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Do hospital executives make too much?

Debate continues as top salaries rising rapidly

Still only fraction of amount spent on institutions

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Tom Closson is paid more than $710,000 a year in salary and benefits as president and chief executive of Toronto's sprawling University Health Network.

It's a lot of money — at least $100,000 more than is paid to any of the 158 other men and women who run Ontario hospitals.

Not that any of those others is in desperate need of a night job to make ends meet.

Alan Gayer, who heads the Hospital for Sick Children, gets about $610,000. Jeffrey Lozon, at St. Michael's Hospital, is close behind. Mount Sinai dispenses about $580,000 to keep Joseph Mapa in his plush office. Up Bayview Ave., at Sunnybrook, Leo Steven enjoys close to $480,000 in pay and perqs.

The province-wide median, for hospitals large and small, is a tidy $183,800.

And these figures are all for 2003: The executives almost certainly negotiated decent raises for this year, too.

Are hospital boards overgenerous in awarding such apparently obese pay packets?

Does the quality of care for patients suffer because the CEOs, along with growing legions of hospital vice-presidents and lesser-ranked executives and managers, siphon off such bulky bundles of cash?

Ontario's combative health minister, George Smitherman, is rumoured to be miffed about the numbers — which many voters might consider extraordinary and unpalatable — and ready to do something to curb their growth. Last month, he declared hospital wages in general are too high.

He wasn't available to be interviewed about executive pay, and ministry spokesperson Dan Strasbourg is circumspect: "We're in an era of restraint," he says. The minister "has asked hospitals to look for efficiencies in areas that won't affect levels of patient care."

What's clear is that the executive salaries are growing rapidly, according to figures published under Ontario's Salary Disclosure Act, or "sunshine law," which requires publication of all government-paid salaries over $100,000 a year.

At the University Health Network — which digested the formerly independent Toronto General, Western and Princess Margaret hospitals — the president's total remuneration climbed by about $182,000 between 1999 and 2003. At Sick Kids, it rose by $62,000; at Mount Sinai, a nice round $154,000.

What's also clear is that the top guns' pay remains just a tiny fraction of the amount spent on hospitals. Out of an annual provincial budget of $11.2 billion, the presidents collectively receive just over $29 million. Even if they were all summarily sent packing and not replaced, the savings would barely register in hospitals that claim a $600 million gap between their provincial funding and expenses, despite slashing costs and services.

"Solving health-care funding issues on the back of class envy is therefore a non-starter," Mark Mullins, of the conservative Fraser Institute think-tank, states in a report on hospital salaries, published in September.

But debate continues, much of it based on how those on either side interpret a bewildering array of numbers.

The main conclusion: While you can figure out, sort of, how Ontario hospital chiefs compare to those elsewhere, and to corporate leaders in general, there's no certain way to determine whether they're a good deal for the taxpayers who foot the bill.

Here's how the numbers are employed:

Mullins notes that pay for hospital staff earning more than $100,000 leapt 60 per cent from 1996 to 2003, and the number of people above the sunshine line tripled.

"Those with the highest pay are growing their numbers and increasing their average income faster than the rest of the hospital employees.

...These are signs of misallocated taxpayer funds.

"Average executive pay for those earning over $100,000 per year has grown twice as fast since 1996 as non-executive pay. And as more and more public money was given to hospitals, high-earner pay actually rose faster."

In contrast, he says, physicians on hospital staffs — although relatively well paid — have seen their income drop over the past three decades.

Over at the Canadian Auto Workers union, which represents 9,000 Ontario hospital employees, pension and benefits specialist Corey Vermey points out that annual raises for nurses and support staff averaged 3 per cent from 1996 to 2003, while they topped 9 per cent for those making more than $100,000. And, of course, increases for many presidents were far, far higher.

That 9 per cent added up to a total of $317 million in raises for all staff — both medical and administrative — making more than $100,000 a year.

If every person above the sunshine line had received the average 3 per cent increase, instead of 9, hospitals might have saved around $200 million, which would go a considerable way to covering their deficits and avoiding cuts to front-line staff and patient care, Vermey says.

