

## AGENDA

### EXECUTIVE COMPENSATION COMMITTEE OF THE EL CAMINO HOSPITAL BOARD OF DIRECTORS

**Thursday, November 9, 2017 – 4:00pm**

El Camino Hospital | Conference Room A (ground floor)  
2500 Grant Road Mountain View, CA 94040

**PURPOSE:** To assist the El Camino Hospital (ECH) Board of Directors (“Board”) in its responsibilities related to the Hospital’s executive compensation philosophy and policies. The Executive Compensation Committee shall advise the Board to meet all applicable legal and regulatory requirements as it relates to executive compensation.

AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
<b>1. CALL TO ORDER/ROLL CALL</b>	Bob Miller, Chair		<b>4:00-4:02pm</b>
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Bob Miller, Chair		<b>4:02 – 4:03</b>
<b>3. PUBLIC COMMUNICATION</b> a. Oral Comments <i>This opportunity is provided for persons in the audience to make a brief statement, not to exceed three (3) minutes on issues or concerns not covered by the agenda.</i> b. Written Correspondence	Bob Miller, Chair		<b>information 4:03 – 4:06</b>
<b>4. CONSENT CALENDAR</b> <i>Any Committee Member or member of the public may remove an item for discussion before a motion is made.</i> <b>Approval</b> a. <a href="#">Minutes of the Open Session of the Executive Compensation Committee Meeting (September 21, 2017)</a> <b>Information</b> b. <a href="#">Progress Against FY18 Committee Goals</a> c. <a href="#">Article of Interest</a>	Bob Miller, Chair	<i>public comment</i>	<b>motion required 4:06 – 4:07</b>
<b>5. REPORT ON BOARD ACTIONS</b> <a href="#">ATTACHMENT 5</a>	Bob Miller, Chair		<b>information 4:07 – 4:12</b>
<b>6. LETTERS OF REASONABLENESS</b> <a href="#">ATTACHMENT 6</a>	Lisa Stella, Mercer; Bob Miller, Chair	<i>public comment</i>	<b>motion required 4:12 – 4:22</b>
<b>7. REVIEW OF ECH EXECUTIVE COMPENSATION AND BENEFITS PROGRAM AND POLICIES</b> a. Overview of Current ECH Practices b. Overview of Market Practices c. Opportunities for Revisions to ECH Practices <a href="#">ATTACHMENT 7</a>	Stephen Pollack, Mercer;  Kathryn Fisk, CHRO	<i>public comment</i>	<b>possible motion  4:22 – 4:57 4:57 – 5:27 5:27 – 5:42</b>

AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
<b>8. APPROVAL OF ADDITION OF POSITION (PRESIDENT, SVMD) TO EXECUTIVE COMPENSATION AND BENEFITS PLAN &amp; FY18 SALARY RANGE</b> a. Proposed Revised Executive Compensation and Benefits Plan to add new position b. Proposed FY18 Salary Range for President, SVMD <a href="#">ATTACHMENT 8</a>	Kathryn Fisk, CHRO; Dan Woods, CEO	<i>public comment</i>	<b>motion(s) required 5:42 – 5:51</b>
<b>9. ADJOURN TO CLOSED SESSION</b>	Bob Miller, Chair		<b>motion required 5:51 – 5:52</b>
<b>10. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Bob Miller, Chair		<b>5:52 – 5:53</b>
<b>11. CONSENT CALENDAR</b> <i>Any Committee Member or member of the public may remove an item for discussion before a motion is made.</i> <b>Approval</b> <i>Gov't Code Section 54957.2:</i> a. Minutes of the Closed Session of the Executive Compensation Committee Meeting (September 21, 2017)	Bob Miller, Chair		<b>motion required 5:53 – 5:54</b>
<b>12. ADJOURN TO OPEN SESSION</b>	Bob Miller, Chair		<b>motion required 5:54 – 5:55</b>
<b>13. RECONVENE OPEN SESSION/ REPORT OUT</b> To report any required disclosures regarding permissible actions taken during Closed Session.	Bob Miller, Chair		<b>5:55 – 5:56</b>
<b>14. FY18 COMMITTEE PACING PLAN</b> <a href="#">ATTACHMENT 14</a>	Bob Miller, Chair		<b>discussion 5:56 – 5:57</b>
<b>15. CLOSING COMMENTS</b>	Bob Miller, Chair		<b>discussion 5:57 – 5:59</b>
<b>16. ADJOURNMENT</b>	Bob Miller, Chair		<b>possible motion 5:59 – 6:00pm</b>

**Upcoming Meetings**

- March 22, 2018
- May 24, 2018

**Board/Committee Educational Gatherings**

- April 25, 2018



**Minutes of the Open Session of the  
Executive Compensation Committee  
Thursday, September 21, 2017**

**El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040  
Conference Room A (administration)**

**Members Present**

**Teri Eyre**  
**Neysa Fligor**  
**Bob Miller**, Chair  
**Julia Miller** (via teleconference)  
**Pat Wadors**

**Members Absent**

**Jaison Layney**

Agenda Item	Comments/Discussion	Approvals/ Action
<b>1. CALL TO ORDER/ ROLL CALL</b>	The open session meeting of the Executive Compensation Committee of El Camino Hospital (the “Committee”) was called to order at 4:00pm by Chair B. Miller. Mr. Layney was absent. Ms. J. Miller participated via teleconference. All other Committee members were present.	
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Chair Miller asked if any Committee members may have a conflict of interest with any of the items on the agenda. No conflicts were noted.	
<b>3. PUBLIC COMMUNICATION</b>	None.	
<b>4. CONSENT CALENDAR</b>	<p>Chair Miller asked if any member of the Committee or the public wished to remove an item from the consent calendar. No items were removed.</p> <p><b>Motion:</b> To approve the consent calendar: Minutes of the Open Session of the Executive Compensation Committee Meeting (May 23, 2017); FY18 Pacing Plan.</p> <p><b>Movant:</b> Fligor <b>Second:</b> Wadors <b>Ayes:</b> Eyre, Fligor, B. Miller, J. Miller, Wadors <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> Layney <b>Recused:</b> None</p>	<i>Consent calendar approved</i>
<b>5. REPORT ON BOARD ACTIONS</b>	Chair B. Miller highlighted the changes in Committee membership, welcomed Ms. Fligor and Ms. Wadors to their first meeting, and noted that while Mr. Lanhee Chen was no longer a member of the Committee, he may occasionally attend meetings.	
<b>6. FY17 ORGANIZATIONAL SCORE</b>	<p>Mick Zdeblick, COO, presented the scoring of the FY17 organizational goals:</p> <ul style="list-style-type: none"> <li>- <b>Budgeted Operating Margin:</b> Mr. Zdeblick explained that this is a trigger goal, and must be met to receive any incentive pay. In FY17, ECH was \$47 million ahead of plan. He noted that next year, the threshold will be 95% of budget rather than the 90% it has been.</li> <li>- <b>Pain Reassessment and Pain Management:</b> He described the inter-departmental efforts with the nursing teams including report development. In response to Ms. Fligor’s question, Mr. Zdeblick noted that staff can bring back data on the response rate for patient surveys.</li> <li>- <b>Length of Stay and Readmissions:</b> He outlined the reduction in</li> </ul>	<p><i>FY17 Organizational Score approved</i></p> <p><i>Staff to provide additional information on patient survey response rates</i></p>

	<p>length of stay at the same time as maintaining top decile performance in readmissions.</p> <ul style="list-style-type: none"> <li>- <b>Smart Growth:</b> Mr. Zdeblick noted that year-over-year growth was positive, but did not meet budgeted volume.</li> </ul> <p>Mr. Zdeblick explained that with weighting and proration for partial achievement the total score is 80.7%.</p> <p><b>Motion:</b> To recommend that the Board approve the FY17 Organizational Score.</p> <p><b>Movant:</b> Wadors  <b>Second:</b> Eyre  <b>Ayes:</b> Eyre, Fligor, B. Miller, J. Miller, Wadors  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> Layney  <b>Recused:</b> None</p> <p>Mr. Zdeblick left the meeting.</p>	
<p><b>7. ADJOURN TO CLOSED SESSION</b></p>	<p><b>Motion:</b> To adjourn to closed session at 4:09pm.</p> <p><b>Movant:</b> Fligor  <b>Second:</b> Eyre  <b>Ayes:</b> Eyre, Fligor, B. Miller, J. Miller, Wadors  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> Layney  <b>Recused:</b> None</p>	<p><i>Adjourned to closed session at 4:09pm</i></p>
<p><b>8. AGENDA ITEM 15: RECONVENE OPEN SESSION/ REPORT OUT</b></p>	<p>Open session was reconvened at 5:13pm. Agenda items 8-14 were addressed in closed session.</p> <p>During the closed session, the Committee approved the Minutes of the Closed Session of the Executive Compensation Committee Meeting of May 23, 2017 and voted to recommend Board approval of the Proposed FY17 Executive Incentive Goal Scores by a unanimous vote in favor of all members present (Eyre, Fligor, B. Miller, J. Miller, Wadors). Mr. Layney was absent. The Committee also voted to recommend Board approval of the Proposed FY17 Individual Executive Performance Incentive Payouts, and the Proposed FY17 CHRO Goal Score and Performance Incentive Payout by a unanimous vote in favor of all members present (Eyre, Fligor, B. Miller, Wadors). Mr. Layney and Ms. Miller were absent.</p>	
<p><b>9. AGENDA ITEM 16: CLOSING COMMENTS</b></p>	<p>Chair B. Miller requested that staff poll the Committee to see if a 4:00pm start time works best for all members. He asked for feedback from the Committee on his service as Chair as the year progresses. Chair B. Miller noted that he spoke with Lanhee Chen, Board Chair, and requested to personally present the Committee's recommendations to the Board.</p>	<p><i>Staff to poll Committee members re meeting start time</i></p>
<p><b>10. AGENDA ITEM 17: ADJOURNMENT</b></p>	<p><b>Motion:</b> To adjourn at 5:19pm.</p> <p><b>Movant:</b> Eyre  <b>Second:</b> Wadors  <b>Ayes:</b> Eyre, Fligor, B. Miller, Wadors  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> J. Miller, Layney  <b>Recused:</b> None</p>	<p><i>Meeting adjourned at 5:19pm</i></p>

**Attest as to the approval of the foregoing minutes by the Executive Compensation Committee and the Board of Directors of El Camino Hospital.**

\_\_\_\_\_  
Bob Miller  
Chair, Executive Compensation Committee

\_\_\_\_\_  
Julia Miller  
Secretary, ECH Board of Directors

Prepared by: Sarah Rosenberg, Contracts & Board Services Coordinator

*DRAFT*

**FY18 COMMITTEE GOALS**  
Executive Compensation Committee

**PURPOSE**

The purpose of the Executive Compensation Committee is to assist the El Camino Hospital (ECH) Board of Directors (“Board”) in its responsibilities related to the Hospital’s executive compensation philosophy and policies. The Committee shall advise the Board to meet all legal and regulatory requirements as it relates to executive compensation.

**STAFF:** **Kathryn Fisk**, Chief Human Resources Officer; **Julie Johnston**, Director, Total Rewards; **Cindy Murphy**, Board Liaison

*The CHRO shall serve as the primary staff to support the Committee and is responsible for drafting the Committee meeting agenda for the Committee Chair’s consideration. The CEO, and other staff members as appropriate, may serve as a non-voting liaison to the Committee and may participate at the discretion of the Committee Chair. These individuals shall be recused when the Committee is reviewing his/her compensation. The CEO is an ex-officio member of this Committee.*

<b>GOALS</b>	<b>TIMELINE by Fiscal Year</b> (Timeframe applies to when the Board approves the recommended action from the Committee, if applicable)	<b>METRICS</b>
<p>1. Advise the Board on performance incentive goal-setting and plan design, ensuring strategic alignment and proper oversight of compensation-related decisions.</p>	<ul style="list-style-type: none"> <li>Q2 – Q4 FY18</li> </ul>	<ul style="list-style-type: none"> <li>Recommend FY17 performance goal scores and payouts (Q2) (complete)</li> <li>Oversee the implementation of changes that impact the FY18 strategic planning, budgeting, and goal setting process (Needs clarification)</li> <li>Recommend FY19 goals and measurements (Q4) (on track)</li> <li>Assess the value of long-term incentives to support the achievement of long-term strategies (on track – discussion 11/9)</li> </ul>
<p>2. Support successful implementation of executive benefit changes</p>	<ul style="list-style-type: none"> <li>Q3 – Q4 FY18</li> </ul>	<ul style="list-style-type: none"> <li>Review proposed changes to benefits plan policy (Q1) (Complete- LTD revision approved in June 2017)</li> <li>Review consultant analysis of benefit change impact (Q3) (Complete: Included in Reasonableness Opinion Letter)</li> </ul>
<p>3. Advise the Board ensuring strategic alignment and proper oversight of compensation-related decisions.</p>	<ul style="list-style-type: none"> <li>Q2 – Q4 FY18</li> </ul>	<ul style="list-style-type: none"> <li>Review base salary administration policy (Q2), review market analysis, and make base salary recommendations to the Board (Q4) (On track)</li> <li>Submit the letter of reasonableness for Board acceptance (Q3) (On track - reviewing at 11/9 meeting)</li> <li>Review compensation philosophy and performance incentive plan policies and make recommendation to Board to approve any changes (Q3) (On track – Discussion at 11/9 meeting)</li> </ul>

**SUBMITTED BY:**

Lanhee Chen  
Kathryn Fisk

**Chair**, Executive Compensation Committee  
**Executive Sponsor**, Executive Compensation Committee

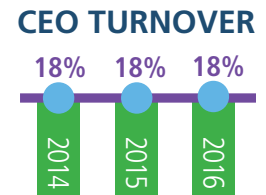
**Approved by the ECH Board of Directors on June 14, 2017**

# High Cost of Leadership Turnover

Turnover, it is an issue which is gaining increasing focus for healthcare organizations and executives. For good reason, turnover impacts an entire organization including clinical, financial, and operational outcomes. It also fuels an increasingly competitive labor market characterized by a “widening gap of unfilled jobs.”<sup>1</sup> This B.E. Smith Industry Report snapshots the cost implications and some of the more productive strategies to successfully avoid or mitigate the risk associated with turnover.

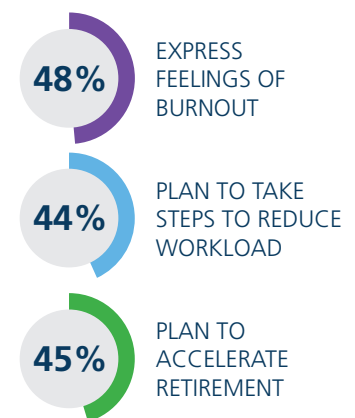
## Elevated Turnover the New Norm

While turnover in the healthcare industry has remained consistent over recent years, studies show the levels deserve considerable attention and impact all levels of an organization. A 2015 survey puts the average overall turnover rate for healthcare employers at 19%.<sup>2</sup> The finding is similar to a recent American College of Healthcare Executives (ACHE) survey which placed hospital CEO turnover at 18% in 2016. It is the third straight year CEO turnover has held steady, and slightly lower from the record high 20% turnover identified in 2013. ACHE attributes the turnover rates to mergers, retirements, and changing leadership requirements, adding that “elevated CEO turnover rates over the past several years have become the norm.”<sup>3</sup>



Clinicians, central to meeting crucial organizational objectives and filling key leadership roles, are also turning over at an increasing clip. Physicians are particularly stressed: 48% express significant feelings of burnout, 44% plan to take steps to reduce workload, and 45% state they plan to accelerate their retirement.<sup>4</sup> Nursing is vulnerable with an aging workforce and an already high 17.2% turnover rate.<sup>5</sup> Many observers note nurse leaders are prone to leaving their positions within the first two years, with many experiencing similar burnout to physicians.

## PHYSICIANS LEAVING HEALTHCARE



Adding the complexity, this year’s B.E. Smith Intelligence Report revealed that 57% of healthcare leaders are considering a career change within the next year. Further, 85% say they have been approached about a credible new opportunity over the past

<sup>1</sup> AMN Healthcare, “Healthcare Staffing Crisis Revealed in Jobs Data,” *Healthcare News*, 2017.

<sup>2</sup> Compdata, *Compensation Data Healthcare 2015 Survey*.

<sup>3</sup> American College of Healthcare Executives, *Hospital CEO Turnover Rate Remains Steady*, March 19, 2017.

<sup>4</sup> Physicians Foundation, *2016 Survey of America’s Physicians*, September 2016.

<sup>5</sup> Nursing Solutions Inc., *2016 National Healthcare Retention and RN Staffing Report*, March 2016.

twelve months, and 43% pursued it. This latent turnover is entirely consistent with broad cross-industry statistics. ADP recently reported that 27% of employees change jobs each year, with 17% active in the market and 46% “passively looking.”<sup>6</sup>

As a result, turnover rates for the healthcare sector are expected to remain at elevated levels for the foreseeable future. For healthcare organizations and executives, this means accounting for the clinical, financial, and operational disruption turnover will cause.

## Turnover Extracts Significant Direct Cost

Estimates of the total cost beyond salary to replace mid-level to senior executives range from \$50,000 to well over \$200,000, so the economic impact of leadership turnover is substantial. The direct financial costs mount as the complete leadership landscape is assessed:

- **Nursing:** Estimates for recruitment costs are 1 to 1.5 times salary, so current turnover levels suggest a hospital can incur over \$5 million annually. Projections to meet nursing demand nationally run to over \$100 million a year by 2020. Nursing leadership vacancies are especially costly. Replacing a perioperative director can cost \$132,000 to \$228,000 or more.
- **Physicians:** One specialist in physician burnout calculates that inclusive of productivity loss “the cost of turning over a single doctor position could be \$500K to \$1 million.”

## Consider Indirect Costs

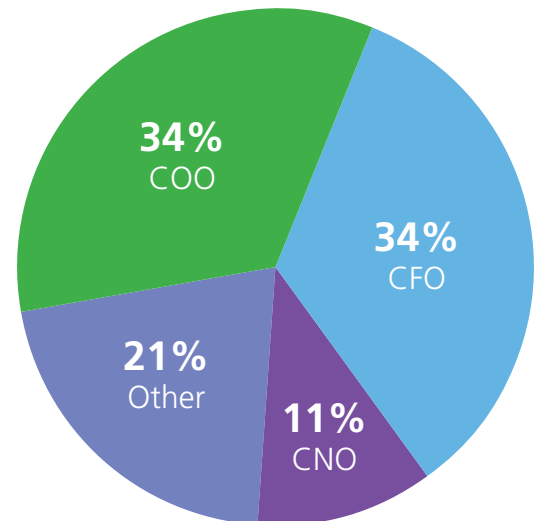
While the direct costs are substantial, a potential multiplier effect comes from a variety of indirect costs. For example, CEO departures often engender related C-suite turnover. According to B.E. Smith’s Intelligence Report, COOs (34%) and CFOs (34%) are the most likely to leave following a CEO change. The CNO (11%) rounded out the top three.

The Intelligence Report also described significant programmatic impact related to the departure of a CEO, with healthcare executives citing strategic planning and employee engagement as primary organizational setbacks.

Some possibly subtler but no less substantial impacts:

- **Workflow disruption.** Over the past several years organizations have worked hard to streamline and optimize workflows, create operational efficiencies, and reduce costly clinical and administrative variances. Leadership vacancies place these gains at risk. Workarounds happen, steps can be missed. In the clinical arena, being shorthanded for periods of time can reduce caregiving time.
- **Effect on alliances.** The success of strong partnerships, demanded by initiatives such as population health management, often rely on specific leaders possessing the requisite collaboration and community relations skills. Progress on these partnership can wane during

**MOST LIKELY TO LEAVE  
FOLLOWING A CEO DEPARTURE**



<sup>6</sup> V. Bolden-Barrett, “27% of Workers Change Jobs Each Year,” *HRDive*, May 15, 2017.



periods of key leadership turnover. As reimbursement becomes increasingly tied to such efforts, organizations could also face a financial impact.

- **Weakening of culture and brand.** Respondents to the Intelligence Report rated organizational brand/culture as the top factor influencing recruiting (34%) and third (24%) for retention. Leadership turnover impacts culture by disrupting continuity which is vital to institutional memory and norm-sharing. Moreover, turnover can provoke candidates and other constituencies to form new brand perceptions.



## Strategies to Combat Turnover

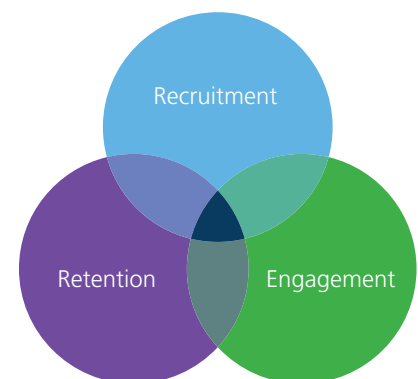
B.E. Smith's research and experience reinforce the importance of not regarding turnover in isolation, but rather as influenced by three interrelated strategies: recruitment, retention, and engagement. Here are a few strategies to consider.

### Step up Recruitment Efficacy

Recruiting the right executives, in the right roles, and the right time is imperative to preventing turnover.

- Remove traditional recruitment bias. Focus on leadership skills and consider non-traditional career backgrounds as well as diversity to build high-quality candidate pools.
- Partner with a highly experienced leadership recruiting firm. These partnerships reduce the burden on your organization and provide access to passive candidates open to career opportunities.
- Utilize "21st Century Sourcing" a "multilayered digital outreach" encompassing social media, search engines, websites, and many other contemporary techniques. According to B.E. Smith's Intelligence Report, two-thirds of organizations say social media has a fair to significant influence on recruiting.

### Three Interrelated Strategies to Combat Turnover



### Concentrate on Increasing Retention Rates

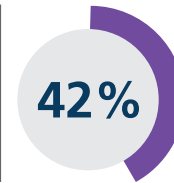
Employee satisfaction promotes short- and long-term retention.

- Evaluate compensation packages. B.E. Smith's Intelligence Report identified compensation as the second most important factor in retention.
- Apply analytics. Sophisticated data analytics and staffing software generate insights on departments, roles, and individual characteristics at the greatest risk for turnover.
- Create options for experienced leaders. Flexibility and work-life balance are becoming increasingly important in the workforce. Many experienced executives are leaving traditional leadership roles in exchange for interim or consulting positions.

## Invest in Engagement

Retention is intimately linked with engagement. A complex array of factors promote engagement.

- Offer meaningful advancement. According to the B.E. Smith Intelligence Report, 42% of leaders believe they “must leave their organization to advance.”
- Deepen organizational connection. As millennials emerge into senior leadership, meet their desire for a sense of purpose and ability to make an impact professionally and socially.
- Commit to leadership development. This investment gives leaders greater chances to succeed while displaying an institutional commitment to their development.



