

2013 HEALTH CARE CEO SEVERANCE SURVEY

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ABOUT THE CO-SPONSORS

Mercer is a global consulting leader in talent, health, retirement, and investments. Mercer helps clients around the world advance the health, wealth, and performance of their most vital asset - their people.

Witt/Kieffer is among the nation's top executive search firms and the only national firm that specializes in health care, life sciences, higher education, and not-for-profit organizations.

Hunton & Williams LLP is a global law firm with a significant health care client base.

ABOUT THE SURVEY

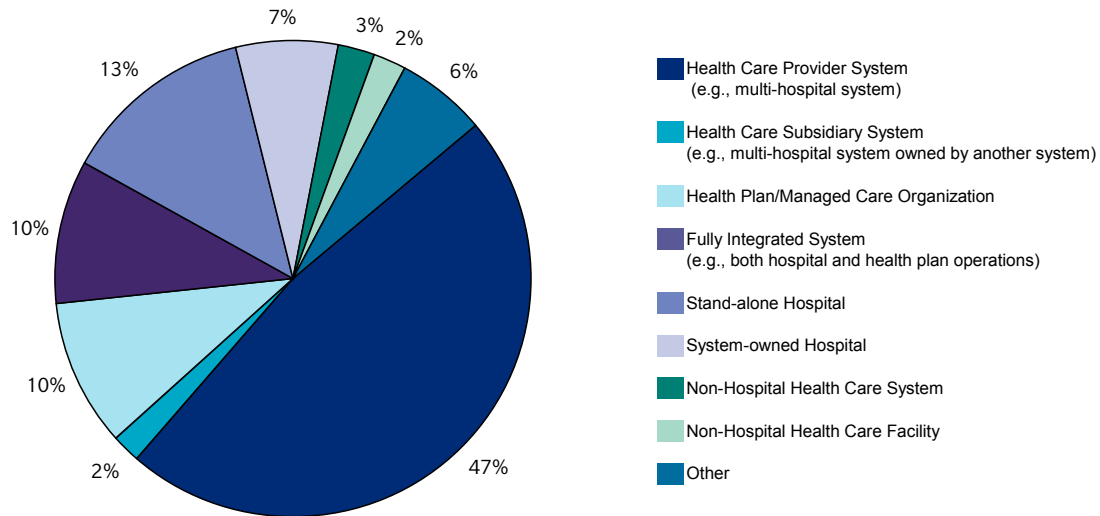
Since the health care industry is experiencing significant organizational change, CEO severance is a topic that attracts attention. While there is an abundance of quality data on cash compensation and benefits, there is little information available on severance. In response, Mercer, Witt/Kieffer, and Hunton & Williams LLP have partnered to conduct this survey to help your organization understand how its CEO severance arrangement compares to similar organizations and assist you in structuring your plan in a responsible manner.

We are pleased to present the results from the *2013 Health Care CEO Severance Survey*. This report summarizes CEO severance benefit practices for 196 health care providers and health plan/managed care organizations across the United States and provides a superior source of data to assist organizations in providing appropriate executive compensation packages.

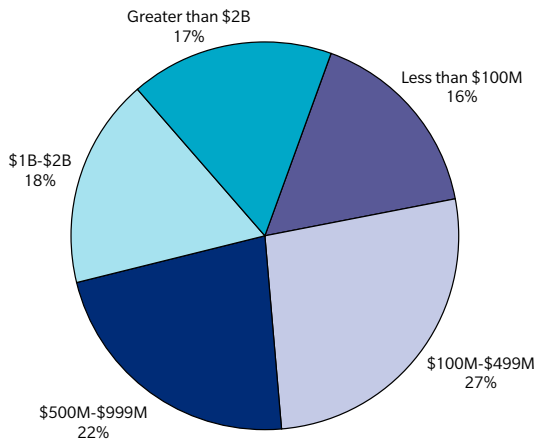
ABOUT THE RESPONDENTS

CEO severance data was collected from 196 health care organizations across the United States. Almost 90% of the respondents are health care providers with approximately two-thirds providing teaching programs for medical students. The following charts provide information about the type and size of participants and the services they provide.

