

High Wages for Executives

In this three-part tract report, we have reprinted five special documents. This is, indeed, a shocking report. It brings grief to the hearts of the faithful. We want to finish the work, while others just want to profit from it. —vf

[Summary: Mayo Clinic and Johns Hopkins are considered the best hospitals in America. Yet the president of our Florida-based Adventist Health is paid more than their CEOs combined! In fact, according to the news item below, he makes more than any other hospital executive in America!]

Taking Names, by Scott Maxwell, December 31, 2009, Sentinel (Orlando, Florida)—

Before we dive into 2010, I thought we could take a few minutes to look back at some of the best—and worst—topics we covered in “Taking Names” during 2009.

We witnessed some spectacular flubs, exposed some major hypocrites and covered all sorts of topics that made your blood boil—along with a few that touched your heart.

So let's get started.

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[Omitted the major part of Scott Maxwell's *Orlando (Florida) Sentinel*'s December 31, 2009, newspaper article. The entire article will be printed in this month's *Information Pack*. The following paragraph is what you will want to read:]

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BIGGEST “NONPROFIT” SALARY DISCLOSED [BY THE SENTINEL IN 2009]: Adventist Health CEO Don Jernigan’s \$3.5 million. Yes, Florida Hospital’s parent company may be a “faith-based nonprofit,” but that doesn’t mean it’s not profitable to work there. Tax records for this tax-exempt group showed that **AT LEAST SEVEN ADVENTIST EXECUTIVES HAD ANNUAL PACKAGES WORTH MORE THAN \$1 MILLION. AND JERNIGAN’S \$3.5 MILLION WAS MORE THAN THE TOP ADMINISTRATORS OF THE FAMED MAYO CLINIC AND JOHNS HOPKINS HEALTH SYSTEM—COMBINED.**

[Summary: An item on Florida Hospital’s website, pleading for money from donors. The promise is made by this Orlando-based hospital that “the dollars we receive and the decisions made regarding their use will always benefit

the people who live within our community.” As the article after this one reveals, it is the Florida executives who are benefited.]

Supporting Central Florida Healthcare:

Generous support from the community helps keep Florida Hospital on the cutting edge of technology. Through the thoughtful gifts of our donors, the Florida Hospital Foundation helps the hospital expand its operations, purchase new equipment, and attract talented doctors and researchers to help develop new treatments and find cures.

Perhaps now more than ever before, Florida Hospital’s programs and services depend on the contributions from our patients and friends. Your gifts can go a long way in helping us achieve and maintain the highest level of care in Central Florida.

As a not-for-profit hospital, **you can be assured that the dollars we receive and the decisions made regarding their use will always benefit the people who live within our community.**

For more information on the Florida Hospital Foundation and how you can support Florida Hospital through its efforts, click on the site link below.

Learn more about the Florida Hospital Foundation here.

—Source: floridahospital.com/Giving.aspx

Sentinel Publishes Updated Adventist Hospital Executive Compensation—Posted May 25th, 2009, by News Staff, (Orlando) Sentinel—

As a follow up to the church and healthcare compensation article we published in our Sept/Oct 2008 issue comes a recent article in the *Orlando Sentinel*, written by a very popular columnist, **disclosing updated compensation figures for several executives at Adventist Health System and Florida Hospital (an Adventist-owned hospital), as well as the CEO of a competing hospital system in Orlando.** Here is the article or click here:

For all the stories we hear about cash-strapped health-care providers, running a nonprofit hospital can be quite profitable. Especially in Central Florida.

Take, for instance, **Orlando Health CEO John Hillenmeyer, who had a compensation package worth \$858,000.**

If it sounds high, it is—even compared with the national average for big-city hospitals.

But Hillenmeyer isn't the highest-paid hospital ex-

ecutive in Central Florida. Not by a long shot.

Florida Hospital CEO Lars Houmann made \$1.1 million, according to IRS filings for 2007, the most recent year available.

And then there's the man who runs Florida Hospital's parent company: Winter Park-based **Adventist Health**, where **CEO Don Jernigan earned \$3.5 million**. Not bad for a faith-based nonprofit.

Jernigan's compensation package for 2007 was actually more than what was paid to the top administrators of the famed Mayo Clinic and Johns Hopkins Health System—combined.

Local hospital officials say they simply pay their executives what they're worth and that the community receives top-notch care and philanthropy because of it.

But there are many who find such massive paychecks excessive—if not downright obscene—for companies that have philanthropic missions, as well as the tax breaks that accompany them.

"This whole concept of a not-for-profit status may be an anachronism," said Dr. Steven West, the president of the Florida Medical Association. "**Most hospitals have done very well for themselves, despite their claims of poverty.**"

West, a Fort Myers cardiologist who works at a hospital himself, may seem an unlikely critic. But he says his primary concern is for people who need health care. "I'm all for people making money," West said. "But I think what's happening now is they're making money at the people's expense."

The massive paychecks, after all, stand in stark contrast to millions of Americans who forgo medical procedures and help because they simply can't afford it.

And West is not alone in his thinking.

With health care increasingly out of reach for many Americans, nonprofit hospitals—once sacred cows—are increasingly under scrutiny.

Congress has started asking questions. And the **IRS recently completed a survey of nearly 500 nonprofit hospitals that determined the average salary among big-city hospital CEOs was about \$780,000.**

Republican Sen. Charles Grassley of Iowa is leading the charge to both rein in salaries and ensure hospitals are truly providing patients with the level of charity care that allows them to enjoy **lucrative tax exemptions**.

Spokesmen for both of our local hospital systems say they do provide such care—and say the issue of executive compensation is something they take seriously.

"When you look at a nonprofit, you have to look at everything—not just executive salaries," said Orlando Health spokesman John Marzano.

Orlando Health has a 1,780-bed system with multiple hospitals and centers, including Arnold Palmer Hospital for Children and South Seminole Hospital. Salary levels are set by the board, which is stocked with local leaders, including Walt Disney World President Meg Crofton, Valencia Community College President Sandy Shugart and former Orange County Chairman Linda Chapin, who chairs the board.

