

Health care CEOs mixed about economic recovery and reform

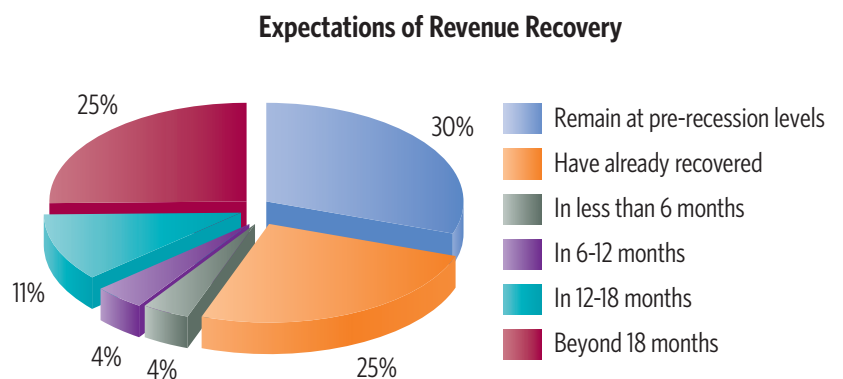
Spring 2011

Although signs of economic recovery are emerging, health care CEOs are still feeling pressure on their organizations, workforce and personal career strategies. Their concerns are further intensified as they prepare for changes and new opportunities resulting from health reform.

These and other findings are from a recent online survey conducted by Witt/Kieffer during December 2010 in which 1,220 health care CEOs were invited to share their thoughts with 97 responding. Where appropriate, 2010 responses are compared to results gathered in a similar CEO survey conducted during November 2008.

Some revenue recovery underway

One-quarter of responding CEOs report that operating revenues at their hospitals and health systems have already returned to pre-recession levels. Another 30 percent state that revenues remain constant at pre-recession levels. Revenue recovery lags for some, with 36 percent projecting that revenues will not recover for another 12-18 months or beyond.



Traditional growth stalled but bright spots emerge

At the same time, CEOs continue to be troubled by the recession's continuing impact on their organizations. "The economic downturn continues to depress the market for non-emergent health services," summarizes one respondent from a hospital within a system.

Many are prepared for long-term adjustments. As one CEO from a Midwestern hospital within a system tells it, "The new UP is FLAT. We are in a decade of unemployment woes and a challenged economy — it is not going to go away overnight."

However, a CEO respondent from a \$100-\$250 million hospital in the East saw future growth in the "beyond the walls" market, explaining, "Hospitals will no longer be growth engines for employment, but growth will be seen in the non-acute, non-inpatient sector. Responsible risk-taking, as a leadership quality, will be valued. I expect a slow recovery with some volatility but steady improvement."

Health care reform delivers complications and opportunities

Some respondents commented on the interplay between a weak economy and reform mandates. "Health care reform and our location in a non-growth area will mean severe challenges in the immediate future," notes a CEO from an Eastern \$1 billion+ hospital within a system. Another respondent from a \$1 billion+ IDS in the West explains how the organization is responding by "preparing for reductions in reimbursement and assumption of more financial risk in managing population health."

One CEO's organization has repositioned to command market share even during trying times: "We have adjusted our business strategy to be more in sync with the state of the economy, the intent of health care reform, the business objectives of third-party payers and the intent of governmental agencies. The result has been a growth in market share of better than six percent in the past three years and maintenance of a two percent operating margin, in spite of increasing bad debts and heightened competition."

This dual economy/reform pressure is causing some to rethink strategies, particularly consolidation. "The economy and health care reform together are causing my organization to consider whether we need to become a part of a larger system," says a CEO of a \$250-\$500 million free-standing hospital.

Patient volumes climb, but strain system

Some organizations report more activity due to larger volumes in uninsured care, as expressed by the chief executive of a \$1 billion+ teaching affiliate of a major medical school: "Our hospital is a public safety net. We are busier because of the recession and increase in the uninsured."

