

Kingston Health Sciences Centre EXECUTIVE COMPENSATION PROGRAM

Background

In 2010, the Province of Ontario legislated a two-year compensation freeze for all non-unionized employees in the Broader Public Sector which prohibited increases to compensation including rates of pay, pay ranges, benefits, perquisites and other payments, but allowed for employees to progress through the ranks if their terms and conditions of employment included a salary grid. In 2012, the Province lifted the compensation freeze for all non-unionized employees but continued a freeze on all elements of compensation for designated executives and certain office holders, including performance pay envelopes. These compensation restraint measures continue to apply until an executive compensation framework becomes effective for an employer.

In September 2016, the Executive Compensation Framework Regulation under the *Broader Public Sector Executive Compensation Act* (BPSECA) came into force. The intent of this Regulation is to ensure responsible and transparent administration of executive compensation in the Ontario broader public sector through the development of an approved executive compensation framework.

Under BPSECA, a process was defined to develop an executive compensation framework that applies to designated executive positions at specific Ontario institutions. The framework must identify the executive positions, include the compensation philosophy, set salary and performance-related pay caps and specify a maximum rate by which the total executive salary and performance-related pay envelope could be increased in each year. In determining the salary ranges and performance pay targets, the framework must be based on a comparable peer group that consists of a minimum of eight comparator organizations with specific rationale that explains why these specific comparator organizations were chosen. The salaries and performance pay for similar jobs at these comparator organizations are then to be used to determine a contemporary executive compensation framework and to set the maximum rate of pay for executive roles and their respective incumbents.

As per the Executive Compensation Framework Regulation under the *Broader Public Sector Executive Compensation Act* (BPSECA), the Board of Directors of Kingston Health Sciences Centre (KHSC) has the lead responsibility for executive compensation philosophy framework development, including:

- Developing an executive compensation framework that meets the criteria specified above;
- Submitting the proposed framework to the Ministry of Health and securing its approval of the comparator organizations and of the proposed maximum rate of increase to its salary and performance-related pay envelope;
- After receiving approval by the Ministry to do so, seeking public comment by posting its proposed framework on its public-facing website for a minimum of 30 days;
- Submitting to the Ministry the summary of the public feedback received and any changes being made to the program;
- Approving the final Executive Compensation Framework and posting it on its website; and,
- Approving all wage increases for designated executives.

Who We Are

Kingston Health Sciences Centre (KHSC) was created on April 1, 2017. It is the result of the strategic integration between Kingston General Hospital (KGH) and Hotel Dieu Hospital (HDH). The newly created KHSC entity and its broadened mandate and organization represents an exciting milestone for the Kingston regional area and quality healthcare service delivery to citizens and patients across the region. With an annual operating budget of approximately \$578 million, 480 inpatient beds and 503,000 ambulatory care visits, Kingston Health Sciences Centre (KHSC) is Southeastern Ontario's largest acute-care academic hospital. Consisting of Hotel Dieu Hospital site and Kingston General Hospital site, as well as the Cancer Centre of Southeastern Ontario and two research institutes, it cares for more than 500,000 patients and families from across our region. As one of Kingston's largest employers, it is home to nearly 5,000 staff, more than 2,000 health-care learners and 1,000 volunteers who are committed to partnering with patients and families to ensure we continually provide high quality, compassionate care. Fully affiliated with Queen's University it is ranked as one of Canada's top research hospitals.

KGH SITE

As southeastern Ontario's leading centre for complex-acute and specialty care, and as a teaching and research hospital, KGH serves people from across the region through its Kingston facility and 24 regional affiliate and satellite sites. KGH also serves as the regional referral centre for cardiac, stroke, renal, trauma, neurosurgery, pediatrics, neo-natal, high-risk obstetrics and cancer care.

HDH SITE

Hotel Dieu Hospital is the ambulatory care teaching and research hospital for Kingston and Southeastern Ontario, affiliated with Queen's University. It provides expert care to patients and families in the region through specialized programs including pediatrics, medicine, ophthalmology, cardiology, urology, surgery, mental health, oncology and urgent care.

In addition to the integration of KGH and HDH operations, KHSC is working with Providence Care to optimize efficiency and effectiveness through the shared role of Joint Vice-President & Chief Human Resources Officer.