Marzano said board members consider everything from patient satisfaction to the level of charity care—\$150 million last year, he said—when setting salaries.

The board of Florida Hospital's parent company—Adventist Health, which is based in Winter Park—isn't so local. **It has members and leaders of the Seventh Day Adventist Church from around the country.**

The church's mission statement: "To extend the healing ministry of Christ."

The Winter Park nonprofit does so with **a system of 37 hospitals in multiple states and nearly 43,000 employees**. Company officials say the network provided more than \$700 million worth of charity care, including unreimbursed Medicare and Medicaid costs, last year alone.

The company's own guidelines for executive compensation call for board members to take a "conservative approach" that demonstrates "responsible stewardship."

Besides Houmann and Jernigan, tax records show that **at least five other Adventist employees earned packages worth more than \$1 million in 2007, including the CFO and the CEO of Florida Hospital Zephyrhills.**

The same records also show that **Jernigan actually earned \$3.2 million in compensation and \$2.4 million in benefits and deferred compensation. A basic reading would then suggest Jernigan had a total package worth \$5.6 million.**

Adventist officials say that reporting irregularity forced them to "double report" about \$2.1 million in deferred compensation that was both issued—and collected—by Jernigan in the same year. His actual total, they say, was about \$3.5 million.

That's still big—even compared with some prestigious health systems that have as many or more employees.

For example, **the CEO of the renowned Mayo Clinic—which has a staff of 46,000—made \$1.3 million**, according to the most recent tax records.

The head of Johns Hopkins made \$1.5 million—which also happens to be the approximate amount paid to the CEOs of the expansive Cleveland Clinic and the Duke University Health System.

Some of those salaries have drawn scrutiny in

W High Wages for Executives

their respective communities—even though not a one of them had a package worth even half of Jernigan's for 2007.

Adventist officials say Jernigan's base salary is actually only \$807,000. The rest comes from performance bonuses and/or one-time retirement benefits.

Adventist spokesman Kevin Edgerton described the whole concept of judging salaries as "very subjective," saying, "What is understandable to one person may not be to another."

Perhaps ironically, Edgerton said that, years ago, when the church first embarked into the field of health care, they had executives who were significantly underpaid, essentially working for pauper's wages. **Adventist leaders wanted to change that.**

They certainly did.

—Source: *Orlando (Florida) Sentinel*

Sentinel Publishes on Updated Adventist Hospital Executives, May 31st, 2009, Orlando Sentinel [comment sent in by a local Adventist]—

This issue pushed some buttons with me; so I'm just going to tell you what I really think, if that's okay.

Of course, Florida Hospital could probably find a way to perhaps apply these amounts being paid to executives to lower their fees. That's kind of the idea behind nonprofits—apply the profits to the organization?

Frankly, it's embarrassing. Our church, which prides itself on having such a "large" health care system and brings it up as one of the first things mentioned when people ask about Adventism, should not be engaged in this type of practice that brings out this kind of scrutiny.

It is embarrassing that Florida Hospital is always panhandling for donations. If these execs are making millions a year, imagine what the overall profits are? Their website says, "As a not-for-profit hospital, you can be assured that the dollars we receive and the decisions made regarding their use will always benefit the people who live within our community." I suppose it is true because the execs live within the community.

There are donors who willingly give huge donations—one couple generously gave \$4 million. Of course **Florida Hospital doesn't tell you on its Foundation web site that that entire amount was eaten up by executive salaries in one year.**

What do you call it when somebody asks for donations for a cause and then pockets the money? Forget about the accounting procedures or the fancy decorations. What do you call it?

Will church leadership be doing anything at all about it? No. These hospitals are too powerful.—Conferences and schools and churches and colleges are small potatoes next to these mega-operations. They will "lift it up in prayer" and "labor with these broth-

ers," and may do a sham investigation; but ultimately we will continue to hear these stories.

Then we will hear a great outcry that "separation of church and state" has been violated. **Maybe it's time for the hospitals to put some money back into the conferences, so teachers and pastors don't get laid off or so more Adventist kids can get a Christian education.**

If the hospitals refuse on the grounds that they can't transfer funds to the church or schools, then maybe it's time to call for a separation of church and hospital.

—Source: *Orlando (Florida) Sentinel*

[You may recall our two-part report, *Shady Grove Shakes the Church* (WM-933-934). A lady died in this Washington, D.C., area Adventist hospital; and, when a *Washington Post* reporter tried to check on it, he was severely rebuffed by Ron Wisbey, Shady Grove president. (Wisbey, former president of our Columbia Union Conference, was nicely slid into the high-paid post of president of Adventist HealthCare, Inc. (AHC)]. So the *Post* decided it would undertake an even more thorough investigation of Shady Grove—and discovered how they excessively pay their executives. When, in February 2000, we published on it,—the news went all over Adventism. In response, the following two *Review* articles were sent out, in an effort to excuse the shockingly high salaries and bonuses paid to our hospital leaders. —vf]

Editorial: Fair Compensation, by William G. Johnsson, Review Editor, Review Online Edition [no date, but apparently released in 2000, at the same time as the report which immediately follows this one.]

In this high-tech age people become millionaires overnight. A high school dropout, Bill Gates, is the richest person in the world, worth a cool \$90 billion. And salaries of top executives have gone through the roof.

The church—our church—has a work to do. It employs many thousands of people in a variety of capacities. In this time of incredible wealth, **what is fair compensation for those who work in church-related enterprises?**

This issue, simmering for years, recently came to a head in the United States through **a series of articles published in the Washington Post, which raised concerns about the salaries and compensation packages of top executives connected with Shady Grove Hospital**, a major health-care facility in the Washington, D.C., area.

Many Adventists, reading of compensation levels reaching up to \$500,000 and beyond, were surprised and shocked. In response, Shady Grove Hospital spokespersons faulted the *Post* for giving a misleading picture.

