The Real Effects of Today's Economy on the Not-For-Profit Industry

2009

Compdata
SURVEYS
DOLAN TECHNOLOGIES CORP.

Executive Summary

Organizations across the country have been affected by the recession, and the not-for-profit industry is no exception. Pay increase budgets have fallen and healthcare costs are up placing mounting pressure on the industry. Organizations are looking for ways to enhance their compensation packages without affecting their bottom line. As national unemployment rates linger at over 9.5 percent, the not-for-profit industry is facing a slow recovery. This whitepaper will give you a clearer picture of what's happening at not-for-profit organizations now by covering the following issues:

- Pay increase budgets
- Healthcare premium increases
- Cost containment and reduction measures
- Trends in wellness programs
- Prescription costs
- Vacation packages

Introduction

Organizations across the country are facing new challenges amid today's recession. HR professionals are being forced to make difficult decisions about pay and benefits to keep their organizations afloat. A year ago, many were discussing ways to create attractive compensation packages while keeping costs down. Today, layoffs, salary freezes and benefit cuts are happening more regularly.

Although the economy is beginning to show signs of recovery, the United States Bureau of Labor Statistics (BLS) is reporting that the unemployment rate is still hovering at almost 10 percent. Because many not-for-profit organizations are subsidized by tax dollars, as well as private contributions, the current rate of unemployment means that recovery for not-for-profits may be slower than recovery within other industries.

Pay Increase Budgets

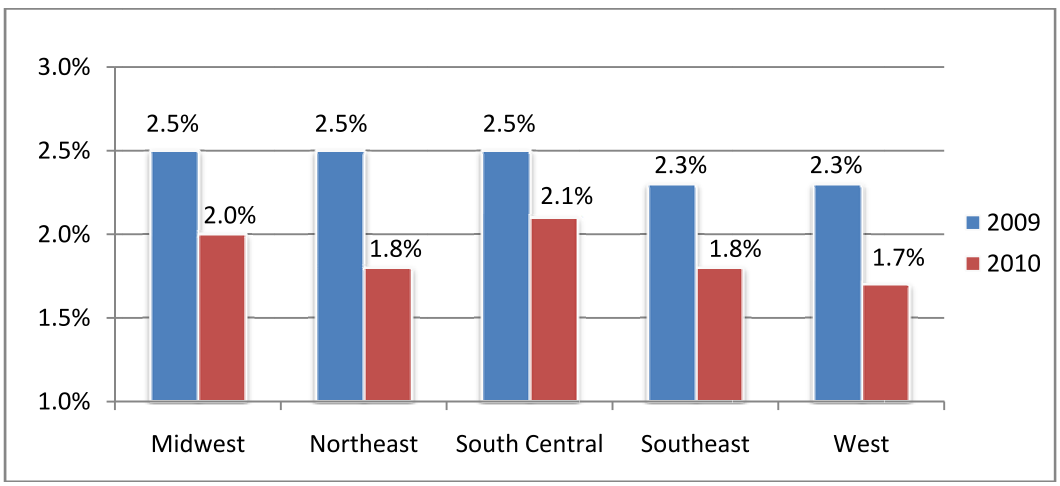
The Compensation Data Not-For-Profit *results showed pay increase budgets have fallen to 2.4 percent across the country.*

For many years, pay increase budgets have been stagnate across all industries, but the newly released *Compensation Data Not-For-Profit 2009* survey results show pay increase budgets have fallen to 2.4 percent. With pay increase budgets down this year, not-for-profit organizations surveyed have projected a further decrease in 2010 to 1.9 percent. The recent downturn is indicative of increased economic pressure.

Pay increase budgets vary within the not-for-profit industry. Associations have the highest pay increase budgets at 3.3 percent. Government entities and colleges and universities follow at 2.2 and 2 percent, respectively. Churches and religious organizations are currently at 1.7 percent. The survey results reveal projected budgets decreasing in most not-for-profit categories. Government entities and colleges and universities are both projecting pay increase budgets to decrease to 1.2 percent in 2010. Comparatively, associations are projecting budgets in 2010 to decrease to 2.3 percent. Only churches and religious organizations are projecting pay increase budgets to go up in 2010 to 2.1 percent.

The 2009 survey results report that pay increase budgets are consistent across all regions. The Midwest, Northeast and South Central regions had the highest 2009 pay increase budget, 2.5 percent. The Southeast and West were both at 2.3 percent. Comparatively, the South Central region had the highest projected budget for 2010, 2.1 percent. The Midwest followed closely at 2 percent.

