The Real Effects of Today’s Economy on the Healthcare Industry

2009
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Executive Summary

Less than a year ago, many were concerned with hiring shortages in the healthcare industry. At the onset of the recession, some thought healthcare would remain impervious to the increasing economic pressures. The 2009 Compensation Data Healthcare results have found the industry is not as immune as many had once suspected. 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. This whitepaper will give you a clearer picture of what’s really happening in healthcare by covering topics, such as:

- Workforce demands
- Pay increase budgets
- Healthcare premium increases
- Cost containment and reduction measures
- Trends in wellness programs
- Time off packages
Introduction

In the past, many believed the healthcare industry was recession-proof. This belief was substantiated by the ever-growing population, the increasing age of Baby Boomers and a longer lifespan. Many thought the large number of people needing care would create a high demand for healthcare workers no matter the state of the economy. Although this belief has been prevalent, recent numbers show healthcare providers are somewhat vulnerable to economic hardship.

As the unemployment rate continues to rise, more Americans are finding themselves without health insurance. Those who continue to have insurance may be struggling with a reduction in coverage, as well as rising premiums, co-payments and deductibles. Without the necessary coverage, people will often postpone elective medical procedures to reduce spending and time off. Of course, some medical care cannot be put off, leaving healthcare providers with unpaid bills, which in turn increases costs. All of these factors have combined to create greater challenges for the healthcare industry causing the anticipated growth to stall.

Workforce Demands

The rising increase in the unemployment rate has made front page news across the country. It has risen from 4.9 percent in January 2008 to 9.5 in June 2009. The healthcare industry is affected to a lesser degree and tends to offer both good news and bad news. The good news is the U.S. Bureau of Labor Statistics showed healthcare employment increased by 21,000 in June, and job gains in health care have averaged 21,000 per month so far this year. Unfortunately, this is down from an average of 30,000 per month during 2008.
Although the U.S. Bureau of Labor Statistics is projecting a 21.7 percent increase in total U.S. healthcare employment between 2006 and 2016, it may not come to fruition. These predictions were made prior to the economic recession, leaving us to wonder what the true effect will be on the health care industry. The selected positions below will continue to be in high demand, but it remains to be seen whether growth will occur at this suggested rate.

### Projections for Health Care Workers in the U.S., 2006-2016

<table>
<thead>
<tr>
<th></th>
<th>Estimated Employment in 2006</th>
<th>Projected Employment in 2016</th>
<th>Projected Number of New Jobs</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diagnostic Medical Sonographers</td>
<td>45,700</td>
<td>54,400</td>
<td>8,700</td>
<td>+ 19%</td>
</tr>
<tr>
<td>Licensed Practical and Vocational Nurses</td>
<td>748,600</td>
<td>853,700</td>
<td>105,100</td>
<td>+ 14%</td>
</tr>
<tr>
<td>Medical and Clinical Laboratory Technicians</td>
<td>151,400</td>
<td>174,100</td>
<td>22,700</td>
<td>+ 15%</td>
</tr>
<tr>
<td>Medical and Clinical Laboratory Technologists</td>
<td>167,200</td>
<td>188,000</td>
<td>20,800</td>
<td>+ 12%</td>
</tr>
<tr>
<td>Occupational Therapists</td>
<td>98,900</td>
<td>121,700</td>
<td>22,800</td>
<td>+ 23%</td>
</tr>
<tr>
<td>Pharmacists</td>
<td>243,500</td>
<td>296,400</td>
<td>52,900</td>
<td>+ 22%</td>
</tr>
<tr>
<td>Physical Therapists</td>
<td>172,900</td>
<td>219,800</td>
<td>46,900</td>
<td>+ 27%</td>
</tr>
<tr>
<td>Radiologic Technologists and Technicians</td>
<td>196,200</td>
<td>225,900</td>
<td>29,700</td>
<td>+ 15%</td>
</tr>
<tr>
<td>Registered Nurses</td>
<td>2,505,700</td>
<td>3,092,000</td>
<td>587,300</td>
<td>+ 23%</td>
</tr>
<tr>
<td>Respiratory Therapists</td>
<td>102,400</td>
<td>125,600</td>
<td>23,200</td>
<td>+ 23%</td>
</tr>
</tbody>
</table>

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Pay Increase Budgets

While pay increase budgets were stagnate across most industries for the past several years, the healthcare industry has been experiencing growth. Unfortunately, the 2009 Compensation Data Healthcare survey results tell a different story. The results showed pay increase budgets have fallen to 3.0 percent in the industry. The recent downturn in healthcare is indicative of the increased economic pressure felt across the country.

In response, many healthcare organizations are choosing a conservative approach in their compensation planning. Pay increase budgets are projected to stay the same in 2010. These numbers corroborate predictions of little economic growth in the coming year.

The 2009 Compensation Data Healthcare results show pay increase budgets vary slightly by region. Most regions hovered around 3 percent. The West region had the highest pay increase budget, 3.3 percent and projected the highest budget for 2010. The Southeast region had the smallest. The Northeast and Southeast both project a .2 percent drop in 2010. The states in the South Central region were the only ones predicting any growth in 2010 and very small growth at that.

Pay Increase Budgets by Geography

![Bar chart showing pay increase budgets by geography, with the West region at 3.3% and the South Central region at 2.7% for 2009 and 2010 respectively.]
Pay increase budgets also vary within the healthcare industry. The 2009 Compensation Data Healthcare results showed hospitals and critical access hospitals have the highest pay increase budgets with both at 3.2 percent. Home care followed with 3.1 percent. Behavioral healthcare facilities had the lowest with 2.4 percent.

**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 Healthcare results showed the average premium increase was 9.9 percent for all plan types.