4

The Review has conducted its own study, not just of compensation levels at Shady Grove but for the eight Adventist health systems in the United States. (See pages 19-23 of this issue [printed below, after this one.] Our investigation called for a mass of detailed financial information, and in general the chief financial officers involved were very helpful. Because of the highly technical nature of the subject matter, we turned to a professional, Sharon Anderson Wilson, an Adventist attorney in Boston, to prepare the report.

Openness on our part mandates that we inform readers that Adventist HealthCare, Inc. (Mid-Atlantic), the corporation that owns Shady Grove, contributed \$10,000 to help us set up the *Adventist Review* Web site last year. Various other Adventist entities make possible the operation of this site, which is self-funded.

Our report deals only with compensation levels for executives in Adventist health care, but it raises far wider issues concerning the remuneration of all employees connected with the church. These issues are difficult and complex, and I do not claim to have special wisdom. However, as one of those employees, I offer the following perspectives:

1. **The Adventist Church was founded on sacrifice** and unselfish giving of time, talents, and means. That spirit has made us what we are; and, if we ever lose it, we will lose a defining characteristic.

2. In any organization, differences in salaries invite comparisons, with accompanying feelings of jealousy and greed. **One could imagine an "ideal" setup in which every church worker is paid exactly the same, whatever the function or position. That would provide equal compensation, but would it be fair? I don't think so.**

3. **In the United States, Adventists who work for the church or its allied structures come under two different compensation systems.** Ministers, teachers, conference presidents, and so on are paid from church funds (tithes and offerings) and are compensated within a narrow range; so that the General Conference president makes only about 12 percent more than a church pastor. All health-care personnel, however, are paid out of hospital-generated funds, and their pay scale is guided by rates in the marketplace. **This arrangement, which came about as the result of a series of actions voted by the church over the years,** nevertheless has led to the current situation in which **top [Adventist] health-care executives may receive as much as 10 times the compensation of employees** under the first system. This is surely an unhealthy situation that must be addressed.

4. **God, who alone reads hearts, tells us to "judge not,** that ye be not judged" (Matt. 7:1). Let's

Waymarks

leave questions of dedication and sacrifice to Him. I am convinced that mission is a high priority for large numbers of Adventist health-care workers, just as it is for employees in other ministries of the church.

5. Everything connected with the Adventist Church must be open. **I am not calling for a public listing of all salaries—that strikes me as unseemly—but all information about compensation should be shared with the appropriate boards and committees, as well as members who desire to have it.**

I salute our health-care executives, who, wrestling with advances in medical technology, cutbacks in government reimbursements, and insurance problems, labor long and hard to keep our institutions viable. **The issue isn't whether they deserve high salaries, but what levels of compensation are appropriate in an Adventist context.**

And that issue, of course, extends to every employee connected with the church.

*William G. Johnsson is editor and publisher of the *Adventist Review*.*

SPECIAL REPORT: *Review Online Edition [no date, but apparently released in 2000], by Sharon Anderson Wilson—*

For editorial comment on this report, see "Fair Compensation."—Editors.

A surprising sequence of media revelations and personnel changes has generated intense discussion among North American Adventists about **pay scales for top Adventist health-care executives**. Church leaders meeting at Loma Linda, California, in February held a special session to address issues raised by the controversy.

In late 1999 the *Washington Post* published a series of articles about patient-care issues at Shady Grove Adventist Hospital in Rockville, Maryland, the largest hospital operated by Adventist HealthCare, Inc. After reporting that **the Joint Commission for Accreditation of Healthcare Organizations (JCAHO)¹** had moved to revoke the accreditation of Shady Grove because of concerns about the quality of patient care,² the *Post* published an article on December 1 that alleged a link between large increases in executive compensation at Adventist HealthCare (AHC) and cutbacks in patient-care personnel at the hospital. According to the *Post* article, executives at AHC had received large increases in salary and bonuses even though the hospital and its parent organization claimed it was necessary to make personnel cuts.

AHC leaders disputed the accuracy of some of the

High Wages for Executives

Continued from the preceding tract in this series

Post's allegations, and also stated that **the increases in executive pay were unrelated to other personnel matters. During a three-month interval beginning in October, however, the chief executive officer, chairman of the board, and chief financial officer of AHC all resigned, transferred, or sought early retirement.**

On February 3, 2000, Shady Grove Hospital received word that it had successfully appealed the November JCAHO action, and the hospital received conditional reaccreditation, contingent on a JCAHO site visit within 90 days. JCAHO made its visit February 22-25, and the hospital remains at conditional accreditation, with a full survey to take place within six months.

Far more troubling to many Adventist members and church leaders, however, was the public revelation of size of the annual compensation packages being paid to health-care executives. "There's certainly a gap in understanding about fair compensation between the average North American Adventist and leaders of Adventist health-care organizations," says one church leader. "Someone has to do some educating, or at least some explaining."

Though church committees have studied the topic for decades, **it wasn't until 1973 that the General Conference officers and North American Division union conference presidents adopted the denomination's first formal statement of philosophy on Adventist pay.** According to the statement, the Adventist pay scale is based on a belief that "a spirit of sacrifice and dedication should mark all denominational employees irrespective of the position they hold or the department or service they represent."³ **Though subsequently amended at the 1994 Annual Council** of the General Conference Executive Committee, the current statement still defines the objective of the denominational remuneration scale as **providing "employees with an adequate income, while endeavoring to provide a reasonable level of comfort."**

The 1994 amendment also **provided for variations from the denomination wage scale under special circumstances.** In particular, "in divisions where health-care institutions are managed as separate but allied structures, **the remuneration scale shall be determined by a method as approved by the division/General Conference Executive Committee.**"⁴

"The issue of hospital workers' compensation has been raised each decade over the past 30 years," says Neal C. Wilson, retired General Conference president

(1979-1990). Wilson notes several milestones along the way: **a 1968 decision to compensate nurses at Adventist hospitals at community rates; a 1978 decision to move all health-care employees except top administrators to market rates;** and an action of the 1989 Spring Meeting of the General Conference acting as a North American Division committee. **At the 1989 meeting the salaries of top health-care administrators were reviewed in depth.**

