

GOVERNING DURING ONGOING WORKFORCE SHORTAGES

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AMERICAN COLLEGE OF HEALTHCARE EXECUTIVES SURVEY - 2022

“Personnel shortages of all types
are the top CEO concern.”



2022 FACTS FROM THA

- 64% of hospitals have reduced services due to staff shortages
- RN Vacancy Rate = 16.5%
- LVN Vacancy Rate = 15.2%
- Projected deficit in 2032 of 57,000 nurses
- Qualified applicants not accepted to nursing schools in 2021 = 15,709



‘Nursing Is in Crisis’: Staff Shortages Put Patients at Risk

The Nursing Shortage Is Threatening Our Care

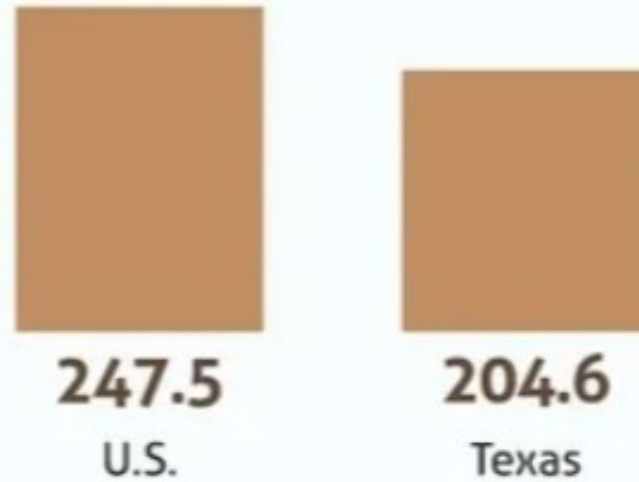
HEALTH

Green-Card Backlog Fuels Shortage of Nurses at Hospitals, Nursing Homes

Hospitals struggle with staff shortages as federal Covid funds run out



Patient Care Physicians per 100,000 Population, 2020



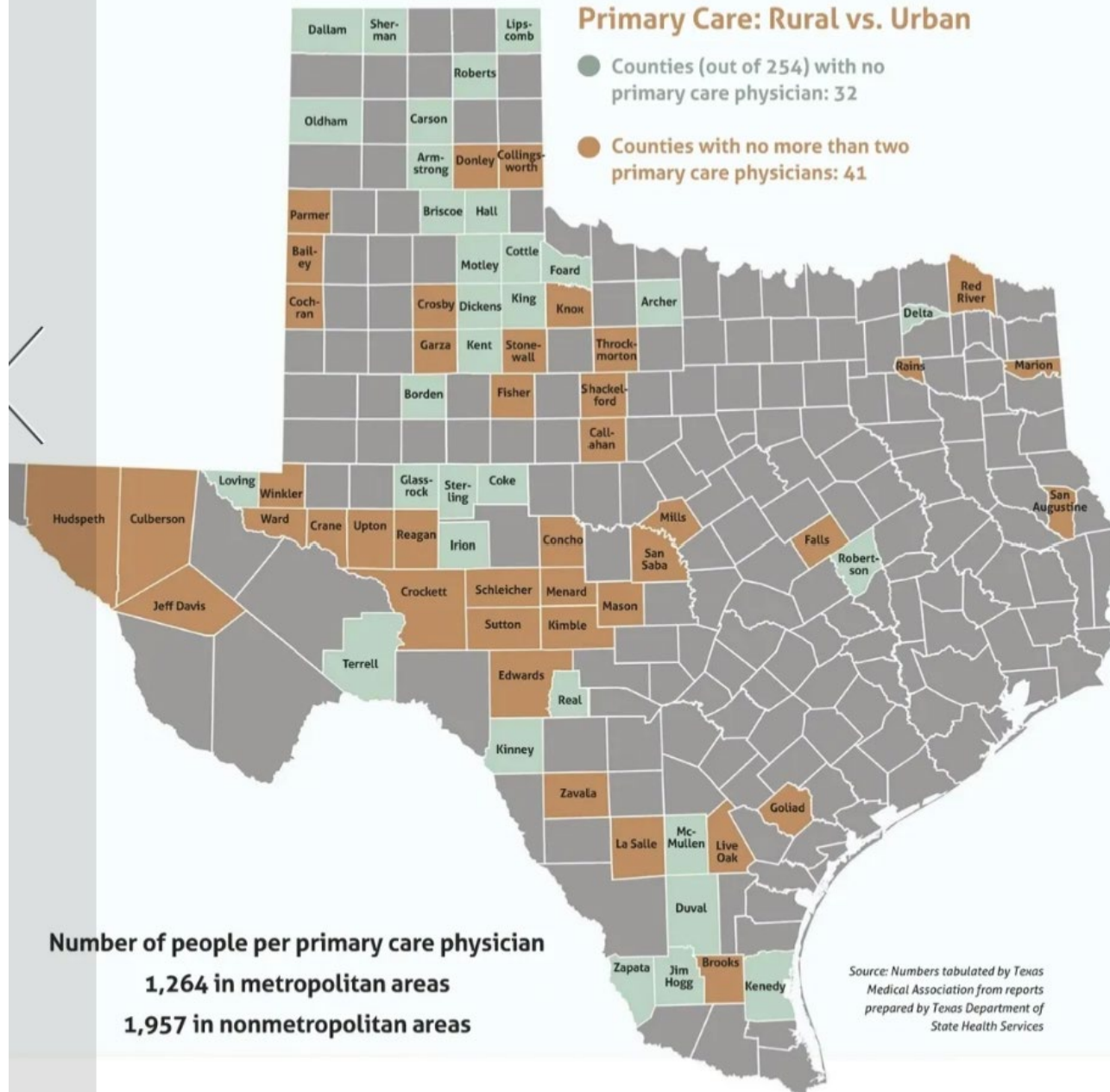
Texas rank: 42nd

Sources: Health Professions Resource Center, Texas Department of State Health Services, 2010 and 2020; Association of American Medical Colleges



Primary Care: Rural vs. Urban

- Counties (out of 254) with no primary care physician: 32