"Everyone is drawing from the same pool of money." The executives "are not showing leadership and accountability."

`Solving health-care funding issues on the back of class envy is a non-starter'

Report by Mark Mullins

Fraser Institute

The Ontario Hospital Association contends, on the other hand, that far from being overpaid, hospital executives here get less than those elsewhere.

Chief executives at teaching hospitals in the United States make, on average, 36 per cent more, in Canadian dollars, than those in Ontario, says association spokesperson Steven Orsini. At non-teaching hospitals, the gap rises to 50 per cent.

The average Ontario hospital head makes a bit less than counterparts in health-care and non-profit institutions across Canada, and only about 55 per cent of the average for all top executives in the public and private sector.

That suggests Ontario hospital executives, rather than being overpaid, are actually getting less than they should for running extremely complex organizations, Orsini says.

As well, the number of hospital executives and managers is not ballooning out of control, he contends.

Hospital closings and consolidations under the previous Conservative government have cut the ranks of presidents and CEOs from 220 to 159.

And while many other high-level and high-paid executives have been added — there are now, for example, $300,000-plus vice-presidents working under Closson for each of the three hospitals that now comprise the University Health Network — top level people are being added at a higher rate in other areas of government.

When it comes to the number of people being added to the sunshine club, hospitals rank seventh among the nine targets of provincial funding — including schools, universities and the public service in general, according to a study by G.P. Murray Research Ltd., a Toronto-based government relations consultant. And hospitals were sixth in terms of the increase in salaries paid to those over the $100,000 line.

So, the presidents make a lot of money but in our current economic system, with its growing gap between top and bottom earners, they're not out of line.

Are they good value?

No, says Natalie Mehra, of the union-sponsored Ontario Health Coalition. "Some of these salaries are completely out of whack, they're exorbitant."

"What's Tom Closson doing making $700,000 when the minister of health is only worth $150,000?" Vermey wonders.

He's certainly earning his keep, responds Tony Fell, chair of the University Health Network's board of trustees, which decides on its CEO's compensation.

For five years, Closson has been in charge of Canada's biggest health institution, with three hospitals, 10,000 employees and $1 billion in revenues, says Fell, who is also chair of RBC Capital Markets. Under Closson's watch, massive redevelopment projects have come in on time and budget, patient and staff satisfaction has improved, electronic record keeping is being launched and fundraising has been successful. The province regularly asks for his advice on problems at other hospitals.

"We think he's the No. 1 hospital CEO in Canada. He's just done an outstanding job," Fell says.

The board considers how much other Canadian hospital heads are paid when setting Closson's pay. It doesn't look at U.S. rates because they're "out of sight." The CEO of an equivalent institution in the U.S. would make two or three times as much.

A mid-level manager, who asked that his name not be used, says he thought executives were overpaid until he began work at a downtown hospital. "I understand the amounts of money seem extraordinary." But, "I've come to believe it's not unreasonable to pay good people to do very complicated work."

Much of the uncertainty around executive pay involves how to judge performance.

Fell says the health network's board sets goals or benchmarks at the beginning of the year, then, at the end, decides whether they've been accomplished.

In Canada, where most hospital revenue comes from government and executive salaries are decided in private, it's tough to determine what is appropriate, Mullins says.

"We should be more able to judge productivity and effectiveness. ... I'd like to see standard measures of achievement." He'd prefer an American-style funding system based on competition among hospitals: The more they raise their standards and attract patients, the more money would come in.

Fell agrees: "We know what the others get paid; we don't have the performance criteria.

"We have to get more transparency in the health-care system in terms of outcomes (for patients) and waiting lists."

Vermey has a different idea: Compensation issues would be handled better with more community involvement in the administration and governing of hospitals, he says.

"Most of the boards are stacked with corporate personalities. ... For them, perhaps, $700,000 seems reasonable."

The result, he says, is that executive teams and pay are rising rapidly.

"Let's engage in a public debate about whether that's appropriate."