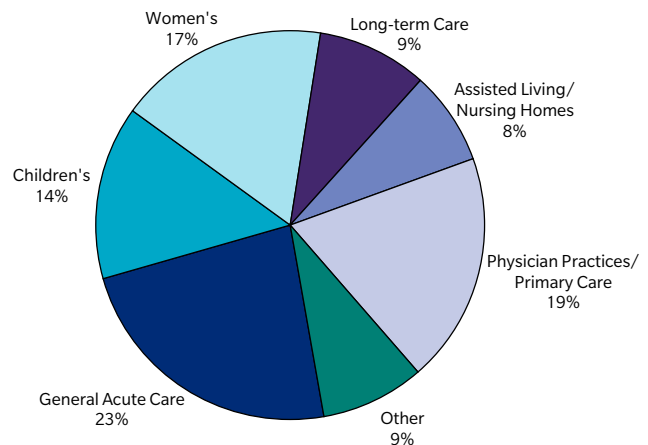
Organization Type



Annual Revenue



Types of Services Provided



To ensure confidentiality of data, a minimum number of observations is required for variable statistics to be provided. Four organizations must report at least four observations on a variable before the median and mean will be displayed. Furthermore, individual data will not be provided to other respondents.

EXECUTIVE SUMMARY

It is important to have an appropriate severance program in place in order to provide a secure work environment for employees, remain competitive, avoid potential litigation, and facilitate succession planning. In the rapidly changing health care environment, severance has become a key element of CEO compensation programs. Organizations recognize this need; in fact, 83% of respondents have a written severance agreement with the CEO.

Severance benefits are most commonly triggered by involuntary termination without cause or a change-in-control. Among organizations that provide severance, the median severance period for the CEO is 24 months. Only about 25% of respondents continue incentive compensation during the severance period. Over 80% continue health and welfare benefits.

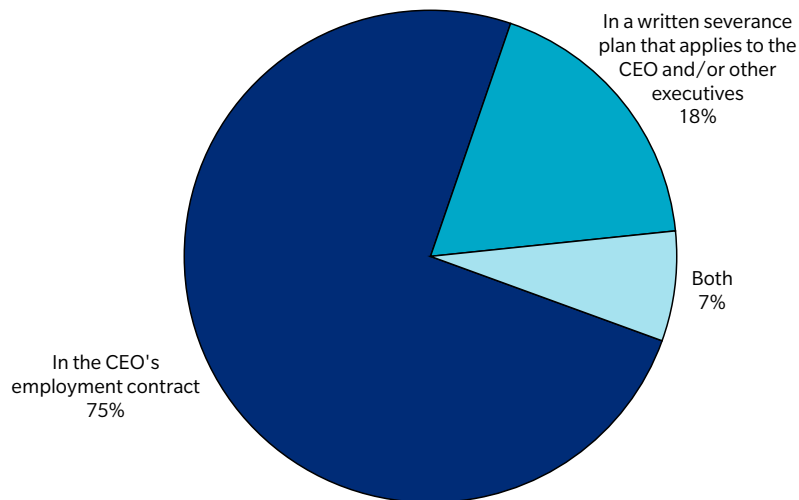
A little over one-third provide for mitigation (that is, if the CEO is employed during the severance period, benefits end or are reduced), approximately two-thirds indicated that severance benefits are subject to a non-compete/non-solicitation agreement, and slightly less than half provide outplacement services for the CEO. Fewer than 20% enhance severance benefits upon a change-in-control, which is most commonly defined as an acquisition or merger with another entity or a new entity obtaining a 50% or greater ownership.

Under IRC 4958 (Intermediate Sanctions) executive compensation, including severance payments, must be paid in a reasonable manner. The following report provides organizations with the insight needed to deliver reasonable severance packages. We urge organizations to use this information to review the executive severance programs already in place and to revise as appropriate. It is important to have a written severance agreement that has been reviewed by both an independent consultant and legal counsel.

SEVERANCE TERMS

Eighty-three percent of respondents have written severance agreements with the CEO. The vast majority outline the terms of the severance benefit in the CEO's employment contract.

