

New News in Executive Compensation and Wage and Salary Administration

**Lindalee A. Lawrence,
Lawrence Associates**

*Nassau Suffolk Hospital Council
October 15, 2008*

Findings and Trends

- Executive Compensation
 - Executive Pay Environment
 - About the Market
- Wage and Salary
 - About the Market
 - Strategies and Concerns

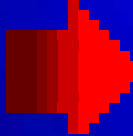


Aligning Strategies and Rewards

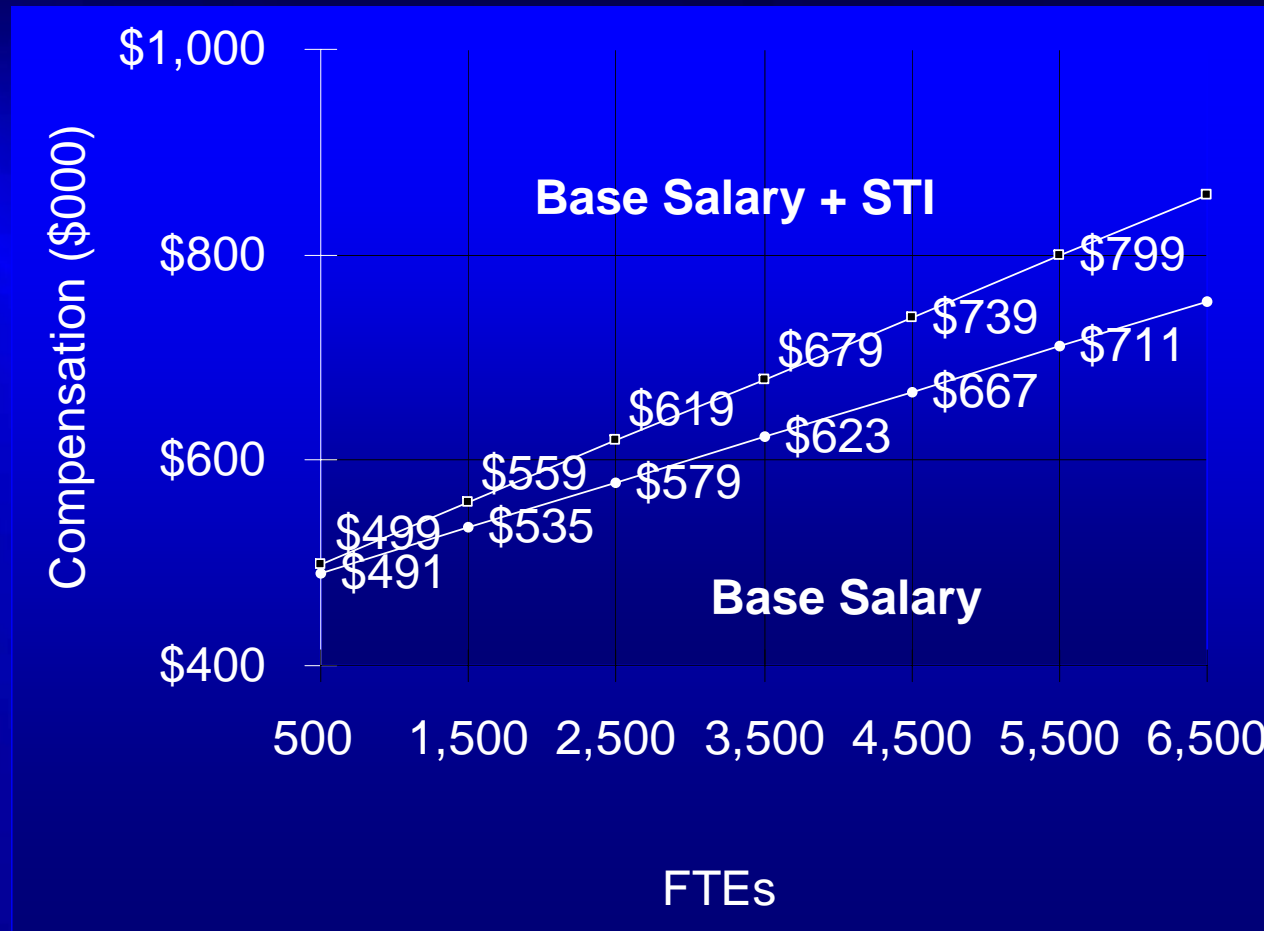
- Compensation Design Dynamics



Executive Market Factors

- Factors Affecting Base Salary
 - Geographic Region
 - Competitors
 -  Organization Size
 - Performance
 - Scope of Work
 - Organizational Dynamics