Designated Executives

As a new institution with a highly committed and passionate Board of Directors and workforce, KHSC needs to attract and retain a strong executive team to lead and guide through and beyond this exciting transition of expanded scope and healthcare service delivery commitment to the greater Kingston regional area. In this regard, the proposed Executive Compensation Framework will apply to the following designated executive positions at KHSC:

1. President & Chief Executive Officer
2. Vice-President, Medical & Academic Affairs and Chief of Staff
3. Executive Vice-President, Regional Partnerships & Ambulatory Services
4. Executive Vice-President, Chief Nursing Executive
5. Joint Vice-President, Chief Human Resources Officer
6. Executive Vice-President, Chief Information Officer
7. Vice-President, Chief Financial Officer

8. Vice-President, Missions, Strategy and Communications
9. Vice-President, Performance & Quality and Regional Vice-President, Cancer Care
10. Corporate Development and Transition Lead
11. *Vice-President, Research*

Note that the *Vice President, Research* is currently part of the executive cadre at KHSC however, the role is expected to be fully transferred to a stand-alone research institute in 2018. It has been benchmarked and measured as part of the BPSECA initiative at KHSC, but given the pending transfer out of the KHSC executive team, related labour market results have not been used in the framework for 2018 BPSECA implementation.

Compensation Philosophy

As highlighted above, given KHSC's new mandate and organizational creation, our executive compensation program must be designed to attract and retain highly qualified leaders with the necessary skills, qualifications and experience to lead Southeastern Ontario's largest acute-care academic hospital, consisting of Hotel Dieu Hospital site and Kingston General Hospital site, as well as the Cancer Centre of Southeastern Ontario and two research institutes.

In support of this mandate and KHSC's unique strategic context, the following principles were used to guide the design and governance of KHSC's executive compensation strategy:

- Aligns with and supports KHSC's strategic direction, and enabling values and principles;
- Optimizes the attraction and retention of key executive talent;
- Provides for a total rewards strategy that includes the ongoing career development and engagement of executive leaders;
- Is externally equitable against a relevant set of peer organizations;
- Recognizes relative executive accountabilities, responsibilities, and job value (internal equity);
- Recognizes and is based on enterprise-wide team and individual performance;
- Supports a transparent and clear disclosure process that is respected by the KHSC's key stakeholders; and,

- Facilitates human resources and succession planning integration between KHSC and Providence Care.

Determining Compensation Levels

Comparator Group

While the legislation allows for comparison with any broader public sector organizations, the KHSC “enterprise-wide” comparator group was specifically selected from the health care sector, given the need to attract and retain specialized sector-specific skill sets. Further, given KHSC’s teaching hospital mandate, a special focus was placed on comparable academic teaching hospitals. The comparator peer group is also based on objectively measured criteria and qualitative considerations such as KHSC’s mandate and scope of programs and services, and its most likely competitors in the labour market for executive talent attraction and retention.

Criteria were also developed to include hospitals that were similar to KHSC in terms of range of operating budget, staff complement, number of beds and/or patient visits. KHSC’s annual operating budget is approximately \$578M; 6 hospital comparators have a similar operating budget (between \$451M to \$672M), and; 4 hospital comparators with larger annual operating budgets (over \$672M) are balanced against 6 hospital comparators with smaller annual operating budgets (below \$451M). The average annual operating budget of the selected hospital comparator group is \$578,650,000.

Comparable positions were chosen from these comparators that were generally similar with respect to core roles and responsibilities, essential competencies (knowledge, skills, abilities), relative complexity, and the level of accountability associated with the position.

Based on the above criteria, the following comparator health care organizations were chosen:

Comparator Organization		Mandate Description
Name Reference Letter		
St. Michael's Hospital A		A Catholic teaching and research hospital and medical centre providing services in neurosurgery, complex cardiac and cardiovascular care, diabetes and osteoporosis care, minimally invasive surgery and care of the homeless and disadvantaged. St. Michael’s is also one of the province’s major sites of care for critically ill patients.
Sinai Health System B		A teaching hospital providing acute, complex chronic care, rehabilitative care with primary and community-based care.

