



# Report to the Minister of Health on Executive Compensation for Alberta Health Services

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**Request:**

This report is in response to your request that I review and address compensation policies for senior leaders at Alberta Health Services (AHS) in my capacity as Official Administrator of AHS to ensure they are appropriate for a publicly funded organization in the province of Alberta.

I have completed the review and can advise that:

- New policies will be implemented to ensure that there will be no variable pay, incentive pay or pay at risk of any kind as an element of compensation for senior leaders at AHS.
- Compensation for senior leaders will be market based, with the market to consist of public sector comparators within Alberta and the Canadian health care sector.
- Compensation will be fiscally responsible and adequate to ensure that AHS can attract and retain leaders capable of delivering quality outcomes for Albertans.

**Executive Summary:**

- The new AHS senior leadership salary structure:
  - Has no incentive, variable pay, or pay at risk of any kind – only base pay;
  - Is based on the median of the national healthcare and Alberta public sector market – no private sector comparators;
  - Reduces the number of senior leadership salary levels from 6 to 4 levels (which includes the CEO level) consistent with efforts to streamline the structure of the organization;
  - Will be implemented and be cost neutral in the 2013/14 fiscal year; and
  - Is fiscally responsible and sustainable while supporting attraction and retention.
- Senior leadership positions will be assigned to salary grades after a job evaluation process that will assess size, scope and accountability of roles.
- Approximately 15 positions will no longer be assigned as senior leadership positions, resulting in a reduction of the senior leadership payroll. Impacted positions will continue to exist, but will be reassigned from the senior leadership level to the management level.
- The use of the title “Vice President” will be reserved for only the most senior positions in the organization that report directly to the CEO. The number of “Vice Presidents” has already been reduced from approximately 80 to 9.

**Background:**

- In 2009, shortly after the formation of AHS, the then AHS Board adopted a salary structure for senior leaders that had a number of features:
  - Salary ranges that were based on market comparators that included private sector organizations
  - A Pay at Risk program that enabled Vice Presidents and Senior Vice Presidents to earn up to 20% of their base pay depending on achievement of performance goals. Executive Vice Presidents and the CEO were eligible to earn up to 25% of their base pay based on achievement of performance goals.
  - Pay at Risk was earnable salary that was withheld and then paid at the end of the fiscal year according to the level at which individuals and organizational performance goals were achieved.
- At the commencement of the program, approximately 130 senior leaders were eligible for Pay at Risk. Since that time, the number of senior leadership positions has been reduced to approximately 80.
- In 2013, AHS cancelled the Pay at Risk program for senior leaders for the approximately 80 senior leaders who remained eligible.

**New AHS Compensation Policies:**

**1. Senior Leadership Salary Grids**

- All pay at risk is eliminated from the senior leadership salary structures.
- The number of senior leadership salary levels will be reduced from 6 levels to 4 levels.
- The salary levels reflect the median (50<sup>th</sup> percentile) salary levels paid to comparable positions in the defined market.
- All senior leadership employees will be compensated within the salary range in which their role is allocated, and in line with their performance and qualifications.

Former Senior Leadership Salary Structure

The former AHS salary structure had 6 levels, with salary ranges that expressed maximum potential earnings inclusive of pay at risk. The CEO level did not have a range but only a rate that applied to the incumbent. While the ranges were established based on the median of the market, the market included some private sector comparators.