Regression Analysis of CEO Pay



Data taken from the 2008 AHHRA of Greater New York Executive and Middle Management Compensation Survey

Nassau Suffolk – CFO, Top HR



Elements of Pay

- Base Salary
- Short-term Incentives
- Long-term Incentives
- Deferred Compensation/Capital Accumulation (457(b), 457(f), split dollar, trusts, Professional Roth)
- Perquisites (contract, severance, auto)
- Non-monetary

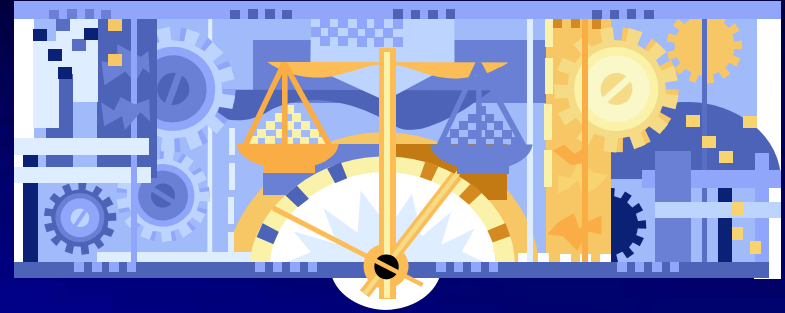


Deferred Compensation

Important, costly, complex, disadvantageous

- 457(b): \$15,500, non-qualified deferred, execs
- 457(f): No limit, substantial risk of forfeiture and 409A
- 457(e): Not a deferred plan, bona fide severance pay plan
- Life insurance options: Professional Roth, grandfathered/ new Split Dollar

Accountability



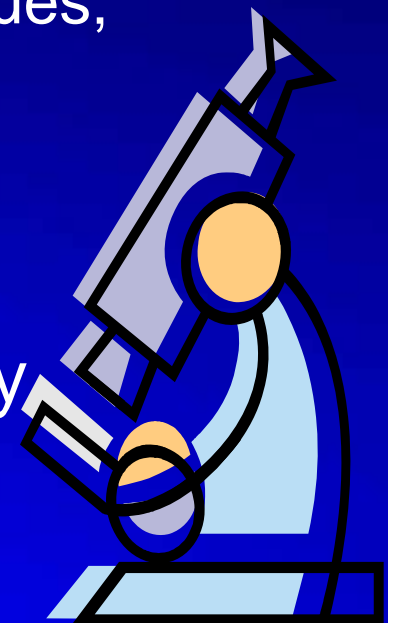
- IRC Section 409A
- Public Availability of Form 990 and **NEW** Disclosures
- Intermediate Sanctions
 - Excess benefit transactions to Disqualified Persons
 - Rebuttable presumption of reasonableness
 - Reasonable compensation

IRC Section 409A

- Rules on “Deferred” Compensation
 - If not in compliance, all amounts will be *currently* included in income
- Broad coverage
 - Nonqualified plans in general
 - Bonuses, severance
- Final delay for compliance to 12/31/08

IRS Form 990 Focus on Governance**2008**Open to Public
Inspection

- Puts compensation “front and center” in Tax Year 2008
- New Schedule J focuses on:
 - W-2 income, not FY
 - Enumerated perks (e.g. first class air; club dues; housing)
 - Severance
 - Deferred compensation
 - Equity and other elements
- Policy questions – policies not mandatory but will their absence be notable on the Form 990?



- Approaches to establishing CEO compensation
 - Compensation Committee
 - Independent Compensation Consultant
 - Form 990 of Other Organizations
 - Written Employment Contract
 - Compensation Survey or Study
 - Approval by the Board or Compensation Committee

Form **990**

Department of the Treasury
Internal Revenue Service

IRS Form 990 Focus on Governance

OMB No. 1545-0047

2008

Open to Public
Inspection

- Written policy regarding payment or reimbursement or provision of specified expenses. Does the organization have a written conflict of interest policy?
- Officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts and regularly and consistently monitor and enforce compliance?
- Copy of Form 990 provided governing body before it is filed?
- Process includes “review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision” ?
- Compensation payments or accruals contingent upon the revenues or net earnings? Any other form of non-fixed payment?
- Board member and family member direct or indirect business relationship?

IRS Intermediate Sanctions

Why Do We Care?

