

Hamilton Health Sciences Board of Directors

Policy Type: CEO

Policy Title: **EVPs and VPs Variable Compensation**

Policy Number: 2.5

Introduction:

The private sector uses variable or “at-risk” compensation as a significant portion of senior executive compensation. The measure of success for such remuneration predominantly focuses on the financial performance of the enterprise given the private sector mandate to return value to shareholders. At-risk compensation has not historically been common in the public sector. The challenge in the public sector is to find a meaningful surrogate to the financial bottom line that is not considered perverse in the context of the organization’s Mission. A plan in the public service cannot be based solely on financial measures yet it cannot ignore the importance of strong financial governance. The key in the public sector is to arrive at a balance that motivates superior performance to ensure the appropriate delivery of services to the complex stakeholder environment.

The implementation of the *Excellent Care for All Act*, 2010 introduced a new dimension of quality measurement for at-risk compensation for designated executives. Performance goals are divided into five categories:

- i. Consolidated Financial Performance
- ii. Personal Portfolio Financial Performance
- iii. Annual Corporate Objectives
- iv. Personal Objectives
- v. Quality Improvement Plan

Process:

Executive Vice Presidents (EVPs) and Vice Presidents (VPs) will be eligible for variable compensation to a maximum of 15% of their annual base salary.

Payment of the variable compensation will be based on the following performance factors:

	% of Base Salary						Consolidated Financial Performance			Personal Portfolio Financial Performance			Annual Corporate Objectives			Personal Portfolio Objectives			Quality Improvement Plan**		
EVP, VP, President with budget >\$50M	15%	3%	3%	2%	2%	5%															
VP/President with budget <\$50M	15%	3%	2%	3%	2%	5%															

**Quality Improvement Plan Distribution Formula Determined Annually in Accordance with Board Approved Plan

The operating year shall be the Corporation's fiscal year, April 1st through to March 31st. The corporate budget, portfolio budget, annual corporate objectives and personal portfolio objectives will be developed and approved prior to April 1st annually, or as soon as practicable thereafter.

A performance review will be completed annually to assess overall performance in addition to eligibility for variable compensation. Such performance review will be completed before the end of June each year.

Any payment of variable compensation is subject to the achieved level of performance in each predetermined factor on the following conditions:

- A. **Consolidated Financial Performance** will be assessed using only Audited Financial Statements:
 - i. a consolidated excess of revenues over expenditures or a deficit of less than \$1 million, the eligible executive will receive 100% of their at-risk pay;
 - ii. a statement showing a deficit of revenues against expenditures of \$1 million or greater but less than \$3 million, the eligible executive will receive 60% of their at-risk pay;
 - iii. a statement showing a deficit of revenues against expenditures greater than \$3 million but less than \$5 million, the eligible executive will receive 25% of their at-risk pay;
 - iv. a statement showing a deficit greater than \$5 million will deem the eligible executive ineligible for any at-risk pay.

A variation from the target of a balanced statement may be approved by the board of Directors. In that circumstance, Corporate Financial Performance and Portfolio Financial Performance will be measured from the approved variance.

B. Personal Portfolio Financial Performance will be assessed using the Internal Financial Statements used for Board Reporting:

- i. Achievement of approved operating expense plan (100%)
- ii. Unfavourable variance <1% (60%)
- iii. Unfavourable variance >1% (25%)
- iv. Unfavourable variance >2% (0%)

C. Annual Corporate Objectives: will be assessed using the Annual Measures of Success as reported to the Board. The Annual Corporate Objectives have equal weighting unless otherwise agreed between the Executive and the CEO.

D. Personal Objectives: will be assessed at the end of the fiscal year against the predetermined measure of success as agreed between the Executive and the CEO. Personal Objectives have equal weighting unless otherwise agreed between the Board and the CEO.

E. Quality Improvement Plan

- i. Each year, the Quality Committee of the Board will recommend to the Board for approval, the Annual Quality Improvement Plan (QIP).
- ii. The Compensation Subcommittee will recommend to the Board for approval the weighted distribution against stated goals.
- iii. At least 25% of the eligible executive's variable compensation shall be determined by level of achievement relating to the QIP related goals.

The CEO may use discretion when assessing performance against these performance factors, to take into account extraordinary circumstances and to ensure there is no double counting of factors.

Date of Approval: September 26, 2002
Reviewed /Revised March 29, 2018
December 6, 2018