Navigating Healthcare Executive Compensation during the COVID-19 Pandemic

As the coronavirus continues to disrupt and at times overwhelm the healthcare industry, providers are struggling to meet the needs of both their patients and employees. They must act fast and deliberately to support, manage, and protect their most valuable asset – their people.

The bottom-line

Decisions on any organization’s executive compensation strategy – both now and post-pandemic—will ultimately be shaped by its financial viability. Now, more than ever governing boards considering compensation must carefully examine a complex set of related issues: from patient care, workforce needs, and leadership continuity, to innovative approaches and models that will no doubt emerge post-crisis.

Base salaries

The issue of reducing pay during the crisis is being debated in boardrooms and C-suites across the country. Some CEOs temporarily have cut their own pay and, with their support, the pay of their senior leaders.

Whether a reduction is warranted depends on the organization's financial situation and culture. CEOs should, with the board’s backing and input from the executive team, consider any pay cut in the context of the message it sends. A substantial cut will be viewed as a real sacrifice by committed senior leaders who are leading by example. Token reductions likely will be taken as a slap in the face by frontline employees who are working long hours and putting their lives at risk.

Most healthcare organizations are postponing salary adjustments and will revisit that issue, along with any permanent pay resets after the crisis abates. Their decisions at that time most likely will be shaped by the financial situation in which they find themselves and any permanent changes in patient care and business strategies that result from the crisis.

Takeaway

Executive pay cuts must be considered in the context of the messages they send to employees and the public. Postponing salary adjustments may be necessary until the crisis abates.
Annual Incentives

While some organizations have suspended annual plans to address more urgent financial needs, we believe that, if viable, most organizations should stay the course on both performance measures and goals. When the performance period ends, organizations should review plans, compare results to goals and determine the amount, if any, of payouts. Both pre- and post-crisis results should be considered, along with mitigating factors (i.e., number and cost of COVID-19 cases, impact on elective surgery and other routine services, impact on revenue.)

Ultimately, the board or compensation committee will have to use discretion and be pragmatic in assessing how the organization performed during an extraordinarily difficult period.

Long-term Incentives

It is imperative to review long-term incentive plans in the context of the extraordinary situation in which executives find themselves now and post-crisis. Beyond the typical financial and care measures, organizations should consider the actions and behaviors of their leadership during the crisis. Were they proactive, decisive, innovative? Were they courageous, unselfish? Did they focus on the organization as a whole and work as a team?

In the case of both annual and long-term plans, those near the end of the current cycle should be reviewed in the context of the crisis, those mid-cycle in terms of both the crisis and new issues/challenges that surface prior to the cycle’s end. Those starting plans in the new year should focus on the “accelerating through the turn” – lessons learned as well as potential shifts in both the delivery of care and revenue generation.

Benefits

If pushed by financial pressures, organizations may want to temporarily suspend contributions to supplemental retirement plans. By continuing to monitor investment performance as though they had been made, they can, at a later date, “true-up” the account with contributions equal to the original plus earnings and minus losses. Suspending contributions could provide critical cash flow at a time when it is needed for more critical purposes. (Note: this does not apply to split-dollar arrangements or “secular” trusts.)

Other executive benefits – life insurance, disability, car allowance, etc. – should be maintained, consistent with the approach taken with employee benefits.

The COVID-19 crisis continues to rapidly evolve. Our goal is to bring you the latest updates and perspectives on agile reward strategies in healthcare.
This brief is intended as general information and does not serve as specific legal or consulting advice.

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