Comparator Organization Name Reference Letter		Mandate Description
Health Sciences North	C	An acute teaching hospital offering a variety of programs and services that meet many patient care needs, with leading regional programs in the areas of cardiac care, oncology, nephrology, trauma and rehabilitation.
Southlake Regional Health Centre	D	A major teaching and research hospital.
Thunder Bay Regional Health Sciences Centre	E	An academic acute care facility offering programs in cardiovascular and stroke, health promotion, mental health, trauma, Women and Children's programs and a Regional Cancer Program.
Niagara Health System	F	A teaching community hospital providing a wide range of inpatient and outpatient services, including Acute Care, Surgical Care, Emergency and Urgent Care, Kidney Care, Complex Care, Mental Health and Addiction, Long-Term Care, Cardiac Care and Cancer Care.
Lakeridge Health	G	A community teaching hospital with five hospital sites which provides services diabetes management, dialysis, adult and children's mental health services, a leading regional cancer centre and a Women's and Children's program.
St. Joseph's Health Care, London	H	A teaching and research centre providing services in acute/ambulatory care, complex care and veterans care, long-term care, rehabilitation and specialized geriatrics and specialized mental health care.
St. Joseph's Healthcare Hamilton	I	A leading academic health science and research centre. St. Joe's is a multi-site, regional, tertiary centre, renowned for its strength in respiratory care, kidney and urinary care, mental health and addictions, surgical services, cancer surgery and women's and infants' care.
The Ottawa Hospital	J	A major teaching and research hospital.
Providence Care Centre	K	Also located in Kingston, Providence Care Centre's hospital operation combines rehabilitation, complex medical care, restorative rehabilitative care, respite care, seniors rehabilitative care, palliative care and mental health programs. It is a major teaching and research centre for Queen's University and it operates a long-term care home and a range of outreach health care services from 22 community-based locations across southeastern Ontario.
London Health Sciences Centre	L	Acute-care teaching and research hospital.
Trillium Health Partners	M	An academic community hospital providing services in the areas of acute care, as well as a variety of community-based, specialized programs.
Queen's University - School of Medicine	N	An academic health sciences faculty whom KHSC is fully affiliated.
St. Joseph's Health Centre - Toronto	O	A faith-based academic community hospital serving patients, residents and clients in the areas of primary care, secondary community care, tertiary and quaternary care services to post-acute through rehabilitation, palliative care and long-term care, while investing in world-class research and education
Sunnybrook Health Sciences Centre	P	An academic hospital with five strategic areas of focus including cancer care, heart and vascular care, high risk maternal and newborn care, image guided brain therapies and trauma care.
Children's Hospital of Eastern Ontario	Q	An academic health science center several provincial and regional programs and specialized programs for eating disorders, autism, psychiatric mental health, sexual assault, tele-psychiatry, and early language development

Further, based on the criteria described above, KHSC's executive roles were benchmarked to comparator health care organizations as follows:

Tier of Pay	Classes of Positions	Designated Executives	Benchmark Comparator	Benchmark Comparator Role Type
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Organization				
1	Chief Executive Officer	President & Chief Executive Officer (CEO)	A-O	Chief Executive Officer
2	Top Medical Executives	Vice President, Medical & Academic Affairs	B-F, H, J, K, M-O	Top Medical Executive
		<i>Vice President, Research</i>	B, E, H, M, N	Top Research Executive
3	Top Clinical Executives - not an MD / Top Nursing Executives; Top Information Technology Executives; Top Finance Executives; Top Human Resources Executives; General Executive Officers; Top Research Executive	Executive Vice President, Chief Information Officer	A, B, C, G, J, L, O	Top Information Technology Executive
		Vice President, Chief Financial Officer	A-E, G-L, N	Top Financial Executive
		Vice President, Performance & Quality, Regional Vice President Cancer Care	F, J, L, O	General Executive Officers
		Executive Vice President, Chief Nursing Officer	B-M, O,	Top Clinical/Nursing Executives
		Executive Vice-President, Regional Partnerships & Ambulatory Services		
4	Top Public Relations Executives; Top Support Services Executives	Vice-President, Missions, Strategy and Communications	B, C, J-L, N, P, Q	Top Public Relations Executive
		Corporate Development and Transition Lead	J-L	Top Support Services Executive

Executive Compensation Framework

Based on the analysis of related executive compensation pay practices across the identified peer group comparators, contemporary executive pay structures (minimum to maximum base salary ranges), and with due regard to the BPSECA regulations, the following Executive Compensation Framework is recommended for adoption. As summarized below, this framework consists of four tiers of pay with specific executive position placement based on relative levels of accountability and job value (internal equity), and peer group practices. Pursuant to the Regulations, the maximum salary and performance-related pay caps for each of the four tiers and designated executive positions are based on the 50th percentile of comparator peer group total cash (base salary plus variable performance pay) compensation practices.

Tier of Pay	Classes of Positions	Designated Executives	Minimum Base Pay	Maximum Base Pay	Pay for Performance (% of Base)	Maximum Pay With Pay for Performance (50th Percentile of comparators)
1	Chief Executive Officer	President & Chief Executive Officer (CEO)	\$348,000	\$435,000	15.0%	\$500,000
2	Top Medical Executives	Vice President, Medical & Academic Affairs* <i>Vice President, Research*</i>	\$251,000	\$313,000	10.0%	\$345,000
3	Top Clinical Executives - not an MD / Top Nursing Executives; Top Information Technology Executives; Top Finance Executives; Top Human Resources Executives; General Executive Officers	Executive Vice President, Chief Information Officer Vice President, Chief Financial Officer Vice President, Performance & Quality, Regional Vice President Cancer Care Executive Vice President, Chief Nursing Officer Executive Vice-President, Regional Partnerships & Ambulatory Services Joint Vice President & Chief Human Resources Officer**	\$193,000	\$241,000	10.0%	\$265,000
4	Top Public Relations Executives; Top Support Services Executives	Vice-President, Missions, Strategy and Communications Corporate Development and Transition Lead	\$148,000	\$186,000	10.0%	\$204,000