Comparatively, the average premium increase was 7.0 percent in 2008 and then, 10.9 percent the previous year. When comparing plans in 2009, organizations offering PPO plans saw an average increase of 9.5 percent. Those offering HMO and POS plans had average premium increases of 9.4 and 9.8 percent respectively. HDHP plans had increases of 9.6 percent.
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, U.S. healthcare providers utilized a variety of methods. The most highly used was coordination of benefits at 81.4 percent in 2009, while a network of healthcare professionals was employed by 77.3 percent. Utilization reviews were prevalent, as 62.7 percent of organizations used them 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 a staggering 93.9 percent of companies. Lifestyle options, like tobacco cessation and weight management, are offered by over half of the healthcare providers surveyed. Health risk assessments are being provided by 56.4 percent of companies.
Over one third use rewards and incentives as part of their wellness program. The most popular reward is insurance discounts. Contributions to health savings accounts or health reimbursement accounts are used by nearly 30 percent. Gift cards are used by 27.5 percent. Gas or phone cards, travel packages and prescription discount cards are all offered by less than 5 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.

The 2009 Compensation Data Healthcare results showed 63.6 percent of companies increased the employee portion of the premium in their efforts to reduce costs. This is higher than the percentage seen in 2007. Currently, 37.4 and 16.4 percent of organizations increased deductible levels and employee co-insurance levels, respectively. On average, healthcare providers contribute 9.8 percent of payroll toward the cost of health benefits, which is 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 Healthcare survey results found at least 95 percent of healthcare organizations offer prescription drug coverage as part of their PPO, Indemnity, HMO or POS medical plan offerings. Comparatively, 79.7 percent include this benefit with HDHP plans.

**Average Prescription Co-Pay by Plan Type in 2009**

<table>
<thead>
<tr>
<th>Type</th>
<th>Indemnity</th>
<th>HMO</th>
<th>PPO</th>
<th>POS</th>
<th>HDHP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic</td>
<td>$11</td>
<td>$10</td>
<td>$10</td>
<td>$10</td>
<td>$11</td>
</tr>
<tr>
<td>Formulary</td>
<td>$25</td>
<td>$27</td>
<td>$28</td>
<td>$28</td>
<td>$28</td>
</tr>
<tr>
<td>Non-Formulary</td>
<td>$40</td>
<td>$44</td>
<td>$47</td>
<td>$48</td>
<td>$45</td>
</tr>
<tr>
<td>In-House Pharmacy</td>
<td><em>.</em></td>
<td>$7</td>
<td>$8</td>
<td>$9</td>
<td><em>.</em></td>
</tr>
</tbody>
</table>

When comparing prescription costs, non-formulary co-pays have increased over the last three years on PPO, HMO and POS plans. The 2009 Compensation Data Healthcare results found POS plans had the highest co-pay, $48.00, while non-formulary co-pays on PPO plans were $47.00. Over the last three years, the cost on PPO plans has increased by 9.8 percent.

While co-pays for non-formulary drugs have risen nationally, formulary drugs have also seen an increase in cost on flat dollar plans. In 2007, the average cost of formulary drugs on PPO plans was $25.48. This number has increased by 9.9 percent over the last three years. PPO, POS and HDHP plans had the highest formulary cost this year, $28.00, and Indemnity had the lowest, $25.00.

In comparison, co-pays for generic drugs have stayed under $15.00 on all plans in 2009. According to the newly released results, generic co-pays were $10.00 for PPO, POS and HMO plans. On average, an individual could save over $30.00 per prescription when choosing a generic over a non-formulary drug.
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Time Off

Time off is one way organizations can enhance compensation packages without spending additional funds. In fact, some organizations outside of the industry have offered employees the chance to take unpaid leave in an attempt to cut operating costs. However, most healthcare providers are not taking these kinds of steps. In fact, the 2009 Compensation Data Healthcare results found over 75 percent of healthcare providers offer paid time off packages (PTO) to employees. This can vary by industry with home care and rehabilitation services leading the way with 89.3 and 85.7 percent, respectively.

Below is a chart detailing the time off by years of service. Full-time employees are given at least six days more than their part-time counterparts. The gap widens between employee groups with increasing years of service.

<table>
<thead>
<tr>
<th></th>
<th>0 – 4 Years</th>
<th>5 – 9 Years</th>
<th>10 – 14 Years</th>
<th>15 – 19 Years</th>
<th>20+ Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-Time</td>
<td>21.5</td>
<td>26.0</td>
<td>29.3</td>
<td>30.8</td>
<td>31.5</td>
</tr>
<tr>
<td>Part-Time</td>
<td>14.8</td>
<td>18.1</td>
<td>20.5</td>
<td>21.5</td>
<td>22</td>
</tr>
</tbody>
</table>

In addition to annual PTO allowances, the Compensation Data Healthcare results reported 96.2 percent of companies allow carryover of PTO days, and 80.3 percent place a limit on the number of days that can be carried over. The maximum number of days allowed for full-time employees is 38.7 days, compared to 33.7 for part-time.

Due to the unique demands of the industry, many healthcare organizations offer additional time off through extended illness banks. Extended illness banks allow individuals to donate a specified amount of time to a ‘bank’ annually. Employees can later withdraw time if they become seriously injured or ill and have used their available time off. The time off available varies by years of experience with a maximum annual accrual averaging 17.1 days for full-time employees and 14.8 for part-time. Some organizations, less than 20 percent, allow employees to use these days off for family sick leave.
Conclusion

Although the healthcare industry has been affected by the downturn in today’s economy, they have not seen as many negative effects as others. High demand for healthcare services continues to keep individuals employed across the country despite cutbacks. 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 this recession will last.

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

Note:
Unless otherwise cited, all data found in this report is from the Compensation Data Healthcare results, which include data from over 1,000 healthcare organizations in the United States.
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.

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