Another respondent from a \$500-\$750 million hospital within a system in the East points to the devastating impact of unemployment, commenting, "Unemployment in our community is over 10 percent, increasing the number of uninsured and underinsured. We have seen dramatic impacts on our net revenue and are looking at potential drastic measures to maintain a positive bottom line."

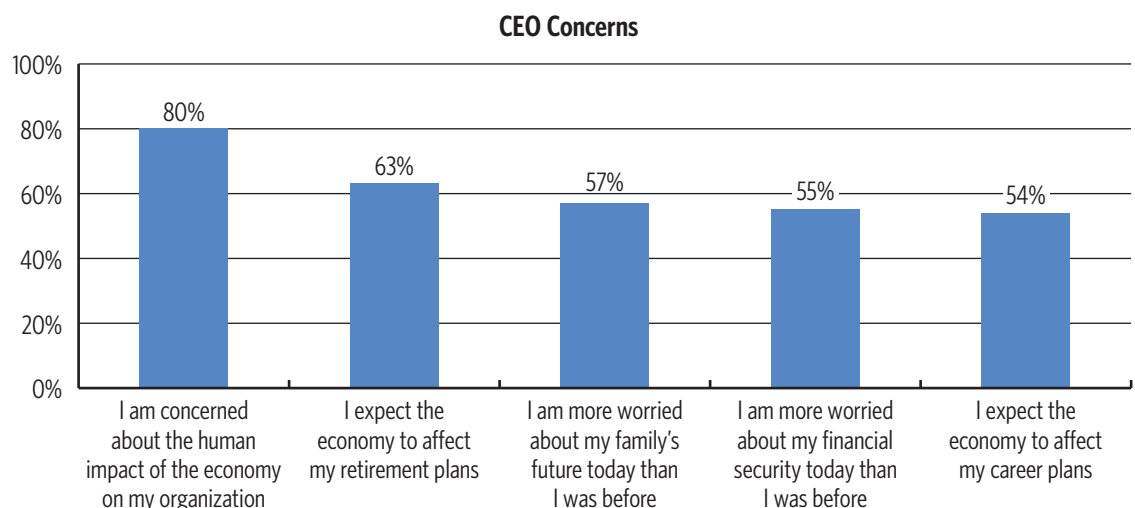
Others are worried about mounting bad debt and even viability. "The poor economy has led to an increase in bad debt/charity care, putting tremendous strain on the operating margin," explains the leader of a \$250-\$500 million hospital within a Southern system. A CEO of an Eastern IDS notes, "The state of the economy is clearly affecting our financial viability. Personally it has prolonged my ability to retire by several years and concerns me in that I may not be meeting the financial expectations of the board."

The human toll of the downturn cannot be ignored

A majority of these CEOs confirm they have serious concerns about the human impact of the current economy on their organization. Four out of five (80 percent) report concerns about employee layoffs, pay cuts and other workforce decisions given the current state of the economy.

Their concerns are evident in their personal lives as well, with more than half (54 percent) expecting the economy to affect their career plans and 63 percent reporting that it will affect their retirement plans.

These CEOs (55 percent) are concerned about their financial security, but less so than during 2008 when



73 percent reported these same worries. Nearly six out of ten (57 percent) are more worried about their family's future, a similar finding from the 2008 study.

Some of these respondents are facing the same job insecurities as their employees. More than one-third (38 percent) report they would consider relocating at this time, while 30 percent say they are more worried about their job security than before the recession. "Tough economic times make everyone very uncertain and add an additional component of uncertainty and anxiety to an already very difficult job," notes the leader of a \$100-\$250 million hospital within an Eastern system.

Recruitment for executive positions proves challenging

The economic downturn has affected how these organizations are filling senior executive positions. One CEO of an academic medical center explains, "Clearly the economy has made recruitment more difficult in that candidates are less willing to absorb the risk of a job change if they are reasonably comfortable in their current position."