Regional Pay Increase Budgets



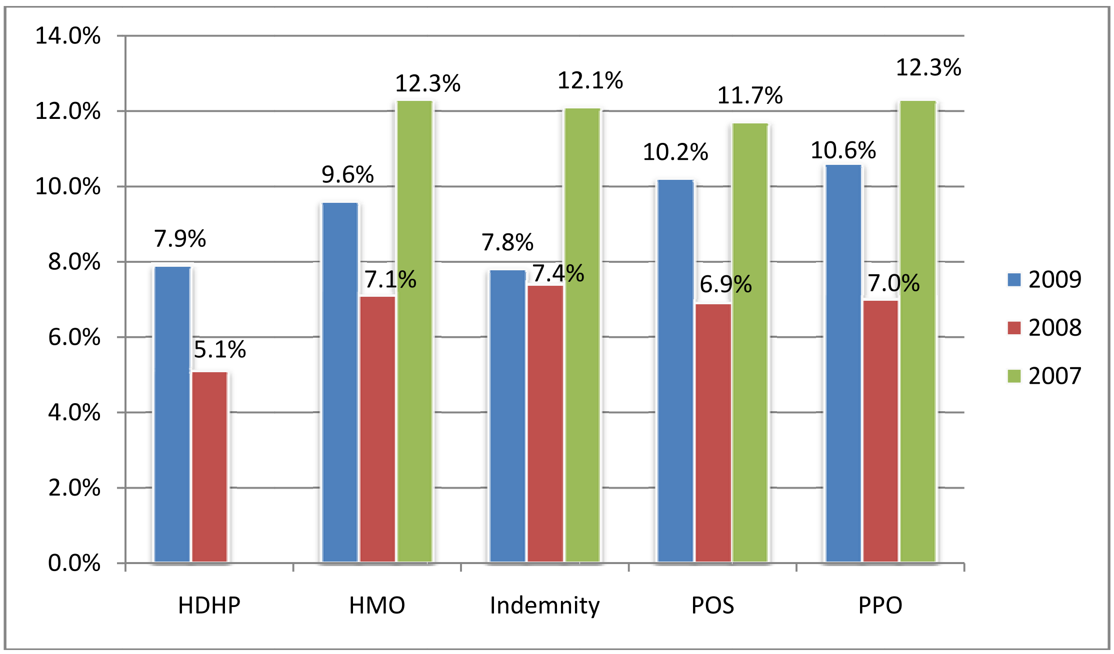
Healthcare Costs

To say healthcare costs are impacting the economy is an understatement. Currently, nearly 50 million Americans are thought to be without health insurance. In 2007, the United States spent approximately $2.2 trillion on health care or $7,421 per person. If costs continue to grow, the Congressional Budget Office estimates that by 2025, one out of every four dollars in our national economy will be tied up in the health system.

Rising health insurance premiums further support these findings and compound economic pressures. Although the average premium increase had been decreasing in previous years, the numbers are up again. The 2009 *Compensation Data Not-For-Profit* results found the average premium increase was 10 percent for all plan types this year.

Comparatively, the average premium increase was 7 percent in 2008 and then, 12.2 percent the previous year. When comparing plans in 2009, organizations offering PPO plans saw an average increase of 10.6 percent. Those offering HMO and POS plans had average premium increases of 9.6 and 10.2 percent, respectively. HDHP plans had increases of 7.9 percent.

Average Premium Increases by Plan Type



Medical plans continue to be a source of scrutiny, as high health insurance costs are cutting into organizations' bottom lines. The U.S. government is taking an active interest in healthcare reform, and President Obama has plans to sign a bill this fall. Although a new plan has not been formalized, meetings with doctors, hospitals, drug makers and insurers have resulted in pledges to reduce costs. Many are speculating as to the deals made to receive these promises.

While Congress deliberates, companies continue to search for ways to reduce healthcare costs. Often higher health insurance costs are passed on to employees. To contain rising costs, not-for-profit organizations utilized a variety of methods. The most highly used was a network of healthcare professionals at 76.5 percent, while coordination of benefits was employed at 73.8 percent. Utilization review was prevalent, as 51.4 percent of organizations used it to contain costs.

Wellness programs are a popular option for containing costs. In many cases, organizations are using a combination of methods. These can include onsite health clinics, physical fitness facilities and annual physicals. Flu shots/immunizations are used by 79.9 percent of companies. Lifestyle options, like tobacco cessation and weight management, are offered by 41.5 and 38.4 percent, respectively. Health risk assessments are provided by 57.9 percent of the companies surveyed.

Almost one-third of the companies surveyed use rewards and incentives as part of their wellness program. The most popular reward is gift cards at 39 percent. Insurance discounts are used by 16.1 percent. Contributions to health savings accounts or health reimbursement accounts and health and fitness products are each used by just over a quarter of survey respondents. Gas or phone cards are offered by 9.3 percent.

Wellness programs could gain even more popularity if the Healthy Workforce Act of 2009 is approved. The bill would provide a tax credit to employers who sponsor wellness programs. It would cover 50 percent of the cost of the program up to $200 per employee for the first 200 employees and $100 for every employee over 200. To receive the credit, companies would be required to meet the definition of a qualified wellness program.

On average, not-for-profit organizations contribute 10.2 percent of payroll towards the cost of health benefits, which is nearly the same cost to provide all of the following benefits: dental, life, retirement, disability and other non-mandated benefits.

The newly released survey results showed that 56.2 percent of companies increased the employee portion of the premium in their efforts to reduce costs. This is higher than the percentage seen in the last two years. Currently, 40.8 and 29.2 percent of companies increased deductible levels and employee co-insurance levels, respectively. On average, not-for-profit organizations contribute 10.2 percent of payroll towards the cost of health benefits, which is nearly the same cost to provide all of the following benefits: dental, life, retirement, disability and other non-mandated benefits.