Salary Grade	Salary Range Structure (Total Cash including Maximum Pay at Risk)				
CEO	--	--	\$580,000 Base Salary	--	\$725,000 Including Max Pay at Risk
	<b>Minimum</b>	<b>P33</b>	<b>Midpoint</b>	<b>P66</b>	<b>Maximum</b>
EVP	\$375,500	\$451,965	\$500,000	\$546,425	\$643,750
SVP1	\$283,200	\$358,045	\$396,000	\$432,890	\$510,000
SVP2	\$214,800	\$271,430	\$300,000	\$328,055	\$386,400
VP1	\$171,600	\$216,745	\$240,000	\$261,890	\$308,400
VP2	\$146,400	\$185,340	\$205,200	\$224,015	\$264,000

Revised Senior Leadership Salary Structure

In establishing the new senior leadership salary structure care has been taken to ensure that only those positions required for an organization with the size, scale and scope of AHS are included, both to ensure financial sustainability and efficient, effective, quality care focused decision making. On that basis it is anticipated that approximately 15 positions of the current 77 will no longer be part of the senior leadership structure and will be reallocated to management levels.

Consistent with the need to streamline the leadership and decision making structure, the new salary structure for senior leaders has been simplified, with number of levels reduced to 4.

The CEO level will also now have a range within which a CEO can be paid.

With the elimination of Pay at Risk, the maximum individual earning potential in the new range structure is less and the overall cost of the range structure will be reduced when compared to the prior range structure.

Salary Grade	Salary Range Structure			
	Developmental Entry Rate	Entry Rate	Job Rate	High Performance Rate
CEO	--	\$480,000	\$600,000	\$780,000
Senior Leader 3	\$280,000	\$320,000	\$400,000	\$515,000
Senior Leader 2	\$231,000	\$264,000	\$330,000	\$425,000
Senior Leader 1	\$168,000	\$192,000	\$240,000	\$257,000

The new salary ranges have four administrative points:

- |                          |                                                                                 |
|--------------------------|---------------------------------------------------------------------------------|
| Developmental Entry Rate | • minimum starting salary for employees who do not meet full job qualifications |
| Entry Rate               | • minimum starting salary for employees meeting minimum job qualifications      |
| Job Rate                 | • normal maximum salary achievable by consistently good performers              |
| High Performance Rate    | • maximum salary achievable by consistently high performers                     |

Once a senior leader's starting salary is established, salary increments can be earned to progress through the salary grid based on merit and proven track record of performance.

It is anticipated that a significant majority of individuals will be paid somewhere between the entry rate and the job rate.

## 2. Senior Leadership Titles

- A revised titling convention will provide appropriate titles for AHS senior leadership roles.
- The use of the title "Vice President" will be reserved for only the most senior positions that report directly to the CEO. (Other titles that include "Vice President" such as Senior Vice President or Executive Vice President will not be used).
- The number of positions with the title "Vice President" has already been reduced from 80 to 9.

## 3. Market Assessment

A market assessment has been conducted to ensure the Senior Leadership Salary Structure is positioned at the median (50<sup>th</sup> percentile) of the public sector market that is defined as:

- The national healthcare market; and
- The Alberta public sector market.

Examples of comparator organizations that have been included in the market assessment include:

- *Alberta Public Sector:* Government of Alberta, University of Alberta, University of Calgary, Workers' Compensation Board
- *Canadian Health Care Sector:* Saskatoon Health Region, Regina Qu'Appelle Health Authority, Vancouver Coastal Health Authority, BC Provincial Health Services Authority, University Health Network, Hamilton Health Sciences, The Hospital for Sick Children.

The market assessment has considered the size and scope of AHS. While the median (50<sup>th</sup> percentile) of the market has been targeted, in establishing the salary ranges a conservative approach has been

taken in determining the “job rate” for the positions to ensure that AHS does not “lead” the market, while at the same time ensuring the range allows for the attraction and retention of effective leaders.

#### **4. Implementation**

There will be no across the board adjustment to base pay for senior leaders to offset the elimination of Pay at Risk.

Each senior leadership position will be placed in the appropriate salary grade (SL3, SL2 or SL1) following a job evaluation that will consider the size and scope of roles, and accompanying accountabilities and impacts. When this exercise is completed, it is anticipated that the number of senior leadership positions will be reduced by 15 to approximately 65.