The remuneration plan adopted in 1989 defined **the maximum base salary for Adventist hospital presidents as the minimum salary for a hospital president in a national compensation survey.**⁵ According to Wilson and several other key leaders present at the 1989 meeting, **in no case was the salary of top administrators to reach the fiftieth percentile of the compensation that was being paid to health-care executives in comparable organizations in the same region.** The voted action also provided that a group be appointed to monitor compliance and recommended that a national organization with expertise in compensation "provide AHS/US [Adventist Health System/U.S.], or the appropriate approving body, with annual adjustments based on survey data to remove subjectivity frequently associated with compensation programs."⁶

"This action allowed changes that were competitively necessary and legitimized certain things already being done by some organizations," says Mardian Blair, recently retired president of Adventist Health System Sunbelt Healthcare Corporation and related entities. "It allowed those who were trying to follow policy to pay their leaders on an equal basis."⁷

The national component of the Adventist Health System, referred to as AHS/US, provided some helpful services, yet it did not have functional authority over the regional components, recalls Ron M. Wisbey, former president of the Columbia Union Conference (1985-1994) and recently retired chair of AHC.⁸ Wilson notes that when AHS/US collapsed in the early 1990s [because of financial mismanagement problems], there was no church-sponsored entity to monitor compliance with the 1989 compensation vote.⁹

In 1994 Alfred C. McClure, president of the church's North American Division, attempted to elicit corporate cooperation with the 1989 action. The Regional Corporate Management Council¹⁰ met in Battle Creek, Michigan, to address the issue of top executive compensation. According to Adrian Zythoskie, former vice president of Adventist Health System/West (currently known as Adventist Health), and several other lead-

6

ers present, representatives of what is now known as AHC, **strongly opposed disclosure of compensation levels** and policies and did not join in covenants that adhered to the spirit of the 1989 action.¹¹

Believing that AHC was exceeding the compensation level provided for in the 1989 vote, representatives of the Adventist health-care corporations for the Southern and the West Coast regions (representing approximately 60-70 percent of the Adventist market) made an agreement. According to Blair, in an attempt to avoid an inflationary “bidding war” for executives, representatives of Sunbelt and Adventist Health/West **agreed that no salary for top executives would exceed the fiftieth percentile of the market rate.**¹²

AHC and its allied system, Kettering Adventist HealthCare, apparently employed a very different approach. According to one former member of the compensation committees at both entities, **both organizations chose to compensate top executives at a seventy-fifth percentile rate relative to market.** Confirmation of AHC’s course of action is also found in documents obtained by the *Adventist Review* from AHC and the Columbia Union Conference’s internal report prepared for executive committee members.¹³

Because all health-care employees, including executives, are paid from hospital-generated funds, no tithe dollars are included in their compensation packages.

The fundamental process used by tax-exempt, not-for-profit entities to determine executive compensation is established, in part, by federal tax-exemption requirements. According to federal guidelines, **an independent** [note: “independent”] **compensation committee must annually review a market analysis of compensation** in comparable institutions, and apply that data as the committee determines executive compensation levels.

The required compensation committee is often a subcommittee of the full board. In the Adventist health-care organizations, **a union conference president usually chairs both the compensation committee and the board.** The number of members on the compensation committee has varied between organizations, ranging from as few as four¹⁴ to approximately 15 members.

The compensation committee may delegate to employees of the organization the task of retaining compensation experts to prepare the market analysis. The retained experts present the data to the compensation committee, which, depending on its authority, may either take final action or make a recommendation to the full board for its approval. While a recommendation may contain actual dollar amounts, **the practice in AHC was to define any change in compensation in terms of a percentage of the previous year’s compensation without stating a dollar amount**

Waymarks

[highest level of secrecy].

Several church leaders and health-care administrators have noted that they now believe that it would be more appropriate if the compensation committee itself retained the experts who provide data on wage scale for a given region or, better yet, if a national firm were employed to survey the market, with breakouts for each region, as called for in the 1989 action. In the present system, even though they are not members of the compensation committee, health-care executives are in the difficult ethical position of contracting with compensation experts who then make recommendations about those same executives’ annual salaries and bonuses.

Generally speaking, tax-exempt corporations are required to file an informational return (Federal Form 990) in lieu of a tax return. Churches are exempt from this requirement, but church-related health-care organizations must comply. **The IRS 990 form requires that the compensation of board members and key employees be reported.**¹⁵ Top executives are typically employed by the hospital’s parent corporation, rather than by the health-care institution that they operate.

The Adventist Review obtained copies of the publicly available 990 returns filed by the eight regional parent corporations for the fiscal period closest to calendar years 1996 through 1998. (The two exceptions are the 1995 return for Portercare and the 1998 return for Atlantic Adventist Healthcare Corporation, the parent corporation of the now-closed Boston Regional Medical Center. As of March 10, the return for AAHC has not been filed with the state attorney general’s office.)

Ministers, teachers, and administrators are compensated out of church funds (tithe and offerings). The pay scale involved has a narrow band, with only a 12 percent differential between an ordained minister and the GC president. College professors with a Ph.D., conference presidents, and union conference presidents all fall within this range.

Compensation is adjusted for regional differences in cost of living. **For the Washington, D.C., region, a high-cost area, the rate for an ordained minister or elementary teacher is \$44,316.**

The remuneration of board members, officers, and key employees is reported in three main categories: **compensation, benefits, and “other.”** A brief description of the items reported in each category follows:

Compensation—Includes **salary, fees, bonuses, and severance payments** actually paid during the reported year, even if previously reported as deferred compensation. While this does require that some amounts appear in different categories in different years, in any given year the amount should be only reported once.

W M High Wages for Executives

Contribution to Benefit Plans—Includes medical, dental, and/or life insurance, severance pay, etc., and also all forms of compensation earned during the report year but not yet paid, such as retirement amounts—whether or not taxable, funded, or vested.

Other Allowances—This is a catchall category, including expense accounts. Two examples are the value of personal use of the organization's assets, such as housing or automobiles, and reimbursements for undocumented business expenses that the recipients must report as income on personal tax returns.