Prescription Costs

Many Americans have cut back or quit taking their prescriptions amid increasing economic pressure. When individuals are not adhering to their prescribed medications, they run the risk of incurring increased medical costs in the future. Large claims drive up the cost of health insurance impacting future costs for employers.

Even in today's challenging times, the 2009 *Compensation Data Not-For-Profit* survey results found at least 93 percent of not-for-profit organizations offer prescription drug coverage as part of their PPO, Indemnity, HMO or POS medical plan offerings.

Average Prescription Co-Pay by Plan Type in 2009

Type	Indemnity	HMO	PPO	POS	HDHP
Generic	$10	$10	$10	$10	$13
Formulary	$26	$24	$26	$24	$24
Non-Formulary	$43	$43	$47	$45	$43

When comparing prescription costs, non-formulary co-pays have increased over the last three years on Indemnity, HMO, PPO and POS plans. The 2009 survey results reported that PPO plans had the highest co-pay, $47, while non-formulary co-pays on POS plans were $45. Over the last three years, the cost on PPO plans has increased by 15.5 percent.

While co-pays for non-formulary drugs have risen nationally, formulary drugs have also seen slight increases in cost on all plan types. In 2007, the average cost of formulary drugs on PPO plans was $24.82. This number has increased by 4.8 percent over the last three years. PPO and Indemnity plans had the highest formulary cost this year, $26. Prescription co-pays on HDHP, HMO and POS plans followed at $24.

In comparison, co-pays for generic drugs have stayed under $15 on all plans in 2009. According to the newly released results, generic co-pays were $10 for PPO, HMO, Indemnity and POS plans. On average, an individual could save over $30 per prescription when choosing a generic over a non-formulary drug.

Time Off

Time off is one way organizations can enhance compensation packages without spending additional funds. In fact, some organizations have offered employees the chance to take unpaid leave in an attempt to cut operating costs. Consequently, the popularity of "staycations," or vacations at home, is on the rise.

Below is a chart detailing the time off by years of service. Non-exempt employees are given nearly the same number of days off as their exempt counterparts. The gap is two days or less for all years of service.

Annual Vacation Days by Years of Service

	During 1st Year	1 Year	5 – 9 Years	10 – 14 Years	15 – 19 Years	20 – 24 Years	25 – 29 Years	30+ Years
Exempt	12	13.4	16.8	19.6	21.1	22.2	22.7	22.9
Non-exempt	10.3	11.5	15.3	18.8	20.5	21.8	22.4	22.5

Compensation Data Not-For-Profit also found that 93.9 percent of organizations allow carryover of vacation days, and 89.3 percent place a limit on the number of days that can be carried over. The maximum number of days allowed for exempt employees is 29.1 days, compared to 28.6 for non-exempt.

In addition to vacation time, exempt and non-exempt employees average three personal days and ten paid holidays. Both groups also receive eleven sick days. Over 80 percent of the organizations surveyed allow employees to carryover sick days with 58.9 percent placing a limit on it. The maximum number of sick days that can be carried over was nearly 44 for both exempt and non-exempt employees.

The Compensation Data Not-For-Profit *results found 66.1 percent of companies allow flexible schedules.*

Flexible schedules are one way organizations can add value to their benefit package. The newly released results showed 66.1 percent of companies allow flexible schedules. When comparing prevalence among employee groups, they are most offered to technical/professional employees, 56.1 percent.

Conclusion

Many not-for-profit organizations have been adversely affected by the downturn in today's economy. That being said, lower pay increase budgets and higher insurance costs are found across the board and are creating new challenges for HR professionals. Designing attractive, yet cost-effective, compensation plans continues to be the focus of many companies. Over the next few months, organizations will continue to take a conservative approach to their compensation package. This will be critical as it is unknown how long the effects of this recession will last.

As organizations across the country make changes, HR professionals should keep in mind the lasting impact these changes will have on their organizations. Communication and informed decision making will be the key to each organization's success in the coming months.

Note:
Unless otherwise cited, all data included in this report is from the *Compensation Data Not-For-Profit* results, which include data from 450 not-for-profit organizations covering over 2,100,000 employees.

About the Author

Amy Kaminski

Amy N. Kaminski is the Manager of Marketing Programs for Compdata Surveys, the nation's leading provider of compensation and benefits data. Over the past seven years, Amy has collaborated with organizations of all sizes to identify specific compensation information needs in order to address changing issues impacting how organizations recruit and retain the best employees.

About Compdata Surveys

Compdata Surveys is a national compensation survey and consulting firm specializing in providing accurate and reliable data to organizations across the country. Our products and custom consulting services ensure organizations' competitive success by providing an all-inclusive solution encompassing benefits, rewards systems and salary data.

For more information, visit our Web site www.compdatasurveys.com.

Compdata Surveys

1713 East 123rd St.
Olathe, KS 66061
Phone: (800) 300-9570
E-mail: customerservice@compdatasurveys.com
Web site: www.compdatasurveys.com