

Non-Profit Healthcare Executive Compensation Faces a New Excise Tax

AUTHOR



Steve Sullivan
Managing Director

In all of the conversation around the new tax law and its impact on executive compensation and the 162(m) rule, one interesting aspect may fall under the radar: the new law imposes a 21% excise tax on all compensation above \$1 million paid to non-profit “covered employees.” This may prove to be a challenge in the healthcare industry, where according to Becker’s Hospital Review, almost 60% of registered hospitals in the U.S. are designated as non-profit ¹.

The excise tax will further diminish the ability of non-profits to compete for top executive talent. But while inconvenient and budget-constraining, we believe this new law should have little or no impact on the continued movement of healthcare boards towards variable, performance-based compensation. There are two high-level reasons the industry should maintain its growing reliance on leveraged pay-for-performance incentive compensation programs.

First, regardless of tax laws, there is an increasing need for provider organizations—both for-profit and not-for-profit—to meet or exceed critical CMS-related quality and efficiency criteria to avoid reductions to already diminished reimbursement rates. Boards can translate these expectations directly into variable compensation plans, thus aligning executive compensation opportunities with the delivery of performance that is critical to the enterprise’s survival.

Second, the demand for highly effective leaders who can succeed in an environment of diminishing reimbursements and other challenges far outstrips the supply of qualified candidates. However, a carefully designed and potentially lucrative variable compensation program can indicate to desirable, high-performance candidates that a provider

¹ <https://www.beckershospitalreview.com/hospital-management-administration/50-things-to-know-about-the-hospital-industry-2017.html>

organization—regardless of its tax status—is positioning itself for success, and that strong contributors can earn competitive incentive award opportunities. Further, long-term incentive programs, when designed correctly, empower the board with an executive retention vehicle.

Pearl Meyer will continue to advise our healthcare clients to establish pay-at-risk executive compensation programs, and to continually refine them as their strategy evolves, so long as these programs support their efforts at improving clinical quality, patient experience, and operational efficiency. In an environment of narrow or negative operating margins, boards can much better justify compensation costs driven by positive enterprise performance than fixed costs associated with high base salaries.

About the Author

Steve Sullivan, a managing director in Pearl Meyer's Houston office, has more than 20 years of consulting and industry experience assisting clients in executing their strategic human resources and compensation initiatives. His focus has been in the areas of executive compensation program benchmarking, design, and oversight in the healthcare industry and for tax-exempt businesses. Mr. Sullivan also advises clients in the areas of sales and performance incentives, recruitment, motivation and retention, strategic compensation program design and implementation, and organizational change. He has experience in the financial services, manufacturing, and information technology industries.

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 New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, and Los Angeles.



Pearl Meyer

NEW YORK

461 Fifth Avenue, 19th Floor
New York, NY 10017
(212) 644-2300
newyork@pearlmeyer.com

ATLANTA

One Alliance Center
3500 Lenox Road, NE, Suite 1708
Atlanta, GA 30326
(770) 261-4080
atlanta@pearlmeyer.com

BOSTON

93 Worcester Street, Suite 100
Wellesley, MA 02481
(508) 460-9600
boston@pearlmeyer.com

CHARLOTTE

3326 Siskey Parkway, Suite 330
Matthews, NC 28105
(704) 844-6626
charlotte@pearlmeyer.com

CHICAGO

151 N. Franklin Street, Suite 450
Chicago, IL 60606
(312) 242-3050
chicago@pearlmeyer.com

HOUSTON

Three Riverway, Suite 1575
Houston, TX 77056
(713) 568-2200
houston@pearlmeyer.com

LONDON

Collegiate House
9 St. Thomas Street
London SE1 9RY
+44 (0)20 3384 6711
london@pearlmeyer.com

LOS ANGELES

550 S. Hope Street, Suite 1600
Los Angeles, CA 90071
(213) 438-6500
losangeles@pearlmeyer.com

**For more information on
Pearl Meyer, visit us at
www.pearlmeyer.com or
contact us at (212) 644-2300.**