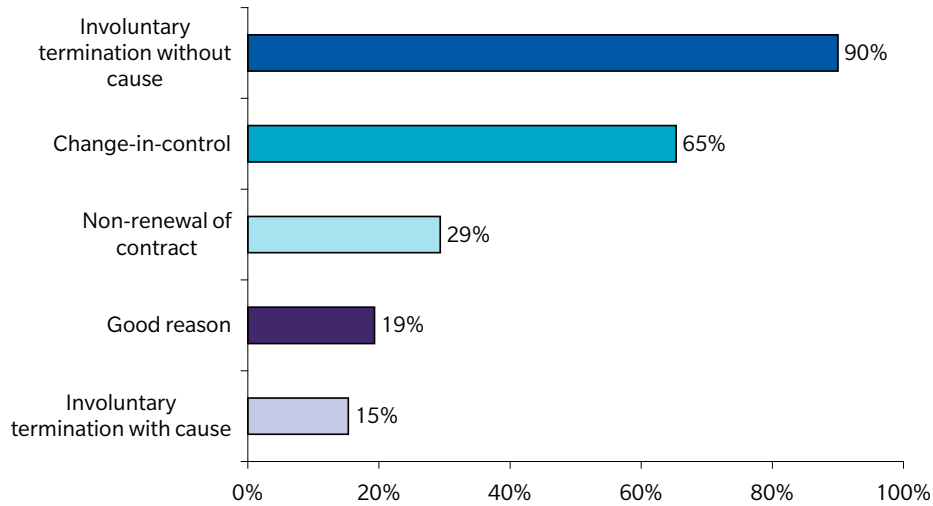
Question: Where are the terms of the CEO's severance benefit outlined?



SEVERANCE TERMS

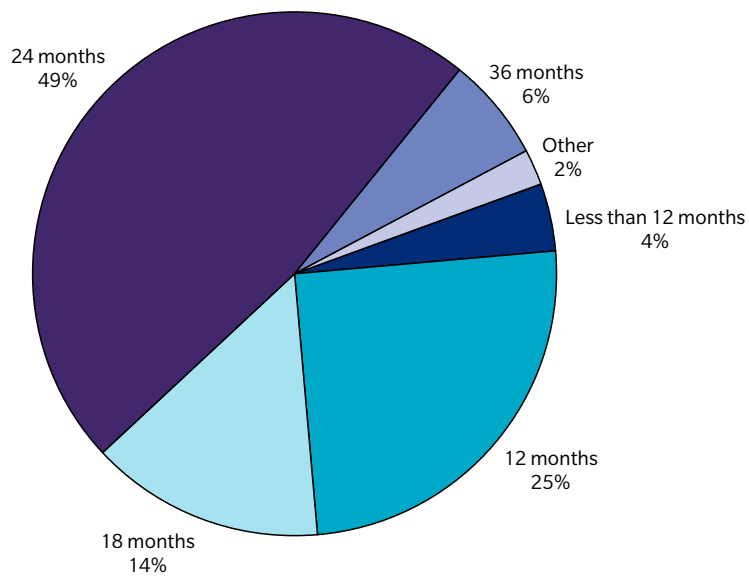
Severance is most commonly triggered by involuntary termination without cause or change-in-control.

Question: What types of termination trigger severance?



Only 5% of organizations provide service-based severance benefits. The remaining 95% continue benefits for a fixed period, most commonly 24 months.

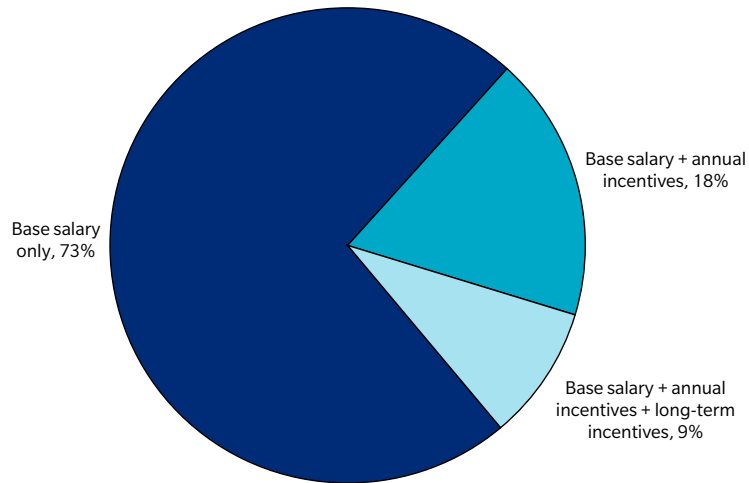
Question: If benefits are fixed (i.e., not based on service), for how many months is compensation continued? That is, what is the severance period?