- Penalty (“Excise”) taxes on the “excess”
- *Personal* liability
- 25% tax on the *recipient*
 - 200% if not corrected by deadline
- 10% tax on the manager(s) who “knowingly” approved the transaction, up to \$20,000 aggregate
- Bad publicity



Intermediate Sanctions

- Why “Intermediate”?
 - Gives IRS a remedy between doing nothing and revoking Exempt status
- Rule: *Cannot provide “Excess Benefit” to “Disqualified Person”*
- HR and Compensation professionals can assist the Board and senior management in complying

Rebuttable Presumption of Reasonableness (Safe Harbor)

Payments are considered reasonable IF

1. Advance approval by an authorized, disinterested group of the organization.
2. Appropriate comparability data is used.
3. The decision is documented by the later of 60 days or before the next meeting of the group.

Note – new Form 990 asks if this process is used



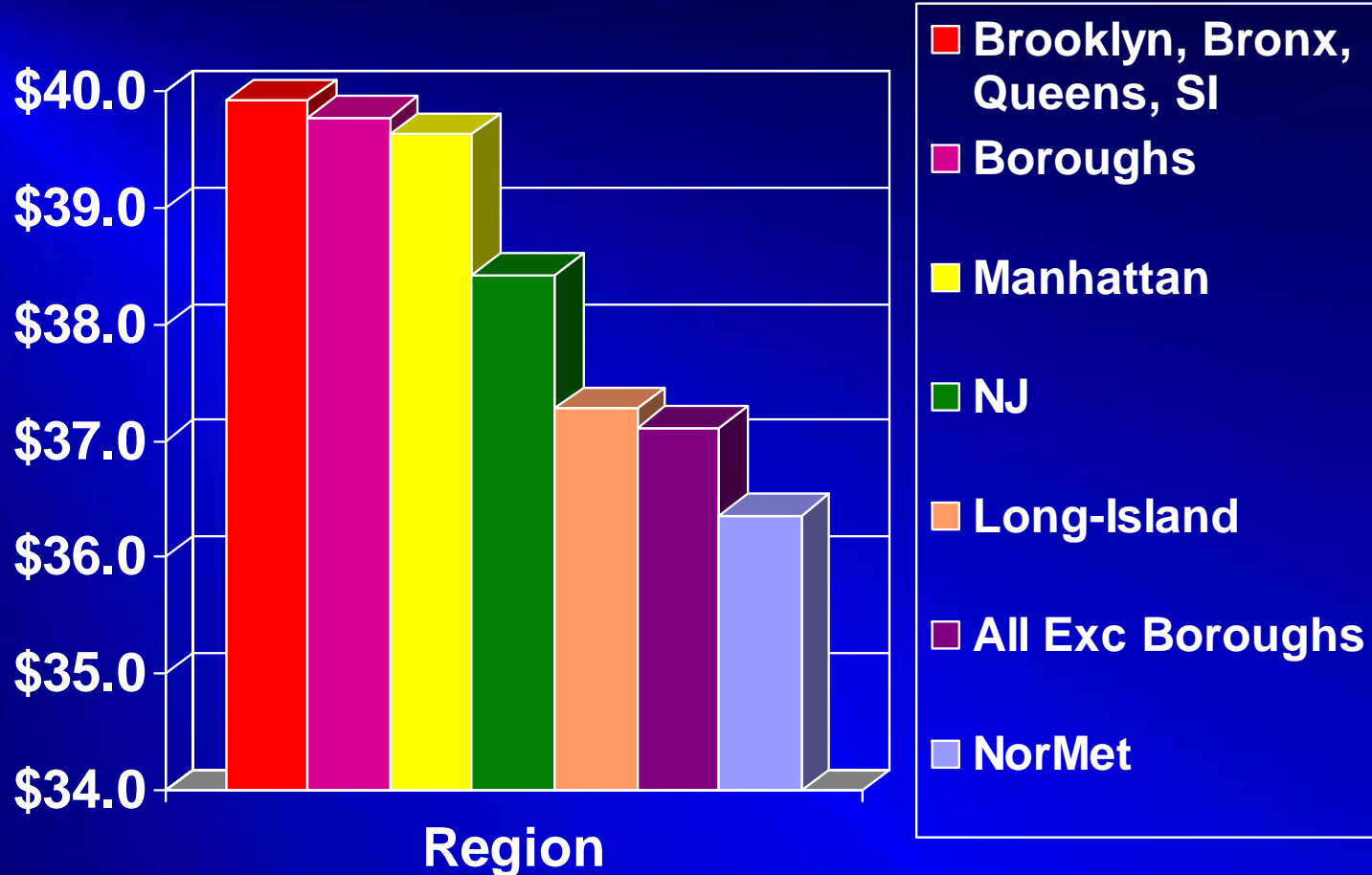
Wage and Salary Market Factors

- Factors Affecting Base Salary

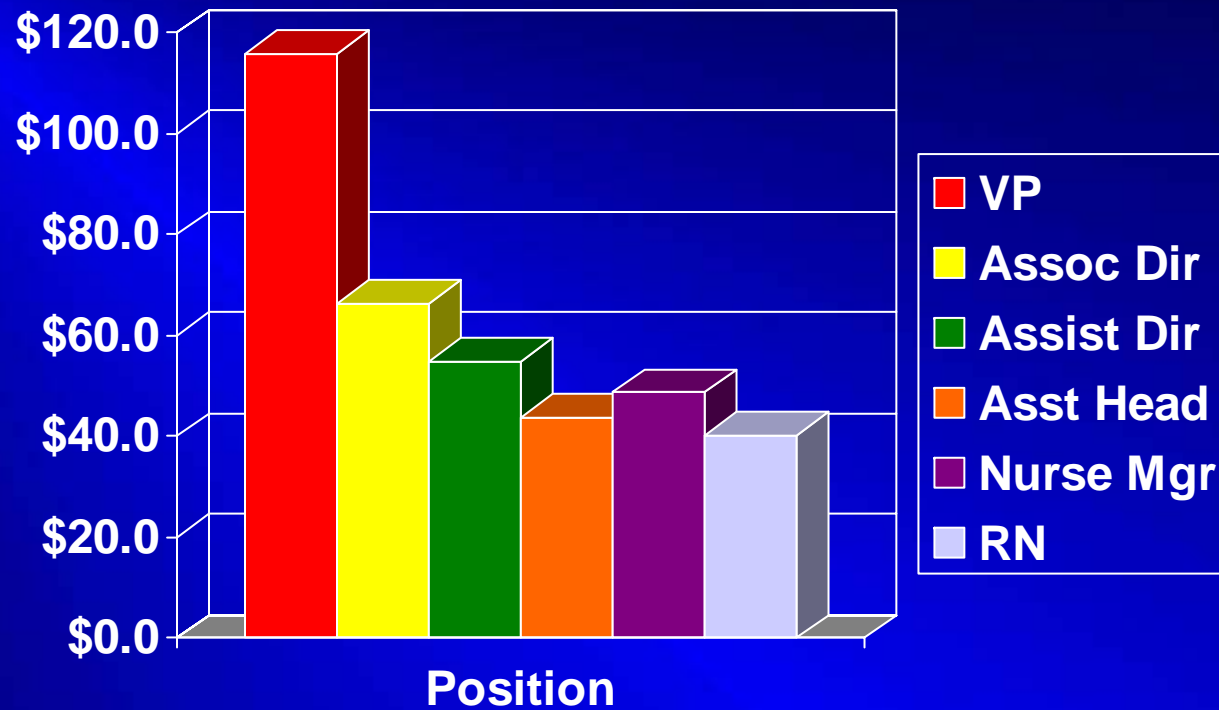
- Scope of Work
- Recruitment, Turnover/Retention
- Geographic Region
- Competitors
- Compensation Structure (Internal and External Equity)
- Performance, Years of Experience, Seniority
- Work/Life (It's not just about the compensation)



