



Hospital CEO pay has some ill at ease

\$1 million-plus salaries drawing new scrutiny

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Hospitals across the region are cutting staff, elected officials are considering slashing Medicaid and Medicare funding and medical bills are driving an increasing number of Georgians into bankruptcy.

But the six- to seven-digit compensation packages for the chief executives who lead metro Atlanta's taxpayer-subsidized hospitals remain untouched and in most cases are growing.

Five of these CEOs made more than \$1 million in the fiscal year ending in 2009, the last tax records available.

Edward Bonn of Southern Regional Health System, which operates Southern Regional Medical Center and two affiliated facilities, made \$2,610,175 in fiscal 2009. Bonn left the system that year and received his pay of \$421,822 plus \$2.2 million from a retirement plan. Hospital CEOs commonly receive extra pay from retirement plans when they leave.

Bonn did not receive a bonus because the hospital system lost \$12 million that year, the hospital said.

Twelve of the 15 acute care hospital systems in metro Atlanta are exempt from taxes on more than \$2.6 billion worth of property and equipment. They also escape millions in sales taxes and income taxes.

No one has calculated lost revenue from exempting some hospitals from paying taxes. The number is thought to be substantial, however. For example, Tenet Healthcare Corp., a for-profit system of five hospitals in Georgia, paid \$10.1 million last year in local, state and federal taxes.

Many tax exempt hospitals also receive millions in government grants.

In exchange, these hospitals are supposed to pursue a social mission — defined loosely as providing uncompensated care, medical training, research and community outreach.

But when their CEOs have salaries rivaling corporate executives, the charitable work is obscured by an apparent pursuit of profit, says a former state Department of Community Health commissioner. Hospital executive salaries are growing at about the same rate as those of executives in other industries, according to executive compensation experts.

"I think it makes a statement about what their priorities are, and I think that's the bigger issue," said Russ Toal, now a professor of public health at Georgia Southern University. "It displays a lack of sensitivity for the communities they serve."

Industry representatives say these pay packages ensure communities get the best possible care by attracting the few people capable of administering these complex organizations.

But the increasing cost of government health insurance programs and declining tax revenue has spurred federal agencies and state legislatures to re-examine whether tax exempt hospitals are acting as community service organizations or as corporations trying to avoid paying taxes.

In Texas, state Sen. Rodney Ellis in 2009 proposed strengthening enforcement of state charity care requirements for not-for-profit hospitals. The bill failed, but Ellis said he has not given up.

"It was all about fairness," he said. "If you get a tax exemption, you ought to be able to justify why."

Georgia does not require tax exempt hospitals to provide levels of uncompensated care not required of for-profit hospitals, but the economy has made not-for-profit hospitals a topic of conversation in the Capitol.

One of the subjects under scrutiny across the country is executive compensation, said Jose Pagoaga, a partner with Mercer Inc., a consulting company that helps Atlanta area hospitals find executives.

"We have less revenue to solve public health problems, therefore there's even more of an imperative to make sure that hospitals are appropriately using state funds. And part of that is making sure executive compensation is appropriate," Pagoaga said. "That's always been true, but because of the financial condition, it's easy to make hay of that. And in general there's a negative bias as to what executives get paid, so if you're on a hospital board you're acutely aware of that."

Atlanta hospital boards have compensation committees of community leaders to ensure executive salaries meet Internal Revenue Service guidelines and are competitive with salaries offered by other medical facilities.

But some CEO pay still seems high to patient advocates.

In fiscal 2009, John Fox of Emory Healthcare made \$1,671,999 to manage Emory University Hospital and five associated institutions.

Tim Stack of Piedmont Healthcare, who manages Piedmont Hospital and three others, made \$1,340,974 the same year. Piedmont announced last month it will cut 464 jobs, although the hospital system made \$46 million above operating expenses in fiscal 2010 and \$12.5 million in the first nine months of this fiscal year.

CEO compensation data comes from federal tax forms.

Atlanta hospital CEOs averaged \$547,466 in annual compensation and the CEOs of Atlanta hospital systems, who manage multiple hospitals, averaged \$1,221,658 for the fiscal year ending in 2009.

The average compensation nationally for a hospital CEO was \$452,400 in 2010 and the average for the CEO of a health system was \$683,000, according to a survey conducted by Integrated Healthcare Strategies, a business consultant specializing in the health care industry.

The national average counts many small rural hospitals that pay their CEOs less than large metro hospitals, which could help explain why Atlanta is above the national average.

All of the tax exempt hospitals in the area issued statements asserting their CEO's compensation is vetted by their boards and in line with industry standards, but only Henry Medical Center made their CEO available for an interview.

Charles Scott, of Henry, allowed that the pay of some CEOs is "pretty high," but said he thinks his compensation — \$404,997 in 2009 — and the compensation of his peers, generally, is deserved.

Complex organizations

Pay in excess of \$1 million a year may seem high for an organization subsidized by taxpayers, but hospital executives and industry representatives said the public should think of these hospitals not as charities, but as complex, billion-dollar organizations.

Georgia hospitals report to 27 state and federal agencies and engage in multimillion-dollar building projects. The larger hospital systems have billions in revenue and are among the largest employers in their communities. Many also operate for-profit subsidiaries.

"You can't lose sight of the fact that it's not an ice cream shop on the side of the street," said Joseph Parker, president of the Georgia Hospital Association.