Leaders believe they “must leave their organization to advance”

## Conclusion

Left unchecked, leadership turnover can bring a particularly heavy price tag. It impacts an entire organization from financial and clinical outcomes to operational processes and organizational culture. Reducing the risks of leadership turnover begins by first assessing and understanding the key influences driving the issue in your organization. The strategies outlined in this industry report provide a roadmap to overcome turnover.

For more information on leadership turnover read B.E. Smith latest white paper, *Turnover to Triumph*.

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## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Report on ECH and ECHD Board Actions Executive Compensation Committee November 9, 2017
<b>Responsible party:</b>	Cindy Murphy, Director of Governance Services
<b>Action requested:</b>	For Information
<b>Background:</b>	In FY16, we added this item to each Board Committee agenda to keep Committee members informed about Board actions via a verbal report by the Committee Chair. This written report is intended to supplement the Chair’s verbal report.
<b>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</b>	None.
<b>Summary and session objectives :</b>	To inform the Committee about recent Board actions
<b>Suggested discussion questions:</b>	None.
<b>Proposed Committee motion, if any:</b>	None. This is an informational item
<b>LIST OF ATTACHMENTS:</b>	<ol style="list-style-type: none"> <li>1. Report on ECH and ECHD October 2017 Board Actions</li> </ol>

### **October 2017 ECH Board Actions\***

October 11, 2017

- a. Recognized the Cancer Center at El Camino Hospital for 10 years of providing high quality care.
- b. Approved the FY18 Period 1 and Period 2 Financials.
- c. Voted to recommend that the District Board adopt the Governance Committee's Proposals to Revise the ECH Board Member Election and Re-Election Process and the ECH Board Member Position Specification, retaining the same high priority competencies identified in FY17.
- d. Approved the FY17 Compliance Summary Report and Semi-Annual Physician Expense Report,
- e. Approved the FY17 Individual Executive Goal Scores and Incentive Plan Payments
- f. Approved the HR Leave of Absence Policy
- g. Approved the Annual Financial, 403(b), and Participant Cash Balance Plan Audits
- h. Approved the Level II NICU Call Panel Agreement
- i. Approved the Medical Staff Development Pan and Recruitment Budget not to exceed \$5.9 million

### **October 2017 ECHD Board Actions\***

October 17, 2017

- a. Approved the FY17 Year End Consolidated and Stand-Alone Financials
- b. Approved the FY 17 Financial Audit
- c. Approved the Revised Budget for Major El Camino Hospital Capital Budgets: Behavioral Health Services Building (additional \$4.6 Million) and Integrated Medical Office Building (additional \$27.1 million).
- d. Approved the Revised ECH Board Member Election and Re-Election Process and the ECH Board Member Position Specification, retaining the same high priority competencies identified in FY17.
- e. Re-Elected El Camino Hospital Board Director Lanhee Chen to the El Camino Hospital Board of Directors for a second term of three years effective July 1, 2018.
- f. Approved the FY17 Community Benefit Plan Report.

\*This list is not meant to be exhaustive, but includes agenda items the Board voted on that are most likely to be of interest to or pertinent to the work of El Camino Hospital's Board Advisory Committees.

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Letters of Reasonableness Executive Compensation Committee November 9, 2017
<b>Responsible party:</b>	Lisa Stella, Mercer; Bob Miller, Chair
<b>Action requested:</b>	Motion Required
<b>Background:</b> Mercer, independent executive compensation consultants to the Board, has prepared letters of reasonableness documenting total compensation and benefits provided to the executives and CEO of El Camino Hospital.	
<b>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</b> None.	
<b>Summary and session objectives :</b> <ul style="list-style-type: none"> <li>• Confirm that the letters of reasonableness reflect the actions taken by the Committee and the Board</li> <li>• Ask Mercer to address any questions or suggested modifications</li> </ul>	
<b>Suggested discussion questions:</b> <ol style="list-style-type: none"> <li>1. Does the Committee have any questions about the letters of reasonableness?</li> <li>2. Are there any changes requested?</li> </ol>	
<b>Proposed Committee motion, if any:</b> To accept the Letters of Reasonableness; the Committee shall present the letters to outside counsel for the Board and request that he present a letter documenting Reasonableness of Executive Compensation under IRS Section 4958 to the Board for acceptance.	
<b>LIST OF ATTACHMENTS:</b> <ol style="list-style-type: none"> <li>1. Letter of Reasonableness for ECH CEO</li> <li>2. Letter of Reasonableness for ECH Disqualified Persons</li> </ol>	

**DRAFT**



**Stephen S. Pollack**  
Partner

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Mr. Robert Miller  
Chair, Executive Compensation Committee  
El Camino Hospital  
2500 Grant Road  
Mountain View, CA 94040

October 31, 2017

**Subject:** Reasonableness Opinion for El Camino Hospital Chief Executive Officer

Dear Mr. Miller:

As requested by the Executive Compensation Committee (“ECC” or “Committee”) of the Board of Directors (“Board”) of El Camino Hospital (“El Camino” or “ECH”), Mercer has conducted an evaluation of the total remuneration program for the El Camino Chief Executive Officer for the fiscal year ending June 30, 2018 (FY 2018). This letter outlines the study’s objectives, Mercer’s evaluation process, findings, and our opinion that the approved FY 2018 total remuneration program for the Chief Executive Officer falls within a reasonable range of the competitive practice.

## **I. PURPOSE**

The purpose of this letter is to document comparability data and provide Mercer’s opinion on the reasonableness of executive total remuneration program in support of the organization’s pursuit of the rebuttable presumption of reasonableness under IRC §4958. To do so, we have:

- Presented relevant summary market comparability data at the May 2017 Committee meeting to ensure that the Committee is well-informed of current market executive compensation and benefits practices when making recommendations on El Camino’s Chief Executive Officer remuneration;
- Advised the Committee regarding interpretation of the market data;
- Assisted the Committee in its governance responsibility with respect to the compensation program for the Chief Executive Officer by providing Mercer’s opinion that his total remuneration falls within a reasonable range of competitive market practices, applicable to like positions, among like organizations under like circumstances, in accordance with the Intermediate Sanctions legislation and applicable regulations; and
- Documented the Chief Executive Officer compensation approved by the Board of Directors in June 2017 based on the comparability data Mercer provided to the Committee in May 2017.



Page 2  
October 31, 2017  
Mr. Robert Miller  
El Camino Hospital

## **II. BACKGROUND**

Mercer serves as an independent advisor to the Committee. In this capacity, we provide advice and competitive compensation and benefits market data to management that has been used in its decision-making process relative to the compensation program for El Camino's Chief Executive Officer.

The executive compensation program is governed by the Board of Directors and the Executive Compensation Committee that advises the Board to meet all applicable legal and regulatory requirements as related to executive compensation and effectiveness in attracting, retaining, and motivating executives.

### **Organization Context**

El Camino is a nonprofit 501(c)(3) organization that strives to be an innovative, publicly accountable and locally controlled comprehensive healthcare organization. El Camino cares for the sick, relieves suffering, and provides quality, cost-competitive services to improve the health and well-being of the community. El Camino opened its doors to its first patients on September 1, 1961 with 21 medical staff. An expanding population in Silicon Valley drove El Camino Hospital to develop further, and today El Camino Hospital consists of two campuses: Los Gatos and Mountain View. El Camino's net revenue for FY 2017 was \$870.5 million.

### **Executive Compensation Philosophy<sup>1</sup>**

El Camino's Executive Compensation Philosophy utilizes the following guiding principles and objectives to drive executive compensation decisions:

- Support the Hospital's ability to attract, retain, and motivate a highly-talented executive team with the ability and dedication to manage the Hospital accordingly.
- Support the Hospital's mission and vision and achievement of strategic goals.
- Encompass a total compensation perspective in developing and administering cash compensation and benefit programs.
- Consider the Hospital's financial performance and ability to pay which shall be balanced with the Hospital's ability to attract, retain and motivate executives.
- Govern the executive compensation programs to comply with state and federal laws.

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<sup>1</sup> This is extracted from El Camino's official stated philosophy, as presented at the September 9, 2016 Board meeting.



Page 3  
 October 31, 2017  
 Mr. Robert Miller  
 El Camino Hospital

The executive compensation program encompasses both cash compensation (base salary, incentive compensation, and other cash compensation) and non-cash compensation (employer provided benefit plans and perquisites) which, in whole, represent total remuneration.

The three key components of the program are base salary, incentives, and benefits. In evaluating executive compensation, the Executive Compensation Committee uses the following market definition and desired positioning guidelines.

**Table 1:** El Camino Hospital Market Definition and Desired Positioning

COMPONENT	MARKET DEFINITION AND DESIRED POSITIONING
Market Definition	Primarily national, not-for-profit, independent hospitals/health systems of comparable net revenue size and complexity to ECH. Data increased by a 25% geographic salary differential to account for salary differences in the Bay Area.
Base Salary	Salary range midpoints are based on the 50th percentile. The salary range will be from 20% below to 20% above the salary range midpoint. Placement in the range will reflect incumbent performance and qualifications.
Incentives	Target incentive opportunities are set at competitive levels (i.e., 50th percentile). Actual total cash compensation will reflect incumbent salary and individual and organizational performance.
Benefits	Executive benefits and severance targeted at competitive levels (i.e., 50th percentile). Perquisites are minimal, and provided only when supported by specific business reasons.

El Camino's compensation philosophy calls for the following guidelines for placement in base salary range based upon a combination of the factors of paying competitively, rewarding performance, and recognizing competence, credentials, and experience:

- Pay at 80% to 90% of market 50th percentile for newly-hired individuals with limited experience or for individuals who have recently been promoted and need developmental time in the position.





Page 4  
October 31, 2017  
Mr. Robert Miller  
El Camino Hospital

- Pay at 90% to 110% of market 50th percentile for fully experienced (6-8 years) individuals with demonstrated records of consistently meeting performance expectations.
- Pay at 110% to 120% of market 50th percentile may be appropriate for a highly experienced individual with demonstrated record of consistently exceeding performance expectations or with skills and expertise beyond those normally associated with the position.
- Board of Directors can approve salaries above the normal salary range for hard-to recruit positions or positions deemed critical to the organization’s success.

**El Camino Chief Executive Officer**

Mercer reviewed the FY 2018 total remuneration for Daniel Woods, who was appointed Chief Executive Officer on June 14, 2017 and commenced employment with ECH effective August 30, 2017. Woods previously served as President and Chief Executive Officer of Wellstar Kennestone Regional Medical Center, the flagship hospital of WellStar Health System in Georgia. At Wellstar Kennestone, Woods oversaw a combined Medical Staff of over 1,100 employed and independent physicians and 4,700 employees. Prior to WellStar, Woods served as Senior Vice President at Verras Healthcare, a healthcare consulting firm providing services to hospitals by pairing business intelligence with clinical analytics. He served as Vice President of Operations for nine years at Northwestern Memorial Healthcare and concurrently for five years as President and CEO of NM Home Healthcare. He spent 12 years at the University of Chicago Hospitals and Health System serving in multiple leadership roles including President and CEO, CareMed Chicago and Vice President of the health system.

**El Camino’s Total Remuneration Program**

Mercer assessed the value of the total remuneration, which consists of the following elements:

**Table 2:** Compensation Elements

ELEMENT	OVERVIEW
Base Salary	Annual cash salary based on position, market data, and incumbent skills and experience.



Page 5  
 October 31, 2017  
 Mr. Robert Miller  
 El Camino Hospital

ELEMENT	OVERVIEW
Incentives	<p>Annual cash incentive awards are provided based on annual performance against system-wide financial, patient safety, quality outcomes, and smart growth metrics.</p> <p>The Chief Executive Officer did not participate in the annual cash incentive program in FY 2017.</p> <p>His FY 2018 target opportunity is 30% of base salary, with maximum opportunity at 150% of target opportunity, or 45% of base salary.</p> <p>For FY 2018, Mr. Woods's actual incentive award will be prorated to reflect partial fiscal year participation (August 30, 2017 – June 30, 2018).</p>
Additional Compensation	<p>In FY 2018, the Chief Executive Officer may receive a bonus forfeiture payment of \$90,000 to reimburse him for the loss of bonuses with respect to prior employment (receivable after six months).</p>
Retirement	<p>The Chief Executive Officer is eligible for the following employer paid retirement plans: a Qualified Defined Contribution (DC) Plan; a Qualified Defined Benefit (DB) Plan; and a Nonqualified DC SERP. Total employer contribution is 13% of base salary.</p> <p>The Chief Executive Officer may also participate in 403(b) and 457(b) plans for voluntary deferrals, including unused allowance from the Taxable Benefit Allowance.</p>
Health & Welfare	<p>The Chief Executive Officer is eligible to receive the same health benefits as all other El Camino employees.</p> <p>The Chief Executive Officer receives group life insurance coverage of up to three times base salary (capped at \$1.25 million) with a guaranteed issue amount of \$350,000.</p> <p>The Chief Executive Officer receives short-term disability of 100% of base salary for six months, including any state disability insurance, worker's compensation, long-term disability benefits, paid time off and extended sick leave. The Chief Executive Officer receives long-term disability equal to 60% of base salary up to a monthly maximum of \$15,000, effective January 1, 2018.</p>



Page 6  
 October 31, 2017  
 Mr. Robert Miller  
 El Camino Hospital

ELEMENT	OVERVIEW
Perquisites	<p>The Chief Executive Officer receives an employer contribution of 7% of base salary to an Executive Taxable Benefit Allowance to purchase voluntary long-term disability, long-term care, and life insurance; unused allowance can be deferred to the 457(b) plan or paid in cash.</p> <p>In FY2018, the Chief Executive Officer will receive a relocation allowance of up to \$100,000. In addition, he will be provided with a housing allowance of up to \$7,000 per month for up to six months.</p> <p>El Camino has offered to make an interest-free loan to the Chief Executive Officer of up to \$400,000 to assist him in buying a home in the El Camino Healthcare District within 12 months.</p>
Severance	Executive employment agreement provides up to 12 months of base salary and health benefits.

Table 3 summarizes the approved target and maximum FY 2018 total compensation program for El Camino's Chief Executive Officer. Target values shown in Table 3 reflect the *structure* of El Camino's program; actual payouts will vary and are based on performance. Maximum values assume annual incentive is paid at the maximum value (150% of target opportunity) and is paid for attainment of stretch performance under the annual incentive plan. Total remuneration is shown exclusive and inclusive of the special one-time awards granted in FY 2018 (\$90,000 bonus forfeiture sign-on award, \$100,000 relocation allowance amortized over 2 years (\$50,000 for 2018), and a \$42,000 temporary housing allowance).

**Table 3:** El Camino's Chief Executive Officer FY 2018 Target and Maximum Total Remuneration Opportunity (Data in \$000s)

	Total Cash Compensation					Total Remuneration		
	Base Salary	Target Bonus	Target TCC <sup>(1)</sup>	Max Bonus	Max TCC <sup>(1)</sup>	Benefits	Target TR <sup>(2)</sup>	Max TR <sup>(2)</sup>
Excluding One-Time Awards	\$850	30%	\$1,105	45%	\$1,233	\$211	\$1,316	\$1,443
Including One-Time Awards	\$850	30%	\$1,105	45%	\$1,233	\$393	\$1,498	\$1,625

(1) Total Cash Compensation (TCC) calculated as Base Salary + Target/Max Bonus.

(2) Total Remuneration calculated as Total Cash Compensation + Benefits (employer cost of all benefits).

### III. METHODOLOGY

Mercer's evaluation was conducted in accordance with our firm's standards for reviewing compensation arrangements in tax-exempt organizations.



Page 7  
October 31, 2017  
Mr. Robert Miller  
El Camino Hospital

### **Cash Compensation Assessment Methodology**

Our approach to evaluating competitive compensation practices for El Camino's executives is to develop a composite of market data, constructed by weighting each of the following published healthcare surveys equally.

- Market Composite - Healthcare Surveys:
  - Mercer (2016): Integrated Health Networks (IHN) Compensation Survey;
  - Integrated Healthcare Strategies (2016): National Healthcare Leadership Compensation Survey; and
  - Sullivan, Cotter and Associates, Inc. (2016): Survey of Manager and Executive Compensation in Hospitals and Health Systems.
- Survey Data Methodology:
  - From each survey, we collected market data for base salary, total cash compensation, total direct compensation (where applicable), and total remuneration at the 25th, 50th, and 75th percentiles. Each survey source is weighted equally to arrive at the market composite.
  - All survey data were scoped to approximate El Camino's net revenue size of \$746.6 million.
  - All data sources were trended to January 1, 2018 by 3.0%, the expected annual increase for executives at healthcare organizations according to Mercer's *2016/2017 US Compensation Planning Survey*.
  - All data sources were adjusted by 25% to account for the geographic salary differences in the Bay Area. See Appendix C for detail.

In addition, we gathered IRS Form 990 data from local peer organizations for a supplemental market perspective. See Appendix A for local peer organization IRS Form 990 data.

We show a market ratio to 50th percentile (Market Ratio P50) which compares each El Camino's compensation element to the adjusted survey data 50th percentile. A market ratio of 100% means that executive's compensation element is at the 50th percentile.

### **Benefits Assessment**

El Camino's benefits and perquisites were compared to practices among not-for-profit organizations using Mercer's (2016/2017) *Healthcare Executive Benefits and Perquisites Survey* (revenue ranging from \$400



Page 8  
 October 31, 2017  
 Mr. Robert Miller  
 El Camino Hospital

million to \$1.6 billion). To develop the survey total remuneration market perspective, Mercer added the market annualized value of retirement, health and welfare benefits and perquisites to market total cash compensation levels. To calculate the Chief Executive Officer's Target and Maximum Total Remuneration, Mercer added the annualized values of retirement and other benefits to target and maximum total cash compensation.

#### IV. FINDINGS AND OBSERVATIONS

##### Target and Maximum Total Remuneration

Table 4 displays the comparison of El Camino's approved Chief Executive Officer FY 2018 total remuneration program relative to market composite levels.

**Table 4:** FY 2018 Annualized Base Salary, Target Total Cash Compensation, and Total Remuneration versus Market (Data in \$000s)

	ECH FY2018		Market			Market Ratio	
	Target	Max	P25	P50	P75	Target/ P50	Max/ P75
Base Salary	\$850	--	\$838	\$1,016	\$1,125	84%	--
Total Cash Compensation <sup>(1)</sup>	\$1,105	\$1,233	\$869	\$1,170	\$1,453	94%	85%
Total Remuneration (exc. relocation/sign-on) <sup>(2)</sup>	\$1,316	\$1,443	\$988	\$1,311	\$1,607	100%	90%
Total Remuneration <sup>(3)</sup>	\$1,498	\$1,625	\$988	\$1,311	\$1,607	114%	101%

(1) Market Total Cash Compensation calculated as Base Salary + Actual Bonus.

(2) Market Total Remuneration calculated as Total Cash Compensation + Benefits (employer cost of all benefits). Excludes one-time benefits of relocation bonus and temporary housing allowance.

(3) Market Total Remuneration calculated as Total Cash Compensation + One-time Benefits (relocation bonus and temporary housing allowance) + Ongoing Benefits (employer cost of all benefits).

##### Base Salary

As shown in Table 4, the Chief Executive Officer's base salary is positioned at 84% of market 50th percentile, which is in accordance with El Camino's pay guidelines for newly-hired individuals.

##### Annual Incentives and Total Cash Compensation

The Chief Executive Officer's FY 2018 target total cash compensation (i.e., base salary + target bonus) is positioned within 10% of the 50th percentile, in accordance with El Camino's stated philosophy.

##### Benefits

Overall, El Camino's executive benefit offerings are comprehensive and generally consistent with market practice and those provided by comparators. The total value of El Camino's benefits program is generally aligned with the market 50th percentile of the not-for-profit healthcare industry.



Page 9  
October 31, 2017  
Mr. Robert Miller  
El Camino Hospital

- Retirement

Overall, the types of retirement plans offered by El Camino are consistent with market practice. Like El Camino, the vast majority of similarly sized tax-exempt healthcare organizations provide a qualified defined contribution plan. Total employer contribution to retirement (including defined contribution, defined benefit and SERP) is aligned with the 50th percentile of the not-for-profit healthcare industry.

- Health and Welfare Benefits

The Chief Executive Officer receives the same health benefits as all other employees, which is consistent with market practice. The Chief Executive Officer receives life insurance coverage of up to 3X base pay (\$1,250,000 maximum) with a guaranteed issue amount of \$350,000. Because of the cap, his total coverage level is ~150%, which is generally aligned with market median. The Chief Executive Officer receives short-term disability coverage of 100% of base salary for up to 6 months, and long-term disability coverage of 60% of base pay up to a monthly maximum benefit of \$15,000, which is consistent with market practice. Given the benefit levels, El Camino is generally consistent with market practice in its health and welfare benefit offerings.

- Perquisites

El Camino provides the Chief Executive Officer with an employer contribution of 7% of base salary to an Executive Taxable Benefit Allowance to purchase voluntary long-term disability coverage, long-term care, and life insurance. Any unused allowance can be deferred to the 457(b) plan or he may opt to receive in cash. Perquisites without a clear business-related purpose continue to become less prevalent in the market. Flexible benefit plans in particular are declining in prevalence for a variety of reasons including complexity and cost. El Camino's executive severance policy is to provide base salary and health benefits for up to six months, and the CEO employment agreement provides twelve months. The length of El Camino's severance period is below market practice.

### **Target Total Remuneration**

The Chief Executive Officer's FY 2018 target total remuneration (excluding relocation and sign on) value (base salary + target annual incentives + benefits) is positioned at approximately the market 50th percentile. While FY 2018 target total remuneration inclusive of special one-time awards is positioned above the 50th percentile of market data, the Board believes these awards were essential to securing Mr. Woods' acceptance of the employment offer, given the high cost of housing in the El Camino area and the bonus compensation he was due at his previous employer. This value has been included; however, it does not represent target go-forward compensation and appear to be part of an initial contract exemption (and therefore reasonable).



Page 10  
October 31, 2017  
Mr. Robert Miller  
El Camino Hospital

### **Maximum Total Remuneration Opportunity**

In addition to examining the approved target total remuneration program for El Camino's Chief Executive Officer, Mercer also has reviewed the Chief Executive Officer's FY 2018 *maximum* total remuneration opportunity (maximum total cash compensation plus benefits). Maximum total remuneration assumes the annual incentive plan pays out at maximum (i.e., 150% of target opportunity) and payout requires attainment of stretch goals under the annual incentive plan. The Chief Executive Officer's maximum total remuneration value, inclusive of special awards in 2018, is at approximately the market 75th percentile.

