

## Compensation-Related Governance Best Practice Checklist

The following checklist is designed to assist a not-for-profit organization assess the governance oversight of its executive compensation program. It assumes a Compensation or Executive Committee has been charged with this responsibility by the full Board.

Description of Best Practices	Assessment
<b>Select Qualified Committee Members</b>	
<ul style="list-style-type: none"> <li>■ The Compensation or Executive Committee (Committee) members have the business sophistication to comprehend and evaluate contemporary executive compensation issues.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ New Committee members understand the organization's executive compensation program and processes, and are educated about regulatory requirements and industry best practices.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee is aware of fiduciary obligations relative to the management and administration of the broad-based benefit programs underlying executive compensation.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ Consistent with fiduciary requirements, members do not have conflicts of interests in regard to management and administration of the organization's benefit plans, or are affiliated with companies receiving remuneration from these programs.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee members commit the time necessary to support the Committee's charter.</li> </ul>	<input type="checkbox"/>
<b>Define Executive Total Compensation Strategy</b>	
<ul style="list-style-type: none"> <li>■ The Committee determines, and periodically updates, the executives under their jurisdiction (e.g., CEO and direct reports).</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee defines the objectives of executive compensation and benefit programs to support the recruitment and retention of talented, experienced staff, thereby enabling the organization to fulfill its mission and strategy.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee ensures that decisions about executive total compensation are fiscally responsible and affordable, both in the short and long term.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee ensures that benefit decisions are reviewed for compliance with fiduciary requirements, including, but not limited to, the "prudent person" and "exclusive benefit" provisions under Federal regulations and governing Acts.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee evaluates and approves organizational performance objectives on both an annual and long-term basis, and targets those goals with the greatest impact on mission and strategy. The Committee ensures effective and comprehensive review of CEO performance relative to these goals.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee ensures fair and equitable decisions about executive total compensation plans, and is mindful of the "optics" of these decisions relative to public, employee and media opinion.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee receives regular updates and education on executive compensation and benefit trends, and determines how such developments affect compensation program strategy and design.</li> </ul>	<input type="checkbox"/>

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<b>Meet Basic Compliance Standards – The Rebuttable Presumption of Reasonableness</b>	
<ul style="list-style-type: none"> <li>■ The Committee members are independent and do not have conflicts of interest regarding the executive compensation matters under consideration.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee relies on data for functionally comparable positions and representative of the compensation “ordinarily provided by similarly situated organizations, under like circumstances” before making its determinations.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee prepares adequate documentation (i.e., minutes) of its deliberations and determinations on a timely basis.</li> </ul>	<input type="checkbox"/>
<b>Demonstrate a Market Competitive Total Compensation Focus</b>	
<ul style="list-style-type: none"> <li>■ The Committee discusses and validates appropriate peer group comparisons (e.g., comparable size, type of organization, geography, not-for-profit status).</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The executive compensation program – both the individual components (e.g., base salary, incentives, benefits, perquisites, supplemental retirement plans, severance), and in the aggregate – is assessed against current market practices at the time compensation determinations are made.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee assures that the organization has had an independent assessment of its retirement (broad-based, qualified, and non-qualified) and health and welfare and programs conducted, so it can objectively verify that plans are effective, cost-efficient, and administered consistent with the entity’s fiduciary obligations.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee reviews “tally sheets” to understand the cost of all of the economic benefits (i.e., current total compensation and potential compensation for high-cost items, like severance and deferred compensation) provided to executives.</li> </ul>	<input type="checkbox"/>
<b>Establish Necessary Administrative Processes and Policies</b>	
<ul style="list-style-type: none"> <li>■ The Committee directly retains its consultants and advisors, and involves relevant internal resources (e.g., general counsel, finance, internal audit, and human resources), as needed, in the course of meeting its responsibilities.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ Materials for Committee meetings are comprehensive and distributed well in advance of meetings.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee periodically reviews the executive total compensation philosophy and Committee charter with the Board and with organizational Bylaws for appropriateness and consistency.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee ensures that appropriate documentation of policies, analytical reports, plan documents, and meeting minutes are maintained in a centralized and secure location.</li> </ul>	<input type="checkbox"/>

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<b>Transparency and Disclosure</b>	
<ul style="list-style-type: none"> <li>■ The CEO ensures disclosure of all executive compensation and benefit programs to the Committee.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee communicates its actions to the full Board on a regular basis.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The organization defines a specific process to ensure accurate, straightforward compensation reporting, and provides the Form 990 to the Board before it is filed.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee thoroughly reviews all compensation-related disclosures on the Form 990.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee addresses the potential impact of current compensation arrangements on future Form 990s (e.g., severance, payouts from SERP and other deferred compensation plans).</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee actively manages public disclosure, has a media strategy targeting public, employee and physician relation risks, and is prepared for formal inquiries (e.g., IRS, DOL, attorney general).</li> </ul>	<input type="checkbox"/>
<b>Demonstrate Proper Business Judgment</b>	
<ul style="list-style-type: none"> <li>■ The Committee acknowledges that sound business judgment is critical to attracting and retaining executives, and that all Committee decisions are made in the best interest of the organization.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee engages in open discussion and due diligence (i.e., constructive skepticism) of executive total compensation decisions at the Committee and Board level.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ Organizational performance from external sources (e.g., bond rating, NIH funding, quality measures, patient satisfaction, <i>U.S. News</i> ranking) is considered in reviewing executive compensation.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee demonstrates that it has accounted for current economic factors, internal equity, and other environmental factors during its decision-making processes.</li> </ul>	<input type="checkbox"/>
<b>Conduct Periodic Audits</b>	
<ul style="list-style-type: none"> <li>■ Executive expense reimbursements are periodically audited to ensure they comply with proper tax treatment, internal financial controls and reporting rules.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ A periodic audit is conducted to ensure that performance and actual compensation paid is consistent with the arrangements approved by the Committee and the organization's compensation philosophy.</li> </ul>	<input type="checkbox"/>
<b>Consider Implementing Emerging Standards</b>	
<ul style="list-style-type: none"> <li>■ Outside earned income of executives is disclosed to the Committee.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The incentive plan has a "clawback" provision to recover payments, as appropriate.</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The Committee reviews a detailed "Compensation, Discussion and Analysis" report</li> </ul>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>■ The organization's website includes a summary of the executive total compensation philosophy and governance process.</li> </ul>	<input type="checkbox"/>