*Compensation reflects full-time allocation however, roles are currently filled on a part-time basis

**Compensation reflects full-time allocation however, the associated cost is currently shared between two organizations

Designated Executive Salary and Performance-Related Pay Envelope

KHSC's current annual pay envelope for designated executives is \$2,584,050. Conversion to the proposed Executive Compensation Framework will represent a 4.85% increase to the previous total executive pay envelope.

The maximum rate of increase to the compensation envelope was determined based on appropriate incumbent base salary range placement, based on competency, performance, and tenure. Conversion costs to implement the developed Executive Compensation Framework (and related rate of increase to the compensation envelope) are based on the following adjustments:

- Adjusting applicable incumbents to at least the new salary range minimum.
- Additional individual salary adjustments, based on executive competency profiles, performance, and tenure will be applied to allow for movement within the range progressing toward the new maximum.
- Where incumbents are currently compensated above the proposed new maximum, salaries will be adjusted in accordance with BPSECA legislation and brought into alignment within 3 years.
- An adjustment to allow for full performance-related pay payouts related to KHSC's fiscal performance year.

The proposed rationale takes into consideration four of the five factors outlined in Section 3.3 of the BPSEC Framework Regulation (note that the fifth applies where significant expansion of operations is planned, which is not the case for KHSC):

1. The financial priorities and the compensation priorities of the Government of Ontario, as indicated in the Speech from the Throne, the Budget, the Economic Outlook and Fiscal Review, and the public documents of the Crown in right of Ontario, the Cabinet, the Treasury Board and the Management Board of Cabinet.

Given the priority of the Government of Ontario is to control costs, provide accountability to the public in matters of the costs to provide provincial-wide service, and to make these services cost effective, the province has implemented legislation in order to advance on these objectives. This includes the Broader Public Sector Accountability Act in 2010, the Broader Public Sector Executive Compensation Act in 2014, the Executive Compensation Framework regulation, the Broader Public Sector Executive compensation Program Directive, and the Excellent Care for All Act in 2010.

Because KHSC is required to comply with all of these laws, it is in line the Government's priorities. All of KHSC's executives have a pay at risk component. This means that they are accountable to the public because a portion of executive salaries are based on their performance. Also, because KHSC has a balanced peer group that encompass everything from mandate complexity and comparability to size and fiscal comparability, KHSC is targeting where it will attract and lose talent from and who they should compare to in terms of executive salaries. In summary, KHSC is proposing a salary that

is competitive and controlled in order to attract and retain the best executives all while remaining accountable to the public.

2. Recent executive compensation trends in the part of the Canadian public sector and broader public sector that is in the industry within which the designated employer competes for executives.

There is a trend in the broader public sector to bring short-term incentives between the 10 to 20% range. Because of this, KHSC is decreasing their current CEO short-term incentive (STI) from 25% to 15% and decreasing the STI for other executives from 15% to 10%. It is also noted that compensation budgets are estimated to increase by an overall 3% in all sectors. In summary, there is an upward trend when looking at the broader public sector compensation, and KHSC must follow this trend in order to attract and retain key talent for their leaders.

3. A comparison between the percentage of the designated employer's operating budget that is used for executive salary and performance-related pay and the percentages of the operating budgets of the designated employer's comparator organizations under section 3 that are used for executive salary and performance-related pay.

The percentage of KHSC's operating budget used for executive salary and performance-related pay is 0.51% which is below the average ratio of its comparators, which is 0.55%.

4. The effect on attracting talent to the designated employer's executive positions, and retaining talent in the designated employer's executive positions, of the difference between the salary and performance-related pay range for those positions and the salary and performance-related pay ranges for the employees or office holders who directly report to the holders of those positions.

In the Eastern-Ontario region, there are many employers in the healthcare sector that tend to trade talent with each other. In order to remain competitive within the region and to retain key executives, it is important for these organizations to offer competitive salaries and that they can compare to one another. Because these talent exchanges happen quite frequently within these hospitals, to retain top talent, these organizations must offer competitive salaries.

5. Any significant expansion in the operations of the designated employer that is not the result of a significant organizational restructuring. O. Reg. 187/17, s. 3.

No organizational changes are anticipated at this time.