### **V. BASIS FOR OPINION**

Many factors are considered in an evaluation of the reasonableness of pay, including the organization's performance, its total rewards philosophy, and the qualifications and roles of the incumbents. Market data and external factors play a role in determining a reasonable range of compensation practices. Differences in pay levels between an organization and the market data (i.e., variation from the 50th) do not mean that an organization is necessarily over- or under-competitive. El Camino can compensate an executive above the 75th percentiles of the market and still be within a range of reasonable compensation, depending on the facts and circumstances of the particular situation. Mercer considered the following factors in determining the reasonableness of pay for the Chief Executive Officer of El Camino:

- **Industry Pressure**: With the significant changes in the healthcare industry, El Camino faces a strategic crossroads as an independent community hospital system. The ability to attract and retain key talent remains critical to the future success of the organization during this turbulent time and providing compensation at market (50th percentile) or above levels is part of El Camino's strategy to ensure its ability to attract and retain executive talent.
- **Executive Compensation Philosophy**: El Camino's desired market positioning as described in the executive compensation philosophy is the market 50th percentile. The Chief Executive Officer is positioned at approximately the 50th percentile for target remuneration, in alignment with the compensation philosophy.
- **The Qualifications and Role of the Chief Executive Officer**: The El Camino Chief Executive Officer is critical to the success of the organization. The Committee has acknowledged that he is well-regarded, experienced, and possesses significant industry knowledge.
- **One-time Special Awards**: While sign-on and relocation awards raise 2018 total remuneration above the 50th percentile at target levels, these are temporary payments that are not indicative of the go-forward compensation program for the CEO. We believe that these would meet the definition under the initial contract exemption and are therefore deemed reasonable.



Page 11  
October 31, 2017  
Mr. Robert Miller  
El Camino Hospital

## **VI. OPINION OF REASONABLENESS**

Mercer (US) Inc. certifies that it (1) is a compensation consulting firm, (2) performs compensation valuation studies of this type on a regular basis, and (3) is qualified to perform the valuations of the type of property or services involved. In our opinion, the total remuneration we have reviewed falls within a reasonable range of competitive market practices applicable to like positions among like organizations under like circumstances.

### **Disclaimers**

Mercer has relied on the information and data provided to us without any independent review or verification and we assume all data provided to us is accurate, factual and complete. This does not constitute an opinion regarding the underlying business decisions.

This opinion has been prepared exclusively for El Camino Hospital to assist in understanding market total remuneration positioning for its Chief Executive Officer. This letter provides the Committee with market comparability data as required by Intermediate Sanctions regulations and we urge the Committee to ensure that the additional requirements for establishing the rebuttable presumption/ determining reasonable compensation have been met and to seek the advice of counsel as needed in this regard. This letter may not be used or relied upon by any other party or for any other purpose; Mercer is not responsible for the consequences of any such unauthorized use.

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**DRAFT**



Page 12  
October 31, 2017  
Mr. Robert Miller  
El Camino Hospital

As always, it is our pleasure to be of service. If you have any questions about this letter, please do not hesitate to contact me at (213) 346-2233.

Sincerely,



Stephen S. Pollack  
Partner

Copy:  
Lisa Stella, Mercer



APPENDIX A: MARKET EVALUATION DETAILS (COMPENSATION DATA IN 000S)

Table 5: Chief Executive Officer Not-For-Profit Market Data

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
US-HLTH-MER-16 - 4100A - President/Chief Executive Officer (CEO) - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		26	26	\$654	\$875	\$975	\$672	\$997	\$1,293	\$672	\$997	\$1,293	--	--	--
US-HLTH-IHS-16 - 050 - Independent Chief Executive Officer - System: Net Rev \$500M-\$1.0B	1		47		\$720	\$820	\$878	\$725	\$906	\$1,118	\$725	\$944	\$1,147	--	--	--
US-HLTH-SUL-16 - 7000 - President and Chief Executive Officer - System: \$400M to \$900M Net Revenue	1		85		\$637	\$743	\$847	\$690	\$905	\$1,076	\$690	\$925	\$1,080	--	--	--
Survey Composite					\$670	\$813	\$900	\$695	\$936	\$1,162	\$695	\$956	\$1,173	\$794	\$1,052	\$1,289
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$838</b>	<b>\$1,016</b>	<b>\$1,125</b>	<b>\$869</b>	<b>\$1,170</b>	<b>\$1,453</b>	<b>\$869</b>	<b>\$1,194</b>	<b>\$1,467</b>	<b>\$988</b>	<b>\$1,311</b>	<b>\$1,607</b>

**Table 6: Chief Executive Officer Local Peer Organizations 990 Data – For Reference**

Organization	Title	Name	Revenue Resp. <sup>(1)</sup> (\$000s)	Base Salary <sup>(2)</sup> (\$000s)	Total Cash <sup>(2)</sup> (\$000s)	Total Comp <sup>(3)</sup> (\$000s)
<b>Regional/Multiple-Facility Heads</b>						
Stanford Health Care	Director/CEO	Amir Dan Rubin	<sup>15</sup> \$3,548,515	\$1,826	\$2,921	\$3,602
John Muir Health	President/CEO/Director	Calvin Knight	<sup>14</sup> \$1,294,724	\$1,058	\$1,561	\$2,833
Sutter West Bay Hospitals	Regional President, West Bay	Michael Cohill	<sup>14</sup> \$1,230,216	\$830	\$1,849	\$2,341
Marin General Hospital	CEO/MGH Board Ex-Officio	Lee Domanico	<sup>15</sup> \$384,624	\$822	\$1,433	\$1,668
Sutter Central Valley Hospitals	Regional Pres, Central Valley	David P Benn	<sup>14</sup> \$719,936	\$641	\$1,122	\$1,553
Sutter East Bay Hospitals	Regional President, East Bay	David Bradley	<sup>14</sup> \$1,128,891	\$743	\$1,158	\$1,503
Sutter Central Valley Hospitals	President, Sutter Health Sacramento Sierra Region	James Conforti	-	\$650	\$1,115	\$1,501
UCSF Medical Center	CEO Medical Center	Mark R. Laret	<sup>16</sup> \$3,567,317	\$1,046	\$1,046	\$1,283
<b>Single Hospital Heads</b>						
Sutter West Bay Hospitals	CEO, San Francisco Hosp, SWBH	Warren Browner MD	-	\$636	\$962	\$1,414
<sup>(4)</sup> Mills-Peninsula Health Services	CEO, Mills Peninsula Hlth Svcs	Robert Merwin	<sup>14</sup> \$622,916	\$573	\$1,203	\$1,408
John Muir Health	CAO, Walnut Creek Campus	Jane Willemssen	-	\$569	\$764	\$1,133
John Muir Health	CAO, Concord Campus	Michael Thomas	-	\$517	\$701	\$1,042
Sutter East Bay Hospitals	CEO, Alta Bates Summit Medical Center	Charles Prosper	-	\$511	\$761	\$990
Sutter Central Valley Hospitals	CEO, Memorial Medical Center	Daryn Kumar	-	\$452	\$672	\$830
Sutter Central Valley Hospitals	CEO, Sutter Tracy Community Hospital	David Thompson	-	\$360	\$570	\$716
Sutter East Bay Hospitals	CEO, Sutter Delta Medical Ctr	Gary D Rapaport	-	\$380	\$606	\$699
<b>Summary Statistics: Regional/Multiple-Facility Heads</b>		75th Percentile		\$1,049	\$1,633	\$2,464
		<b>Median</b>		<b>\$826</b>	<b>\$1,295</b>	<b>\$1,611</b>
		25th Percentile		\$719	\$1,120	\$1,503
<b>Summary Statistics: Single Hospital Heads</b>		75th Percentile		\$570	\$814	\$1,202
		<b>Median</b>		<b>\$514</b>	<b>\$731</b>	<b>\$1,016</b>
		25th Percentile		\$434	\$655	\$802

(1) Revenue amounts are from annual reports and 990 forms; the revenue year is indicated to the left of the amount (e.g., 16 = FY2016 Revenue).

(2) Base and Bonus data has been aged to 1/1/2018 using an update factor of 3.0% in 2014, 2015, 2016, and 2017.

(3) Total Compensation includes Total Cash, Other Compensation, Deferred Compensation, and Non-Taxable Benefits.

(4) Robert Merwin left the organization in January 2015. His successor, Janet Wagner, was appointed CEO in September 2014.

**APPENDIX B: EXECUTIVE BENEFITS AND PERQUISITES REVIEW**
**Retirement Plans Summary**

	<b>EI Camino</b>	<b>Market Practice</b>	<b>Comments</b>
<b>Employer-paid</b>	<p><b>Qualified Plans</b></p> <p><u>Defined Contribution (DC) – 403(b) Plan</u></p> <ul style="list-style-type: none"> <li>Employer match of salary, based on years of service:               <ul style="list-style-type: none"> <li>– 1-14 years: 4%</li> <li>– 15-19 years: 5%</li> <li>– 20+ years: 6%</li> </ul> </li> </ul> <p><u>Defined Benefit (DB) – Cash Balance Plan</u></p> <ul style="list-style-type: none"> <li>5% of salary</li> </ul> <p>Contributions on pay up to IRS limit (\$275K in 2018)</p> <p><b>Nonqualified DC SERP 457(f) Plan</b></p> <ul style="list-style-type: none"> <li>13% of salary, offset by contributions to qualified plans</li> </ul> <p>Total contribution is 13% of salary</p>	<ul style="list-style-type: none"> <li>Nearly all provide employer contributions to a qualified DC plan               <ul style="list-style-type: none"> <li>– Less than 15% provide a qualified DB plan</li> </ul> </li> </ul> <p><b>Not-for-Profit</b></p> <ul style="list-style-type: none"> <li>60% provide a supplemental plan to the CEO               <ul style="list-style-type: none"> <li>– The vast majority are DC SERPs</li> </ul> </li> <li>Median total contribution from all employer-provided sources ranges from 12%-13% of salary</li> </ul>	<ul style="list-style-type: none"> <li>Overall structure is consistent with market practice although prevalence of DB plans continues to decline</li> <li>Contribution level is aligned with not-for-profit market median</li> </ul>
	<b>EI Camino</b>	<b>Market Practice</b>	<b>Comments</b>
<b>Voluntary Deferrals</b>	<p><u>403(b) Plan</u></p> <ul style="list-style-type: none"> <li>Allows for deferral of pay (up to \$18,500 in 2018; \$24,500 if age 50+)</li> </ul> <p><u>457(b) Plan</u></p> <ul style="list-style-type: none"> <li>Allows for additional deferral up to \$18,500 in 2018</li> <li>Can elect to defer some of the Taxable Allowance into the 457(b) plan</li> </ul>	<ul style="list-style-type: none"> <li>Nearly all allow for deferrals to a 403(b)/401(k) plan</li> </ul> <p><b>Not-for-Profit</b></p> <ul style="list-style-type: none"> <li>85% allow additional deferrals into a 457(b) plan</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with market practice to provide a 457(b) plan</li> </ul>

Source: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey.

### Health & Welfare Plans Summary

	El Camino	Market Practice	Comments
<b>Medical</b>	<ul style="list-style-type: none"> <li>CEO receives the same health benefits as all employees</li> </ul>	<ul style="list-style-type: none"> <li>It is common to provide the same health benefits and employer/employee cost sharing to all employees</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with market practice</li> </ul>
<b>Life Insurance</b>	<ul style="list-style-type: none"> <li>3X annual salary, up to a maximum of \$1.25 million; amounts above \$350K subject to medical underwriting</li> <li>Effective coverage with cap and underwriting is ~1.5X salary</li> <li>Has the option to buy additional coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>Almost all provide employer-paid group coverage</li> <li>30% to 45% provide supplemental coverage to the CEO</li> <li>Median coverage is 150% to 200% of salary (200% to 300% at the 75<sup>th</sup> percentile)</li> </ul>	<ul style="list-style-type: none"> <li>Coverage is limited due to the maximum but still aligned with market median</li> <li>Consider increasing the guarantee issue limit</li> </ul>
<b>Long-term Care (LTC)</b>	<ul style="list-style-type: none"> <li>Has the option to buy coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 5% provide executive coverage to the CEO</li> </ul>	<ul style="list-style-type: none"> <li>Providing LTC is not prevalent in the market</li> </ul>

Source: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey.

**Health & Welfare Plans Summary, continued**

	<b>EI Camino</b>	<b>Market Practice</b>	<b>Comments</b>
<b>Short-term Disability (STD)</b>	<ul style="list-style-type: none"> <li>Employer-paid executive coverage equal to 100% of salary for up to 12 months</li> </ul>	<ul style="list-style-type: none"> <li>75% provide group coverage               <ul style="list-style-type: none"> <li>60% of salary is the most common benefit</li> </ul> </li> <li>40% provide supplemental coverage to the CEO               <ul style="list-style-type: none"> <li>100% of salary is the most common benefit</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Consistent with market practice</li> </ul>
<b>Long-term Disability (LTD)</b>	<ul style="list-style-type: none"> <li>Employer-paid group coverage to all employees equal to 60% of salary up to a monthly maximum of \$15,000</li> <li>Has the option to buy additional coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>Nearly all provide group coverage</li> <li>30% to 50% provide supplemental coverage to the CEO</li> <li>Median coverage is 60% of salary up to \$20,000 per month</li> </ul>	<ul style="list-style-type: none"> <li>Coverage level is consistent with market practice</li> </ul>
<b>Taxable Allowance</b>	<ul style="list-style-type: none"> <li>7% of salary</li> <li>Can be used to purchase LTC, additional LTD, and life insurance, defer into 457(b) plan, or distribute as cash payments</li> </ul>	<ul style="list-style-type: none"> <li>Prevalence of flexible plans has declined over time (less than 20% provide), due to complexity and compliance risk</li> </ul>	<ul style="list-style-type: none"> <li>Note that EI Camino's plan was updated in 2009, which simplified the plan and minimized compliance risk</li> </ul>

Source: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey.

### Severance and Perquisites Summary

	El Camino	Market Practice	Comments
<b>Severance</b>	<ul style="list-style-type: none"> <li>Salary and health benefits continue for up to 12 months</li> </ul>	<ul style="list-style-type: none"> <li>65% provide additional severance benefits</li> <li>Median severance period is 18 months for the CEO               <ul style="list-style-type: none"> <li>– 75% continue benefits during the severance period</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Length of severance period is below market median</li> </ul>
<b>Perquisites</b>	<ul style="list-style-type: none"> <li>El Camino does not provide any executive-only perquisites</li> </ul>	<ul style="list-style-type: none"> <li>Car/car allowance is the only perquisite that remains somewhat prevalent               <ul style="list-style-type: none"> <li>– 35% for the CEO</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Perquisites without a clear business-related purpose continue to become less prevalent</li> </ul>

Source: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey.

**APPENDIX C: GEOGRAPHIC SALARY DIFFERENTIAL**

- A geographic salary differential is a numerical value that expresses how a position’s pay in a particular location compares to the national average pay for the same position.
  - For example, a differential of 27% for Mountain View means that the average executive salary in Mountain View is 27% higher than the average salary of executives across the US.
- The purpose of applying a geographic salary differential to market data is to account for the market differences in that employee’s location.
  - Geographic salary differentials used in this study are calculated using data from the Economic Research Institute (ERI), which determines differentials using salary survey data from across the country. The differential in the Bay Area has been increasing over the past decade, with that increase accelerating over the past three to five years.

**Table 8:** Geographic Salary Differential Data

	BAY AREA <sup>2</sup>	SILICON VALLEY <sup>3</sup>	MOUNTAIN VIEW
Average Differential	24%	27%	27%

A geographic salary differential of 25% has been applied to survey data for base salary, total cash, and total remuneration in this study.

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<sup>2</sup> Bay Area includes Silicon Valley (see below for Silicon Valley definition), San Francisco, Oakland, Berkeley, Piedmont, Lafayette, Walnut Creek, Alameda, and Marin County.

<sup>3</sup> Silicon Valley includes Mountain View, Palo Alto, Cupertino, Sunnyvale, Los Altos, and Los Gatos.



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## **Private & Confidential**

Bob Miller  
Chair, Executive Compensation Committee  
El Camino Hospital  
2500 Grant Rd  
Mountain View, CA 94040

October 27, 2017

**Subject:** Reasonableness Opinion for El Camino Hospital Disqualified Persons

Dear Mr. Miller:

As requested by the Executive Compensation Committee (“Committee”) of the Board of Directors (“Board”) of El Camino Hospital (“El Camino” or “ECH”), Mercer has conducted an evaluation of the total remuneration program provided to the El Camino executives named in Table 2 for the fiscal year ending June 30, 2017 (FY 2017). The results of this assessment were presented in Mercer’s report at the May Executive Compensation Committee meeting and were used to inform the Board’s approval of FY 2018 compensation and benefits. This letter outlines the study’s objectives, Mercer’s evaluation process, findings, and our opinion that the approved FY 2018 total remuneration program for the named executives falls within a reasonable range of the competitive practice.

## **I. Purpose**

The purpose of this letter is to document comparability data and provide Mercer’s opinion on the reasonableness of the executive total remuneration program in support of the organization’s pursuit of the rebuttable presumption of reasonableness under IRC §4958. To do so, we have:

- Presented relevant summary market comparability data at the May 2017 Committee and June 2017 Board meetings to ensure that the Committee and the Board are well-informed of current executive compensation and benefits practices when making decisions on El Camino’s executive remuneration;
- Advised the Committee regarding interpretation of the market data;
- Assisted the Committee in its governance responsibility with respect to the compensation program for all executives by providing Mercer’s opinion that all executives’ total remuneration, approved in August 2017, falls within a reasonable range of competitive market practices applicable to like positions among like organizations under like circumstances in accordance with the Intermediate Sanctions legislation and applicable regulations; and

Page 2  
October 27, 2017  
Mr. Bob Miller  
El Camino Hospital

- Documented the recent changes to compensation approved by the Board of Directors based on the comparability data Mercer provided to the Committee in May 2017.

## **II. Background**

Mercer serves as an independent advisor to the Committee. In this capacity, we provide advice and competitive compensation and benefits market data to management that has been used in its decision-making process relative to the compensation program for El Camino's executives.

The executive compensation program is governed by the Board of Directors and the Executive Compensation Committee, which advises the Board to meet all applicable legal and regulatory requirements as they relate to executive compensation and effectiveness in attracting, retaining, and motivating executives.

### **Organization Context**

El Camino is a nonprofit 501(c)(3) organization that strives to be an innovative, publicly accountable and locally controlled comprehensive health care organization. El Camino cares for the sick, relieves suffering and provides quality, cost-competitive services to improve the health and well-being of the community. El Camino opened its doors to its first patients on September 1, 1961 with 21 medical staff. An expanding population in Silicon Valley drove El Camino Hospital to develop further, and today El Camino Hospital consists of two campuses: Los Gatos and Mountain View. Net revenue for FY 2017 was \$870.5 million.

### **Executive Compensation Philosophy<sup>1</sup>**

El Camino's Executive Compensation Philosophy utilizes the following guiding principles and objectives to drive executive compensation decisions:

1. Support the Hospital's ability to attract, retain, and motivate a highly-talented executive team with the ability and dedication to manage the Hospital accordingly.
2. Support the Hospital's mission and vision and achievement of strategic goals.
3. Encompass a total compensation perspective in developing and administering cash compensation and benefit programs.
4. Consider the Hospital's financial performance and ability to pay which shall be balanced with the Hospital's ability to attract, retain and motivate executives.
5. Govern the executive compensation programs to comply with state and federal laws.

The executive compensation program encompasses both cash compensation (base salary, incentive compensation, and other cash compensation) and non-cash compensation (benefit plans and perquisites) which, in whole, represent total compensation.

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<sup>1</sup> This is extracted from El Camino's official stated philosophy, as presented at the November 9, 2017 Board meeting.

Page 3  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

The three key components of the program are base salary, incentives, and benefits. In evaluating executive compensation, the Executive Compensation Committee uses the following market definition and desired positioning guidelines.

**Table 1 – El Camino Hospital Market Definition and Desired Positioning**

Component	Market Definition and Desired Positioning
<b>Market Definition</b>	<ul style="list-style-type: none"> <li>Primarily national, not-for-profit, independent hospitals/health systems of comparable net revenue size and complexity to ECH.</li> <li>Data increased by a 25% geographic salary differential to account for salary differences in the Bay Area.</li> </ul>
<b>Base Salary</b>	<ul style="list-style-type: none"> <li>Salary range midpoints are based on the 50th percentile.</li> <li>The salary range will be from 20% below to 20% above the salary range midpoint.</li> <li>Actual salary will reflect market range, performance, and incumbent qualifications.</li> <li>Pay at 80% to 90% of market 50th percentile for newly-hired individuals with limited experience or for individuals who have recently been promoted and need developmental time in the position.</li> <li>Pay at 90% to 110% of market 50th percentile for fully experienced (6-8 years) individuals with demonstrated records of consistently meeting performance expectations.</li> <li>Pay at 110% to 120% of market 50th percentile may be appropriate for a highly experienced individual with demonstrated record of consistently exceeding performance expectations or with skills and expertise beyond those normally associated with the position.</li> <li>Board of Directors can approve salaries above the normal salary range for hard-to-recruit positions or positions deemed critical to the organization's success.</li> </ul>
<b>Incentives</b>	<ul style="list-style-type: none"> <li>Target incentive opportunities are set at competitive levels (i.e., 50th percentile).</li> <li>Actual total cash compensation will reflect individual and organizational performance.</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>Executive benefits and severance targeted at competitive levels (i.e., 50th percentile).</li> <li>Perquisites should only be provided when supported by specific business reasons. ECH's practice is to minimize the use of perquisites.</li> </ul>

Page 4  
October 27, 2017  
Mr. Bob Miller  
El Camino Hospital

### El Camino Executives

Table 2 details the list of incumbents included in Mercer's review of FY 2018 total remuneration. See Appendix C for detailed biographies of each incumbent.