Because of the many variables that attend the remuneration packages of the health-care executives included in this three-year review (1996-1998), **this report will focus primarily on the "Compensation" category**. It should be noted, however, that there is a dramatic range of difference between executives in the other two categories: While some IRS 990 forms report "0," others show amounts as high as nearly \$300,000 in a given year. (For a fuller itemization of these categories and comparable information on the top three positions at each of the eight Adventist health-care corporations, please see the online "Special Report" at the *Adventist Review* Web site: adventistreview.org.)

The 1996-1998 compensation data for the highest-paid executive positions within each of the eight parent corporations reported on the IRS 990 forms is summarized in the table below. With the exception of the Loma Linda parent corporation, **this is the president or CEO of the parent corporation**. (At Loma Linda the current president has elected not to receive compensation at market rates. The executive vice president of the medical center affiliate is the highest-paid position in the parent health-care corporation, and is reported here.) **AHC was unique among the Adventist organizations in that its board chairman was also an employee of the corporation and compensated for his services.**¹⁶

Eight Regional Parent Corporations for American SDA Hospitals' Highest Compensated Executives—All Adventist health-care employees are compensated from revenue generated within the systems, not out of church funds. Unlike the pay scale for employees paid out of church funds, health-care compensation reflects market rates. Thus, spokespersons for the health systems argue that an executive in a health-care system generating billions of dollars in revenue should receive higher compensation than one holding an equivalent position in a system generating only hundreds of millions.

For 1996-1998 the IRS 990 returns show under "Compensation" (without inclusion of contributions to benefit plans or other allowances), **the following ranges for the highest paid executives of the eight Adventist systems**.

	Highest	Lowest
1996	\$586,665	\$200,000
1997	\$508,929	\$214,831
1998	\$544,371	\$259,152

It should be noted that the current president of the Loma Linda system has elected not to receive compensation at market rates.

The Columbia Union Conference, in whose territory AHC operates, recently concluded a review of the AHC compensation matter. According to a report prepared for union conference executive committee members, there are different interpretations of the 1989 action. "Some . . believed that it set the maximum salary for hospital executives at the fiftieth percentile of pay for the competing health-care institutions in the area. Others read it to mean that executives of Adventist health-care organizations are to be paid no more than the lowest salary paid by other health-care organizations in the same area."¹⁷

"Most don't interpret it correctly," says Wilson, himself a former Columbia Union Conference president before serving terms as General Conference vice president for North America and General Conference president. "It [the 1989 action] specifically rejected the fiftieth percentile."¹⁸

Documents obtained by the *Adventist Review* reveal that AHC executives and compensation committee members several times discussed how they would deal with the expected negative publicity that would result from a media revelation or Adventist constituent discovery of the compensation packages they were then approving.¹⁹

It seems apparent that other Adventist health-care systems have followed lower levels of executive compensation. For instance, Max A. Trevino, president of the Southwestern Union Conference and chair of the board of directors for Adventist Health System Sunbelt Healthcare Corporation, a large system with about \$2 billion annual income, reports that that organization has adhered to a fortieth percentile maximum.

Perhaps the first lesson church members and leaders will derive from these revelations is that **individual board members have a fiduciary responsibility** not only to the organization, but to the general public, including the denominational public.

As noted above, some health-care and church leaders are **beginning to urge that a single national firm again be employed to provide authoritative data to the regional health-care corporations as they make decisions about executive compensation**. While apparently curbing, at least modestly, the autonomy of the regional corporations to set their own executives' pay, this option could ultimately provide a more reliable and defensible method for setting compensation rates.

Additional questions brought to light by these events also call for answers: **Does market rate com-**

pensation help or hinder the achievement of the church's medical ministry? Does the disparity in pay between health-care workers and other denominational employees demonstrate that health-care executive pay is too high, that denominational pay scales are too meager, or both?

On an even broader scale, the fundamental relationship between the denomination and Adventist health-care corporations needs to be better understood, at least by members in the pew and, not infrequently, by elected church leaders. [The General Conference and Union presidents are on the board of every Adventist health-care corporation.]

Does the denomination's voted compensation philosophy actually apply to executives of "health-care institutions [which] are managed as separate but allied structures" of the denomination? Is an "allied structure" truly accountable to the denomination? [It surely ought to be.] Given the recent experiences of AHC and the painful bankruptcy of Boston Regional Medical Center, this question emerges as of critical importance.

"The real story here isn't salary levels, but corporate structure and corporate responsibility," says Zythoskie. He and others point to the fact that those sitting as members of some union conference executive committees are, by virtue of that position, the corporate members of the union's health-care corporation.

Even if a new organizational structure for church oversight and denominational involvement in giving direction to Adventist health-care entities is established, the individuals in the key union positions must have the necessary skills to provide the checks and balances designed into the organization structure. Church members reasonably depend upon elected denominational leaders who sit on health-care governing boards to ensure that each system remains identifiably Adventist in its compensation rates.

"While we cannot predict the future, we can help to shape it," says NAD president McClure. "Operating acute-care institutions in today's environment is extremely complex. And the church has been blessed with many top-quality personnel who have dedicated their lives to the health-care ministry."

But church governance must be structured in such a way as to ensure that the health-care arm of our work accurately represents our message and mission. This applies not only to the compensation issue but to the entire scope of activity that takes place in these community-serving organizations. It is essential that we do our best to protect the church's assets from ascending liability while providing assurance that our health-care ministry effectively extends the heal-

Waymarks

ing hand of our Lord in a winsome, attractive, and mission-focused manner."

¹The private agency that inspects and accredits hospitals in the United States.

²See also "Shady Grove Adventist Hospital Takes Steps to Retain Accreditation," Adventist Review, Jan. 27, 2000.

³General Conference Working Policy, Y 05 05, Section 2.

⁴Ibid., Section 7a.

⁵As identified by Level 4, Category F, of the Hewitt study. For example, if Hewitt indicates the range for this position in 1989 is X=minimum, Y=midpoint (fiftieth percentile), and Z=maximum, the salary level would be adjusted to reflect the minimum compensation level. NADCOM, Spring Meeting, Minutes, pp. 89-55 and 89-56 (General Conference Archives).