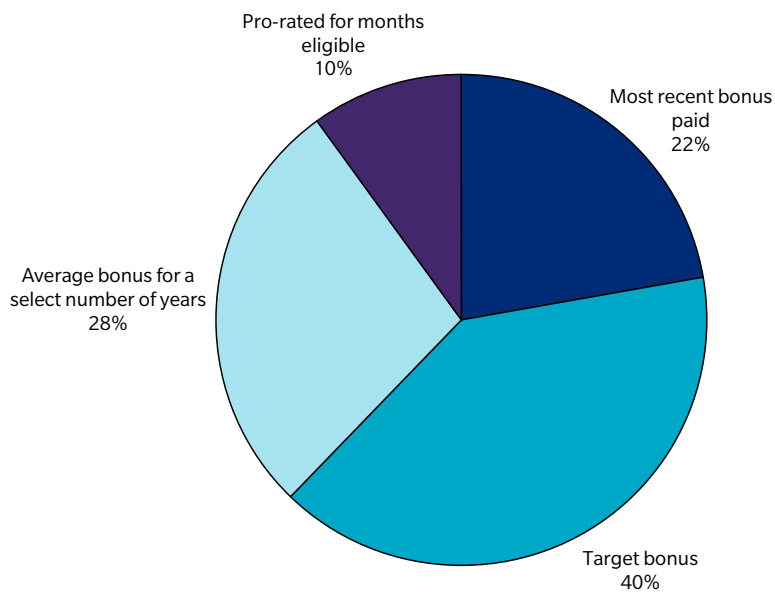
SEVERANCE TERMS

Approximately 75% of respondents continue base salary only while the other 25% also continue some form of incentive compensation. Of the organizations that continue incentive compensation, the majority use target incentives. Incentive compensation is based on an average number of years; three years is the most common criteria.

Question: How is continued compensation defined?



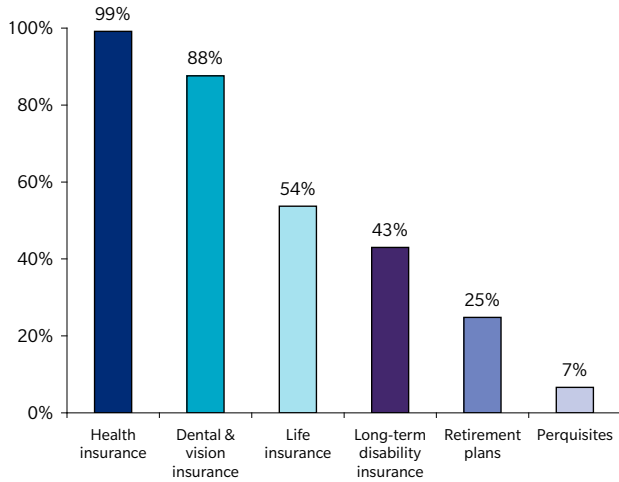
Question: How is annual incentive pay determined?



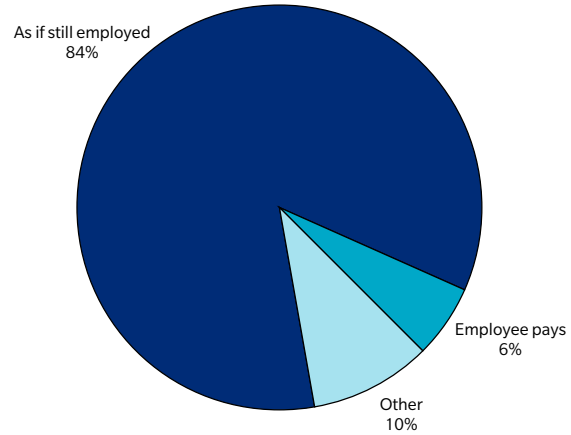
BENEFIT CONTINUATION

Eighty-two percent of respondents continue at least one benefit during the severance period. Insured benefits are the most common benefits to be continued, including: health, dental, vision, life and long-term disability insurance. The majority continue benefits as if the severed employee were still employed (as opposed to adjusting the cost-sharing arrangement).

Question: Which benefits are continued?

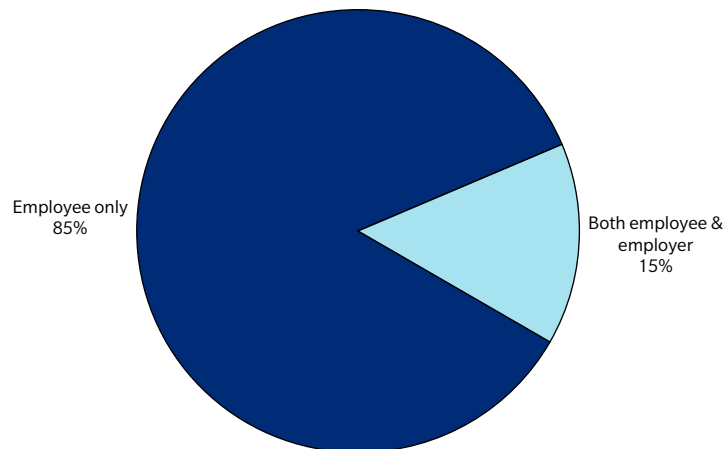


Question: How are continued benefits paid?