**Table 2** – Executives Reviewed

Incumbent	Title
Michael Zdeblick	Chief Operating Officer
William Faber, MD	Chief Medical Officer
Ifthikhar Hussain	Chief Financial Officer
Mary Rotunno	General Counsel
Kathryn Fisk	Chief Human Resource Officer
Cheryl Reinking	Chief Nursing Officer
Ken King	Chief Administrative Services Officer
Joan Kezic	Vice President of Payor Relations
Cecile Currier	Vice President of Corporate & Community Health Services; CEO of CONCERN: Employee Assistance Program
Jodi Barnard	President of El Camino Hospital Foundation

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Page 5  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

### El Camino's Total Remuneration Program

Mercer assessed the value of the total remuneration provided to each executive, which consists of the following elements:

**Table 3:** Compensation Elements

Element	Overview
<b>Base Salary</b>	<ul style="list-style-type: none"> <li>Annual cash salary based on position, market data, and incumbent skills and experience.</li> <li>For FY 2018, approved base salary increases ranged from 1.4% - 14.1%, and were determined based on market, merit, and executive experience.</li> </ul>
Incentives	<ul style="list-style-type: none"> <li>Annual cash incentive awards were provided based on annual performance against system-wide financial, patient safety, quality outcomes, and smart growth metrics.</li> <li>For FY 2018, target opportunity remains at 20% of base salary for all executives, with maximum opportunity at 150% of target opportunity.</li> </ul>
Retirement	<ul style="list-style-type: none"> <li>Executives are eligible for the following employer paid retirement plans: a Qualified Defined Contribution (DC) Plan; a Qualified Defined Benefit (DB) Plan; and a Nonqualified DC SERP. Total employer contributions range from 9% to 16% for executives, depending on pay and years of service.</li> <li>Executives may also participate in 403(b) and 457(b) plans for voluntary deferrals.</li> <li>See Appendix B for a detailed breakdown of benefits values.</li> </ul>
Health & Welfare	<ul style="list-style-type: none"> <li>Executives are eligible to receive the same health benefits as all other El Camino employees.</li> <li>Executives receive group life insurance coverage of up to 3X base salary (capped at \$1.25 million); amounts above \$350K subject to medical underwriting.</li> <li>Executives receive short-term disability of 100% of base salary for six months (offset for state disability insurance, worker's compensation, paid time off, extended sick leave)</li> <li>Executives receive long-term disability equal to 60% of base salary up to a monthly maximum of \$15,000, effective January 1, 2018.</li> <li>See Appendix B for a detailed breakdown of benefits values.</li> </ul>
Perquisites	<ul style="list-style-type: none"> <li>Executives receive an employer contribution of 7% of base salary to an Executive Taxable Benefit Plan to purchase voluntary long-term disability, long-term care, and life insurance; unused allowance can be deferred to the 457(b) plan or paid in cash.</li> <li>Executive severance policy provides six months of base salary and health benefits.</li> </ul>

Page 6  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

Table 4 summarizes the approved target and maximum FY 2018 total compensation program for El Camino's executives. Target values below reflect the *structure* of El Camino's program; actual payouts will vary and are based on performance. Maximum values assume annual incentive is paid at the maximum value (150% of target) and is paid for attainment of stretch performance under the annual incentive plan.

**Table 4:** El Camino's FY 2018 Target and Maximum Total Remuneration Opportunity (Data in \$000s)

Incumbent	Base Salary	Total Cash Compensation				Total Remuneration		
		Target Bonus	Target TCC <sup>(1)</sup>	Max Bonus	Max TCC <sup>(1)</sup>	Benefits	Target TR <sup>(2)</sup>	Max TR <sup>(2)</sup>
Zdeblick	\$557	20%	\$668	30%	\$724	\$121	\$789	\$845
Faber	\$507	20%	\$608	30%	\$659	\$103	\$711	\$762
Hussain	\$480	20%	\$576	30%	\$624	\$113	\$689	\$737
Rotunno	\$357	20%	\$428	30%	\$464	\$97	\$525	\$561
Fisk	\$341	20%	\$410	30%	\$444	\$95	\$505	\$539
Reinking	\$334	20%	\$400	30%	\$434	\$100	\$500	\$534
King	\$295	20%	\$354	30%	\$383	\$91	\$444	\$474
Kezic*	\$265	20%	\$318	30%	\$345	\$94	\$412	\$439
Currier	\$257	20%	\$308	30%	\$334	\$83	\$391	\$417
Barnard	\$252	20%	\$303	30%	\$328	\$83	\$385	\$410

\*Base salary reflects Kezic's 0.9 FTE status.

(1) Total Cash Compensation (TCC) calculated as Base Salary + Target/Max Bonus.

(2) Total Remuneration (TR) calculated as Total Cash Compensation + Benefits.

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### III. Methodology

Mercer's evaluation was conducted in accordance with our firm's standards for reviewing compensation arrangements in tax-exempt organizations.

#### Cash Compensation Assessment Methodology

Our approach to evaluating competitive compensation practices for El Camino's executives is to develop a composite of market data, constructed by weighting each of the following published health care surveys equally.

- Market Composite - Healthcare Surveys:
  - Mercer (2016): *Integrated Health Networks (IHN) Compensation Survey*;
  - Integrated Healthcare Strategies (2016): *National Healthcare Leadership Compensation Survey*; and
  - Sullivan, Cotter and Associates, Inc. (2016): *Survey of Manager and Executive Compensation in Hospitals and Health Systems*.
- Survey Data Methodology:
  - From each survey, we collected market data for base salary and total cash compensation at the 25th, 50th, and 75th percentiles.
  - All survey data were scoped to approximate El Camino's net revenue size (\$350 million to \$1.5 billion, approximately 0.5x - 2.0x ECH's net revenue of approximately \$750 million).
  - All data sources were trended to January 1, 2018 by 3.0%, the expected annual increase for executives at health care organizations according to Mercer's *2016/2017 US Compensation Planning Survey*.
  - All data sources were adjusted by 25% to account for the geographic salary differences in the Bay Area. See Appendix D for detail.
  - One incumbent (Kezic) has a reduced Full Time Equivalence (FTE) status. As such, Mercer discounted the survey market data for her position to reflect the same FTE in the market.
  - Mercer developed a position matching strategy for each role through a detailed review of job descriptions, discussions with El Camino, and interviews with executives.

We show a market ratio to 50th percentile (Market Ratio P50) which compares each El Camino executive's compensation element to the market 50th percentile. A market ratio of 100% means that executive's compensation element is at the 50th percentile.

#### Benefits Assessment

El Camino's benefits and perquisites were compared to practices among both not-for-profit organizations using Mercer's (2016/2017) *Health Care Executive Benefits and Perquisites Survey* (revenue ranging from \$400 million to \$1.6 billion) and general industry companies from Mercer's Executive and Broad-Based Employee Retirement Tool (revenue ranging from \$400 million to \$1.6 billion) and Mercer's (2016/2017) *US Executive Rewards Year-End Survey* (revenue ranging from \$500 million to \$2.5 billion). To develop the survey total remuneration market perspective,

Page 8  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

Mercer added the market annualized value of retirement, health and welfare benefits and perquisites to market total cash compensation levels.

## IV. Findings and Observations

### Target and Maximum Total Remuneration

Tables 5-7 display the comparison of El Camino's approved FY 2018 target and maximum total remuneration program to market composite levels.

Overall, base salaries generally fall below the 50th percentile of the not-for-profit healthcare market for nearly all executives when the geographic salary differential is applied. El Camino executives' target bonus levels bring target total cash compensation (base salary + target bonus) to a more competitive position; just above the 50th percentile in aggregate. Target total remuneration (base salary + target bonus + benefits) is generally at or less than 10% above market 50th percentile, with a few exceptions of executives that are just under the market 50th percentile and a few that are over the 75th percentile.

In aggregate, target total remuneration of the executives is within range of the market 50th percentile, which aligns with the desired positioning stated in El Camino's compensation philosophy. We will review individual circumstances that warrant compensation above target levels later in this letter. Maximum total cash compensation and maximum total remuneration for most executives is positioned below the 75th percentile of market data.

### Base Salary

As shown in Table 5, in aggregate, FY 2018 base salary levels fall below the 50th percentile of the not-for-profit healthcare market for eight of ten executives.

**Table 5:** FY 2018 Approved Base Salary versus Market (Data in \$000s)

Incumbent	Title	ECH FY2018	Market Base Salary			Market Ratio P50
			P25	P50	P75	
Zdeblick	Chief Operating Officer	\$557	\$472	\$575	\$663	97%
Faber	Chief Medical Officer	\$507	\$474	\$536	\$625	95%
Hussain	Chief Financial Officer	\$480	\$467	\$551	\$621	87%
Rotunno	General Counsel	\$357	\$352	\$411	\$477	87%
Fisk	Chief Human Resource Officer	\$341	\$312	\$356	\$411	96%
Reinking	Chief Nursing Officer	\$334	\$328	\$379	\$435	88%
King	Chief Administrative Services Officer	\$295	\$226	\$273	\$310	108%
Kezic*	VP, Payor Relations	\$265	\$194	\$253	\$297	105%
Currier	VP, Corp./ Comm. Health Svcs & Pres, EAP	\$257	\$251	\$284	\$375	90%
Barnard	President of ECH Foundation	\$252	\$225	\$278	\$328	91%
--	Chief Information Officer	--	\$351	\$401	\$452	--
--	Chief Strategy Officer	--	\$300	\$363	\$411	--
<b>Aggregate</b>						<b>94%</b>

\*Market data has been discounted for Kezic's 0.9 FTE status.

Note: All market data include a 25% geographic differential.



Page 9  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

### **Annual Incentives and Total Cash Compensation**

Table 6 provides a comparison of El Camino's target total cash compensation (base salary + target bonus) to market composite target total cash compensation. In aggregate, El Camino's FY 2018 target total cash compensation is positioned at approximately the 50th percentile. Most executives are positioned within 10% of the 50th percentile, with the exception of the Chief Administrative Services Officer and VP of Payor Relations.

**Table 6: FY 2018 Approved Target Total Cash Compensation versus Market (Data in \$000s)**

Incumbent	Title	ECH TCC FY2018		Market Actual Total Cash Compensation			Market Ratio	Market Ratio
		Target	Max	P25	P50	P75	Target/ P50	Max/ P75
Zdeblick	Chief Operating Officer	\$668	\$724	\$507	\$648	\$812	103%	89%
Faber	Chief Medical Officer	\$608	\$659	\$506	\$583	\$694	104%	95%
Hussain	Chief Financial Officer	\$576	\$624	\$485	\$616	\$734	93%	85%
Rotunno	General Counsel	\$428	\$464	\$385	\$465	\$561	92%	83%
Fisk	Chief Human Resource Officer	\$410	\$444	\$331	\$393	\$486	104%	91%
Reinking	Chief Nursing Officer	\$400	\$434	\$353	\$418	\$511	96%	85%
King	Chief Administrative Services Officer	\$354	\$383	\$238	\$306	\$369	116%	104%
Kezic*	VP, Payor Relations	\$318	\$345	\$200	\$260	\$326	123%	106%
Currier	VP, Corp./ Comm. Health Svcs & Pres, EAP	\$308	\$334	\$268	\$319	\$401	97%	83%
Barnard	President of ECH Foundation	\$303	\$328	\$240	\$304	\$387	100%	85%
--	Chief Information Officer	--	--	\$366	\$439	\$513	--	--
--	Chief Strategy Officer	--	--	\$316	\$380	\$482	--	--
<b>Aggregate</b>							<b>101%</b>	<b>90%</b>

\*Market data has been discounted for Kezic's 0.9 FTE status.  
 Note: All market data include a 25% geographic differential.

### **Benefits**

Overall, El Camino's executive benefit offerings are generally consistent with market practice. The total value of El Camino's benefits is generally aligned with the market 50th percentile of the not-for-profit health care industry.

#### *Retirement*

Overall, the types of retirement plans offered by El Camino are consistent with market practice. Like El Camino, the vast majority of similarly sized tax-exempt healthcare organizations provide a qualified defined contribution plan, although prevalence of defined benefit plans continues to decline. Total employer contribution value (including defined contribution, defined benefit and SERP) is generally aligned with the 50th percentile of the not-for-profit healthcare industry. However, due to the flat 5% SERP contribution, higher paid executives receive lower overall retirement benefit values as a percent of base salary.

#### *Health and Welfare Benefits*

El Camino's executives receive the same health benefits as all other employees, which is consistent with market practice. Executive life insurance coverage is aligned with the market 75th percentile. Executive short-term and long-term disability coverages are consistent with market practice, except that the long-term disability monthly cap of \$10,000 is below typical market practice of \$15,000. Given the benefit levels, El Camino is generally consistent with market practice in its health and welfare benefit offerings.

Page 10  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

### *Perquisites*

The length of El Camino's severance period (6 months) is below typical market practice.

### **Target Total Remuneration**

El Camino's target total remuneration values (base salary + target bonus + benefits) for executives are generally within 10% of the market 50th percentile, with the exception of three executives (Chief Human Resources Officer, Chief Administrative Services Officer, and VP of Payor Relations). In aggregate, target total remuneration is between the market 50th and 75th percentiles. (Table 7)

### **Maximum Total Remuneration Opportunity**

In addition to examining the approved target total remuneration program for El Camino's executives, Mercer also has reviewed the *maximum* total remuneration opportunity for executives (maximum total direct compensation plus benefits). Maximum total remuneration assumes the annual incentive plan pays out at maximum (i.e., 150% of target opportunity) and payout requires attainment of stretch goals under the annual incentive plan. (Table 7)

**Table 7: FY 2018 Approved Target and Maximum Total Remuneration versus Market (Data in \$000s)**

Incumbent	Title	ECH TR FY2018		Market Total Remuneration			Market Ratio	
		Target	Max	P25	P50	P75	Target/ P50	Max/ P75
Zdeblick	Chief Operating Officer	\$789	\$845	\$582	\$735	\$909	107%	93%
Faber	Chief Medical Officer	\$711	\$762	\$577	\$660	\$783	108%	97%
Hussain	Chief Financial Officer	\$689	\$737	\$558	\$700	\$827	98%	89%
Rotunno	General Counsel	\$525	\$561	\$445	\$532	\$636	99%	88%
Fisk	Chief Human Resource Officer	\$505	\$539	\$386	\$453	\$553	111%	97%
Reinking	Chief Nursing Officer	\$500	\$534	\$410	\$481	\$581	104%	92%
King	Chief Administrative Services Officer	\$444	\$474	\$283	\$356	\$424	125%	112%
Kezic*	VP, Payor Relations	\$412	\$439	\$240	\$307	\$379	134%	116%
Currier	VP, Corp./ Comm. Health Svcs & Pres, EAP	\$391	\$417	\$315	\$371	\$463	106%	90%
Barnard	President of ECH Foundation	\$385	\$410	\$284	\$355	\$444	109%	92%
--	Chief Information Officer	--	--	\$425	\$505	\$585	--	--
--	Chief Strategy Officer	--	--	\$370	\$442	\$549	--	--
<b>Aggregate</b>							<b>108%</b>	<b>95%</b>

\*Market data has been discounted for Kezic's 0.9 FTE status.

Note: All market data include a 25% geographic differential.

## V. Basis for Opinion

Many factors are considered in an evaluation of the reasonableness of pay, including the organization's performance, its total rewards philosophy, and the qualifications and roles of the incumbents. Market data and external factors play a role in determining a reasonable range of compensation practices. Differences in pay levels between an organization and the market data (i.e., variation from the 75th) do not mean that an organization is necessarily over- or under-competitive. El Camino can compensate an executive above the 75th percentiles of the market and still be within a range of reasonable compensation, depending on the facts and circumstances of the particular situation.

Page 11  
October 27, 2017  
Mr. Bob Miller  
El Camino Hospital

- Industry Pressure: With the significant changes in the health care industry, El Camino faces a strategic crossroads as an independent community hospital system. The ability to attract and retain key talent remains critical to the future success of the organization during this turbulent time and providing compensation at market (50th percentile) or above levels is part of El Camino's strategy to ensure its ability to attract and retain executive talent.
- Executive Compensation Philosophy: El Camino's desired market positioning as described in the executive compensation philosophy is the market 50th percentile. In aggregate, El Camino executives are positioned at the 50th percentile for target compensation across compensation elements and in alignment with the compensation philosophy. Three individuals exceed target positioning, but this reflects specific circumstances for those individuals and the decision of El Camino to allocate its compensation spend strategically across the executive team. The Committee has discussed the rationale for the positioning of these three executives (see below).
- The Qualifications and Roles of the Incumbents: The El Camino executive team is critical to the success of the organization. The Committee has acknowledged that they are well-regarded, experienced, and possess significant institutional and industry knowledge. Three incumbents' above-market compensation reflects unique circumstances by incumbent and role:
  - The **Chief Human Resources Officer** has responsibility for El Camino's entire employee population (approximately 3,300 employees). Prior to joining El Camino in 2014, she held senior-level human resources positions at several large health systems. Based on her current responsibilities at El Camino and her previous experience, the Committee is comfortable with setting her total remuneration opportunity above the 50th percentile, and her maximum total remuneration opportunity just below the 75th percentile.
  - The **Chief Administrative Services Officer** has nearly 30 years of experience with El Camino and his salary is positioned toward the conservative end of the range (108% of median) outlined in the executive compensation philosophy for highly-tenured individuals (110%-120% of market median). The addition of a slightly more generous benefits package pushes overall positioning at maximum total remuneration above the 75<sup>th</sup> percentile.
  - The **Vice President of Payor Relations** has responsibility for relationships that El Camino Hospital believes are essential for the continued success of the organization as an independent hospital, and the Committee believes that retention of top talent in this role is critical to the execution of the organization strategy. Therefore, the Committee is comfortable positioning base salary more aggressively to market (105% of median), which results in maximum total remuneration opportunity above the 75th percentile.

Page 12  
October 27, 2017  
Mr. Bob Miller  
El Camino Hospital

## **VI. Opinion of Reasonableness**

Mercer (US) Inc. certifies that it (1) is a compensation consulting firm, (2) performs compensation valuation studies of this type on a regular basis, and (3) is qualified to perform the valuations of the type of property or services involved. In our opinion, the total remuneration we have reviewed falls within a reasonable range of competitive market practices applicable to like positions among like organizations under like circumstances.

### **Disclaimers**


Mercer has relied on the information and data provided to us without any independent review or verification and we assume all data provided to us is accurate, factual and complete. This does not constitute an opinion regarding the underlying business decisions.

This opinion has been prepared exclusively for El Camino Hospital to assist in understanding market total remuneration positioning for its senior executives. This letter provides the Committee with market comparability data as required by Intermediate Sanctions regulations and we urge the Committee to ensure that the additional requirements for establishing the rebuttable presumption/determining reasonable compensation have been met and to seek the advice of counsel as needed in this regard. This letter may not be used or relied upon by any other party or for any other purpose; Mercer is not responsible for the consequences of any such unauthorized use.

We are unaware of any family members of the Executives listed in Table 2 that also work for El Camino Hospital who might also be considered disqualified persons

As always, it is our pleasure to be of service. If you have any questions about this letter, please do not hesitate to contact me at (213) 346-2233.

Sincerely,



Stephen S. Pollack  
Partner

Copy:  
Lisa Stella, Mercer

## Appendix A: Market Evaluation Details (compensation data in 000s)

**Table 8: Chief Operating Officer Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4102A - Chief Operating Officer (COO) - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		12	12	\$372	\$491	\$557	\$391	\$546	\$705	\$391	\$546	\$705	--	--	--
US-HLTH-IHS-16 - 100 - Independent Chief Operating Officer (with Nursing) - System: Net Rev \$500M-\$1.0B	1		27		\$389	\$433	\$523	\$402	\$475	\$631	\$402	\$475	\$636	--	--	--
US-HLTH-SUL-16 - 7005 - Chief Operating Officer - System: \$400M to \$900M Net Revenue	1		49		\$371	\$456	\$511	\$424	\$534	\$612	\$424	\$544	\$639	--	--	--
Survey Composite					\$377	\$460	\$530	\$406	\$518	\$649	\$406	\$522	\$660	\$469	\$591	\$731
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$472</b>	<b>\$575</b>	<b>\$663</b>	<b>\$507</b>	<b>\$648</b>	<b>\$812</b>	<b>\$507</b>	<b>\$652</b>	<b>\$825</b>	<b>\$582</b>	<b>\$735</b>	<b>\$909</b>

**Table 9: Chief Medical Officer Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4320A - Chief Medical Officer (CMO) - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		20	20	\$360	\$428	\$516	\$384	\$446	\$567	\$384	\$446	\$567	--	--	--
US-HLTH-IHS-16 - 650 - Chief Medical Officer (MD/DO) - System: Net Rev \$500M-\$1.0B	1		47		\$400	\$433	\$496	\$416	\$480	\$546	\$416	\$495	\$546	--	--	--
US-HLTH-SUL-16 - 7010 - Chief Medical Officer - System: \$400M to \$900M Net Revenue	1		60		\$377	\$425	\$487	\$415	\$472	\$553	\$423	\$477	\$563	--	--	--
Survey Composite					\$379	\$429	\$500	\$405	\$466	\$555	\$408	\$473	\$559	\$464	\$531	\$629
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$474</b>	<b>\$536</b>	<b>\$625</b>	<b>\$506</b>	<b>\$583</b>	<b>\$694</b>	<b>\$510</b>	<b>\$591</b>	<b>\$698</b>	<b>\$577</b>	<b>\$660</b>	<b>\$783</b>

Page 14  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

**Table 10: Chief Financial Officer Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4230A - Chief Financial Officer (CFO) - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		23	23	\$370	\$475	\$533	\$391	\$531	\$625	\$391	\$531	\$625	--	--	--
US-HLTH-IHS-16 - 425 - Independent Chief Financial Officer - System: Net Rev \$500M-\$1.0B	1		51		\$396	\$444	\$487	\$401	\$477	\$574	\$401	\$491	\$577	--	--	--
US-HLTH-SUL-16 - 7015 - Chief Financial Officer - System: \$400M to \$900M Net Revenue	1		77		\$356	\$403	\$471	\$371	\$472	\$564	\$375	\$481	\$577	--	--	--
Survey Composite					\$374	\$441	\$497	\$388	\$493	\$587	\$389	\$501	\$593	\$450	\$564	\$665
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$467</b>	<b>\$551</b>	<b>\$621</b>	<b>\$485</b>	<b>\$616</b>	<b>\$734</b>	<b>\$486</b>	<b>\$626</b>	<b>\$741</b>	<b>\$558</b>	<b>\$700</b>	<b>\$827</b>

**Table 13: General Counsel Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4280A - Chief Legal Counsel/Top Legal Services Executive - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		14	14	\$287	\$357	\$406	\$332	\$400	\$495	\$339	\$400	\$495	--	--	--
US-HLTH-IHS-16 - 590 - Top Executive, Legal Services (General Counsel) - System: Net Rev \$500M-\$1.0B	1		35		\$270	\$313	\$376	\$284	\$359	\$425	\$284	\$359	\$425	--	--	--
US-HLTH-SUL-16 - 7075 - Top Legal Services Executive (General Counsel) - System: \$400M to \$900M Net Revenue	1		50		\$286	\$317	\$363	\$308	\$357	\$427	\$308	\$357	\$427	--	--	--
Survey Composite					\$281	\$329	\$382	\$308	\$372	\$449	\$310	\$372	\$449	\$359	\$429	\$512
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$352</b>	<b>\$411</b>	<b>\$477</b>	<b>\$385</b>	<b>\$465</b>	<b>\$561</b>	<b>\$388</b>	<b>\$465</b>	<b>\$561</b>	<b>\$445</b>	<b>\$532</b>	<b>\$636</b>

