Pearl Meyer

ADVISOR BLOG

ASHA 2021 Compensation Survey Results: Five Key Takeaways

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In seniors housing, 2021 has been another year fraught with challenges. The pandemic rages on with variants and complications, necessitating continuous attention to patient care and organizational expense. Turnover throughout the industry, particularly at the facility-level, remains an increasing challenge with the cost to retain and/or replace front-line staff becoming increasingly high as revenue is challenged by occupancy rates. And the increasingly vocal push toward diversity, equity, and inclusion ("DE&I") in the workplace is reaching seniors housing, challenging executive teams to address the issue and rectify where they fall short.

Against this challenging backdrop, this year's ASHA-sponsored Pearl Meyer 2021 Seniors Housing Compensation Survey becomes an even more valuable reference and planning tool. In a year filled with so much uncertainty, the survey results provide a solid indicator of where the industry is moving with respect to formulating a market competitive approach to compensation. Additionally, the 2021 survey now includes questions on DE&I which provide insight into a formally unknown area of firm management.

The partnership between ASHA and Pearl Meyer remains strong and participation in the annual survey is increasing, despite administrative team staffing shortages, and this year's survey enjoyed a 27% jump in participation. Data was collected between May and September 2021, with the report being completed the first week in October. With respect to "fresh" compensation data for the seniors housing industry, you won't find any that is more current than in this survey.

The survey collects data on 170 different positions across all organizational levels in the survey—from the junior-most analyst through the c-suite. It covers both core real estate and related operational and support functions.

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With that as background, here are five key takeaways from the 2021 ASHA Compensation Survey:

Takeaway 1: Merit Increases Selectively Outpace 2020

First, despite the continued occupancy challenges and increased costs directly and indirectly related to the ongoing pandemic, salary increases for 2021 are projected to remain at roughly three percent across the company. But this does not tell the whole story.

Fifty-three percent of companies reported that average base salaries would rise between two and four percent in 2021, which is just about the same percentage as found in the 2020 survey results. That said, the percentage of employees receiving increases above four percent more than doubled since 2020: from 11 percent to 26 percent, while those falling below the two to four percent range fell to five percent from 26 percent in 2020.

In short, firms are aware that they need to take increasingly material financial measures to retain key professional staff. Professionals exiting the industry in droves has become an increasingly troubling development and the demand for quality professional and support staff at all levels is increasing rapidly. As a result, many firms are recognizing that there is a need to, within the firms' current economic framework, seek to move the needle on base compensation to retain key professional staff.

Takeaway 2: Junior Level Staff See Outsized Raises

When compared to 2020 compensation survey results, there has been a specific and intentional increase in base salary given to junior- to mid-level employees—a group particularly vulnerable to turnover this year. This is a trend that we see within seniors housing but also throughout the greater real estate industry in general as an overall lack of depth and breadth of junior- to mid-level talent is becoming an ever-growing and national issue. And while throwing money at the problem is not a long-term sustainable solution, for the short term, firms are tending toward "moving-the-needle" in terms of compensation to retain this staff as the loss of production and morale of the team that stays behind when talented colleagues leave can lead to an even costlier and time-consuming cycle of replacement hiring and training.

Twenty-six percent of the survey respondents have raised base salaries for junior- to mid-level employees by as much as six percent or more, with 10 percent of firms making base pay adjustments of more than nine percent when compared to 2020. The pressure for additional and more material upward movement in these packages continues to build. We anticipate further upward pressure on these salaries to continue into 2022 as firms push within what is economically feasible to ensure that their respective professional teams stay intact.

Takeaway 3: STI Programs Lag Broader Industry

As we move into the topic of short-term incentive ("STI") awards, an increasing challenge poses a threat to the seniors housing industry: the ability to attract and retain "difference-making" talent. The broader real estate industry, in which this sector competes for talent, is also becoming increasingly aggressive with respect to total annual compensation and particularly with respect to short-term incentive awards.

As background, a short-term incentive award is equivalent to an annual cash bonus. It is typically paid between the end of the calendar year and as late as March or even April of the following year.

In evaluating performance and setting STI goals and objectives to earn this award, a combination of net operating income and strategic firm-wide, departmental, and individual goals tend to be the metrics utilized to determine the benchmarks for comprising STI bonus plans which is consistent to the broader industry.

These corporate, division, and personal professional goals are generally weighted differently depending on employee level within the company. For example, for executives, typically 80 percent is tied to net operating income and overall company performance, as these professionals—leaders of the firm—have the most influence on the overall performance of the organization. Mid-level professionals are usually more evenly balanced when determining their award between company performance, specific department performance, and individual performance, while junior professionals are typically reviewed at or near the inverse of the executive ratio, with 80 percent of their evaluation and award target tied to specific individual goals and performance against those targets, independent of overall firm performance.