Of the 18% that do not continue benefits, the majority require the employee to pay the full cost of COBRA benefits. Note: Expected regulatory guidance will eliminate discriminatory continuation of health insurance or reimbursement of COBRA premiums during the period of severance for highly compensated employees due to the Patient Protection and Affordable Care Act (ACA).

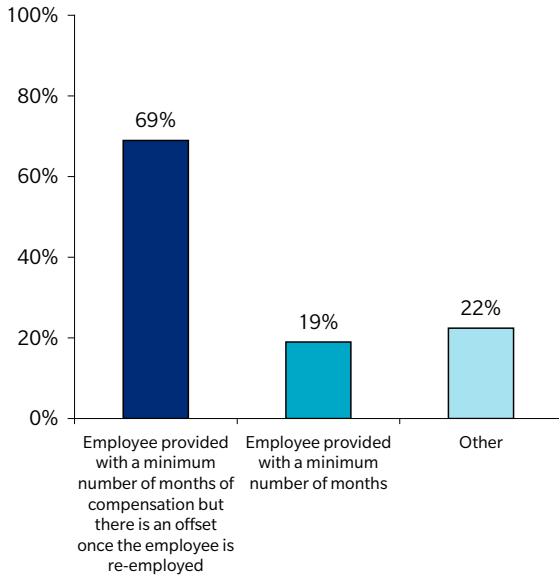
Question: Since the employer does not continue benefits during the severance period, who pays for COBRA benefits?



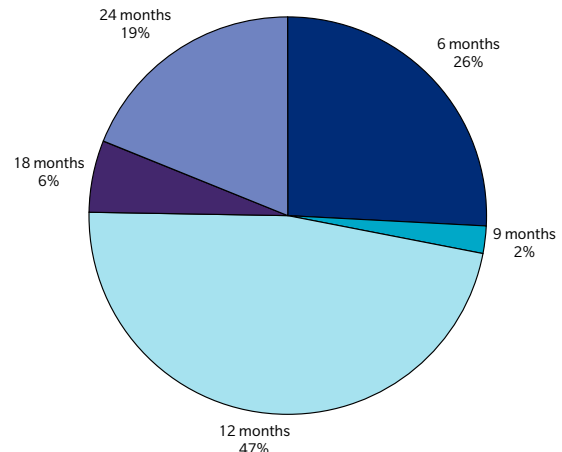
MITIGATION AND NON-COMPETE CLAUSES

Thirty-seven percent of CEO severance agreements provide for mitigation. That is, if the CEO is employed during the severance period, benefits end or are reduced. Of those that provide for mitigation, the most common design is to provide a minimum number of months (6 to 12) but offset once the employee is re-employed. Of those that indicated “other” when asked how mitigation is handled, the majority provide a minimum number of months but discontinue only benefits if the CEO is re-employed.

Question: How is mitigation handled?

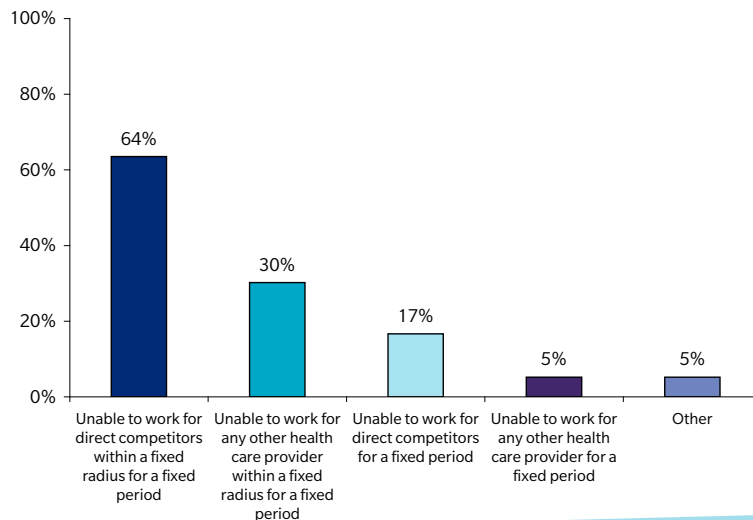


Question: If a minimum number of months is provided regardless of re-employment, what is the minimum number of months?