⁶NADCOM, Spring Meeting, Minutes, pp. 89-55 and 89-56 (General Conference Archives).

⁷Mardian J. Blair, former president, Adventist Health System Sunbelt Healthcare Corporation, transcript of Adventist Review interview, Feb. 4, 2000, p. 7.

⁸Ron M. Wisbey, former chair of Adventist HealthCare, Inc., and then interim president, Adventist HealthCare, Inc., transcript of Adventist Review interview, Jan. 12, 2000.

⁹Neal C. Wilson, former president, General Conference of Seventh-day Adventists, notes of Adventist Review interview, Jan. 20, 2000.

¹⁰An advisory group composed of church leaders and health-care administrators.

¹¹Minutes of the March 6, 1992, meeting of the Adventist HealthCare Mid-Atlantic Compensation Committee state that if external individuals, such as newspaper reporters, question compensation levels at Mid-Atlantic institutions, the CEO would provide the necessary W-2 information and the chair of the Compensation Committee would handle questions on how salaries and benefit levels are set.

¹²Mardian J. Blair, transcript of Adventist Review interview, Feb. 4, 2000, pp. 8, 12.

¹³Columbia Union Conference, "A Report on Recent developments at Adventist HealthCare and Shady Grove Adventist Hospital," Feb. 2000.

¹⁴At least two of the four committee members were also employees whose pay the committee was setting.

¹⁵This information is available to any person upon request.

¹⁶Ron M. Wisbey, former board chairman employed by Adventist HealthCare, Inc., stated in his Adventist Review interview that Kettering Adventist HealthCare contributed 50 percent of his compen-

High Wages for Executives

Continued from the preceding tract in this series

sation. KAHC does report management fee expenses of \$128,000; \$150,000; and \$197,000 in its 990 returns for 1996-1998, which may include the salary contribution.

¹⁷Columbia Union Conference, "A Report on Recent Developments at Adventist HealthCare and Shady Grove Adventist Hospital," February 2000, p. 6.

¹⁸Neal C. Wilson, Jan. 20, 2000.

¹⁹See note 11.

—Sharon Anderson Wilson is an attorney and member of the New England Memorial Seventh-day Adventist Church, in Stoneham, Massachusetts. She is also a member of the Southern New England Conference Association board.

[The following historical report was prepared by a group of concerned Adventist laymen in southern California, under the name Members for Church Accountability (MCA). Originally, footnote references were cited in this document, but the notations they referred to were not included in this report.]

SDA Healthcare Administrative Compensation

The flint for the fiery debate about the income of denominationally affiliated healthcare executives that flared among Seventh-day Adventists at the turn of the millennium was a series of **Washington Post** stories that reported on executive pay at Shady Grove Adventist Hospital and its parent corporation, Adventist HealthCare, Inc. [AHC].

Until the middle 1960s, Seventh-day Adventist Church employee wages were based on the concept of a living wage. Then in 1968, "to avert a nursing shortage crisis in Adventist hospitals, [church] leadership agreed that nurses should be paid at community rates."

Five years later (1973), General Conference and North American Division leaders "adopted the denomination's first formal statement on Adventist pay," predicated on the notion that "a spirit of sacrifice and dedication should mark all denominational employees irrespective of the position they hold or the department or service they represent."

Because, by 1978 some nurses were making more money than their supervisors, the General Conference Committee in Annual Council voted a formula for hospital administrative personnel compensation that was "tied to nurses' salaries" in such a way that "administrators would always be a step ahead—but still not on a full community rate"

enjoyed by their secular peers.

A decade later, at its 1989 Spring Meeting, the General Conference Committee voted salary increases for Adventist health system executives that were more than half again what they were already making. In fact, what had evolved into common practice was now more or less formalized as a "market-sensitive" wage scale."

David Dennis, then director of the General Conference Auditing Service, was scandalized by the decision. He soon laid out his frustrations to General Conference president Neal Wilson (also chairman of the General Conference Committee) in a five-page letter.

The world church's chief auditor found it "strange that, after admitting to serious financial failures and mounting [Adventist Health Systems] debt far beyond accepted norms in the United States, these [healthcare] leaders should now ask for higher pay." Dennis doubted "the assumption that if a manager is ineffective while earning an annual salary of \$75,000 he will somehow be successful if his salary is raised to \$140,000."

Having served in overseas missions under the sacrificial wage philosophy that he believed was based on Scripture and the Spirit of Prophecy, Dennis wrote Wilson that he found "repulsive" the argument that Adventist hospital administrator salaries should be "market sensitive." He considered the new policy "a selfish and worldly scheme that flies in the face of Adventist history and principles."

"Even more troubling," to the GC auditor "was the way the recommendation was advanced to a final vote." The General Conference Committee had spent most of Wednesday, April 5, 1989, discussing the merits of massive pay raises for Adventist healthcare executives. So with his "personal conviction, that politics has no place in the work of the Lord," Dennis found it "hard to understand why a vote was not taken at the conclusion of the day-long discussion on Wednesday." Instead, according to Ministry magazine editors Robert Spangler and David Newman, Wilson managed to table the motion by arguing that "emotions were too high to vote" on the inflated compensation formula. "Then, late Thursday," Dennis reminded the GC president, "the matter was brought back for consideration after much of the opposition had dispersed." He told Wilson that "some leaders who were present concluded that the only purpose for the overnight delay in taking the vote was to permit the political process to take its course. This procedure accomplished its

10

purpose," he wrote, "but it failed to obtain general support for the recommendation."

The *Ministry* editors cited Wilson as saying that, after tabling the motion, "he had counseled with various individuals and" as a result wanted "to suggest seven safeguards . . . to the motion [that] might make it more acceptable."