Page 15  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

**Table 14: Chief Human Resource Officer Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4260A - Top Human Resources Executive - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		18	18	\$257	\$290	\$341	\$285	\$318	\$423	\$285	\$318	\$423	--	--	--
US-HLTH-IHS-16 - 500 - Top Executive, Human Resources - System: Net Rev \$500M-\$1.0B	1		49		\$257	\$290	\$334	\$265	\$317	\$387	\$265	\$317	\$387	--	--	--
US-HLTH-SUL-16 - 7055 - Top Human Resources Executive - System: \$400M to \$900M Net Revenue	1		71		\$236	\$275	\$312	\$245	\$308	\$357	\$245	\$308	\$357	--	--	--
Survey Composite					\$250	\$285	\$329	\$265	\$314	\$389	\$265	\$314	\$389	\$312	\$366	\$446
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$312</b>	<b>\$356</b>	<b>\$411</b>	<b>\$331</b>	<b>\$393</b>	<b>\$486</b>	<b>\$331</b>	<b>\$393</b>	<b>\$486</b>	<b>\$386</b>	<b>\$453</b>	<b>\$553</b>

**Table 16: Chief Nursing Officer Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
US-HLTH-IHS-16 - 120 - Top Executive, Patient Care - System: Net Rev \$500M-\$1.0B	1		12		\$244	\$293	\$350	\$264	\$322	\$412	\$264	\$322	\$429	--	--	--
US-HLTH-SUL-16 - 7045 - Top Patient Care Executive - System: \$400M to \$900M Net Revenue	1		28		\$248	\$294	\$336	\$275	\$332	\$397	\$275	\$332	\$397	--	--	--
_US-HLTH-MER-16 - 4380A - Top Nursing Executive - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		11	11	\$295	\$323	\$359	\$309	\$351	\$417	\$309	\$351	\$417	--	--	--
Survey Composite					\$262	\$304	\$348	\$283	\$335	\$409	\$283	\$335	\$414	\$332	\$389	\$468
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$328</b>	<b>\$379</b>	<b>\$435</b>	<b>\$353</b>	<b>\$418</b>	<b>\$511</b>	<b>\$353</b>	<b>\$418</b>	<b>\$518</b>	<b>\$410</b>	<b>\$481</b>	<b>\$581</b>

Page 16  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

**Table 15: Chief Administrative Services Officer Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4530A - Head of Support Services - Healthcare System: Total Net Revenue: More than 0 USD	1	-20% for Size	8	8	\$140	\$204	\$247	\$155	\$220	\$299	\$155	\$220	\$299	--	--	--
US-HLTH-IHS-16 - 215 - Top Executive, Support Services - System: Net Rev \$500M-\$1.0B	1		13		\$192	\$230	\$254	\$192	\$233	\$294	\$206	\$233	\$294	--	--	--
US-HLTH-SUL-16 - 7061 - Top Support Services Executive - System: \$400M to \$900M Net Revenue	1		12		\$210	\$223	\$243	\$226	\$281	\$292	\$226	\$281	\$292	--	--	--
Survey Composite					\$181	\$219	\$248	\$191	\$245	\$295	\$196	\$245	\$295	\$230	\$288	\$342
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$226</b>	<b>\$273</b>	<b>\$310</b>	<b>\$238</b>	<b>\$306</b>	<b>\$369</b>	<b>\$245</b>	<b>\$306</b>	<b>\$369</b>	<b>\$283</b>	<b>\$356</b>	<b>\$424</b>

**Table 17: Vice President of Payor Relations Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4330A - Head of Managed Care - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1	-10% for Reduced FTE Status	12	12	\$146	\$203	\$219	\$158	\$204	\$248	\$158	\$204	\$248	--	--	--
US-HLTH-IHS-16 - 800 - Head of Managed Care - System: Net Rev \$500M-\$1.0B	1	-10% for Reduced FTE Status	19		\$117	\$169	\$219	\$117	\$169	\$242	\$117	\$169	\$242	--	--	--
US-HLTH-SUL-16 - 7229 - Top Managed Care Executive - System: \$400M to \$900M Net Revenue	1	-10% for Reduced FTE Status	11		\$205	\$236	\$275	\$205	\$249	\$293	\$205	\$249	\$293	--	--	--
Survey Composite					\$156	\$203	\$238	\$160	\$208	\$261	\$160	\$208	\$261	\$195	\$249	\$307
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$194</b>	<b>\$253</b>	<b>\$297</b>	<b>\$200</b>	<b>\$260</b>	<b>\$326</b>	<b>\$200</b>	<b>\$260</b>	<b>\$326</b>	<b>\$240</b>	<b>\$307</b>	<b>\$379</b>



Page 17  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

**Table 18: Vice President of Corporate and Community Health Services; CEO of CONCERN: Employee Assistance Program Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4600A - Head of Product/Service Line - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1	+20% for Org Level	8	28	\$188	\$209	\$240	\$196	\$215	\$240	\$196	\$215	\$240	--	--	--
US-HLTH-IHS-16 - 325 - Head of Service Line (with Nursing) - System: Net Rev \$750M-\$2.0B	1	-20% for Size; +20% for Org Level	8		\$175	\$206	\$227	\$187	\$224	\$253	\$187	\$224	\$253	--	--	--
US-HLTH-SUL-16 - 7260 - Top Service Line Executive ? Other - System: All Organizations	1	+20% for Org Level	14		\$238	\$266	\$434	\$260	\$327	\$469	\$260	\$327	\$469	--	--	--
Survey Composite					\$200	\$227	\$300	\$214	\$255	\$320	\$214	\$255	\$320	\$255	\$300	\$374
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$251</b>	<b>\$284</b>	<b>\$375</b>	<b>\$268</b>	<b>\$319</b>	<b>\$401</b>	<b>\$268</b>	<b>\$319</b>	<b>\$401</b>	<b>\$315</b>	<b>\$371</b>	<b>\$463</b>

**Table 19: President of El Camino Hospital Foundation Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4240A - Head of Foundation - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		15	15	\$186	\$237	\$254	\$206	\$248	\$308	\$206	\$248	\$320	--	--	--
US-HLTH-IHS-16 - 735 - Head of Foundation/Fund Development - System: Net Rev \$500M-\$1.0B	1		40		\$152	\$198	\$252	\$152	\$213	\$299	\$152	\$213	\$299	--	--	--
US-HLTH-SUL-16 - 7090 - Top Foundation/Fund Development Executive - System: \$400M to \$900M Net Revenue	1		35		\$202	\$232	\$281	\$218	\$268	\$321	\$218	\$268	\$321	--	--	--
Survey Composite					\$180	\$222	\$262	\$192	\$243	\$309	\$192	\$243	\$313	\$231	\$287	\$358
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$225</b>	<b>\$278</b>	<b>\$328</b>	<b>\$240</b>	<b>\$304</b>	<b>\$387</b>	<b>\$240</b>	<b>\$304</b>	<b>\$392</b>	<b>\$284</b>	<b>\$355</b>	<b>\$444</b>

Page 18  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

**Table 11: Chief Information Officer Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4165A - Chief Information Officer (CIO) - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		24	24	\$283	\$330	\$364	\$300	\$368	\$429	\$300	\$368	\$429	--	--	--
US-HLTH-IHS-16 - 550 - Chief Information Officer - System: Net Rev \$500M-\$1.0B	1		44		\$274	\$321	\$357	\$285	\$334	\$397	\$285	\$334	\$397	--	--	--
US-HLTH-SUL-16 - 7030 - Chief Information Officer - System: \$400M to \$900M Net Revenue	1		56		\$285	\$311	\$364	\$292	\$352	\$406	\$292	\$352	\$406	--	--	--
Survey Composite					\$281	\$321	\$362	\$292	\$351	\$411	\$292	\$351	\$411	\$344	\$407	\$472
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$351</b>	<b>\$401</b>	<b>\$452</b>	<b>\$366</b>	<b>\$439</b>	<b>\$513</b>	<b>\$366</b>	<b>\$439</b>	<b>\$513</b>	<b>\$425</b>	<b>\$505</b>	<b>\$585</b>

**Table 12: Chief Strategy Officer Market Data**

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER-16 - 4391A - Top Planning Executive - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		8	8	\$218	\$255	\$266	\$238	\$257	\$341	\$238	\$257	\$341	--	--	--
US-HLTH-SUL-16 - 7027 - Chief Strategy Officer - System: \$400M to \$900M Net Revenue	1		20		\$248	\$309	\$359	\$267	\$349	\$421	\$267	\$352	\$425	--	--	--
US-HLTH-IHS-16 - 790 - Top Executive, Strategic Planning - System: Net Rev \$500M-\$1.0B	1		17		\$255	\$307	\$362	\$255	\$307	\$396	\$255	\$307	\$396	--	--	--
Survey Composite					\$240	\$290	\$329	\$253	\$304	\$386	\$253	\$305	\$387	\$299	\$357	\$443
<b>Survey Composite with 25% Geographic Differential</b>					<b>\$300</b>	<b>\$363</b>	<b>\$411</b>	<b>\$316</b>	<b>\$380</b>	<b>\$482</b>	<b>\$316</b>	<b>\$382</b>	<b>\$484</b>	<b>\$370</b>	<b>\$442</b>	<b>\$549</b>

## Appendix B: Executive Benefits and Perquisites Review

### Retirement Plans Summary

	El Camino	Market Practice	Comments
<b>Employer Paid</b>	<p><b>Qualified Plans</b>  <u>Defined Contribution (DC) – 403(b) Plan</u></p> <ul style="list-style-type: none"> <li>Employer match of salary, based on pension years:                             <ul style="list-style-type: none"> <li>– 1-14 years: 4%</li> <li>– 15-19 years: 5%</li> <li>– 20+ years: 6%</li> </ul> </li> </ul> <p><u>Defined Benefit (DB) – Cash Balance Plan</u></p> <ul style="list-style-type: none"> <li>5% of salary</li> </ul> <p>Contributions on pay up to IRS limit (\$275K in 2018)</p> <p><b>Nonqualified DC SERP</b>  <u>457(f) Plan</u></p> <ul style="list-style-type: none"> <li>Executives receive employer contribution of 5% of salary</li> </ul> <p>Total employer contribution ranges from 9% to 16% for executives, depending on pay and years of service</p>	<ul style="list-style-type: none"> <li>Nearly all provide employer contributions to a qualified DC plan                             <ul style="list-style-type: none"> <li>– Less than 15% provide a qualified DB plan</li> </ul> </li> </ul> <p><b>Not-for-Profit</b></p> <ul style="list-style-type: none"> <li>60% provide a nonqualified plan to top executives                             <ul style="list-style-type: none"> <li>– The vast majority are DC SERPs</li> </ul> </li> <li>Median total employer contribution from all sources ranges from 12%-13% of salary</li> </ul>	<ul style="list-style-type: none"> <li>Overall structure is consistent with market practice although prevalence of DB plans continues to decline</li> <li>Total contribution is generally aligned with market median of not-for-profits</li> </ul>

Sources: Mercer’s 2016/2017 Health Care Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report.

Page 20  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

**Retirement Plans Summary, continued**

	<b>El Camino</b>	<b>Market Practice</b>	<b>Comments</b>
<b>Voluntary Deferrals</b>	<p><u>403(b) Plan</u></p> <ul style="list-style-type: none"> <li>Allows for deferral of pay (up to \$18,500 in 2018; \$24,500 if age 50+)</li> </ul> <p><u>457(b) Plan</u></p> <ul style="list-style-type: none"> <li>Allows for additional deferral up to \$18,500 in 2018</li> <li>Most executives have elected to defer some of their Taxable Allowance into the 457(b) plan</li> </ul>	<ul style="list-style-type: none"> <li>Nearly all allow for deferrals to a 403(b)/401(k) plan</li> </ul> <p><b>Not-for-Profit</b></p> <ul style="list-style-type: none"> <li>85% allow additional deferrals into a 457(b) plan</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with market practice to provide a 457(b) plan</li> </ul>

Sources: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report.

Page 21  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

**Health & Welfare Plans Summary**

	<b>El Camino</b>	<b>Market Practice</b>	<b>Comments</b>
<b>Medical</b>	<ul style="list-style-type: none"> <li>Executives receive the same health benefits as all employees</li> </ul>	<ul style="list-style-type: none"> <li>It is common to provide the same health benefits and employer/employee cost sharing to all employees</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with market practice</li> </ul>
<b>Life Insurance</b>	<ul style="list-style-type: none"> <li>3X annual salary, up to a maximum of \$1.25 million; amounts above \$350K subject to medical underwriting</li> <li>Executives have the option to buy additional coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>Almost all provide employer-paid group coverage</li> <li>30% to 45% provide supplemental coverage to top executives</li> <li>Median coverage is 100% to 150% of salary (200% to 300% at the 75<sup>th</sup> percentile)</li> </ul>	<ul style="list-style-type: none"> <li>Life insurance is very competitive for those who go through medical underwriting</li> <li>Consider increasing the guarantee issue limit</li> </ul>
<b>Long-term Care (LTC)</b>	<ul style="list-style-type: none"> <li>Executives can buy coverage with Taxable Allowance</li> <li>2 executives have 2008 policies that were provided as a non-elective employer-paid benefit</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 5% provide executive coverage to executives</li> </ul>	<ul style="list-style-type: none"> <li>Providing LTC is not prevalent in the market</li> </ul>

Sources: Mercer’s 2016/2017 Health Care Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report

**Health & Welfare Plans Summary, continued**

	<b>El Camino</b>	<b>Market Practice</b>	<b>Comments</b>
<b>Short-term Disability (STD)</b>	<ul style="list-style-type: none"> <li>• Employer-paid executive coverage equal to 100% of salary for up to 6 months</li> </ul>	<ul style="list-style-type: none"> <li>• 75% provide group coverage                             <ul style="list-style-type: none"> <li>– 60% of salary is the most common benefit</li> </ul> </li> <li>• 40% provide supplemental coverage to top executives                             <ul style="list-style-type: none"> <li>– 100% of salary is the most common benefit</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Consistent with market practice</li> </ul>
<b>Long-term Disability (LTD)</b>	<ul style="list-style-type: none"> <li>• Employer-paid group coverage to all employees equal to 60% of salary up to a monthly maximum of \$15,000</li> <li>• Executives have the option to buy additional coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>• Nearly all provide group coverage</li> <li>• 30% to 50% provide supplemental coverage to executives</li> <li>• Median coverage is 60% of salary up to \$15,000 per month</li> </ul>	<ul style="list-style-type: none"> <li>• Coverage level is consistent with market practice</li> </ul>
<b>Taxable Allowance</b>	<ul style="list-style-type: none"> <li>• 7% of salary</li> <li>• Can be used to purchase LTC, additional LTD, and life insurance, defer into 457(b) plan, or distributed in cash</li> </ul>	<ul style="list-style-type: none"> <li>• Prevalence of flexible plans has declined over time (less than 20% provide), due to complexity and compliance risk</li> </ul>	<ul style="list-style-type: none"> <li>• Note that El Camino’s plan was updated in 2009, which simplified the plan and minimized compliance risk</li> </ul>

Sources: Mercer’s 2016/2017 Health Care Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report

Page 23  
 October 27, 2017  
 Mr. Bob Miller  
 El Camino Hospital

**Severance and Perquisites Summary**

	<b>El Camino</b>	<b>Market Practice</b>	<b>Comments</b>
<b>Severance</b>	<ul style="list-style-type: none"> <li>Salary and health benefits continue for 6 months</li> </ul>	<ul style="list-style-type: none"> <li>65% provide additional severance for executives</li> <li>Median severance period is 12 months for top executives other than the CEO                             <ul style="list-style-type: none"> <li>75% continue benefits during the severance period</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Length of severance period is below market median</li> </ul>
<b>Perquisites</b>	<ul style="list-style-type: none"> <li>El Camino does not provide any executive-only perquisites</li> </ul>	<ul style="list-style-type: none"> <li>Car/car allowance is the most prevalent remaining perquisite                             <ul style="list-style-type: none"> <li>35% for the CEO, 20% to 35% for other top executives</li> </ul> </li> <li>Perquisites are slightly more prevalent among for-profit companies, with ~60% providing at least one perquisite</li> </ul>	<ul style="list-style-type: none"> <li>Perquisites without a clear business-related purpose continue to become less prevalent</li> </ul>

Sources: Mercer's 2016/2017 Health Care Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report

## **Appendix C: Executive Biographies**

### **Mick Zdeblick Chief Operating Officer**



Mick Zdeblick joined El Camino Hospital as the chief operating officer in the fall of 2012. He has more than 25 years of management and operational experience. Mick spent the majority of his career at APM Inc. (acquired by CSC in 2001). He previously served as vice president of operations at Rush University Medical Center in Chicago, Illinois. Mick earned a bachelor's degree in business administration from Marquette University and a master's degree from Northwestern University Kellogg School of Management in Chicago.

### **William Faber, MD Chief Medical Officer**



Dr. William Faber joined El Camino Hospital as the Chief Medical Officer in the summer of 2016, bringing 30 years of medical experience. Before coming to El Camino Hospital, he held many senior leadership roles, including several with Advocate Health Care in Oakbrook, Illinois and most recently with General Electric (GE) Healthcare Camden Group in Chicago. Dr. Faber earned both his medical degree and his master's degree in medical ethics from Loma Linda University, and received a master of science in health care management from Harvard School of Public Health. Dr. Faber, board certified in Family Medicine, completed his residency at Family Medicine at Hinsdale Family Medicine Practice in Hinsdale, Illinois. He's a Fellow of the American Academy of Family Practice and a member of the American Academy of Family Physicians, in addition to several other professional organizations.



Page 25  
October 27, 2017  
Mr. Bob Miller  
El Camino Hospital

**Iftikhar Hussain**  
**Chief Financial Officer**



Iftikhar Hussain joined El Camino Hospital as the chief financial officer in the spring of 2014. He has more than 30 years of health care financial experience. Most recently, Iftikhar was chief executive officer of Mills-Peninsula Health Services in Burlingame, California. Other previous roles include director of finance at Alta Bates Summit Medical Center in Oakland, California, and director of accounting services at Mercy Healthcare/Catholic Healthcare West in Sacramento, California. He earned a bachelor's degree in finance and accounting from the University of California, Berkeley. Iftikhar is a member of the Healthcare Financial Management Association.

**Mary Rotunno**  
**General Counsel**



Mary Rotunno is the General Counsel for El Camino Hospital. Before joining the hospital in early 2014, she served for over 11 years as Senior Counsel for the Bay Area Region at Dignity Health in San Francisco, California. Mary has more than 25 years of experience as an attorney specializing in litigation and health care law. Mary graduated from University of Illinois at the Medical Center with a Bachelor of Science in Nursing and worked as a registered nurse before earning her Juris Doctor degree from University of California, Hastings College of Law. Her long-term commitment to service provided a natural transition from serving patients to serving clients, both allowing her to pursue her passion for helping others.

Page 26  
October 27, 2017  
Mr. Bob Miller  
El Camino Hospital

**Kathryn Fisk**  
**Chief Human Resource Officer**



Kathryn Fisk is the chief human resources officer for El Camino Hospital. She joined the hospital in early 2014. Most recently Kathryn was regional director of human resources for the Florida Region of Tenet Healthcare. She also served in several senior-level human resources positions at the University of Miami Health System, Baptist Health South Florida and the University of Massachusetts Medical Center and School. Along with master's degrees in biology and business administration, she holds a lifetime Senior Professional in Human Resources certification from the Society of Human Resources Management (SHRM).

**Cheryl Reinking, RN, MS**  
**Chief Nursing Officer**



Cheryl Reinking serves as the chief nursing officer for El Camino Hospital. She has served the hospital in progressive nursing leadership roles for the past 25 years. Cheryl received a bachelor's degree in nursing from Illinois Wesleyan University and a master's degree from San Jose State University. She's a member of the El Camino Hospital Community Benefit Advisory Board, Integrated Nurse Leadership Program Board, and Private Duty for Pathways Home Health and Hospice Board. Cheryl is also certified by American Nurses Credentialing Center in advanced nursing administration.

Page 27  
October 27, 2017  
Mr. Bob Miller  
El Camino Hospital

**Ken King**  
**Chief Administrative Services Officer**



Ken King is the chief administrative services officer for El Camino Hospital. He joined the hospital in 1988. Before joining the El Camino Hospital, Ken worked in various engineering management positions in hospitals in Southern California. He's a member of the American Society of Hospital Engineers, National Fire Protection Agency, and the Association for the Advancement of Medical Instrumentation.

**Joan Kezic**  
**Vice President of Payor Relations**



Joan Kezic is the vice president of payor relations for El Camino Hospital. She joined the hospital in 1996 after 10 years as director of contracting at Sequoia Hospital in Redwood City, California. Joan received a bachelor's degree in health planning and business administration from Penn State University. She's a member of the Managed Care Committee of the California Healthcare Association and the Healthcare Financial Management Association.

Page 28  
October 27, 2017  
Mr. Bob Miller  
El Camino Hospital

## **Cecile Currier**

**Vice President of Corporate and Community Health Services; CEO of CONCERN: Employee Assistance Program**



Cecile Currier is the vice president of corporate and community health services for El Camino Hospital, as well as the chief executive officer of CONCERN: Employee Assistance Program. An employee of El Camino Hospital since 1985, she has many years of experience in health care with a focus on behavioral health, community health services, occupational health and employee assistance programs. Cecile earned a bachelor's degree in sociology and a master's degree in social work from the University of California, Santa Barbara. She's also a licensed clinical social worker.

## **Jodi Barnard**

**President of the El Camino Hospital Foundation**



Jodi Barnard joined El Camino Hospital as the president of the El Camino Hospital Foundation in the fall of 2013. She has more than 25 years of development leadership experience across acute and pediatric health care, higher education and nonprofit institutions. Most recently, Jodi served as the regional executive director for statewide foundations of Providence Health & Services in Oregon and executive director of the Providence Community Health Foundation, Southern Oregon Service Area. Before moving to Oregon, she led development programs at Dayton's Children's Medical Center, the University of Dayton and Qbase. Jodi is a graduate of Interlochen Arts Academy and DePauw University.

## Appendix D: Geographic Salary Differential

- A geographic salary differential is a numerical value that expresses how a position's pay in a particular location compares to the national average pay for the same position.
  - For example, a differential of 27% for Mountain View means that the average executive salary in Mountain View is 27% higher than the average salary of executives across the US.
- The purpose of applying a geographic salary differential to market data is to account for the market differences in that employee's location.
  - Geographic salary differentials used in this study are calculated using data from the Economic Research Institute (ERI), which determines differentials using salary survey data from across the country. The differential in the Bay Area has been increasing over the past decade, with that increase accelerating over the past three to five years.

	Bay Area <sup>1</sup>	Silicon Valley <sup>2</sup>	Mountain View
<b>Average Differential</b>	<b>24%</b>	<b>27%</b>	<b>27%</b>

<sup>1</sup> Bay Area includes Silicon Valley (see below), San Francisco, Oakland, Berkeley, Piedmont, Lafayette, Walnut Creek, Alameda, and Marin County.

<sup>2</sup> Silicon Valley includes Mountain View, Palo Alto, Cupertino, Sunnyvale, Los Altos, and Los Gatos.

- A geographic salary differential of 25% has been applied to survey data for base salary, total cash, and total remuneration in this study.