The number of people who can manage these facilities is limited and recruitment is competitive, Parker said.

Qualified leaders will gravitate to other fields over time if compensation for nonprofit CEOs is decreased, Pagoaga said. The "substandard leadership" that replaces them will degrade the quality of medical care for the community.

There's debate on the issue.

It's hard to believe that people who choose the field of charitable medical care would leave because they make only \$800,000 a year instead of \$1.5 million, said Mark Rukavina, executive director of the Access Project, a Boston patient advocacy organization.

But Pagoaga said nonprofit hospitals cannot count on their charitable duty to attract and retain the best administrators.

"Yes, it's a social mission, but this is not the priesthood and these people have not taken a vow of poverty," he said. "You can't discount the views of people that look at this as an altruistic mission and think that pay should therefore be limited. All I'm saying is there is an entirely different point of view based on free-market principles."

Toal, of Georgia Southern, said, even taking into account the free market, finding a high-quality CEO does not take a million-dollar salary.

Hospital executives and industry experts consider the examination of salaries a titillating issue for the public, but a subject lacking in substance.

Even if salaries were cut dramatically, the savings would not add significantly to hospitals' charitable missions, Parker said.

Tax exempt hospitals in the metro area provided \$932 million in charitable care in 2009, according to an analysis of financial survey data reported to the state by hospitals. The hospitals spent \$61 million to pay officers, directors, trustees and key employees, tax forms show.

Of the uncompensated care, nearly a third, or \$287.5 million, was provided by one hospital, Grady Memorial. Grady CEO Michael Young, who left the hospital in June, made \$833,646 in 2009.

But for-profit hospitals in the Atlanta area pay taxes and they provided uncompensated care totaling \$87 million in 2009, according to financial survey data.

None of the area's for-profit hospitals would provide information on CEO compensation.

The salaries of not-for-profit and for-profit hospital CEOs are similar, but for-profit executives tend to get larger bonuses, said David Bjork, senior vice president of Integrated Healthcare Strategies, a hospital consulting firm with offices in Kansas City and Minneapolis. For-profit bonuses, however, are often more difficult to achieve.

The pay of tax exempt hospital CEOs is more troubling to some because it's taxpayer subsidized.

But Rukavina said the pay scale for hospital managers across the board, along with the even higher salaries of insurance executives, contributes to the overall inefficiency in the health care system.

These costs inflate medical bills and insurance premiums, Rukavina said.

"[Salaries] should raise questions because they do seem excessive," Rukavina said. "The waste in health care is marbled throughout the system and this is part of the marble."

In addition, the "rarefied existence" of some nonprofit hospital CEOs may warp their financial decisions and blunt the charitable mission, he said.

Some studies support Rukavina's point.

CEOs of nonprofit hospitals in Connecticut who increased the number of beds at their facilities by 10 percent typically got pay increases of just under 8 percent, shows a study of nonprofit hospitals by two professors at the University of Connecticut.

A 10 percent increase in the amount of charity care provided, however, typically resulted in a 1.5 percent decrease in the CEO's pay, the study shows.

"In short, the empirical results suggest that economic performance takes precedence over charitable performance at the margin," the study says. "This type of behavior on the part of not-for-profit hospital CEOs calls into question the tax exempt nature of their organizations."

No such study of Georgia hospitals has been conducted.

Eyeing tax exemption

The growing cost of publicly funded health care programs, most prominently Medicare and Medicaid, has persuaded states and the federal government to consider the value of hospitals' tax exempt status.

Last year, the Supreme Court of Illinois upheld a state agency's decision to strip a hospital in Urbana of its exemption from state and local taxes for not providing enough uncompensated care and being overly aggressive in its bill collection.

Pennsylvania, Utah and Texas have set standards for the amount of charity care nonprofit hospitals must provide to retain their tax exempt status.

The Patient Protection and Affordable Care Act passed by Congress last year requires nonprofit hospitals to give the IRS more details on their charitable mission, including a justification of CEO pay.

The IRS does not have a hard definition of excess compensation, but considers executive pay as a percentage of total hospital revenue, the difficulty of hiring an executive, the executive's employment history, competitive market pressures and special circumstances such as the hospital's financial condition or public image.

The IRS does not penalize hospitals for overcompensating CEOs, according to a statement from the agency. Instead, the IRS taxes the CEO 25 percent of the excess value and can charge 200 percent of the value if the excess compensation is not returned to the hospital.

The IRS has penalized overpaid hospital CEOs. But Mark Green, a spokesman for the Atlanta IRS office, said the IRS does not know how many CEOs have been penalized and could not say if any hospitals are currently under investigation.

While most hospitals in Georgia are required to spend 3 to 3.5 percent of gross adjusted revenue providing charity care, the state has not, by law, defined the charitable responsibilities of nonprofit hospitals or CEO compensation. Medical policy wonks in the state Senate have considered the value of hospital nonprofit status to the public, and because of the recession the issue has risen again, said Sen. Renee Unterman, R-Buford, the chairman of the Senate's Health and Human Services Committee and a former Grady nurse.

Hospitals need to offer quality salaries to attract decent candidates, but Unterman has a problem with perks offered to nonprofit CEOs and the fact that CEOs still receive large salaries even as they lay off workers. "I think the CEO's [pay] should be cut back too," she said.

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