Higher CEO pay in large health care systems linked to hospital consolidations, study suggests

July 26 2024

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A study from Rice University's Baker Institute for Public Policy reveals that CEO salaries for nonprofit hospitals and health care systems increased significantly from 2012 to 2019. The study, "The Determinants of Nonprofit CEO Compensation," is published in the journal *PLOS ONE.*

This rise in compensation may be a factor driving the ongoing consolidation of health care systems, particularly among larger organizations, according to the researchers.

The research team analyzed compensation data for 1,113 independent hospitals and nonprofit hospital systems in 2012 and 868 such organizations in 2019, combining IRS filing information with hospital statistics. "Many hospitals merged or closed during this period, leading to a smaller sample in 2019," said Derek Jenkins, a postdoctoral scholar in health economics at the Baker Institute and lead author of this study.

In 2012, the average salary for CEOs of independent hospitals was about $996,000 (adjusted for inflation). By 2019, this average had risen to approximately $1.3 million—a more than 30% increase. Notably, CEOs of health care systems with over 500 beds saw even larger pay increases. In 2012, these CEOs earned 144% more than their counterparts at hospitals with fewer than 100 beds, and by 2019, this gap grew to 170%.

The researchers found a clear connection between CEO pay and hospital profits for both years studied. However, providing more charity care did not correlate with higher salaries. Almost half (44.5%) of the increase in CEO compensation was due to pay raises for a typical CEO leading a smaller hospital that reported no profits and offered no charity care.

"This suggests that even without changes in performance, many CEOs still received substantial pay increases," said co-author Vivian Ho, the chair in health economics at the Baker Institute, professor of economics at Rice and professor at Baylor College of Medicine.

The researchers note that while some of this increase in pay could be justified by improvements in care quality or the rising complexity of managing a health care system, it raises questions about the factors leading to such increases.

"Part of this pay increase may be warranted if linked to better quality of care or greater community benefits," said Jenkins. "It may also be explained by the increased complexity of operating a hospital or system which we did not account for in our analysis."

The study also revealed that leading larger and more profitable health care systems accounted for a significant portion of the additional 27% increase in CEO pay from 2012 to 2019. The remaining 28.5% increase was largely due to higher pay generosity for CEOs at larger systems with over 500 beds.

"Our findings suggest that CEOs may be incentivized to consolidate health care systems in order to reap the financial rewards of leading a larger, more profitable health care system," said Jenkins.

"The factors that hospital boards use to structure CEO compensation may be contributing to the affordability crisis in American health care and should remain in the forefront of the minds of policy makers," added Ho.

More information: Derek Jenkins et al, The determinants of nonprofit hospital CEO compensation, *PLOS ONE* (2024). DOI: 10.1371/journal.pone.0306571

Provided by Rice University