Writing to Wilson almost in the voice of Nathan the prophet, Dennis continued, "**This is not the first time that delays, tablings, straw votes, and similar strategies have been used in our convocations to push through an unpopular recommendation," adding, such methods "do not enhance the credibility of church leaders.**"

But the auditor's "greatest objection to the action last week [the preceding week in 1989] was that **the General Conference in Spring Meeting session was called upon to cast a vote on an item not previously presented and without crucial background information that is available.**"

Dennis referred to two things, both of which Wilson was well aware: first, **a report by the Financial Review Committee established after the loss of Harris Pine Mills and, second, the bankruptcy of Adventist Health System North.**

"After the Harris Pine Mills disaster [1986-1987], the General Conference appointed a Financial Review Commission (FRC) to study other areas of church activity." Dennis reviewed recent history. "In spite of heavy resistance from NAD [North American Division] union presidents, influenced by the businessmen of the AHS [Adventist Health System], the FRC nonetheless proceeded with an extremely thorough investigation of the system."

Of course Neal Wilson knew all that Dennis was telling him. He also was very familiar with **the FRC report that his chief auditor [Dennis]—a member of that Commission—said was "direct, incisive, and makes positive recommendations for massive change in the AHS."**

Dennis asked Wilson an almost rhetorical question: **Would "the attendees at the Spring Meeting . . . have voted for higher administrative salaries if the information contained in that [FRC] report had been disclosed?"**

The second "lack of disclosure" that so disturbed the auditor was information about "the economic devastation created by the AHS North diversification bankruptcy." (One GC financial officer guessed the losses at between \$100 million to \$150 million. GC undertreasurer Bill Murrill said it was probably more like \$50 million.) Dennis complained to Wilson that "even as director of auditing for the General Conference I have never been made aware of the facts involved in this debacle." And he went on to question whether "high-level leaders of the church, outside the AHS, were

Waymarks

personally involved in this scam?"

Compensation rates for Adventist healthcare executives was an issue with a history; and it more or less pitted ministers and educators against healthcare professionals and business executives. Within the church family, the ministers and educators had the better of the argument, if for no other reason than that they ran the denomination's presses. But after the various committees had deliberated, and after the periodicals had been printed, read and recycled, it was still the healthcare executives who were driving the 7-series Beamers and 8-series Mercedes, funded by benefits that were paid for by church members, patients, and third-party payers. Nevertheless, **few church members had any conception of just how enormous executive compensation had become in the Adventist Health Systems—until Paul Goldstein began his reports in the Washington Post about Shady Grove Adventist Hospital and its parent corporation, the Columbia Union's Adventist HealthCare, Inc.**

What, in fact, did the compensation guidelines voted at the 1989 General Conference Spring Meeting actually permit Adventist healthcare executives to be paid?

The 1989 plan established "a maximum base salary for [an Adventist] hospital executive based on the minimum salary for a hospital president as identified by" a nation-wide healthcare executive compensation study conducted by Hewitt, a human resources outsourcing and consulting firm.

The plan further approved the current geographic [compensation] differential of up to 10 percent previously adopted . . . and . . . an additional 10 percent differential for the three largest hospitals (Florida Hospital, Kettering Medical Center, Loma Linda University Medical Center) and the [Health Systems] corporate offices.

As clear as those directives may have seemed, **both the 1999 Washington Post stories, and the subsequent Adventist Review coverage, make clear that the voted policy was simply ignored.**

"A series of actions voted by the church [GC Committee] over the years," *Review* editor William Johnson lamented, "has led to **the current situation in which top health-care executives may receive as much as 10 times the compensation of employees" paid from church funds.**

The *Review* spent five pages in its April 13, 2000, regular print edition explicating the "Health-Care Pay Scale . . . Controversy." While presenting the Shady Grove and Adventist HealthCare clinical and compensation issues quite candidly, **the church organ rather studiously avoided names and dollar figures.** However, in its online edition, the *Review* took pains to compare (in specific dollar amounts) the compensation variations among the three highest paid execu-

W M High Wages for Executives

1 tives for each of the eight Adventist-affiliated regional
 5 healthcare management corporations—but without
 3 naming the corporations or the executives whose
 5 compensation figures were provided.

Executive Compensation Comparisons—Certain changes instituted in 2000 by Adventist HealthCare, Inc. in the aftermath of this interesting episode buttress the evidence that the **compensation packages for the executives at AHC were exorbitant**.

For example, in 1997, the salary of outgoing CEO Bryan Breckenridge was \$489,376; and it was accompanied by an annual bonus of \$155,780—up \$59,000 from 1996.

Cory Chambers, who replaced Breckenridge, received total compensation of \$815,000 in 1997 and \$842,000 in 1998.

After the Post articles and Shady Grove's board restructuring, William G. Robertson was hired to replace Chambers **at a base salary of \$350,000 and a bonus ceiling of 20 percent**.

Whatever else the tabled figures may suggest, they do illuminate the chasm that the *Ministry* editors described as the difference between “a sacrificial philosophy built upon Scripture and the Spirit of Prophecy,” and “the hospital system’s remuneration scale . . built on a market-sensitive concept.”

“This is surely an unhealthy situation,” commented the *Adventist Review* editor, “that must be addressed.”

This report was excerpted from a more extensive elucidation of Adventist healthcare executive compensation that will be found in MCA’s forthcoming book, *Who Watches? Who Cares? Misadventures in Stewardship*, in a chapter entitled “Evergreens at Shady Grove,” that reviews exorbitant executive compensation at Shady Grove Adventist Hospital and its parent corporation, Adventist HealthCare, Inc.

[The news gets even worse! We just discovered another news release. It reveals that a non-Adventist organization researched and found that five executives of AdventistHealth/West were given \$7.5 million in just two years! The following brief news releases report the four worst cases of medical hospital profiteering it found in America in 2002. Two of them were Adventist!]

Spotlight Returns on Price-Gouging, Profit-Making Religious Hospitals—Advocacy Group Launches New Website and Places Two-Page Ad in Influential ‘American Spectator’ Magazine:

Washington, March 14, 2003, PRNewswire—On the eve of hearings on hospital price transparency by the U.S. House Energy and Commerce Committee, Consejo deLatinos Unidos, a national advocacy group that educates and assists the uninsured, placed a two-page advertisement in the influential *American Spectator* magazine, widely read by policy experts in the

11

Bush Administration and on Capitol Hill.

