ALLIANCE FOR ADVANCING NONPROFIT HEALTH CARE
www.nonprofithealthcare.org
PO Box 41015
Washington, DC 20018
877-299-9497

SPECIAL BRIEFING

GAO SURVEY RESULTS ON THE EXECUTIVE COMPENSATION POLICIES AND PRACTICES OF THE LARGEST NONPROFIT HOSPITAL SYSTEMS

August 1, 2006

In late July 2006 the General Accounting Office publicly released a copy of its briefing to Rep. Bill Thomas (R-CA), Chairman of the House Ways and Means Committee, on the results of its survey of the executive compensation policies and practices of the largest nonprofit hospital systems as ranked according to staffed beds. Sixty-five (65) of the one hundred (100) systems surveyed responded, although not every question was answered by all sixty-five. Senate Finance Committee Chairman Chuck Grassley (R-IO) was quoted in Modern Healthcare to have said that some systems' failure to respond to all or some of the questions was "disappointing". On the other hand, the fact that the House Ways and Means Committee Chairman has not scheduled hearings on the GAO's findings (his staff was first briefed on this on June 5) is a positive result for the nonprofit health sector.

Please note, however, that the IRS is expected to be releasing soon the results of its own investigations over the past two years on this issue.

There was a high degree of commonality (75-100%) reported in policies and practices for many of the areas surveyed:

- Having an executive compensation committee or the entire board responsible for approving the CEO's base pay (89%), bonuses (85%), and perquisites (91%), as well as the other top four executives' base pay (77%), bonuses (77%) and perquisites (78%)
- Having a conflict of interest policy that covers members of the executive compensation body and requires disclosure of potential conflicts (100%)
- Authorizing the executive compensation body to hire outside consultants to advise on compensation and benefit matters (100%), with 97% having done so since January 1, 2004
- Relying upon comparable market data of total compensation and benefits prior to making decisions for the CEO (100%) and the other top four executives (97%)

- Documenting the basis for compensation decisions at the same time the decision was made for the CEO (98%) and for the other top four executives (91%)
- Providing supplemental executive retirement plans (SERPs) to the CEO (78%) and the other four top executives (77%)
- Providing 457(b) plans for the CEO (86%) and the other top four executives (85%)
- Paying for automobile-related expenses as a perquisite to the CEO (85%) and the other top four executives (80%)
- Having a written policy covering travel expenses of the CEO and the other top four executives (95%), describing which domestic business expenses are legitimate (95%) and the required supporting documentation (98%)
- Reviewing travel expenses after they have been incurred by executives (98%)
- Having a written policy covering entertainment expenses (89%), and one that describes the documentation necessary to support reimbursement of such expenses for executives (87%)
- Paying for entertainment expenses (97%), including executive attendance at meetings, retreats or other off-site activities involving trips to resort locations or private, exclusive clubs (76%). Other less common types of entertainment expense reimbursement are reported below
- Reviewing entertainment expenses after they are incurred for the CEO (95%) and the other top four executives (94%)
- Not providing loans to any executives (97%)
- Not paying for automobile-related expenses or for memberships in recreational or social clubs for spouses or family members (98%)

Less common policies and practices reported were as follows:

- Having written criteria for selecting members of the executive compensation body (62%). Of these, 50% address knowledge, 38% skills, and 42% experience
- Having a policy requiring compensation consultants to be free of conflicts of interest (62%)
- Providing for memberships in recreational or social clubs for the CEO (69%) and the other top four executives (54%)
- Providing the CEO and other four top executives with financial or tax planning (38%), tax preparation (26%, attorney fees (11%), and personal travel expenses for the spouse of the executives as a perquisite (20%)
- Providing a 457(f) deferred compensation plan for the CEO (52%) and other top four executives (53%) or providing a 403(b) deferred compensation plan to the CEO (69%) and the other top four executives (70%)
- Providing a split-dollar life insurance plan to the CEO and other top four executives (28%)
- Paying for sports event entertainment expenses for the CEO (44%) and the other top four executives (44%)
- Paying for theatre performance entertainment expenses for the CEO (27%) and the other top four executives (26%)

- Having an internal audit since January 1, 2004 of:
  - Memberships in recreational or social clubs for the CEO (42% of those providing this perq) and for the other top four executives (40% of those providing this perq)
  - Entertainment expenses of the CEO and one or more of the other top four executives (62%)
  - Automobile-related expenses for the CEO (38% of those proving this perq) and for the other top four executives (40% of those providing this perq)
- Having an external audit (separate from the external financial audit) since January 1, 2004 of:
  - Entertainment expenses of the CEO and one or more of the other top four executives (14%)
  - Travel expenses of the CEO (15%) and one or more of the other top four executives (14%)