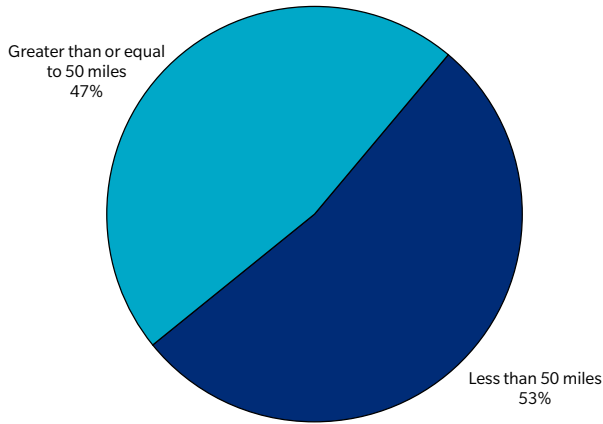
Sixty-eight percent of respondents indicated that severance benefits are contingent upon a non-compete/non-solicitation agreement. These agreements most commonly prohibit the employee from working for direct competitors within a fixed radius for a fixed period of time.

Question: What are the terms of the non-compete/non-solicitation agreement?

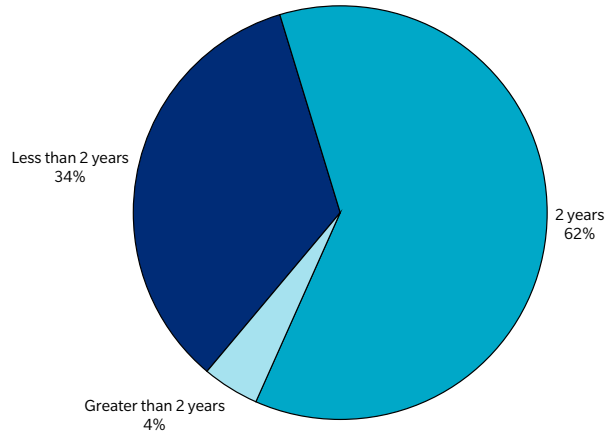


MITIGATION AND NON-COMPETE CLAUSES

Question: How is fixed radius defined?

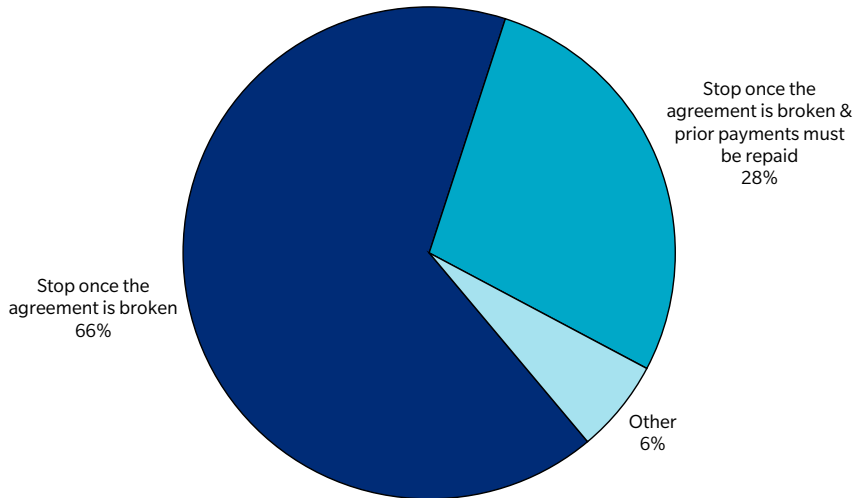


Question: How is fixed period defined?



If the non-compete/non-solicitation agreement is broken, approximately two-thirds stop payment but do not require repayment. On the other hand, approximately one-fourth not only stop payment but also require that prior payments be repaid to the organization.

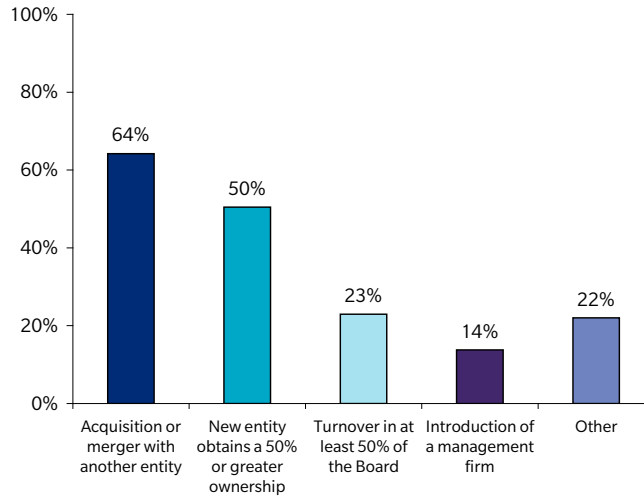
Question: What happens to severance benefits if the non-compete/non-solicitation agreement is broken?