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Review of ECH Executive Compensation and Benefits Programs and Policies  Executive Compensation Committee  November 9, 2017
<b>Responsible party:</b>	Stephen Pollack, Mercer;  Kathryn Fisk, CHRO
<b>Action requested:</b>	Possible Motion, to provide direction to executive leadership and/or consultants regarding next steps
<b>Background:</b>	The Committee periodically reviews executive compensation and benefit program design relative to the market and effectiveness in attracting and retaining executive talent. The Committee also periodically reviews the policies that describe how the Hospital manages and administers the executive compensation and benefit programs. The purpose of today's session is largely educational in nature and to discuss next steps.
<b>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</b>	None.
<b>Summary and session objectives:</b>	<ul style="list-style-type: none"> <li>• Discuss ECH current executive compensation and benefits strategies and tactics</li> <li>• Learn about market practices for other tax-exempt hospitals and health care systems</li> <li>• Review the executive compensation and benefit policies and practices</li> </ul>
<b>Suggested discussion questions:</b>	<ol style="list-style-type: none"> <li>1. What is the market practice for like-organizations?</li> <li>2. Do the Committee members have a good understanding of the components of ECH's executive compensation and benefits philosophy, design, and effectiveness?</li> <li>3. What changes, if any, does the Committee wish to consider for future discussion?</li> <li>4. What actions, if any, does the Committee wish the consultant or management to take?</li> </ol>
<b>Proposed Committee motion, if any:</b>	At the discretion of the Committee.
<b>LIST OF ATTACHMENTS:</b>	<ol style="list-style-type: none"> <li>1. Mercer's Health Care Industry Pay and Benefit Practices</li> <li>2. Executive Compensation Philosophy</li> <li>3. Executive Base Salary Administration</li> <li>4. Executive Performance Incentive Plan</li> <li>5. Executive Benefits Plan</li> </ol>

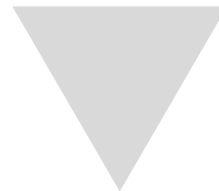
# EL CAMINO HOSPITAL

## EXECUTIVE COMPENSATION POLICIES AND PRACTICES

NOVEMBER 9, 2017

**Stephen S. Pollack**  
**Lisa Stella**

Los Angeles

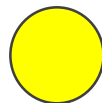


# CONTEXT

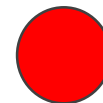
- The Compensation Committee charter calls for the Committee to periodically review existing philosophies, policies, and programs in executive compensation at El Camino Hospital.
- The following slides outline ECH's current compensation policies as well as current practices relative to market, and highlight potential areas for discussion.
- During this review, the Committee should take time to reflect on the effectiveness of existing policies and programs, alignment of current practice with policy and philosophy, and possible opportunities to make changes that enable El Camino to better fulfill its objectives of attracting, retaining, and motivating a highly talented executive team.



= Aligned with market



= Opportunities for refinement





= Not aligned with market



# EXECUTIVE REMUNERATION PROGRAM REVIEW

## COMPENSATION PHILOSOPHY

Program Element	ECH Description	Market Prevalence <sup>1</sup>	Commentary
<b>Overview</b> 	<ul style="list-style-type: none"> <li>Broadly defines objectives and components of executive compensation, and gives the Board approval rights over specific policy changes.</li> </ul>	<ul style="list-style-type: none"> <li>Executive compensation philosophy is a standard element of the policies governed by Boards of not-for-profit organizations.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that policy and practice are aligned with philosophy – if not, one or the other should change.</li> </ul>
<b>Base Salary Range Positioning</b> 	<ul style="list-style-type: none"> <li>Executive roles are benchmarked to survey data of national, primarily not-for-profit, independent hospitals/health systems similar in size and scope (\$870.5M revenue in FY 2017).</li> <li>Data are adjusted by a 25% geographic salary differential to account for the Bay Area wage differential.</li> <li>Salary <b>ranges</b> (not individual salaries) will be set “competitively”, defined as the market median plus geographic differential.</li> <li>Salary range midpoints are based on the 50th percentile of market (defined below), with ranges set at +/- 20% of 50th percentile</li> </ul>	<ul style="list-style-type: none"> <li>Targeted positioning varies, but the most common stated positioning for base salary is 50<sup>th</sup> percentile.</li> </ul>	<ul style="list-style-type: none"> <li>Only two highly tenured incumbents are positioned above market median, and three are more than 10% below median.</li> <li>While movement above midpoint is outlined in policy (see next page), executives perceive midpoint (market median) as compensation ceiling.</li> </ul>

(1) Source: Sullivan, Cotter and Associates, Inc. 2016 Survey of Manager and Executive Compensation in Hospitals and Health Systems.

# EXECUTIVE REMUNERATION PROGRAM REVIEW

## BASE SALARY ADMINISTRATION/PERFORMANCE

### Program Element

### ECH Description

### Market Prevalence<sup>1</sup>

### Commentary

#### Base Salary Administration

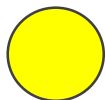


- Base Salary Admin policy states that range placement based on combination of: paying competitively, rewarding performance, and recognizing competence, credentials, and experience.
- Fully experienced (6-8 years) incumbents with consistent performance will be targeted at +/-10% of range midpoint. Outstanding performers, extended tenure/ experience, and other factors may position executives more than 10% above midpoint.
- The CEO uses his/her discretion in recommending base salary increases.

- The median projected base salary increase budgeted for senior executives in healthcare has been steady at about 3.0% for the last several years.
- ~60% of healthcare organizations target executive base salaries at the market 50<sup>th</sup> percentile.
- Geographic differential at the executive level is not widely prevalent, but it has grown more common in recent years - particularly in high cost-of-living areas such as Silicon Valley when talent is sourced nationally.

- It is common (and generally easier) to determine pay adjustments based on a specific market percentile. In these cases, pay adjustments are largely driven by market movement and performance, and may deviate considerably from the 3.0% norm.

#### Performance Management




- Performance is measured through:
  - Annual written performance reviews
  - Scored individual goals
  - Discretionary measure that reflects CEO's assessment of leadership

- While rarely formulaic (e.g., merit matrix), decisions on base salary adjustments for most senior executives generally consider both market data and individual performance (recent and sustained) to determine the appropriate increase amount

- Certain aspects of performance management for senior-level executives may parallel those of the broader workforce (e.g., coaching sessions, development planning), but there are generally differences in the processes and tools used for the executive population

# EXECUTIVE REMUNERATION PROGRAM REVIEW

## TOTAL CASH

Program Element	ECH Description	Market Prevalence <sup>1</sup>	Commentary
<p><b>Total Cash Compensation Positioning</b></p> 	<ul style="list-style-type: none"> <li>Does not address desired total cash compensation positioning.</li> </ul>	<ul style="list-style-type: none"> <li>Most common stated positioning for <b>target</b> TCC is 50<sup>th</sup> percentile of market.</li> <li>Desired positioning for <b>maximum</b> TCC is generally stated, which is usually no greater than the 75<sup>th</sup> percentile (often with exceptions for outstanding circumstances).</li> <li>Positioning is for the organizational average and not for any specific individual</li> <li>TCC above 75<sup>th</sup> percentile is common for individuals and organizations reflecting strong performance</li> </ul>	<ul style="list-style-type: none"> <li>Committee should consider position on total cash compensation (and/or total remuneration) to ensure the complete compensation package is competitive and appropriate.</li> </ul>

(1) Source: Sullivan, Cotter and Associates, Inc. 2016 Survey of Manager and Executive Compensation in Hospitals and Health Systems.

# EXECUTIVE REMUNERATION PROGRAM REVIEW

## MARKET POSITIONING SUMMARY



- The table at right summarizes the positioning of ECH executives relative to market for base salary, total cash compensation, and total remuneration.
- Positioning is a comparison of ECH's FY 2018 compensation relative to market data presented to the Committee in May 2017.

Element	Quartile of Market Data <sup>1</sup>		
	Second	Third	Fourth
<b>Base Salary</b>	COO CMO CFO General Counsel CHRO CNO VP-Corp/Comm Health President-Foundation	CASO VP-Payor Relations	
<b>Total Cash Compensation</b> (at Target Incentive)	CFO General Counsel CNO VP-Corp/Comm Health President-Foundation	COO CMO CHRO CASO VP-Payor Relations	
<b>Total Remuneration</b> (at Target Incentive)	CFO General Counsel	COO CMO CHRO CNO VP-Corp/Comm Health President-Foundation	CASO VP-Payor Relations

(1) Only the second, third, and fourth quartiles are shown because there are no incumbents positioned in the first quartile of market at this time.


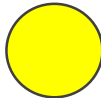
# EXECUTIVE REMUNERATION PROGRAM REVIEW

## SHORT-TERM INCENTIVES

Element	ECH Description	Market Prevalence <sup>1,2</sup>	Commentary
<b>Plan Design</b> 	<ul style="list-style-type: none"> <li>All ECH executives are eligible.</li> <li>Plan has target levels (CEO 30% of salary; execs 20% of salary), with upside of 150% based on individual and organization achievement.</li> </ul>	<ul style="list-style-type: none"> <li>88% of hospital systems offer formal annual incentive plans; of those, 100% offer the plan to top executives.</li> <li>150% of target is most common maximum.</li> <li>Median target incentive is 30% for CEO, 25% for SVP, and 20% for VPs.</li> </ul>	<ul style="list-style-type: none"> <li>Eligibility, leverage, and opportunity levels are well aligned with healthcare industry practice.</li> </ul>
<b>Metrics and Weighting</b> 	<ul style="list-style-type: none"> <li><b>CEO:</b> 90% organization goals; 10% discretionary</li> <li><b>Presidents:</b> 50% organization, 40% business, 10% discretionary</li> <li><b>Executives:</b> 70% organization, 20% individual, 10% discretionary</li> <li><b>Organization Metrics:</b> <ul style="list-style-type: none"> <li>Length of stay (LOS) (adjusted for Medicare population) (Quality)</li> <li>Standardized infection ratio (SIR) (Quality)</li> <li>Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) rating (Patient Satisfaction)</li> <li>Budgeted operating margin</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Majority of organizations balance organization and individual goals for targets, with median organization goal weighting at 75%, individual ~10%, and discretionary ~5%.</li> <li>Most common metrics are:           <ul style="list-style-type: none"> <li><b>Clinical quality metrics</b> (88%)</li> <li><b>Patient satisfaction</b> (79%)</li> <li><b>Operating margin/operating income</b> (71%)</li> <li>Employee satisfaction/engagement (50%)</li> <li>Revenue growth (36%)</li> <li>Patient safety (34%)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Balance of organization and individual goals, selection of metrics, and use/level of discretion is aligned with market.</li> <li>Discretion may be included as a weighted proportion of goal, or may be applied as a modifier of final goal calculation.</li> </ul>

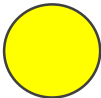
# EXECUTIVE REMUNERATION PROGRAM REVIEW

## RETENTION INCENTIVES

Element	ECH Description	Market Prevalence <sup>1,2</sup>	Commentary
<b>Long-Term Incentives</b> 	<ul style="list-style-type: none"> <li>No multi-year performance-based incentive in place.</li> </ul>	<ul style="list-style-type: none"> <li>LTI is relatively uncommon for smaller (&lt;\$1B) systems, with only 7% offering plans.</li> <li>Among larger systems, however (&gt;\$1B), prevalence increases to 30%, while for the largest systems (&gt;\$3B) LTI plans are quite common (50%).</li> <li>LTI plans generally use metrics similar to those in annual incentive plans: financial, quality, patient experience, and people.</li> </ul>	<ul style="list-style-type: none"> <li>While not the norm among hospitals of El Camino's size, many health systems (some of whom may be competitors) offer long-term incentives to their executives.</li> <li>Clear and measurable multi-year objectives are essential for establishing successful LTI plans.</li> </ul>
<b>Retirement</b> 	<ul style="list-style-type: none"> <li>Executives receive both a defined contribution and defined benefit (cash balance) up to IRS limits (\$275k in 2018).</li> <li>In addition, they receive an employer contribution to their Supplemental Executive Retirement Plan of 5% of all salary (except CEO, who receives 13% offset by qualified contributions).</li> <li>Total contributions range from 9% to 16% of salary, depending on pay and tenure.</li> </ul>	<ul style="list-style-type: none"> <li>Nearly all employers offer a DC plan, while less than 15% of employers offer a DB plan.</li> <li>Median qualified contribution is 6% of salary.</li> <li>60% of not-for-profit healthcare organizations provide a SERP to executives, with median contribution of 12-13%.</li> </ul>	<ul style="list-style-type: none"> <li>Retirement is the primary financial retention tool in the compensation program.</li> <li>Contrary to standard market practice, contribution levels as a percent of base salary are higher for lower-paid executives.</li> <li>Offsetting the SERP contribution percentage by qualified plan contributions would re-balance contribution levels among executives (recommended by Comp Committee in 2017 but not approved by Board).</li> </ul>


# EXECUTIVE REMUNERATION PROGRAM REVIEW

## RECRUITMENT

Element	ECH Description	Market Prevalence <sup>1</sup>	Commentary
<p><b>Sign-on Benefits</b></p> 	<ul style="list-style-type: none"> <li>• Severance policy allows for up to six months' severance.</li> <li>• No policy document outlines available programs/tools for sign-on contracts, but in recent history external executive hires have occasionally received modest sign-on bonuses (~10-15% of base) and/or relocation allowances (\$40k-\$75k).</li> </ul>	<ul style="list-style-type: none"> <li>• Severance generally ranges from 12 to 24 months for executives, depending on level.</li> <li>• Policy often outlines potential sign-on benefits, but specific agreements are generally tailored to the individual and may require Committee approval.</li> <li>• Sign-on bonuses are a common feature of executive contracts, to improve offer competitiveness, reduce burden of relocation costs, and to compensate for value lost in departing previous role (e.g., incentive payouts).</li> <li>• Clawbacks may be attached to sign-on awards (i.e., must be returned if executive leaves within 2 or 3 years).</li> </ul>	<ul style="list-style-type: none"> <li>• Severance is below market levels.</li> <li>• The Committee may wish to discuss and define the specific tools that may be used in recruitment offers: sign-on bonuses, performance-based retention awards, relocation allowances, housing allowances, etc.</li> </ul>

# EXECUTIVE REMUNERATION PROGRAM REVIEW

## TIME OFF

Element	ECH Description	Market Prevalence <sup>1</sup>	Commentary
<p><b>Paid Time Off (PTO)</b></p> 	<ul style="list-style-type: none"> <li>• Paid time off is based on years of service, and starts at 228 hours per year for all new FT employees including executives. PTO increases to 276 hours after three years</li> <li>• Integrated time off includes holidays, vacation, and minor illnesses</li> <li>• Maximum paid time off benefit per year is 356 hours for employees with 13 or more years of service.</li> </ul>	<ul style="list-style-type: none"> <li>• PTO accruals are most commonly based on years of service and level.               <ul style="list-style-type: none"> <li>• Early-tenure executives receive enhanced PTO at the median, but variance by level decreases for longer-service employees.</li> </ul> </li> <li>• Note that fewer than 10% of organizations offer unlimited PTO to executives.</li> </ul>	<ul style="list-style-type: none"> <li>• El Camino's paid time off is competitive at all levels.</li> <li>• El Camino's benefit for new employees (228 hours per year) is higher than the market median for executives (176 hours).</li> <li>• Concern is the loss of higher vacation/PTO accrual at job the executive candidate is leaving.</li> </ul>



## NEXT STEPS

- More detailed review of the “elements/categories” that have opportunities for refinement.
- Management will work with Mercer to develop recommendations and options for discussion at the next scheduled meeting.



**MERCER**

**MAKE TOMORROW, TODAY**

**EL CAMINO HOSPITAL  
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

**03.01 EXECUTIVE COMPENSATION PHILOSOPHY**

A. Coverage:

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO and approved participants. Participation in the plan is subject to approval by the Hospital Board of Directors (see Attachment A).

B. Reviewed/Revised:

New: 2/08, 6/09, 12/08/10; 8/10/11, 2/13/13, 6/11/14, 10/12/16

C. Policy Summary:

The compensation philosophy is the official statement of El Camino Hospital’s Board of Directors regarding the guiding principles and objectives upon which executive compensation decisions are based, and the general parameters and components for accomplishing these objectives.

The executive compensation program encompasses both cash compensation (salary, incentive pay, and other cash compensation) and non-cash compensation (employer provided benefit plans and perquisites) which in whole, represent total compensation. The program is governed by the Board of Directors and the Executive Compensation Committee which advises the Board to meet all applicable legal and regulatory requirements as it related to executive compensation and their effectiveness in attracting, retaining, and motivating executives.

D. Executive Compensation Philosophy:

The philosophy describes the guiding principles and objectives of the executive compensation program. Executive compensation decisions will be made using the following guiding principles and objectives:

1. Support the Hospital’s **ability to attract, retain, and motivate a highly-talented executive team** with the ability and dedication to manage the Hospital accordingly.
2. Support the Hospital’s **mission and vision and achievement of strategic goals.**
3. Encompass a **total compensation perspective** in developing and administering cash compensation and benefit programs.

4. Considers the Hospital's financial performance and ability to pay which shall be balanced with the Hospital's ability to attract, retain and motivate executives.
5. Govern the executive compensation programs to comply with state and federal laws.

E. Components:

The three key components of the executive compensation program are base salary, performance incentive compensation, and benefits.

1. Base Salary. Each executive position will be assigned a salary range that is competitive with comparable hospitals and accounts for the higher cost of labor in Silicon Valley.
2. Performance Incentive Compensation. Each executive will be eligible for a goal-based performance incentive compensation program. An executive's performance incentive payout will be based on their performance against pre-defined organizational and individual goals and objectives aligned with the Hospital's mission, vision, and strategic goals.
3. Executive Benefits and Perquisites. The Hospital may provide executives with supplemental benefits as described in the executive benefits policy. It is the Hospital's practice to minimize the use of perquisites in total executive compensation.

F. Roles and Responsibilities:

The Executive Compensation Committee shall recommend and maintain written policies and procedures regarding the administration of each component. The Hospital Board of Directors will approve all policy changes.

G. Definitions

**Comparable Hospital** – To measure the competitiveness of the executive compensation program, the Hospital will use, in general, compensation information from tax-exempt independent hospitals from across the United States comparable in size and complexity to the Hospital. The hospitals will be comparable in size and complexity based upon net operating revenues.

**Competitive Position** – A determination of where the Hospital places executive salaries, incentives, and benefits relative to comparable hospitals nationally. El Camino Hospital's competitive position for base salaries is the market median plus a geographic differential for the Silicon Valley area.

**Geographic Differential** – Recognizes the significantly higher cost-of-labor in Silicon Valley. The Committee will periodically analyze data to ensure the geographic differential is appropriate and accurately projecting the El Camino Hospital median.

**El Camino Hospital Median** – Reflects the median base pay of the comparable hospitals plus the geographic differential for a particular position. The Hospital increases the data by 25% to calculate the El Camino Hospital median.

**Other Cash Compensation** – Other cash compensation excludes base salary and incentive pay but includes a hiring and retention bonuses, and relocation reimbursement.

**Salary Range** - A range established as 20% below to 20% above the salary range midpoint, resulting in a maximum amount that is 150% of the minimum amount.

**Salary Range Midpoint** - The midpoint of the salary range for each executive position will be set at the El Camino Hospital Median.

**Total Cash Compensation** – includes base salary plus annual incentive compensation (and other cash) paid to an executive.

**Total Compensation** – Total cash compensation plus the cost of employee and executive benefit programs.

**ATTACHMENT A:  
APPROVED PARTICIPANTS IN EXECUTIVE  
COMPENSATION PROGRAM  
Effective 11/1/2016**

Cecile Currier, Vice President Corporate and Community Health\*  
Cheryl Reinking, Chief Nursing Officer  
Gregory Walton, Chief Technology Officer  
Iftikhar Hussein, Chief Financial Officer  
Open, Chief Strategy Officer  
Joan Kezic, Vice President Payor Relations\*  
Joanne Barnard, President, El Camino Hospital Foundation  
Kathryn Fisk, Chief Human Resources Officer  
Kenneth King, Chief Administrative Services Officer  
Mary Rotunno, General Counsel  
Michael Zdeblick, Chief Operations Officer  
Open, President and CEO  
William Faber, MD, Chief Medical Officer  
Open, Chief Information Officer

\*These executives are considered **grandfathered participants** and shall continue to be eligible for the Executive Compensation Program as long as the individual remains in an executive position with El Camino Hospital.

Note: Executives hired on an interim basis are not eligible for the Executive Compensation and Benefits Program.

**EL CAMINO HOSPITAL  
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

**03.02 EXECUTIVE BASE SALARY ADMINISTRATION**

**A. Coverage:**

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO or COO. Participation in the plan is subject to approval by the Hospital Board of Directors.

**B. Reviewed/Revised:**

New 9/15/09, 12/08/10, 2/13/13, 6/11/14, 10/12/16

**C. Policy Summary:**

D. Base salary is one component of the executive total compensation program which includes benefits, performance incentive pay, and other cash compensation. This policy defines how a salary range is established and provides guidelines for determining an individual’s placement in the range. The program is governed by the Board of Directors and administered by the Executive Compensation Committee (“the Committee”).

**E. General Provisions:**

1. **Salary Range** – Each executive position at El Camino Hospital will have a salary range with minimum and maximum, determining the lowest and highest pay for that job.

- a. The salary range midpoint reflects the median base pay of the comparable hospitals plus the cost-of-labor adjustment (known as the El Camino Median).
- b. The salary range will be from 20% below to 20% above the salary range midpoint, resulting in a maximum amount that is 150% of the minimum amount.
- c. Salary ranges will be updated annually based on competitive market data and/or executive increase market trends. The Executive Compensation Committee reserves the right to establish lower salary ranges or to freeze salary ranges and recommend freezing or lowering base salaries when financially prudent.

2. **Placement in the Salary Range** includes initial placement of a new hire, adjustments when there is a change in job scope, and periodic salary increases or decreases. An individual's placement in the range will be determined based on a combination of the following factors: paying competitively, rewarding performance, and recognizing competence, credentials, and experience.

The guidelines for placement in range are:

- a. **Pay at 80% to 90% of Midpoint** is appropriate for a newly hired individual with limited experience in a comparable position, or for an individual who has recently been promoted and needs developmental time in the position. An individual may be eligible for higher percentage increases, aligned with performance, when positioned at this level.
- b. **Pay at 90% to 110% of Midpoint** is appropriate for a fully experienced (6 to 8 years) individual with a demonstrated record of consistently meeting performance expectations. The Hospital manages base salary increases so that upward movement in salary reflects individual performance and demonstrated proficiency.
- c. **Pay at 110% to 120% of Midpoint** may be appropriate for a highly experienced individual with demonstrated record of consistently exceeding performance expectations or with skills and expertise beyond those normally associated with the position. The Hospital compares base salary levels above market with competitive market data to verify that individual base salary is reasonable.
- d. The Hospital Board of Directors can approve salaries above the normal salary range for hard-to-recruit positions or positions deemed critical to the success of the organization. The Hospital compares salary levels above market with competitive market data to verify that the individual base salary and total compensation is reasonable.

