



## INTEGRATED HEALTHCARE STRATEGIES™

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# Impact of the Economic Downturn on Healthcare Compensation & Benefits

## Results: Second Quarter 2009 Salary Increase & Benefits Change Survey

Presented by Integrated Healthcare Strategies  
as Authored by Kevin Talbot and Jim Rude

In the spring of 2009, Integrated Healthcare Strategies surveyed hospitals and health systems about changes to their compensation programs since the economic downturn began. The survey was the second in a series of surveys intended to capture real-time data on how the economy is impacting compensation at hospitals and health systems.

The first survey in the series, conducted in December 2008, indicated that executive salary increases had declined from 4.0% to 3.5% and that approximately 17% of the participants froze salaries. The most recent survey indicates that salary increases for executives, middle management, and staff have continued to decline. Furthermore the survey data shows that organizations are also making changes to incentive plans and benefit programs.

The survey, conducted in May 2009, compiled data on salaries, incentives, and benefits from 187 healthcare organizations, the majority of which are tax-exempt hospitals and health systems.

### **Salary Increases Less than Expected for Executives, Middle Management, and Staff**

The survey reports that the median actual salary increases for executives and middle management were lower than what was budgeted for 2009. The median salary increase budgets for executives and middle managers were 3.3% and 3.0%, respectively. The median actual salary increase in 2009 was 2.5% for executives and middle managers. For staff, the median actual salary increase was 3.0%, the same as what was budgeted for 2009.

Expected 2009 financial performance was the primary reason cited for the decision to provide smaller increases than what was budgeted for executives and middle management. Other

factors significantly influencing the decision were regional and local salary trends and industry salary trends.

### **Salary Freezes and Reductions More Common**

Approximately one-third of all participants froze salaries for executives in 2009, significantly more than the 17% of organizations that reported freezing salaries in our December 2008 survey. Around 18% of participants froze salaries for middle managers, and 13% froze salaries for staff.

Approximately 6% of participants reduced salaries for executives in 2009, and around 4% reduced salaries for middle managers and staff. Although only a small percentage of organizations reduced salaries, the reductions are a significant departure from 2008 when no organization reported reducing salaries at any level.

### **Incentive Pay is Impacted by Economy**

As a part of the survey, organizations were asked to indicate if they intended to modify their incentive plans in 2009. Approximately one-quarter of participants responded that they plan to change their incentive programs. Of those making changes:

- Over 90% said they plan to either defer 2008 awards, reduce earned awards, or both
- Roughly 80% plan to reduce 2009 incentive opportunity levels
- Approximately half plan to discontinue their incentive plans for 2009
- Around 80% plan to make other changes, including increasing the financial trigger and revising the performance metrics

### **Benefits and Perquisites Not Immune to Cuts**

One of the key findings of the survey was that nearly one-third of the participants reported that they plan to make changes to benefit plans. The majority of the plan changes were to employee health and dental insurance, paid time off (PTO), retirement plans, and short-term disability programs.

- Health and Dental Insurance
  - 50% indicated that they plan to reduce employer contributions to medical plan premiums
  - 24% plan to reduce employer contributions to dental plan premiums

- Paid Time Off
  - 20% plan to change their PTO policies
  - The most commonly reported change was to reduce the maximum annual PTO accrual
  - Some organizations commented that they plan to eliminate or reduce PTO cash out provisions or to require a greater use of PTO to cover the first 5 days of any illness
  
- Retirement Plans
  - 19% plan to reduce employer matches or discretionary contributions to their 401(a), 401(k), or 403(b) plans
  - 6% plan to reduce employer matches or discretionary contributions to their 457(b) and 457(f) plans
  
- Short-Term Disability Plans
  - 18% indicated that they are considering reducing their sick leave or short-term disability programs

In addition, approximately 20% of the participants reported plans to reduce or eliminate at least some perquisites. Perquisites they were planning to reduce or eliminate included country club memberships, perquisite allowances, automobile allowances, spousal travel, and reimbursement for professional dues and memberships.

## **Conclusions**

The May 2009 survey indicates that the trend in declining salary increases observed in our December 2008 survey have deepened. While most organizations anticipated smaller salary increases in 2009, actual increases for executives and middle managers were even lower than what was budgeted. Furthermore, the trend of a more conservative approach to pay has extended beyond base salaries and into incentive pay and benefits.

This fall, Integrated Healthcare Strategies will be conducting the third survey in this series aimed at capturing more real-time data on the impact of the economy on hospital and health system compensation and benefits. If you are interested in participating in the coming survey, or if you have questions related to this current survey's results, please contact the authors listed below.

## ***About Integrated Healthcare Strategies***

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*industry. Our Executive Total Compensation practice is focused on the analysis and design of compensation and benefits programs provided to executives, physicians, and other key employees. Our client base encompasses the full spectrum of health care organizations. Integrated Healthcare Strategies takes pride in its creativity and track record in developing innovative solutions to compensation and benefit issues. Our other services include physician strategy and compensation, human capital solutions, labor relations, leadership transition planning, executive search, employee surveys, performance management and trustee governance solutions. For more information, call 1.800.327.9335 or visit [www.IHStrategies.com](http://www.IHStrategies.com).*

### **About the Authors**

Kevin Talbot is the Senior Vice President and Practice Manger for the Executive Total Compensation practice of Integrated Healthcare Strategies. If you would like to speak to Mr. Talbot about the topic of this article, or for more information about healthcare executive compensation, e-mail him at [kevin.talbot@ihstrategies.com](mailto:kevin.talbot@ihstrategies.com) or call 1.800.327.9335.

Jim Rude is a Vice President and Manager with the Human Resource Capital practice of Integrated Healthcare Strategies. If you would like to speak to Mr. Rude about the topic of this article, or for more information about healthcare middle management and staff compensation salaries, e-mail him at [jim.rude@ihstrategies.com](mailto:jim.rude@ihstrategies.com) or call 1.800.821.8481.