CHANGE-IN-CONTROL PROVISIONS

Sixty-five percent of respondents provide severance benefits in the event of a change-in-control. Of those, 55% pay benefits in the event of a single trigger (change-in-control, regardless of termination) and 45% pay benefits in the event of a double trigger (change-in-control in conjunction with involuntary termination). Seventeen percent of respondents enhance severance benefits upon a change-in-control. Change-in-control is most commonly defined as an acquisition or merger with another entity or a new entity obtaining a 50% or greater ownership.

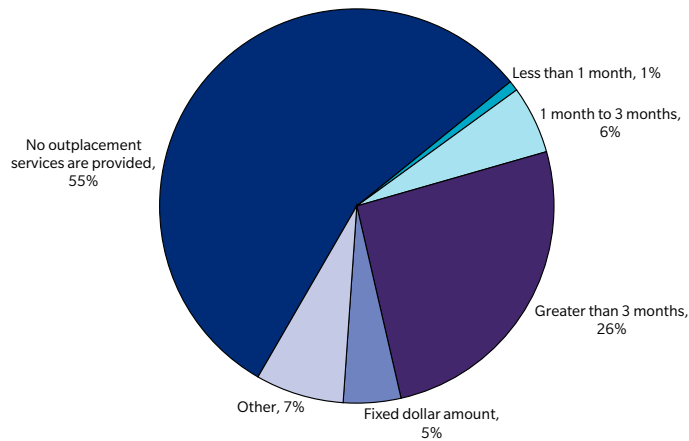
Question: What defines a “change-in-control” at your organization?



OUTPLACEMENT SERVICES

Slightly less than half of respondents provide outplacement services for the CEO. Of those, the majority continue these services for more than three months. Approximately 75% of respondents do not apply a cap. Of those that do (25%), the median is \$10,000.

Question: What is the term of outplacement services?