**F. Roles and Responsibilities**

1. The El Camino Hospital Board of Directors shall approve executive base salaries.
2. The Executive Compensation Committee Charter defines the responsibilities delegated by the Hospital Board such as selecting consultants and approval of the salary ranges.



3. The CEO recommends the salary range and base salary for those executives reporting to the CEO to the Committee.
4. The Chief Human Resources Officer and/or Director Total Rewards are responsible for implementing salary ranges and base salaries.



**EL CAMINO HOSPITAL  
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

**03.04 EXECUTIVE PERFORMANCE INCENTIVE PLAN**

**A. Coverage:**

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO or COO. Participation in the plan is subject to approval by the Hospital Board of Directors.

**B. Reviewed/Revised:**

New: 9/15/09, 12/08/10, 2/13/13, 6/11/14 (eff 7/1/14), 10/14/15, 10/12/16

**C. Policy Summary:**

The Performance Incentive Plan is one component of the executive total compensation program which includes base salary, benefits, and other cash compensation. The Performance Incentive Plan is a goal-based compensation program designed to motivate and reward performance toward key annual strategic goals of the Hospital.

**D. General Provisions:**

The target amount for incentive pay will be competitive with those at comparable hospitals. An executive’s incentive payout will be based on their performance against pre-defined organizational and individual goals and measures aligned with the Hospital’s mission, vision, and strategic goals.

1. Eligibility – Participants hired after December 31 will not be eligible for the program until the beginning of the next fiscal year on July 1. Incentive compensation will be pro-rated for executives with at least six months, but less than one year in the position at the end of the fiscal year. Written performance goals and measures will be determined within the first 60 days of employment.
2. Criteria – the Hospital has established three criteria for payout. There will be no payout unless all three criteria are met. The Hospital must be accredited by the Joint Commission and the individual executive must “meet expectations” on their performance review. In addition, the Hospital will establish a financial measure that must be achieved each fiscal year (i.e., a percent of operating margin) for payout to occur.
3. Amount of incentive pay – the maximum payout for an executive is 30% of their

**Commented [JJ1]:** Policy does not state the competitive positioning (i.e., P50)

base salary as of the end of the fiscal year. The targeted payout percent for those participants reporting to the CEO or COO is 20% of base pay. The maximum incentive pay for the CEO is 45% with a target of 30% of base salary.

4. Organizational Goals – each fiscal year the Hospital will define organizational goals that support the strategic/business plan upon which 70% (90% for the CEO) of performance incentive pay will be based. Whenever possible, each goal will have performance measures for threshold, target, and maximum levels and payouts will be on a continuum. Organizational goals will account for 50% of performance incentive pay for Presidents of the Foundation and Concern:EAP.
5. Executive Individual Goals (excluding CEO) – at the beginning of the fiscal year, each participant will propose performance goals and measurements that support the strategic/business plan upon which 20% of performance incentive pay will be based. Whenever possible, each goal will have performance measures for threshold, target, and maximum levels and payouts will be on a continuum. Individual goals based on the Foundation or Concern’s organizational goals, will account for 40% of performance incentive pay for Presidents of the Foundation and Concern:EAP. respectively,
6. Ten percent (10%) of the executive’s performance incentive pay will be at the CEO’s discretion subject to Board approval. Ten percent (10%) of the CEO’s performance incentive pay will be at the Board’s discretion.
7. Performance Incentive Payout – Incentive compensation will be paid within 30 days of the Board of Directors approving the payout amounts. In order to receive incentive compensation, executives must be actively employed in an executive position at the time the incentive compensation is paid.

#### **E. Roles and Responsibilities**

1. The El Camino Hospital Board of Directors shall approve the plan design, organizational goals, executive individual goals, and performance incentive payout amounts.
2. The Executive Compensation Committee Charter defines the responsibilities delegated by the Hospital Board such as reviewing and recommending goals and performance incentive payout amounts.
3. The CEO recommends the organizational and individual goals, discretionary score, and recommends incentive payout amounts to the Committee.

4. The Chief Human Resources Officer and/or Director Total Rewards are responsible for overseeing administration of the program and implementing actions approved by the Board.



**EL CAMINO HOSPITAL  
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

**03.03 EXECUTIVE BENEFIT PLAN**

**A. Coverage:**

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO or COO. Participation in the plan is subject to approval by the Hospital Board of Directors.

**B. Reviewed/Revised:**

New: 6/16/09, 12/08/10, 2/13/13, 8/13/14, 6/14/17

**C. Policy Summary:**

To support the Hospital’s ability to attract and retain executive talent, the Hospital shall provide key executives with a benefits package that is market competitive, compliant, and cost effective. This section outlines the benefits offered to executives in addition to those offered to employees in general.

**Commented [JJ1]:** Does not include a specific market position

**D. General Provisions:**

There are several components of the executive benefit program:

- 1) **Basic Benefits are benefits the Hospital offers to all eligible employees** and currently includes:
  - a. **Group insurance and income protection programs** such as medical, employee assistance, dental, and vision plans; supplemental life insurance for the employee, spouse/domestic partner and dependent/child(ren) life insurance; accidental death and dismemberment insurance;
  - b. **Paid time off and extended sick leave;**
  - c. **Cash balance plan;**
  - d. **Employer-match to the 403(b) Plan; and**
  - e. **Domestic Social Security or Medicare tax payments.**
- 2) **Basic Executive Benefits** are non-elective group benefits provided to executives with plan provisions that differ from those of non-executive employees which currently include:

- a. **Basic Life Insurance** – Under Class 2 of the group life insurance policy, the basic benefit for full-time executives is three times annual salary (rounded to the nearest \$10,000) up to \$1.25 million with a guaranteed issue amount of \$350,000. The IRS requires the Hospital to report imputed income for coverage over \$50,000. If an executive’s regular status is less than full-time, they will be eligible for the employee basic life insurance plan.
  - b. **Long-term disability (LTD)** – Effective January 1, 2017, executive basic LTD insurance will provide a benefit of up to 60% of base earnings to a maximum of \$15,000 following a 90-day waiting period. Eligibility for benefits will be the same as other employees except that executives will be given consideration of disability under their “own occupation” in all years.
- 3) **Supplemental Executive Benefits** include:
- a. **Executive Disability Salary Continuation** – if an executive is unable to work due to a health-related problem, the executive’s salary will be continued for up to six months at 100% of base salary.
    - i. Disability Salary Continuation benefits are integrated with all other employer-sponsored benefits so that the executive will not receive more than 100 % of salary. This includes use of accrued PTO and Extended Sick Leave as well as state disability insurance, workers’ compensation, and group long-term disability insurance.
    - ii. Disability Salary Continuation benefits are taxed as ordinary income.
    - iii. Disability Salary Continuation benefits are not portable at termination of employment
  - b. **Severance plan**
    - i. The severance period is up to six months unless otherwise stated in the executive’s employment agreement. Severance will be paid on a bi-weekly basis and will be determined by the executive’s base salary at the time of termination.
    - ii. Severance may be paid if the executive’s employment is terminated by the Hospital without cause or following a material reduction in duties or salary within six months of a change of control. Severance will not be paid when the executive voluntarily resigns or is discharged as described under Human Resources Policies 3.12 and 7.01.

**Commented [JJ2]:** Note that the insurance policy applies only to full-time executives

- iii. In addition to six months' pay, the executive is eligible for up to six months coverage extension of medical, dental, and vision coverage employer contributions. The executive will contribute to the cost on the same basis as when employed. The Hospital will continue to pay the employer share until such time as the executive fails to pay his or her share of premium, becomes ineligible for continuation under COBRA, obtains other group coverage, or six months (whichever is less).
  - iv. Any obligation of the Hospital to the executive is conditioned, upon the executive signing a release of claims in the form provided by the Hospital (the "Employee Release") within twenty-one days (or such greater period as the Hospital may specify) following the later of the date on which the executive receives notice of termination of employment or the date the executive receives a copy of the Employee Release and upon the executive not revoking the Employee Release in a timely manner thereafter.
  - v. Severance benefits are taxed as ordinary income.
  - vi. Severance pay will be offset by any earnings received should the executive gain employment during the severance period. The terminated executive must notify the Hospital upon obtaining other employment and provide evidence of base salary received and benefits eligibility (if continuing benefits) in the new position.
- 4) **Executive Taxable Benefit Allowance** – the executive will be provided an annual benefits allowance equal to 7% of base pay (as determined based on annualized base salary on January 1 or date initially eligible for the plan) to purchase the following voluntary benefits on a taxable basis:
- a. **Individual Long-term Disability;**
  - b. **Individual Long-Term Care** (note: policies in force as of 12/31/08 will be provided as a non-elective benefit, paid by the Hospital on a pre-tax basis and not included in the 7% taxable benefit allowance. Executives may revoke coverage but not make any changes to the policy that increases the premiums);
  - c. **Individual Life Insurance;** and
  - d. **457(b) Executive Retirement Plan** – if there is allowance remaining after the purchase of voluntary benefits; the executive may elect to contribute to a 457(b) plan or may receive the remainder in cash as pay in lieu of benefits. Such deferrals are subject to statutory limits (i.e., \$18,000 in 2017).

5) Executive Retirement Plans

- a. 457(b) Executive Retirement Plan – an executive may contribute unused taxable Benefit Allowance, payout of accrued PTO, and/or salary, subject to statutory limits (i.e., \$17,500 in 2014). The account balance will be fully vested at all times.
- b. 457(f) SERP – the Hospital will contribute 5% of Base Pay (as determined based on annualized base salary on January 1 or date initially eligible for plan) to a tax-deferred retirement account. Such contributions have a “Deferred Vesting Date” of the fifth anniversary of the date each Account is created (i.e., January 1, 2019 for 2014 account.) The Participant shall be entitled to the SERP Benefit upon the earliest of (i) remaining employed by the Company to the earlier of the Deferred Vesting Date for such Account or the Participant’s 65<sup>th</sup> birthday; (ii) Disability; (iii) Death; or (iv) Involuntary Separation from Service without Reasonable Cause.
  - i. Participants age 65 or greater - If a Participant continues employment beyond age 65, the Company shall pay to the Participant an amount equal to the credits the Company otherwise would have credited to a SERP Account for such Participant in cash. The Company shall pay such amounts during the applicable Plan Year(s).
  - ii. Under current tax rules, taxes are payable at vesting, so the plan will provide a partial distribution at vesting to cover taxes.
  - iii. In order to attract and retain executive talent, the Hospital may contribute a higher percent or dollar amount for individual executives as determined by the Hospital’s Board of Directors and consistent with the total compensation policy.

**E. Roles and Responsibilities**

- 1) The El Camino Hospital Board of Directors shall approve all changes to plan design and delegated executive benefit plan administration oversight to the Executive Compensation Committee. The Committee has the responsibility to recommend eligibility and changes to plan design.
- 2) The Chief Human Resources Officer is responsible for overseeing the administration of the program and implementing new benefits or changes. The Chief Human Resource Officer has the authority to engage third parties and assign duties internally and/or externally to effectively administer the plan.



- 3) The executive benefit plan consultants are selected by the Executive Compensation Committee on behalf of the Board of Directors and advise the Board on plan design, overall plan management, and compliance.
- 4) The executive benefits plan advisor is selected by the Chief Human Resources Officer and assists in plan communication and administration. The advisor will be a licensed professional who acts as an agent for purchases of individual insurance products. The advisor will guide and advise individual executives on his or her benefit elections upon hire, during open enrollment, and at termination of employment.

**F. Procedures:**

- 1) Newly executives will be eligible for the executive benefit plan on the first of the month commensurate with or following 30 days from date of hire into an eligible position. The taxable benefits allowance and SERP contribution will be prorated based on the number of complete months of participation during the year.
- 2) There will be an annual open enrollment period during which the executive may add or change certain benefit elections.
- 3) At termination of employment, the Hospital will prorate the taxable benefits allowance and SERP contribution based on the number of complete months of participation during the year. The taxable benefits allowance and SERP contribution will be discontinued upon termination.
- 4) If an executive transfers into a position that is not eligible for the executive benefits program, the Hospital will prorate the taxable benefits allowance and SERP contribution as of the transfer date based on the number of complete months of participation during the year. The taxable benefits allowance and SERP contribution will be discontinued as of the transfer date. The former executive will continue to vest his or her SERP contributions throughout their employment with the Hospital.

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Addition of Position (President, SVMD) to Executive Compensation and Benefits Plan and FY18 Salary Range Executive Compensation Committee November 9, 2017
<b>Responsible party:</b>	Dan Woods, CEO; Kathryn Fisk, CHRO
<b>Action requested:</b>	Motion(s) Required
<b>Background:</b>	
<p>To support the El Camino Hospital’s Physician Alignment strategy, the Hospital has started the search for a President SVMD, an affiliate company. Silicon Valley Medical Development, LLC (SVMD) is the entity responsible for the growth, development, and operations of the community based outpatient clinics affiliated with El Camino Hospital.</p> <p>During the search the Hospital will consider physician and non-physician candidates.</p> <p>Mercer, independent compensation consultants, has prepared market analysis for both physician and non-physician candidates.</p>	
<b>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</b>	
None.	
<b>Summary and session objectives :</b>	
<ol style="list-style-type: none"> <li>1. Review the job summary and market data</li> <li>2. Discuss whether or not the committee wishes to recommend adding position to the Executive Compensation and Benefit plan</li> <li>3. Determine whether the Committee’s recommendation regarding base salary range(s)</li> </ol>	
<b>Suggested discussion questions:</b>	
<ol style="list-style-type: none"> <li>1. Does the Committee have any questions about the position or market data?</li> <li>2. Does the Committee support the CEO’s recommendation?</li> </ol>	
<b>Proposed Committee motion, if any:</b>	
<ol style="list-style-type: none"> <li>1. To recommend the Board add the President SVMD position to the Executive Compensation Plan with a base salary range of:  <div style="margin-left: 40px;">\$344,000-\$430,000 - \$516,000 (non-physician) OR  \$467,200-\$584,000-\$700,800 (physician)</div> </li> <li>2. To recommend the Board approve the weighting of organizational, individual, and discretion be 50%, 40%, and 10% respectively consistent with other organizational Presidents.</li> <li>3. Recommend that the Executive Compensation Philosophy policy be amended to include</li> </ol>	

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

	<p>the new position.</p> <p>4. Recommend that the Executive Performance Incentive Plan policy be amended to reflect the weighting of 50%/40%/10%.</p>
	<p><b>LIST OF ATTACHMENTS:</b></p> <ol style="list-style-type: none"><li>1. Mercer's Market Analysis</li><li>2. Job Specifications</li><li>3. Executive Compensation Philosophy</li><li>4. Executive Performance Incentive Plan</li></ol>

**President, SVMD - Potential Compensation Ranges**

	Market Median Base Salary	Base Salary Range (+/-20% of Median)	Target Total Cash Range <sup>1</sup>
MD Candidate	\$584	\$465 - \$700	\$558 - \$840
Non-MD Candidate	\$430	\$345 - \$515	\$414 - \$618

<sup>1</sup> Assuming a target bonus of 20% of base salary.

Note: Market data has been aged to 1/1/18 and includes a 25% geographical differential.

## West Coast Physician Market Data - For Reference

	Base Salary			Target Total Cash		
	25th	50th	75th	25th	50th	75th
Highly Paid Specialty - Neurological Surgery	\$445	\$599	\$741	\$587	\$714	\$829
Lower Paid Specialty - Obstetrics/Gynecology	\$273	\$325	\$413	\$308	\$362	\$457
Internal Medicine	\$216	\$249	\$299	\$243	\$296	\$341

Note: Market data is from the Sullivan Cotter Physician Compensation and Productivity Survey Report, and is scoped to the US West Coast. Data has been aged to 1/1/18.

## Executive Roles (MD Required)

Benchmark Match Information	Wgt	Degree Required	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
							25th	50th	75th	25th	50th	75th	25th	50th	75th
US-HLTH-SUL2-16 - 7220 - Medical Group Chief Executive Officer/Executive Director (MD) - All Medical Groups	1.0	MD Required		-10% for autonomy; -10% for size	54		\$375	\$466	\$560	\$457	\$571	\$685	\$466	\$581	\$690
<i>US-HLTH-SUL2-16 - 7220 - Medical Group Chief Executive Officer/Executive Director (MD) - Less Than 200 Phy FTEs</i>	--	MD Required		-10% for autonomy	6		\$211	\$252	\$338	\$226	\$318	\$356	\$242	\$318	\$356
US-HLTH-AMGA2-14 - 5100 - Physician Administrator (CEO) - Administrative Positions: All Organizations	1.0	MD Required		-10% for autonomy; -10% for size	33	33	\$382	\$468	\$601	\$394	\$561	\$718	\$394	\$561	\$718
<i>US-HLTH-AMGA2-14 - 5100 - Physician Administrator (CEO) - Administrative Positions: 71-100 Physician FTEs</i>	--	MD Required		-10% for autonomy	10	10	-	-	-	\$417	\$474	\$680	\$417	\$474	\$680
<i>US-HLTH-AMGA2-14 - 5100 - Physician Administrator (CEO) - Administrative Positions: 35-70 Physician FTEs</i>	--	MD Required		-10% for autonomy	5	5	-	-	-	\$334	\$404	\$688	\$334	\$404	\$688
US-HLTH-MGMA2-17 - 1 - Physician CEO/President - All Practices	1.0	MD Required		-10% for autonomy; -10% for size	44	48	-	-	-	\$243	\$363	\$486	\$243	\$363	\$486
Survey Composite							\$378	\$467	\$581	\$365	\$498	\$630	\$368	\$502	\$632
<b>Survey Composite with 25% Geographic Differential</b>							<b>\$473</b>	<b>\$584</b>	<b>\$726</b>	<b>\$456</b>	<b>\$623</b>	<b>\$787</b>	<b>\$460</b>	<b>\$627</b>	<b>\$789</b>

Data aged to 1/1/2018

## Executive Roles (MD Required) - Job Descriptions

Benchmark Match Information	Wtg	Match
US-HLTH-SUL2-16 - 7220 - Medical Group Chief Executive Officer/Executive Director (MD) - All Medical Groups	1.0	Responsible for establishing and achieving the medical groups short- and long-term objectives and overall viability. Typically reports to the board of the medical group. This position requires an MD. This is the top executive in the medical group.
US-HLTH-AMGA2-14 - 5100 - Physician Administrator (CEO) - Administrative Positions: All Organizations	1.0	A physician that plans, directs, and coordinates the administrative activity of the organization; participates with governing board in planning and determining the strategic goals; and is responsible for all operating and financial performance. This is the top physician management position and reports directly to the governing board.
US-HLTH-MGMA2-17 - 1 - Physician CEO/President - All Practices	1.0	Position requires candidate to be a licensed physician; Usually found in larger practices or in some form of an integrated system or network, such as physician hospital organization (PHO) or management services organization (MSO); Since administrative duties are substantial, the delivery of health care services is minimal; Develops and monitors organizational policy with other management personnel and board of directors; Responsible for the overall operation of the organization, including patient care and contract relations; Oversees activities related to the growth and expansion of the organization; Plays a major role in the organizations strategic process; Typically serves as the liaison between the organization, the community, and the board of directors; Oversees a team of senior management personnel; and Usually reports to the governing body of the organization.

## Executive Roles (MD Not Required)

Benchmark Match Information	Wgt	Degree Required	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
							25th	50th	75th	25th	50th	75th	25th	50th	75th
US-HLTH-SUL2-16 - 7221 - Medical Group Chief Executive Officer/Executive Director (Non-MD) - All Medical Groups	1.0			-10% for autonomy; -10% for size	23		\$298	\$348	\$441	\$322	\$435	\$619	\$339	\$435	\$619
US-HLTH-SUL2-16 - 7221 - Medical Group Chief Executive Officer/Executive Director (Non-MD) - Less Than 200 Phy FTEs	--			-10% for autonomy	6		\$227	\$279	\$305	\$260	\$282	\$362	\$260	\$297	\$369
_US-HLTH-MER4A-17 - 4125A - Top Physician Practices Executive - Total Net Revenue: 350M to less than 1.5B USD	1.0		\$1B		7	7	\$322	\$409	\$564	\$322	\$409	\$564	\$322	\$409	\$564
US-HLTH-SUL-17 - 7145 - Top Physician Practices Management Executive - Systems: \$400M to \$900M Net Revenue	1.0	MD Optional	\$675.1M		17		\$215	\$276	\$348	\$238	\$303	\$409	\$238	\$303	\$409
Survey Composite							\$278	\$344	\$451	\$294	\$382	\$531	\$300	\$382	\$531
<b>Survey Composite with 25% Geographic Differential</b>							<b>\$348</b>	<b>\$430</b>	<b>\$564</b>	<b>\$367</b>	<b>\$478</b>	<b>\$663</b>	<b>\$375</b>	<b>\$478</b>	<b>\$663</b>

Data aged to 1/1/2018

## Executive Roles (MD Not Required) - Job Descriptions

Benchmark Match Information	Wtg	Match Description
US-HLTH-SUL2-16 - 7221 - Medical Group Chief Executive Officer/Executive Director (Non-MD) - All Medical Groups	1.0	Responsible for establishing and achieving the medical groups short- and long-term objectives and overall viability. Typically reports to the board of the medical group. This position is not an MD. This is the top executive in the medical group.
_US-HLTH-MER4A-17 - 4125A - Top Physician Practices Executive - Total Net Revenue: 350M to less than 1.5B USD	1.0	Responsible for developing and directing the physician practices line of business for the organization. Develops long-term plans, strategies, and objectives. Develops operating standards for sites and monitors their performance against standards. Typically reports to the President/Chief Executive Officer (CEO) or Chief Operating Officer (COO). Note: This is generally a single incumbent position. Only one employee, the most senior individual, per organization entity should be reported.
US-HLTH-SUL-17 - 7145 - Top Physician Practices Management Executive - Systems: \$400M to \$900M Net Revenue	1.0	Responsible for planning, developing and overseeing the overall physician practices, including financial performance, marketing, growth, physician recruiting and contracting. May serve as a liaison for the physicians to the governing body of the organization. Typically reports to the president and chief executive officer or chief operating officer. This position may have an MD.