Once the level of the job has been determined each individual senior leader will be placed on the appropriate step on the salary grid based on a case by case assessment of each incumbent. The following criteria will guide that assessment:

- The performance of the senior leader in relation the expectations for the position;
- The qualifications of each senior leader compared to the requirements for the role;
- The experience and service of that senior leader relative to their peers; and
- The market positioning of similar roles and the availability of this skill set in the current employment market.

#### **Conclusion and Acknowledgements:**

I would like to thank the AHS Human Resource Team for their assistance with this review. Their technical assistance along with market data provided by various independent external consultants and publicly available reports was of significant assistance in completing this review.

A market assessment has been conducted to ensure the Senior Leadership Salary Structure is positioned at the median (50th percentile) of the public sector market that is defined as:

- The national healthcare market; and
- The Alberta public sector market.

The following organizations were part of the AHS review although not all had relevant matches to all senior leadership roles:

<b>Comparable Alberta public sector organizations:</b>	<ul style="list-style-type: none"> <li>• ATB Financial</li> <li>• Government of Alberta</li> <li>• Covenant Health</li> </ul>	<ul style="list-style-type: none"> <li>• University of Alberta</li> <li>• University of Calgary</li> <li>• WCB - Alberta</li> </ul>
<b>Comparable Canadian health care sector organizations:</b>	<ul style="list-style-type: none"> <li>• Baycrest Centre for Geriatric Care</li> <li>• BC Prov Health Services Authority</li> <li>• BC Provincial Health Services</li> <li>• Bluewater Health</li> <li>• Brant Comm Healthcare System</li> <li>• Brockville General Hospital</li> <li>• Cambridge Memorial Hospital</li> <li>• Campbellford Memorial Hospital</li> <li>• Centre for Addiction &amp; Mental Health (Ontario)</li> <li>• Fraser Health Authority</li> <li>• Guelph General Hospital</li> <li>• Hamilton Health Sciences</li> <li>• Headwaters Health Care Centre</li> <li>• Hotel-Dieu Grace Hospital</li> <li>• Lake of the Woods District Hospital</li> <li>• Lakeridge Health</li> <li>• Markham Stouffville Hospital</li> <li>• Mount Sinai Hospital</li> <li>• Mtl Hlth Centre Penetanguishene</li> <li>• North Bay General Hospital</li> <li>• North York General Hospital</li> <li>• Northumberland Hills Hospital</li> <li>• Ontario Shores Centre For Mtl Hlth</li> <li>• Pembroke Regional Hospital Inc.</li> <li>• Perth &amp; Smiths Falls District Hosp</li> </ul>	<ul style="list-style-type: none"> <li>• Queensway Carleton Hospital</li> <li>• Regina Qu'Appelle Health Region</li> <li>• Renfrew Victoria Hospital</li> <li>• Riverside Health Care Facilities Inc.</li> <li>• Royal Victoria Hospital</li> <li>• Saskatoon Health Region</li> <li>• South Bruce Grey Health Centre</li> <li>• St. Joseph's Health Centre, Guelph</li> <li>• St. Joseph's Healthcare, Hamilton</li> <li>• St. Mary's General Hospital</li> <li>• St. Michael's Hospital</li> <li>• St. Thomas Elgin General Hospital</li> <li>• Sunnybrook Health Science Centre</li> <li>• The Hospital for Sick Children</li> <li>• The Ottawa Hospital</li> <li>• The Scarborough Hospital</li> <li>• The University Health Network</li> <li>• Tillsonburg District Memorial Hosp</li> <li>• Timmins &amp; District Hospital</li> <li>• Toronto Rehabilitation Institute</li> <li>• Toronto's Sick Kids</li> <li>• University of Ottawa Heart Institute</li> <li>• Vancouver Coastal Health Authority</li> <li>• Vancouver Island Health Authority</li> <li>• Windsor Regional Hospital</li> </ul>

The national healthcare and Alberta public sector markets were also calibrated using national third party salary survey databases such as Mercer and Towers Watson.