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DIVE BRIEF

‘An ever-spiraling upward cycle’: nonprofit hospital CEOs paid 8 times more than average worker

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Rebecca Pifer
Reporter

Dive Brief:

- Nonprofit hospital CEOs make on average eight times more than their hourly employees, according to a new analysis of more than 1,000 hospitals.
- The study published in Health Affairs on Thursday is the latest finding a yawning gap between the wages of chief executives and that of workers without advanced degrees. Researchers found the ratio varied widely, with some nonprofit CEOs paid at twice the rate of other workers, while the highest paid received 60 times the hourly pay of general workers.

- It's well past time to begin rethinking how chief executives should be compensated, researchers with the Lown Institute said.

Dive Insight:

The pandemic has brought hospital finances and pay scales to greater attention as burned out healthcare workers call for higher pay after two years of COVID-19, though hospital CEOs have faced scrutiny for years over sky-high compensation.

Those leading major nonprofit facilities, which receive significant tax breaks in return for offering community care programs, have faced particularly acute criticism for their multimillion-dollar salaries in light of the hospital's charitable missions.

In 2018, Bernard Tyson, then-CEO of California healthcare giant Kaiser Permanente, made almost $18 million, making him the highest-paid executive of all nonprofit organizations in the U.S. The year prior, the top 10 highest-paid nonprofit hospital CEOs each made $7 million or more, per one analysis.

Lown researchers calculated the disparity between CEO and hourly worker pay by comparing the difference between top executive compensation and the average wage of hospital staff without advanced degrees. They included lower-wage staff, such as janitorial workers, and medical records personnel. The researchers excluded professional staff like physicians and nurses with specialized degrees.

The analysis supported prior research finding hospital CEOs are compensated mostly for the volume of patients entering the hospital, reiterating concerns that may incentivize management to increase the number of more lucrative privately insured patients, threatening care availability for the uninsured or patients covered by government plans.

"This is part of the underlying business model that drives the nonprofit hospital landscape: Volume matters, and high-margin volume matters the most for the bottom line," Lown Institute researchers Vikas Saini, Judith Garber and Shannon Brownlee said.

That's evident in a larger gap in pay between CEOs and workers at bigger hospitals.

CEOs have higher pay equity ratios at larger hospitals

Pay equity in nonprofit hospitals by hospital size, 2018

Hospital size	Average hospital CEO compensation per hour	Hourly worker wage on average	Ratio of CEO wage to other workers wage
All hospitals	$249	$29	8:1
Very small (<50 beds)	$130	$24	6:1
Small (50-99 beds)	$179	$28	6:1
Medium (100-199 beds)	$239	$30	8:1
Large (200-399 beds)	$335	$35	10:1

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But there's still significant variation in CEO pay at larger hospitals. According to the Lown Index data, urban location and teaching status also are associated with higher executive compensation compared to general worker wages, though that doesn't explain all the discrepancies.

In some cities, similar hospitals pay their CEOs two to four times the hourly rate other hospitals do, despite paying their workers without advanced degrees similar or lower rates, researchers found.

Hospitals in certain mid-Atlantic and New England states had especially high rates of CEO pay compared to their hourly workers. For example, in Connecticut and Maryland, chief executives made about 13 times the average hourly worker's wage, while in Delaware, New York and New Jersey, CEOs made 12, 11 and 10 times what the average worker did, respectively.

By comparison, Midwest hospitals had much lower rates, with CEOs in Idaho, Mississippi and North Dakota making about five times that of their average hourly worker.

Researchers chalked up the intense discrepancy in pay to the increased corporatization of hospital management, and the overall increase in CEO pay in America across the board.

"Today, hospital boards compare the compensation of their CEOs not to other community-based nonprofits but to their for-profit publicly traded hospital CEO peers, who themselves are compared to leaders in the largest industrial and financial companies trading on Wall Street," the researchers said. "Since many boards set CEO salary by obtaining 'comparable' salary data, this becomes an ever-spiraling upward cycle."

According to the Economic Policy Institute, the average compensation of U.S. chief executives grew 105% from 2009 to 2019 when adjusted for inflation, while the typical worker saw their compensation increase by just under 8%.

In comparison, from 2005 to 2015, the average compensation of major nonprofit hospital CEOs jumped 93% from $1.6 million to $3.1 million, while average hospital worker wages increased just 8%.

The pandemic has given hospitals (and especially their boards, which decide salary) the chance to rethink how they compensate CEOs. Researchers suggested hospitals look into aligning CEO salary with the value they create — while keeping in mind that size alone does not equal value.

Boards should develop a set of factors that give CEOs incentives to fulfill the hospital's social mission, the Lown researchers said. For example, executives could be paid bonuses for improving clinical outcomes, patient safety and racial health disparities, or by improving cost efficiency.

"Currently, hospitals with a wealthier and well-insured patient mix tend to pay their executives the most, although arguably hospitals that care for more publicly insured or uninsured patients and have chronically thin margins require more skill to manage successfully," the researchers concluded. "It's time for a public discussion of these issues."