

Salaries soar for hospital execs

Four officials at area nonprofits make more than \$1 million

By Rachel Brand
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Correction

This story incorrectly stated the compensation of Exemplar Healthcare CEO Jeff Selberg. In 2003, he earned \$1.135 million.

Children's Hospital CEO Doris -Biester made \$1.2 million in salary and retirement contributions in 2003, making her Denver's highest-paid nonprofit hospital executive that year, according to a Rocky Mountain News analysis.

That same year, Colorado health insurance costs rose 17 percent to \$6,438 per person. Tens of thousands of children enrolled in Medicaid, the state-federal insurance program for the poor. Some 600,000 Coloradans lacked health insurance.

Hospital boards say they must pay top dollar to attract great CEOs, while critics wonder how much is too much.

Three other Denver hospital CEOs were paid above \$1 million in 2003-2004, the latest year for which data were available. Centura Health's Joe Swedish earned salary and benefits of \$1.16 million. Exemplar Health's Jeff Selberg got a \$1.35 million package. And Boulder Community Hospital's David Gehant earned \$1.01 million.

Then come the perks. Gehant is a member of the Boulder Country Club and Boulder Rotary,

courtesy of the hospital. Selberg's admission to the University Club and Denver Athletic Club is paid by Exempla. Centura's Joe Swedish and Dr. Patricia Gabow, CEO of Denver Health, both get a free car.

"We are truly a first-rate hospital, and we are fulfilling our mission," said Carol Lathrop, chair of the Boulder Community Hospital board. "That requires somebody with talent and drive. There is a national marketplace for CEOs, and (David Gehant's) salary follows that."

But Sen. Charles Grassley, R-Iowa, and Rep. Bill Thomas, R-Calif., among others, are skeptical. They conducted hearings on tax-exempt hospitals in 2005. This year, the Government Accountability Office sent out "soft contact audit" letters to informally monitor pay.

"The question is what the limit should be," said Pablo Eisenberg, founder of the National Committee for Responsive Philanthropy. "And can you hire really good people to run hospitals without giving them a CEO corporate salary?"

Hospital boards, staffed by people independent of the hospital, say the salary is set by the marketplace. The board's compensation committee gathers data on hospitals of a similar size and complexity.

After setting a base salary, the board creates a bonus plan. Executives can earn extra pay if they exceed goals based on patient and employee satisfaction, safety, good outcomes, emergency room wait times and financial management. Up to 35 percent of a CEO's cash compensation depends on such items.

There's no guarantee.

"I have been in a situation where, frankly, I have not met targeted goals and not met targeted incentives," said Jeff Selberg, who has served as Exempla's CEO since 1997. He didn't get a bonus the years Exempla lost money, he said. "That was fine with me."

But forces beyond performance incentives are pushing salaries into the million-dollar range.

First, nonprofits compete with for-profits such as HealthOne-HCA for talent. Public companies, for their part, can offer stock options, which allow executives to profit as the companies' shares rise in price.

Then, boards aim to match a set percentile of national salaries. Centura Health pays its CEO in the 65th percentile of U.S. norms. Boulder Community pays in the 92nd. Call it the Lake Wobegon effect. If every CEO is above average, then next year's salaries rise to keep up.

Michael Peregrine, a health care lawyer with the Chicago office of McDermott Will & Emery, notes the IRS allows not-for-profits to match for-profit salaries.

"The allegations of excessive compensation at nonprofits is a very juicy story," he said. "Politicians love to make hay of this. But we have to come back and look at what the law allows. There is no inherent obligation to pay less at nonprofits."

Hospital executives dispute the Lake Wobegon effect. The market for talent is fluid and always changing, based on performance, they say.

They are also sensitive to the moral implications of extraordinary pay, in a sector where costs are rising astronomically. And in organizations that were founded years ago, in some cases by nuns.

"It's hard to reconcile these dollars with the fact that we are providing health care," said Len Dryer, Children's chief financial officer.

"But if you want to get the best person, you have to pay the market. I struggle with that, too. I wonder, where is the limit? On the other hand, I want a new boss who is among the best in the country."

And pay keeps rising. Hospital CEO pay is rising at between 4 percent and 4.5 percent a year, according to Hay Associates.

Children's Hospital is looking for a new CEO, and compensation consultants told board members to prepare for sticker shock, according to board member Len Kortz.

"The board doesn't like it any more than the community does," -Kortz said. "That's just what we are stuck with."

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