LIST OF RESPONDENTS

Absolute Total Care
Advantage Health Solutions, Inc.
Adventist Health System
Advocate Health Care
Advocate Illinois Masonic Medical Center
Akron General Health System
Albany Medical Center
Allina Health
AltaMed Health Services
Anna Jaques Hospital
Aria Health System
Arkansas Children's Hospital
Asante
Ascension Health
Aurora Health Care
Banner Good Samaritan Medical Center
Baptist Health Louisville
Baylor Health Care System
Beth Israel Deaconess Medical Center
Blessing Health System
Blood Systems, Inc.
Blue Ridge HealthCare
BlueCross BlueShield of Arizona
BlueCross BlueShield of Louisiana
BlueCross BlueShield of North Carolina
Borgess Health
Boston Medical Center
Boston Medical Center HealthNet Plan
Bronson Healthcare
Broward Health
CalOptima
Camden Clark Medical Center
Capital Health Hospitals
CareSource
Carilion Clinic
CaroMont Health System
Carondelet Health Network
Catholic Health East
Catholic Health Initiatives
Catholic Medical Center
Catskill Regional Medical Center
Cedars-Sinai Health Systems
Center for Alcohol and Drug Services
Central Maine Healthcare
Chapters Health System
ChildNet Youth and Family Services
Children's Hospitals and Clinics of Minnesota
Children's Medical Center of Dallas
Christiana Care Health System
City of Hope
Commonwealth Health Corporation
Community Health Network
Community Hospice of Northeast Florida
Community Medical Centers
Concord Hospital
Cone Health
Covenant Health
Deaconess Health System
Dean Health System
Delray Medical Center
Denver Health and Hospital Authority
Donor Network of Arizona
DuPage Medical Group
Eastern Connecticut Health Network
Edward Hospital & Health Services Corporation
Emory Healthcare
Englewood Hospital and Medical Center
Ephraim McDowell Health
Fairview Health Services
Franciscan Alliance
Franciscan Hospital for Children
Franciscan Sisters of Christian Charity Sponsored Ministries
Franciscan St. James Health
Good Samaritan Society
Grady Health
Gwinnett Health System
Hackettstown Regional Medical Center
Hartford HealthCare
Harvard Pilgrim Health Care
Health First
HealthAlliance of the Hudson Valley
HealthPartners - Regions Hospital
Hoag Health Network
Hollywood Presbyterian Medical Center
Huntsville Hospital Health System
Infirmary Health System
IU Health Bloomington
Kaiser Permanente
Kalispell Regional Healthcare
Kennedy Health System
Lake Health
Lee Memorial Health System
Legacy Health
Lehigh Valley Health Network
Lifetime HealthCare Companies, Inc.
Lima Memorial Health System
Lincoln County Healthcare
LRGHealthcare
Lucile Packard Children's Hospital
Madison County Hospital
Magellan Health Services
MaineGeneral Health
McCullough-Hyde Memorial Hospital
MDwise, Inc.
Memorial Hermann Health System
Mercy
Meriter Hospital
Methodist Hospitals
MidMichigan Medical Center
Ministry Health Care
Mission Health
Mount Kisco Medical Group
Mount Sinai Medical Center
MultiCare Health System
Munroe Regional Health System, Inc.
National Comprehensive Cancer Network
Nationwide Children's Hospital
Noland Health Services, Inc.
Northeast Georgia Health System, Inc.
Norton Healthcare
O'Connor Hospital
Orange Regional Medical Center
Our Lady of the Lake Regional Medical Center
Palomar Health
Partners HealthCare System
Peak Vista Community Health Centers
Phoebe Putney Health System
Phoenix Children's Hospital
Premera Blue Cross
Premier Health Partners
Premier Home Health Care Services, Inc.
Presbyterian Healthcare Services
Presbyterian Intercommunity Hospital
ProMedica Health System
Providence Health & Services
Reid Hospital
Robert Wood Johnson University Hospital
Rush-Copley Medical Center
Saint Clare's Health System
Saint Francis Care
Saint Francis Healthcare System
Saint Mary's Health Plans
Saint Mary's Hospital
Saint Thomas Health
Salem Health
San Diego Blood Bank
San Francisco Health Plan
Sarah Bush Lincoln Health System
SCL Health System
Scottsdale Healthcare
Self Regional Healthcare
Sentara Healthcare
Sharp Healthcare
Sierra Vista Regional Health Center
Sisters of Charity Health System
South Jersey Healthcare
Southwest General
Spartanburg Health
Spectrum Health
St. Charles Health System
St. Francis Medical Center
St. James Mercy Hospital
St. John's Riverside Hospital
St. Joseph Hospital
St. Mary's Health System
Success Healthcare
Summa Health System
Sutter Health
Tamarack Center
Texas Children's Hospital
Texas Health Presbyterian Hospital Dallas
Texas Health Resources
The Children's Mercy Hospital
The Ohio State University Wexner Medical Center
The Queen's Health Systems
The Washington Hospital
Thomas Jefferson University Hospitals, Inc
Touchstone Health, Inc.
UCare
UMass Memorial Health Care
United Health Services
UnitedHealthcare
University Health Care System
University Medical Center of El Paso
University of Arkansas for Medical Sciences
University of Michigan Health System
University of Virginia Medical Center
University of Washington Medical Center
Via Christi Health
Visiting Nurse Service of New York CHOICE
Wake Forest Baptist Medical Center
Wellmont Health System
Wentworth-Douglass Hospital
West Penn Allegheny Health System
Wheaton Franciscan Healthcare
WINhealth Partners

ABOUT MERCER'S HEALTH CARE INDUSTRY VERTICAL

Health care is a rapidly changing industry with new challenges being presented by the day – even by the minute. While no one can predict the future, successful organizations plan for change and quickly adapt while competitors wait and contemplate what hit them.

Mercer's network of experienced health care industry consultants specialize in Workforce and Executive Total Rewards for health care organizations. Our dedicated team provides services and solutions to support effective rewards management, including: strategy, market competitive practices for compensation and benefits, program design, implementation, and management and governance.

With more than 900 health care clients across the US, Mercer knows the issues affecting the health care sector. Our consultants have worked with a variety of health care organizations including large tax-exempt health systems, large publicly-traded hospital management companies, large academic medical centers, and local community health systems.

Mercer has made a significant commitment to developing information resources and other business tools specifically for the health care market and we are committed to bringing those resources directly to you.

Our Talent consultants serve the health care community through:

- Workforce and Executive Rewards
- Workforce and Executive Benefits
- Talent Management
- Leadership Development
- Workforce Communication & Change

If you have questions regarding the report, feel free to contact any of the individuals on the right.

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