What the Economic Downturn Means to Healthcare CEOs

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Hospital and health system CEOs are deeply concerned about the impact of the economic downturn not only on their institutions and employees, but on the nation’s delivery system overall. At the same time, they are worried about or re-evaluating their own plans for financial security, job moves, retirement and/or relocation. Witt/Kieffer polled 1,557 hospital and health system CEOs in an online survey in November 2008 to get their reactions to the crisis. The survey received a 14 percent response rate.

The economic toll on their employees — the prospect of layoffs and pay cuts — keeps the vast majority of CEOs up at night.

Ninety-one (91) percent of CEO respondents say they are concerned about the human impact of the downturn including employee layoffs and salary cuts. One CEO in a $250-$500 million* freestanding hospital in the Southwest sees the potential for significant job loss given the drop in excess margin and ability to borrow capital. Another CEO of a $250-$500 million hospital within a Southern system worries about forced layoffs given the economy’s negative impact on the number of insured and volume of services. And the chief executive of a $250-$500 million integrated delivery system (IDS) in the Northeast expresses uncertainty about the length or severity of the downturn.

Problems surrounding the unemployed, access to capital and delays in elective procedures create unprecedented pressure on providers.

Stress on health organizations and physicians “will most likely lead to increased conflict and competition among the groups,” says the CEO of a $250-$500 million hospital in the South. “Capital will also be more difficult to access and this will have a very negative impact on hospitals that are attempting to modernize their facilities and to keep up with the ever changing needs of patients and physicians.” One CEO respondent at a $250-$500 million hospital in the Northwest questions the ability to maintain needed staffing levels, while the chief executive of a $1 billion Midwestern IDS sees weakening demand for healthcare services in 2009. “We’ve not seen a recession in health care when commercial large dollar co-insurance and deductibles play such a large role in elective care being delayed or canceled,” adds the CEO of a $750 million-$1 billion system in the Southern states.

*Net patient revenue.
**The current crisis will challenge the survival of some hospitals.**

A physician CEO from a $1 billion IDS in the Northwest voices the concerns of many: “(The economic downturn) will be long and hard. Many organizations will be challenged to survive.” Another chief executive leading a $100-$250 million New Jersey hospital says pension funding requirements and increasing numbers of uninsured will eliminate the organization’s small profitability. She warns many hospitals in the state are in serious financial distress and have [closed] or are closing. A $250-$500 million system in the Southeast faces “financial default,” says its CEO. And a dire prediction comes from a CEO at a hospital in Michigan: The crisis will “kill off” hospitals there.

**Economic conditions today will reshape health care for years to come.**

Many CEO respondents express their belief that what’s happening today on the economic front will have lasting implications for the industry. One CEO of a $250-$500 million hospital in the Northern states believes the downturn will change the underlying economics of health care and signal the demise of employer-based insurance. Another who leads a $1 billion IDS in the Midwest says, “This turndown is different than any that we have experienced in the past. In past recessions, early-on utilization of health care had increased, whereas, we see weak demand for health care in the broader market. The consumer is putting off care, utilizing the emergency department more, and generally delaying anything possible. As unemployment increases, this impact will continue.” Finally, the leader of a $500-$750 million mid-Atlantic IDS, calls the nation to action: “More folks with no insurance and more underinsured will strain a system already in crisis. I hope we as a country can start to intelligently debate our options for addressing the present fragmented non-system.”

**Concerns about CEOs’ own financial security and that of their families are greater today.**

About half (54 percent) of CEOs responding to the survey are not more worried about their own job security since the downturn, yet most or 73 percent are more concerned about their financial security. As would be expected, 58 percent also report being more concerned now than before about their family’s future.

**CEOs will delay retirement plans given the current economic climate.**

Prior to the seismic economic shift, 15 percent of responding CEOs said they planned to retire within three years, 51 percent said they would retire in 4 to 10 years and 34 percent said they expected to retire in more than 10 years. Now, only six percent expect retirement within three years, 43 percent in 4 to 10 years and more than half (51 percent) now expect to retire in more than 10 years. “Like everyone, it has caused us to rethink our plans for retirement and possible relocation back to the East coast to be nearer family,” according to a CEO aged 56-60 from a $500-$750 million freestanding hospital in the Northwest. “It simply is not a good time to consider either.”