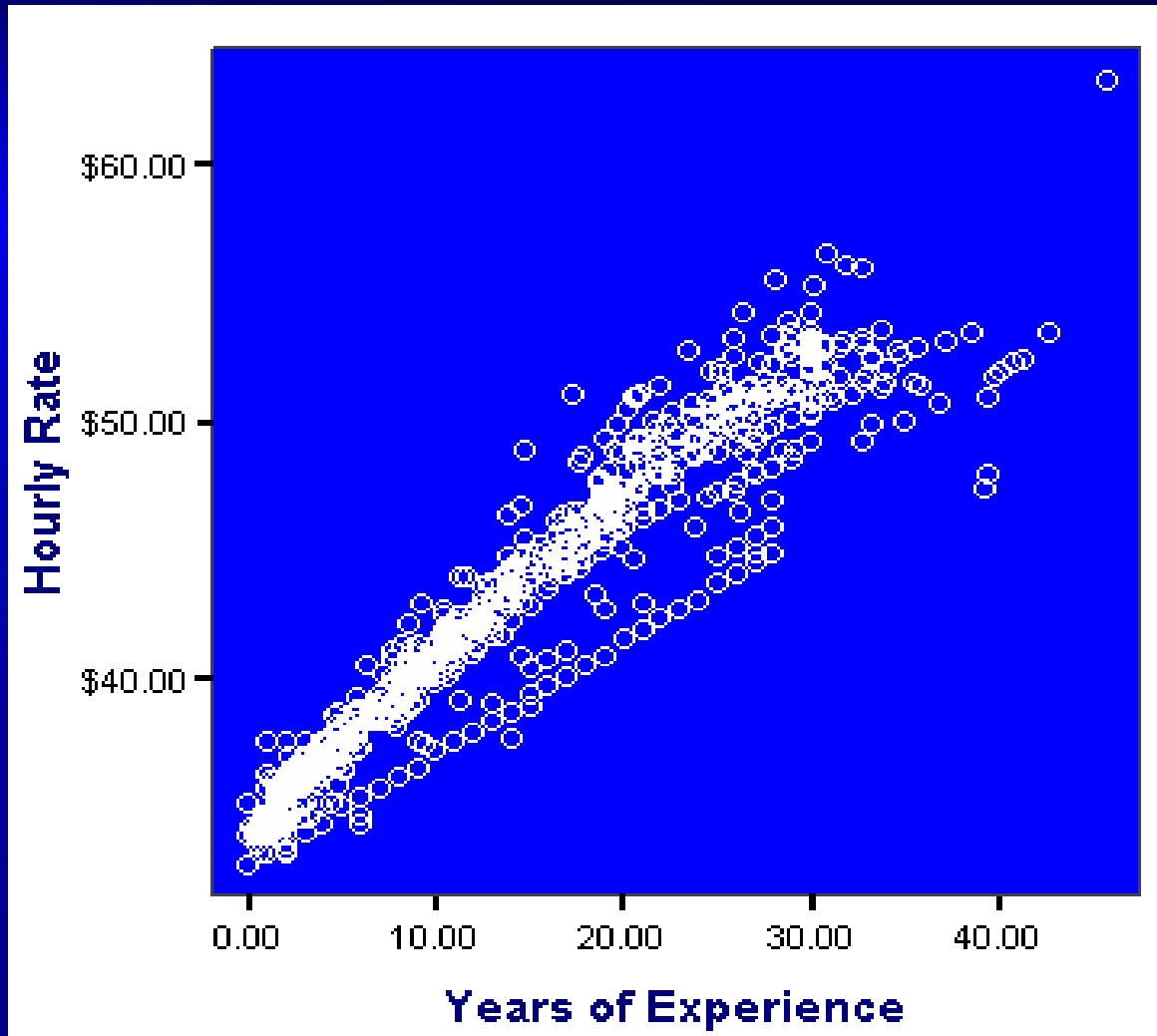
Geographic Comparison of Market Jobs - RN

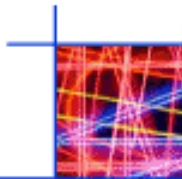


Internal and External Equity Nursing, Boroughs, Median



RN Hourly Rates by Years of Experience (Example Only)





**Lawrence
Associates**

Compensation Consultants

Compensation Consulting for a Competitive EdgeSM

Comprehensive compensation consulting solutions for boards, executives and managers of nonprofit organizations, spanning the continuum of healthcare, foundations, colleges and universities and many other nonprofit sectors.

- **Executive Compensation – competitive analysis; compensation strategy; incentive plan design; capital accumulation; perquisites; benefits, trustee education and response to media and public disclosure.**
- **IRS Intermediate Sanctions and Reasonable Compensation Review – analysis and certification under the IRS safe harbor rules.**
- **Wage and Salary Program Design and Incentive/Bonus Pay – variable pay/incentives; team, project, competency, skill-based pay; wage and salary program design; broadbanding; performance evaluation and other reward programs for management, staff and physicians.**
- **Custom Competitive Analysis & Surveys – competitive analysis, custom-designed competitive market surveys and analyses of all sizes.**

Lawrence Associates
Tel. 781-237-9044 Fax 781-237-9045
Email: clients@lawrenceassociates.com
Web: www.lawrenceassociates.com

An affiliate of HHRCC with Offices in Boston and New York