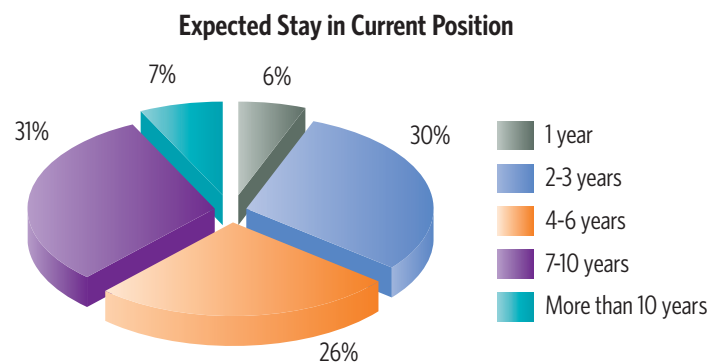
More than half (53 percent) have restructured existing positions to assume needed functions. Another 43 percent have increased leadership development and 40 percent have increased promoting from within their organizations.

Greater job security and housing loom large in 2010 career moves

The top five most important factors in accepting a new position are enhanced benefits/retirement (81 percent), relocation package (80 percent), higher compensation (77 percent), greater job security (71 percent), and increased responsibility (60 percent). These same five factors also emerged in the 2008 survey findings, but greater job security increased in importance in 2010 (from 62 percent in 2008 to 71 percent in 2010).

The weak housing market factors high in these CEOs' decisions about accepting a new position. Moving expenses/storage is rated as the top component of a relocation package by 95 percent of respondents. After that, temporary housing, purchase of existing homes, housing allowance to offset cost of living increases and real estate costs are rated important. As one respondent of a Midwestern hospital within a system reflects: "The economic impact of considering a move is substantially greater due to the housing downturn. Losing 35%+ value in your home and losing nearly 100% of equity are major impediments to making a career move."

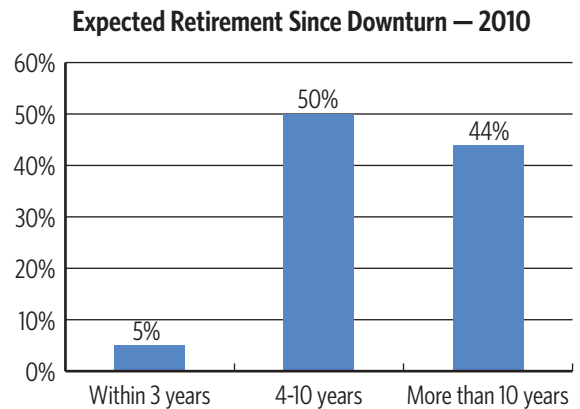
However, the economy has not blocked mobility. These CEOs foresee movement in their careers in the short run. While only 6 percent of these CEOs expect to stay in their positions for one year, more than half of them forecast a job change occurring with the next two to six years (56 percent).



Retirement plans are pushed into next decade

Since the economic downturn, some CEOs are delaying their retirement plans. Forty-four (44) percent said they would wait 10 or more years. Of those waiting 10 years or more, 70 percent are between the ages of 51 and 60. A CEO of a Southern hospital within a system explains, "The economy is having a negative impact on the organization — volume and reimbursement. I am extending my retirement plans by at least five years."

Fifty (50) percent indicated they would retire in 4-10 years. This parallels a similar finding by a Witt/Kieffer-supported survey with Kevin Groves of Pepperdine University that revealed the 5/50 crisis: the prospect of losing 50 percent of management talent to retirement over the next five years.



Demographics

The majority of these respondents (71 percent) are employed by an integrated delivery system or a hospital that is part of a system. Half of these organizations report net patient revenue of \$500 million or more, with 23 percent in the \$1 billion plus category.

Most (94 percent) are male and 71 percent are ages 51-60. Only 2 percent are over 65 and there were no respondents under 40.

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