The issue the seniors housing is facing is that it is not offering STI opportunities to their teams in nearly the same ratio as the broader real estate industry. And it is that broader real estate industry, which is fighting for the same pool of property accountants, property managers, underwriters, project managers, etc., where 81 percent or just over four out of every five companies are offering these annual bonus awards. This is in contrast to the fewer than two-thirds of firms in the seniors housing industry.

If you are a firm currently in the 34 percent not paying out annual bonuses, it's advisable to have some combination of 1) an elite form of culture or "mission" perspective that is accepted and embraced; 2) a willingness to offer other material inducements to create a retention vehicle with real value; and/or 3) currently paying materially over market in base salary. Several Pearl Meyer clients do fall into one of these buckets, and as a result, do not currently have as many retention-based issues. That said, there is and will be growing pressure placed on firms in the seniors housing industry to keep up with their peers and broader real estate competitors for talent.

Additionally, we are seeing a concerning result with respect to broader short-term incentive award participation among those firms that offer STI. Within the seniors housing industry our respondents are selective with respect to issuing these STI awards with less than half of eligible seniors housing firm employees being included in any type of STI plan. The bonus awards tend to be limited to mid- to executive-level professionals in a majority of seniors housing firms.

By contrast, within the broader real estate industry we see nearly 80 percent of STI participant companies granting STI awards to all their employees. Our trend lines indicate that percentage is likely to rise over the next year, in part to combat the increasing vulnerability discussed earlier with respect to retention issues with more junior employees and related support staff.

Takeaway 4: LTI Programs Extend Eligibility

Long-term incentive plans ("LTI" or "LTIP") is typically used at a minimum across the senior and executive level to attract and retain difference-making leadership. It is an increasingly important component of a total rewards package.

In 2021 approximately 50 percent of companies in the broader real estate industry offer LTI, and that number has been on the rise the past several years. By contrast, only 18 percent of the seniors housing survey participants in this year's survey have an LTI award as part of their total compensation program.

While most employees are not mercenaries and offering the top dollar does not drive all employee stay/go decisions, there is a competitive advantage to be gained by offering an attractive LTI program. It can become a tipping point and just the inducement necessary to entice a senior or executive difference-maker to stay or leave.

So who is eligible for LTI in firms that offer it? As expected, executive management and division/functional heads participate in the vast majority of these awards. Of firms utilizing LTI today, executives almost uniformly qualify while over 75 percent of firms extend LTI eligibility to the next level of senior leadership, typically the division head level. However, a small but growing trend that has been gaining momentum in recent years shows a steady year-over-year increase in pushing LTI awards down to the more junior-level professionals. And 13 percent of firms in the broader real estate sector offer LTI to all members of their respective professional teams.

Our year-over-year survey results suggest that the design and implementation of LTI programs is a growing trend. You can expect these participation numbers to continue to rise when we publish the 2022 report next fall.

Takeaway 5: DE&I is Ranked as a Top Priority

Finally, the fifth important survey takeaway for 2021 is the increased (and long overdue) attention paid to diversity, equity, and inclusion ("DE&I").

2021 was the first year in the history of our survey that we elected to included DE&I questions and we wholeheartedly believe that the 27 percent increase in survey participation was in large part due to the inclusion of these questions. This topic is among the most asked-about set of issues facing firms today, no matter the industry.

We found that over 76 percent of respondents rank DE&I among their highest priorities. That said, just over one in five firms (21 percent of respondents) are doing anything about it at this time. Specific to pay equity, 75 percent rank it among their highest priorities, yet only 30 percent have taken even a first step in calculating a pay gap in any form.

It's a lot of talking, but frankly not a lot of doing although there is hope for continued improvement with respect to DE&I.

What companies are tracking is broadening in scope. Firms are tracking turnover rates, engagement, new hires, and promotions into management and top leadership positions. Additionally, proactive firms are creating internal leadership and development programs to increase rates of promotion from within.

Additionally, firms are beginning to make clear their priorities as new compensation plan designs are including DE&I metrics as part of their annual executive incentive plans. Executives are increasingly finding that their total remuneration is being tied to achieving real, tangible results with respect to DE&I.

In short, there is a growing desire among firms and leadership teams to do the more difficult things that can drive change, even with the competing pressures of organizational disruption or outlying stakeholders that may fret about management spending "too much time" on issues beyond the financial.

While progress with respect to DE&I may feel slow at times, there is hope that with growing awareness comes a growing commitment to real action and tangible steps taken to achieve a more diverse, equitable, and inclusive organization and then unlocking the value that comes from a diverse workforce.

About the Author

Jon Boba is a managing director in the Chicago office of Pearl Meyer. Over his 25+ years in real estate consulting, Jon has successfully completed more than 500 engagements representing a wide range of firms in the real estate and financial services industries. He also has developed an industry specialization in seniors housing, where he is a recognized leader, respected conference speaker, and author of several published articles.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Rochester, and San Jose.

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