—I am hopeful [the economy] will turn around quickly. The challenge will be a continued demand on services with less payment, increased bad debt, competition for talent and increased costs.” — CEO, $100-$250 million Southern hospital
Better pay, retirement benefits and relocation assistance now weigh heavily — and equally — in the decision to make a career move.

Higher compensation, enhanced benefits/retirement and a relocation package have equal weight today in what it would take for CEOs to accept a new position. Not surprisingly most respondents, 77 percent, indicate higher compensation is somewhat/most important. Yet another 80 percent say enhanced benefits/retirement offerings are important and 77 percent say the same for a relocation package. And, while 60 percent of respondents report increased responsibility/job authority is important, 62 percent now say they would need greater job security/stability.

Half of all CEOs would require pay increases of more than 20 percent to change jobs.

A full quarter (25 percent) of CEOs responding to the survey report they would need an increase in total compensation (base salary/bonus) of more than 25 percent to switch jobs. Ten (10) percent would demand more than 50 percent pay increases. Slightly less than half or 47 percent would accept increases in the 10 percent to 25 percent range.

Relocation has become a major issue in the decision to take a new job.

While 44 percent of CEO respondents agree/strongly agree that they would consider relocating at this time, 41 percent disagree/strongly disagree. What would it take to get them to move? Ninety-three (93) percent state moving expenses are somewhat important/most important in their decision, followed by purchase of my existing home (81 percent) and temporary housing (72 percent). “The biggest impact on me personally in a decision to relocate to a job will still be the job itself,” explains the CEO of a $1 billion IDS in the Midwest. “The only complicating factor that I would need to be assured of is the purchase of my existing home as I would not wish to have that burden hanging over my head as I start a new position in a new community.”

Generational differences change perspective on the economy's impact.

There are clear differences in how the generations react to economic conditions including those under 55 who express more optimism than older CEOs. “I think it could be a positive by forcing hospitals to re-evaluate their core business model and make much needed changes that may have taken longer without the downturn,” according to a CEO, aged 30-40, at a $100-$250 million hospital in the Southern states. A second chief executive, 41-50, at a $750 million-$1 billion system hospital in the Southwest says the downturn should create opportunities for him to relocate in two years. “I have faith in the future,” explains another 41-50 year old leader of a $500-$750 million system in the Northern states. “This is an economic cycle, not a permanent economic valley.”
Pessimism notwithstanding, some CEOs are still optimistic about the future.

Despite what is likely to be long-term impact on the healthcare industry, there seems to be general agreement that the current cycle will last for the next two to three years. In the meantime, there is still some cautious optimism about the economy, healthcare systems and CEOs’ professional and personal aspirations. “I believe that health systems and hospitals will be seeking out talented executives that possess skills and a track record of growing business in difficult times which result in bottom line improvement,” according to the leader of a $750 million-$1 billion hospital within a Southwestern system. Among needed skills are those in finance, strategy, physician relations, hospital owned/affiliated multi specialty group practice management and efficient facility staffing and operations. “Winners will be determined by the ability to anticipate better than others,” explains the CEO at a $500-$750 million hospital in the Southeast, “thereby positioning the organization to succeed as market conditions change and improve.”

CEO respondent demographics

The majority of CEO respondents — 64 percent — are between the ages of 51 and 60. Twenty-three (23) percent are between 30 and 50 years old, while 13 percent are over the age of 61. Additionally, the most common organization type among respondents is an integrated delivery system/multi-hospital system (41 percent), followed by hospitals within a system (35 percent), freestanding, single hospitals (19 percent) and academic medical centers (5 percent).

Thirty-eight (38) percent of respondents report a total annual compensation package (base and bonus) of more than $550,000. Twenty-one (21) percent have a compensation package between $450,000 and $550,000. Thirty-eight (38) percent report compensation levels between $250,000 and $450,000.

Respondents represent every part of the country, including 34 percent in the Southern states, 19 percent in the Northern and Mid-Atlantic regions, 19 percent in the Midwest, 17 percent in the Southwest and 10 percent in the Northwest and Central regions.

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