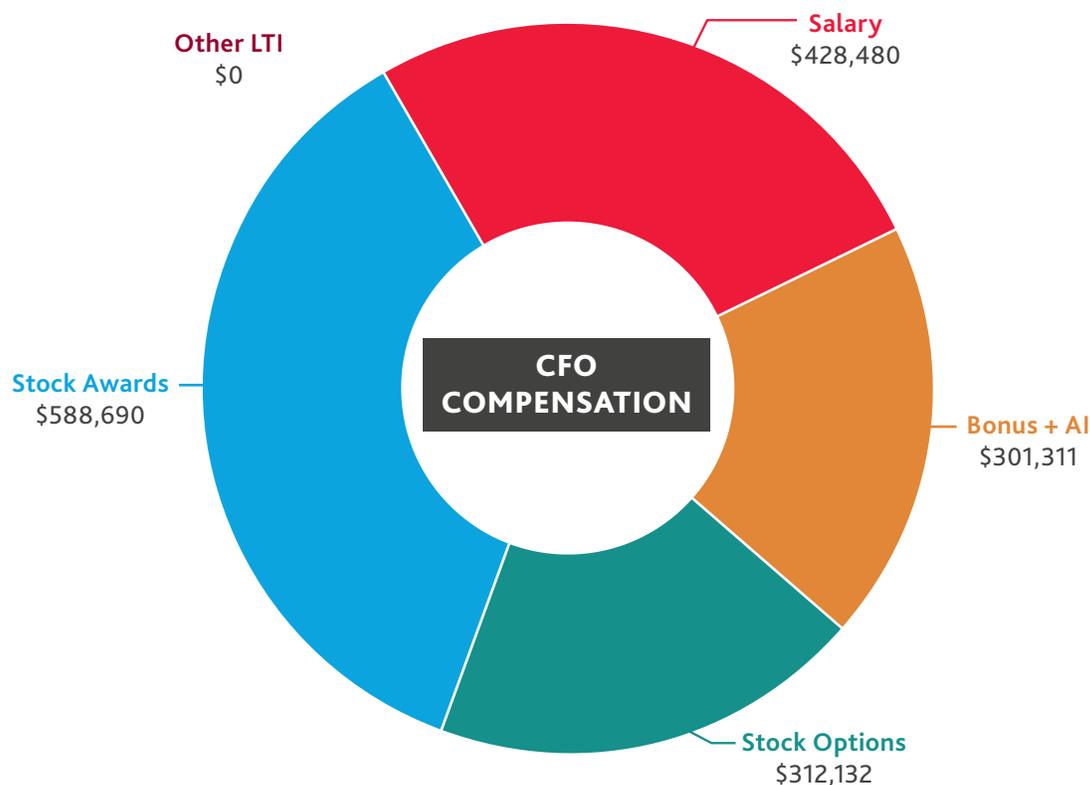
Positions	Average Salary	Bonus and Annual Incentives	Stock Options	Full -Value Stock Awards	Other LTI	TDC
CEO 2017	\$750,584	\$855,760	\$930,329	\$2,094,906	\$0	\$4,631,579
CEO 2016	\$732,461	\$727,584	\$793,345	\$2,299,821	\$36,446	\$4,589,657
<b>Change Over Prior Year</b>	2.5%	17.6%	17.3%	-8.9%	N/A*	0.9%

(\*Because not all CEOs received annual LTI payments, year-over-year comparisons may not accurately indicate market trends.)

The resulting 2017 compensation mix is listed below.

Position	Year	Annual Cash	LTI	Total
CEO	2017	35%	65%	100%
	2016	32%	68%	100%

## BDO 600 Study Results in the Healthcare Industry - CFO



The average total direct compensation paid to healthcare industry CFOs for fiscal years 2017 and 2016 is listed below.

Positions	Average Salary	Bonus and Annual Incentives	Stock Options	Full -Value Stock Awards	Other LTI	TDC
CFO 2017	\$428,480	\$301,311	\$312,132	\$588,690	\$0	\$1,630,613
CFO 2016	\$474,365	\$258,692	\$225,003	\$619,375	\$7,905	\$1,585,340
<b>Change Over Prior Year</b>	-9.7%	16.5%	38.7%	-5.0%	N/A*	2.9%

(\*Because not all CFOs received annual LTI payments, year-over-year comparisons may not accurately indicate market trends.)

The resulting 2017 compensation mix is listed below.

Position	Year	Annual Cash	LTI	Total
CFO	2017	45%	55%	100%
	2016	46%	54%	100%

### Read the full BDO 600 CEO/CFO study: [www.bdo.com/2018-bdo-600-ceo-cfo](http://www.bdo.com/2018-bdo-600-ceo-cfo)

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 650 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 73,800 people working out of 1,500 offices across 162 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: [www.bdo.com](http://www.bdo.com).

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.