“Why are health care costs soaring through the roof? It’s as simple as A + B + C,” the ad begins. The Ad then lists the alleged perpetrators: A for Adventist hospitals, B for Baptist hospitals, C for Catholic hospitals. The ad then lists some startling facts:

Not-for-profit Seventh-Day Adventist Florida Hospital has reported making \$174.5 million in profits over the past 2 years—without paying a single dime in taxes while spending \$763,643 on collection agencies last year.

The top 5 executives of not-for-profit Seventh-Day Adventist/West increased their total compensation by \$7.9 million in just 2 years (2001-2003).

Not-for-profit Baptist Health South Florida reported making a profit of \$234.7 million over the past two years. In just two years (2003-2004), the 7 largest not-for-profit Catholic health systems in the entire country reported making a combined profit of \$3.1 billion—without paying a single dime in taxes—and have accumulated \$20.9 billion in cash investments. Henry Walker, the retired CEO of Providence Health, received \$6.6 million in total compensation for the year ending 12/31/04.

At Nazareth Hospital in Philadelphia, they charge \$10,000 for services that actually cost them only \$1,344 to provide, a markup of 744%! **Religious hospitals have been under fire for price gouging the uninsured, paying their executives excessively, and making huge profits while hiding behind the cloak of religious or charitable purposes.** The IRS and Congress are investigating their behavior and tax-exempt status.

That concludes the special reports. I feel heartsick. How about you?

Here is a brief summary of several of these facts.

In 1973, the General Conference officers and North American Division union conference presidents adopted the denomination’s first formal statement on Adventist pay. The pay scale was said to accord with “a spirit of sacrifice and dedication should mark all denominational employees, irrespective of the position they hold or the department or service they represent.”

Yet the remuneration plan officially adopted in 1989 stated that no Adventist hospital president could receive more than 50% (“fiftieth percentile”) of an average hospital president, as reported in a national non-Adventist compensation survey.

In 1989, a crucial decision was approved that Adventist hospital presidents could receive as much as 50% (“fiftieth percentile”) of an average U.S. hospital president. Lower-level executives could also receive massive pay raises.

12

But this rule was only enacted because the General Conference president, seeing that it was about to be voted down by irate overseas church leaders, carefully tabled it till the last day of the assembly, after those many objectors had left.

Immediately afterward, Adventist Health System executives received massive pay increases, from an average of \$75,000 to \$150,000 to \$250,000 per year. Other managerial salaries shot up also. —And kept going up in subsequent years.

But, according to IRS data obtained by the Orlando *Sentinel* in 2009, by the year 2007, many of our hospital system executives were routinely receiving over \$700,000 per year, plus another \$700,000 in bonus packages.

Orlando Florida's Florida Hospital CEO Lars Houmann made \$1.1 million, according to IRS filings for 2007, the most recent year available.

Don Jernigan, CEO of Adventist Health in nearby Winter Park, was given \$3.5 million as his sacrificial salary.

Although these Adventist hospitals are called "faith-based nonprofit," 2007 IRS tax records obtained by the Orlando *Sentinel* newspaper revealed that at least seven other Adventist executives, living in Florida, had annual pay packages worth more than \$1 million each.

Astoundingly, Jernigan's \$3.5 million was more than the top administrators of the famed Mayo Clinic and Johns Hopkins Health System—com-

"Large wages afforded to a few is the world's plan; while others in every way as deserving receive far less. This is not justice.

"The Lord will have faithful men who love and fear Him connected with every school, every printing office, health institution, and publishing house. **Their wages should not be fashioned after the worldling's standard.** There should be, as far as possible, excellent judgment exercised to keep up, not an aristocracy, but an equality, which is the law of heaven. 'All ye are brethren' (Matt 23:8). **A few should not demand large wages, and such wages should not be presented as an inducement to secure ability and talents.** This is placing things on a worldly principle. The increase of wages brings with it a corresponding increase of selfishness." —*2 Selected Messages, 192.*

"The Lord calls for self-denial in His service, and this obligation is binding upon physicians as well as upon ministers. We have before us an aggressive work which requires means, and **we must call into service young men to labor as ministers and as physicians,**

Waymarks

bined.

The 1989 ruling was that the salary of top administrators, in no case, was to reach beyond the fiftieth percentile of the compensation that was being paid to health-care executives in comparable organizations in the same region;—yet, according to IRS records by the year 2007, many were at the one-hundredth percentile, and at least one was up to the two-hundredth percentile level!

Each year Don Jernigan, of Adventist Health, was being paid more than twice the combined yearly salaries of the CEOs of the two top medical centers in the nation: the Mayo Clinic and the Johns Hopkins Medical System.

But that report is an old one—from 2007. How much more money are those men being paid now in 2010?

A few minutes ago, I was told that, in Bolivia, only newly baptized Adventists are given a Bible by the church. The church says it cannot afford to give them to anyone else, including members who plead for Bibles so they can study it.

At the present time, we live in a church with tremendous disparities. There is a great gulf between what average church members make each month and what some of our leaders earn.

Oh, Lord Jesus, come quickly! We are not doing Thy work down here as we should! —vf

not for the highest wages, but because of the great needs of God's cause. The Lord is not pleased with this spirit of grasping for the highest wages. We need physicians and ministers whose hearts are consecrated to God, and who receive their marching orders from the greatest Medical Missionary that has ever trod this earth. Let them behold His life of self-denial, and then gladly sacrifice, in order that more workers may engage in sowing the gospel seed. **If all will work in this spirit, less wages will be required.**

"Some have failed on this point. God has blessed them with ability to do acceptable service, but they have failed to learn lessons of economy, of self-denial, and of walking humbly with God. **Their demands for high wages were granted, and they became extravagant in the use of means; they lost the influence for good they should have had, and the prospering hand of God was not with them . . Beware of placing too great confidence in those who demand high wages before they will engage in the Lord's work.** I write you this as a caution."

—*2 Selected Messages, 199*