## Internal Medicine Roles

Benchmark Match Information	Wgt	Degree Required	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
							25th	50th	75th	25th	50th	75th	25th	50th	75th
US-HLTH-MGMA-17 - 24.3 - Hospitalist: Internal Medicine - All Practices	0.5	MD Required			211	3620	-	-	-	\$252	\$293	\$341	\$252	\$293	\$341
US-HLTH-MGMA-17 - 26 - Internal Medicine: General - All Practices	0.5	MD Required			721	5259	-	-	-	\$213	\$255	\$317	\$213	\$255	\$317
US-HLTH-SUL1-16 - 1210-1 - Internal Medicine - Staff Physician - West	1.0	MD Required			29	1280	\$216	\$249	\$299	\$243	\$296	\$341	\$243	\$296	\$341
Survey Composite							\$216	\$249	\$299	\$238	\$285	\$335	\$238	\$285	\$335

Data aged to 1/1/2018

## Specialist Roles

Benchmark Match Information	Wgt	Degree Required	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
							25th	50th	75th	25th	50th	75th	25th	50th	75th
US-HLTH-SUL1-16 - 2090-1 - Neurological Surgery - Staff Physician - West		MD Required			20	104	\$445	\$599	\$741	\$587	\$714	\$829	\$587	\$714	\$829
US-HLTH-SUL1-16 - 2015-1 - Cardiovascular Surgery - Staff Physician - West		MD Required			8	53	\$340	\$453	\$681	\$402	\$623	\$732	\$402	\$623	\$732
US-HLTH-SUL1-16 - 4040-1 - Radiology - Diagnostic - Staff Physician - West		MD Required			15	337	\$365	\$512	\$587	\$485	\$545	\$616	\$485	\$545	\$616
US-HLTH-SUL1-16 - 4130-1 - Radiology - Radiation Oncology - Staff Physician - West		MD Required			18	115	\$377	\$447	\$544	\$442	\$526	\$564	\$442	\$526	\$564
US-HLTH-SUL1-16 - 1040-1 - Cardiology - General - Staff Physician - West		MD Required			21	196	\$311	\$396	\$490	\$373	\$457	\$548	\$373	\$457	\$548
US-HLTH-SUL1-16 - 2000-1 - Anesthesiology - Staff Physician - West		MD Required			14	396	\$308	\$383	\$452	\$382	\$454	\$512	\$382	\$454	\$512
US-HLTH-SUL1-16 - 2050-1 - General Surgery Staff Physician - West		MD Required			28	353	\$308	\$367	\$424	\$347	\$398	\$459	\$347	\$398	\$459
US-HLTH-SUL1-16 - 2070-1 - Obstetrics/Gynecology - General - Staff Physician - West		MD Required			29	618	\$273	\$325	\$413	\$308	\$362	\$457	\$308	\$362	\$457
US-HLTH-SUL1-16 - 1250-1 - Neurology - Staff Physician - West		MD Required			25	276	\$222	\$256	\$311	\$252	\$300	\$345	\$252	\$300	\$345
US-HLTH-SUL1-16 - 1100-1 - Endocrinology and Metabolism - Staff Physician - West		MD Required			25	158	\$208	\$229	\$265	\$233	\$270	\$319	\$233	\$270	\$319

Data aged to 1/1/2018



## Physician Specialty Roles - Job Descriptions

Benchmark Match Information	Wgt	Match Description
US-HLTH-SUL1-16 - 2090-1 - Neurological Surgery - Staff Physician - West		Certified by the American Board of Neurological Surgery. Provides the operative and non-operative management (e.g., prevention, diagnosis, evaluation, treatment, critical care and rehabilitation) of disorders of the central, peripheral and autonomic nervous systems, including their supporting structures and vascular supply; the evaluation and treatment of pathological processes that modify function or activity of the nervous system; and the operative and non-operative management of pain. Treats patients with disorders of the nervous system; disorders of the brain, meninges, skull and their blood supply, including the extracranial carotid and vertebral arteries; disorders of the pituitary gland; disorders of the spinal cord, meninges and vertebral column, including those that may require treatment by spinal fusion or instrumentation; and disorders of the cranial and spinal nerves throughout their distribution.
US-HLTH-SUL1-16 - 2015-1 - Cardiovascular Surgery - Staff Physician - West		A cardiovascular surgeon performs operations on the heart and blood vessels of the body. This may include replacement of heart valves or bypasses of blocked coronary arteries. Training in the specialization of cardiovascular surgery involves the completion of a general surgery residency program followed by two or three more years of specialized training in all of the aspects of heart, blood vessel and chest surgery. Some surgeries include permanent transvenous pacemaker insertion, cardiac surgery of the coronary artery (bypass) and treatment of valvular heart disease, artery problems, carotid artery problems or microvascular surgery for diabetic leg ulcers.
US-HLTH-SUL1-16 - 4040-1 - Radiology - Diagnostic - Staff Physician - West		Certified by the American Board of Radiology. A radiologist who utilizes X-ray, radionuclides, ultrasound and electromagnetic radiation to diagnose disease.
US-HLTH-SUL1-16 - 4130-1 - Radiology - Radiation Oncology - Staff Physician - West		Certified by the American Board of Radiology. A radiation oncologist studies and manages diseases, especially malignant tumors and radiological treatments of abnc
US-HLTH-SUL1-16 - 1040-1 - Cardiology - General - Staff Physician - West		Certified by the American Board of Internal Medicine with a certificate of special qualification in cardiovascular disease. An internist who specializes in diseases of the heart and blood vessels and manages complex cardiac conditions such as heart attacks and life-threatening, abnormal heartbeat rhythms. This specialty includes the remaining cardiologists not defined in the cardiology subspecialties.
US-HLTH-SUL1-16 - 2000-1 - Anesthesiology - Staff Physician - West		Certified by the American Board of Anesthesiology. Trained to provide pain relief and maintenance or restoration of a stable condition during and immediately followi
US-HLTH-SUL1-16 - 2050-1 - General Surgery Staff Physician - West		Certified by the American Board of Surgery. A surgeon manages a broad spectrum of surgical conditions affecting almost any area of the body. The surgeon establis
US-HLTH-SUL1-16 - 2070-1 - Obstetrics/Gynecology - General - Staff Physician - West		Certified by the American Board of Obstetrics and Gynecology. An obstetrician/gynecologist possesses special knowledge, skills and professional capability in the m
US-HLTH-SUL1-16 - 1250-1 - Neurology - Staff Physician - West		Certified by the American Board of Psychiatry and Neurology. A neurologist specializes in the diagnosis and treatment of all types of diseases or impaired functions of the brain, spinal cord, peripheral nerves, muscles and autonomic nervous system as well as the blood vessels that relate to these structures.
US-HLTH-SUL1-16 - 1100-1 - Endocrinology and Metabolism - Staff Physician - West		Certified by the American Board of Internal Medicine with a certificate of special qualification in endocrinology, diabetes and metabolism. This physician concentrates on disorders of the internal (endocrine) glands such as the thyroid and adrenal glands. Also deals with disorders such as diabetes, metabolic and nutritional disorders, pituitary diseases and menstrual and sexual problems.

## President SVMD Specifications

### Silicon Valley Medical Development, LLC

Silicon Valley Medical Development (SVMD) is the entity responsible for the growth, development, and operations of the community based outpatient clinics affiliated with El Camino Hospital. SVMD works in conjunction with El Camino Medical Associates, P.C. (ECMA) to help fulfill the employment needs for the organization. While there are seven employed physicians with EMCA at this time, the strategic plan calls for the development of additional locations and the employment of 40+ providers over the next three years. This is one of the foundational elements of El Camino's Strategic Plan and of high importance.

### Position Summary

The President, Silicon Valley Medical Development, LLC (SVMD) will provide leadership and strategic direction for the physician alignment strategy for El Camino Hospital (ECH). The President is responsible for the recruitment, onboarding and integration of primary and specialty practices and clinical services within SVMD. The President is also responsible for overseeing physician practice transformation initiatives, access, quality, safety and patient experience initiatives, provider and staff engagement, programmatic development, and financial performance. The President will interact effectively with external partners including medical foundations, IPAs, health care systems and physician practices to execute the growth strategy. The role will have interactions with various boards and will serve as a board member for SVMD. As a senior member of the El Camino Hospital executive management team, the President is a key contributor in the development, implementation and management of long-range strategic plans that support El Camino's mission.

The President, Silicon Valley Medical Development will:

- In collaboration with the ECH CEO and CMO, develop and implement strategic business plans, programmatic expansion, and operational plans for the physician enterprise;
- Serve as a voting member of the SVMD Board;
- Lead due diligence evaluations and contract negotiations related to physician recruitment and practice acquisitions;
- Oversee onboarding and operational integration efforts of new physicians related to financial management, physician relations and personnel management, and provide leadership and support through transition period;
- Provide leadership in the development of physician governance structures to support expansion and growth; collaborate with executive leadership in the evolution of necessary medical staff development plans;
- Establish operational infrastructure, policies, procedures and processes into one operating model with a cohesive and accountable culture;
- Foster a culture of high-quality, patient-centered care; provide leadership in the establishment of SVMD standards of care, quality and patient experience in new affiliates consistent with El Camino standards of excellence;
- Improve efficiency, quality, patient satisfaction and physician satisfaction across primary care and specialty practices;
- In coordination with medical leadership, ensure care is coordinated between inpatient and outpatient settings;

- Oversee and collaborate with Cypress Healthcare Partners on day-to-day operations of the clinics;
- Collaborate with community affiliate physician leaders to ensure that service level agreements are satisfied;
- Develop and oversee capital and operating budgets, as well as productivity standards;
- Recruit, retain, and mentor administrative team to meet the needs of SVMD;
- Play an active role in SVMD compliance programs;
- Participate as a key contributor in the management of long-range plans to support the El Camino Hospital strategic plan and mission.

## **DESIRED OUTCOMES**

- Establish SVMD as medical group in the Silicon Valley that is recognized for its high quality and level of service.
  - Build trust, credibility and relationships with El Camino's physician community, clinicians within SVMD and the El Camino executive team.
  - Develop and execute on a long-term plan for physician engagement.
  - Identify, recruit and integrate new primary care and specialty physicians and physician practices into multi-specialty medical group; enlarge the entity to the size and scope that would enable its conversion to a 1206L (Foundation).
  - Establish medical group infrastructure, policies and procedures. Work through legal, regulatory and compliance issues to establish and grow into a fully operational, unified multi-specialty medical foundation.
  - Enhance the utility of SVMD as an integrated care partner with ECH to improve patient outcomes, experience and effectiveness of care.
  - Develop a transparent and collaborative culture of physician group.
  - Ensure financial sustainability through improvements in operations and the development of financial and productivity plans.
  - Enhance the knowledge base of the medical community on national trends and issues.
-

**EL CAMINO HOSPITAL  
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

**03.01 EXECUTIVE COMPENSATION PHILOSOPHY**

A. Coverage:

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO and approved participants. Participation in the plan is subject to approval by the Hospital Board of Directors (see Attachment A).

B. Reviewed/Revised:

New: 2/08, 6/09, 12/08/10; 8/10/11, 2/13/13, 6/11/14, 10/12/16, Proposed Change for ECC consideration 11/9/17

C. Policy Summary:

The compensation philosophy is the official statement of El Camino Hospital’s Board of Directors regarding the guiding principles and objectives upon which executive compensation decisions are based, and the general parameters and components for accomplishing these objectives.

The executive compensation program encompasses both cash compensation (salary, incentive pay, and other cash compensation) and non-cash compensation (employer provided benefit plans and perquisites) which in whole, represent total compensation. The program is governed by the Board of Directors and the Executive Compensation Committee which advises the Board to meet all applicable legal and regulatory requirements as it related to executive compensation and their effectiveness in attracting, retaining, and motivating executives.

D. Executive Compensation Philosophy:

The philosophy describes the guiding principles and objectives of the executive compensation program. Executive compensation decisions will be made using the following guiding principles and objectives:

1. Support the Hospital’s ability to attract, retain, and motivate a highly-talented executive team with the ability and dedication to manage the Hospital accordingly.
2. Support the Hospital’s mission and vision and achievement of strategic goals.
3. Encompass a total compensation perspective in developing and administering cash compensation and benefit programs.

4. Considers the Hospital's financial performance and ability to pay which shall be balanced with the Hospital's ability to attract, retain and motivate executives.
5. Govern the executive compensation programs to comply with state and federal laws.

E. Components:

The three key components of the executive compensation program are base salary, performance incentive compensation, and benefits.

1. Base Salary. Each executive position will be assigned a salary range that is competitive with comparable hospitals and accounts for the higher cost of labor in Silicon Valley.
2. Performance Incentive Compensation. Each executive will be eligible for a goal-based performance incentive compensation program. An executive's performance incentive payout will be based on their performance against pre-defined organizational and individual goals and objectives aligned with the Hospital's mission, vision, and strategic goals.
3. Executive Benefits and Perquisites. The Hospital may provide executives with supplemental benefits as described in the executive benefits policy. It is the Hospital's practice to minimize the use of perquisites in total executive compensation.

F. Roles and Responsibilities:

The Executive Compensation Committee shall recommend and maintain written policies and procedures regarding the administration of each component. The Hospital Board of Directors will approve all policy changes.

G. Definitions

**Comparable Hospital** – To measure the competitiveness of the executive compensation program, the Hospital will use, in general, compensation information from tax-exempt independent hospitals from across the United States comparable in size and complexity to the Hospital. The hospitals will be comparable in size and complexity based upon net operating revenues.

**Competitive Position** – A determination of where the Hospital places executive salaries, incentives, and benefits relative to comparable hospitals nationally. El Camino Hospital's competitive position for base salaries is the market median plus a geographic differential for the Silicon Valley area.

**Geographic Differential** – Recognizes the significantly higher cost-of-labor in Silicon Valley. The Committee will periodically analyze data to ensure the geographic differential is appropriate and accurately projecting the El Camino Hospital median.

**El Camino Hospital Median** – Reflects the median base pay of the comparable hospitals plus the geographic differential for a particular position. The Hospital increases the data by 25% to calculate the El Camino Hospital median.

**Other Cash Compensation** – Other cash compensation excludes base salary and incentive pay but includes a hiring and retention bonuses, and relocation reimbursement.

**Salary Range** - A range established as 20% below to 20% above the salary range midpoint, resulting in a maximum amount that is 150% of the minimum amount.

**Salary Range Midpoint** - The midpoint of the salary range for each executive position will be set at the El Camino Hospital Median.

**Total Cash Compensation** – includes base salary plus annual incentive compensation (and other cash) paid to an executive.

**Total Compensation** – Total cash compensation plus the cost of employee and executive benefit programs.

**ATTACHMENT A:  
APPROVED PARTICIPANTS IN EXECUTIVE  
COMPENSATION PROGRAM**

**Effective ~~11/1/2016~~1/10/18 (if Board approves)**

Cecile Currier, Vice President Corporate and Community Health\*  
Cheryl Reinking, Chief Nursing Officer  
~~Gregory Walton, Chief Technology Officer~~  
Iftikhar Hussein, Chief Financial Officer  
Open, Chief Strategy Officer  
Joan Kezic, Vice President Payor Relations\*  
Joanne Barnard, President, El Camino Hospital Foundation  
Kathryn Fisk, Chief Human Resources Officer  
Kenneth King, Chief Administrative Services Officer  
Mary Rotunno, General Counsel  
~~Michael Zdeblick, open,~~ Chief Operations Officer  
~~Open~~Daniel Woods, President and CEO  
William Faber, MD, Chief Medical Officer  
Open, Chief Information Officer  
Open, President SVMD

\*These executives are considered grandfathered participants and shall continue to be eligible for the Executive Compensation Program as long as the individual remains in an executive position with El Camino Hospital.

Note: Executives hired on an interim basis are not eligible for the Executive Compensation and Benefits Program.

**EL CAMINO HOSPITAL  
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

**03.04 EXECUTIVE PERFORMANCE INCENTIVE PLAN**

**A. Coverage:**

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO or COO. Participation in the plan is subject to approval by the Hospital Board of Directors.

**B. Reviewed/Revised:**

New: 9/15/09, 12/08/10, 2/13/13, 6/11/14 (eff 7/1/14), 10/14/15, 10/12/16, [Proposed Change for ECC consideration 11/9/17](#)

**C. Policy Summary:**

The Performance Incentive Plan is one component of the executive total compensation program which includes base salary, benefits, and other cash compensation. The Performance Incentive Plan is a goal-based compensation program designed to motivate and reward performance toward key annual strategic goals of the Hospital.

**D. General Provisions:**

The target amount for incentive pay will be competitive with those at comparable hospitals. An executive’s incentive payout will be based on their performance against pre-defined organizational and individual goals and measures aligned with the Hospital’s mission, vision, and strategic goals.

1. Eligibility – Participants hired after December 31 will not be eligible for the program until the beginning of the next fiscal year on July 1. Incentive compensation will be pro-rated for executives with at least six months, but less than one year in the position at the end of the fiscal year. Written performance goals and measures will be determined within the first 60 days of employment.
2. Criteria – the Hospital has established three criteria for payout. There will be no payout unless all three criteria are met. The Hospital must be accredited by the Joint Commission and the individual executive must “meet expectations” on their performance review. In addition, the Hospital will establish a financial measure that must be achieved each fiscal year (i.e., a percent of operating margin) for payout to occur.



3. Amount of incentive pay – the maximum payout for an executive is 30% of their base salary as of the end of the fiscal year. The targeted payout percent for those participants reporting to the CEO or COO is 20% of base pay. The maximum incentive pay for the CEO is 45% with a target of 30% of base salary.
4. Organizational Goals – each fiscal year the Hospital will define organizational goals that support the strategic/business plan upon which 70% (90% for the CEO) of performance incentive pay will be based. Whenever possible, each goal will have performance measures for threshold, target, and maximum levels and payouts will be on a continuum. Organizational goals will account for 50% of performance incentive pay for Presidents of the Foundation, SVMD, and Concern:EAP.
5. Executive Individual Goals (excluding CEO) – at the beginning of the fiscal year, each participant will propose performance goals and measurements that support the strategic/business plan upon which 20% of performance incentive pay will be based. Whenever possible, each goal will have performance measures for threshold, target, and maximum levels and payouts will be on a continuum. Individual goals based on the Foundation or Concern’s organizational goals, will account for 40% of performance incentive pay for Presidents of the Foundation, SVMD, and Concern:EAP. respectively,
6. Ten percent (10%) of the executive’s performance incentive pay will be at the CEO’s discretion subject to Board approval. Ten percent (10%) of the CEO’s performance incentive pay will be at the Board’s discretion.
7. Performance Incentive Payout – Incentive compensation will be paid within 30 days of the Board of Directors approving the payout amounts. In order to receive incentive compensation, executives must be actively employed in an executive position at the time the incentive compensation is paid.

**E. Roles and Responsibilities**

1. The El Camino Hospital Board of Directors shall approve the plan design, organizational goals, executive individual goals, and performance incentive payout amounts.
2. The Executive Compensation Committee Charter defines the responsibilities delegated by the Hospital Board such as reviewing and recommending goals and performance incentive payout amounts.
3. The CEO recommends the organizational and individual goals, discretionary score, and recommends incentive payout amounts to the Committee.

4. The Chief Human Resources Officer and/or Director Total Rewards are responsible for overseeing administration of the program and implementing actions approved by the Board.

**Executive Compensation Committee**

Updated 9/22/2017

<b>FY18 ECC Pacing Plan – Q1</b>		
<b>July 2017</b>	<b>August 2017</b>	<b>September 21, 2017</b>
<i>No scheduled meeting</i>	<i>No scheduled meeting</i>	<ul style="list-style-type: none"> <li>- Receive update on Strategic Plan</li> </ul> Committee to take action on: <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- FY17 Organizational Score</li> <li>- FY17 Executive Individual Scores</li> <li>- FY17 Executive Performance Incentive Payout Amounts</li> </ul>
<b>FY18 ECC Pacing Plan – Q2</b>		
<b>October 2017</b>	<b>November 9, 2017</b>	<b>December 2017</b>
<p style="text-align: center;"><i>No scheduled meeting</i></p> <p><i>Board to take action on the following items:</i></p> <ul style="list-style-type: none"> <li>- <i>Accept Moss Adams’ financial audit</i></li> <li>- <i>Approve FY17 Organizational Score</i></li> <li>- <i>Approve FY17 Executive Individual Scores</i></li> <li>- <i>Approve FY17 Executive Payout Amounts (discuss in closed, vote in open)</i></li> <li>- Dan Woods to meet with Mercer about Exec Comp and benefits, Long-Term Incentive Plan (with Bob, Kathryn, and Julie)</li> <li>- Mercer prepares Letters of Reasonableness</li> </ul> <p style="text-align: center;"><b>Wed., 10/25/2017</b> <b>Board &amp; Committee Educational Gathering</b></p>	Committee to take action on: <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Letters of Rebuttable Presumption</li> <li>- Long Term Incentive Plans in Healthcare (educational session)</li> <li>- Review Compensation Philosophy, Base Salary Administration, and Performance Incentive Plan Policies (including employee performance appraisal process and education on IPI (integrated performance improvement))</li> </ul>	<p><i>No scheduled meeting</i></p> <ul style="list-style-type: none"> <li>- <i>Mitch Olejko prepares cover letter for rebuttable presumption action</i></li> </ul>

**Executive Compensation Committee**

Updated 9/22/2017

<b>FY18 Compliance Committee Pacing Plan – Q3</b>		
<b>January 2018</b>	<b>February 2018</b>	<b>March 22, 2018</b>
<p><i>No scheduled meeting</i></p> <p><i>Board to take action on the following items:</i></p> <ul style="list-style-type: none"> <li>- <i>Accept Letter of Rebuttable Presumption</i></li> </ul> <p><i>*Beginning of benefit/executive benefit plan year</i></p>	<p><i>No scheduled meeting</i></p>	<ul style="list-style-type: none"> <li>- Update on FY18 Strategic Planning and progress against FY18 Performance Incentive Goals</li> <li>- Update on Executive Development Plan</li> </ul> <p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Proposed FY18 Committee Goals</li> <li>- Biennial review of Committee Charter</li> <li>- FY19 Meeting Dates</li> </ul>
<b>FY18 Compliance Committee Pacing Plan – Q4</b>		
<b>April 2018</b>	<b>May 17, 2018</b>	<b>June 2018</b>
<p><b>Wed., 4/25/2018</b></p> <p><b>Board &amp; Committee Educational Gathering</b></p>	<p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Finalize FY19 Pacing Plan</li> <li>- Review and may approve FY19 Salary Ranges</li> <li>- FY19 Executive Base Salaries (review CEO recs, may determine recommendation)</li> <li>- FY19 Organizational and Executive Individual Performance Incentive Goals (review CEO recs, determine recommendation)</li> <li>- CEO's FY19 Base Salary</li> <li>- CEO's FY19 Individual Goals</li> <li>- Review Committee Self-Assessment Results</li> </ul>	<p><i>No scheduled meeting</i></p> <p><i>Board to take action on the following items:</i></p> <ul style="list-style-type: none"> <li>- <i>FY19 Organizational Goals</i></li> <li>- <i>FY19 Executive Individual Goals</i></li> <li>- <i>FY19 CEO Individual Goals</i></li> <li>- <i>FY19 Executive Base Salaries</i></li> <li>- <i>FY19 CEO Base Salary</i></li> <li>- <i>FY19 Committee Goals</i></li> <li>- <i>FY19 Committee Dates</i></li> </ul>