- Counties with no more than two primary care physicians: 41



Number of people per primary care physician
1,264 in metropolitan areas
1,957 in nonmetropolitan areas

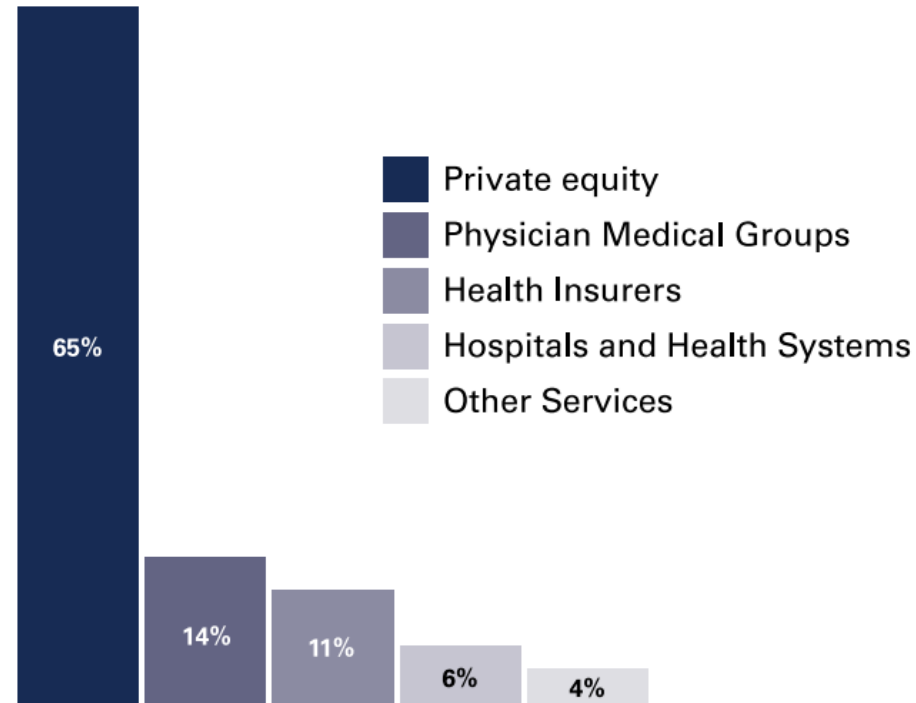
Source: Numbers tabulated by Texas Medical Association from reports prepared by Texas Department of State Health Services



Setting the Record Straight: Private Equity and Health Insurers Acquire More Physicians than Hospitals

Hospitals not among the three largest drivers of physician acquisitions

Percentage of acquired physicians by type, 2019 - 2023



Source: AHA analysis of LevinPro HG, Levin Associates, 2023, June, levinassociates.com. Only includes values for deals where the number of acquired physicians was reported. Certain acquirer types were also modified to more closely align with the services provided by the acquirer.



MONETIZING MEDICINE: PRIVATE EQUITY AND COMPETITION IN PHYSICIAN PRACTICE MARKETS



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July 10, 2023



Figure 3: MSAs in which a Single Private Equity Firm Possesses More Than 30% or 50% Market Share of One or More Physician Specialties, 2012 and 2021

Figure 3A: >30%, 2012

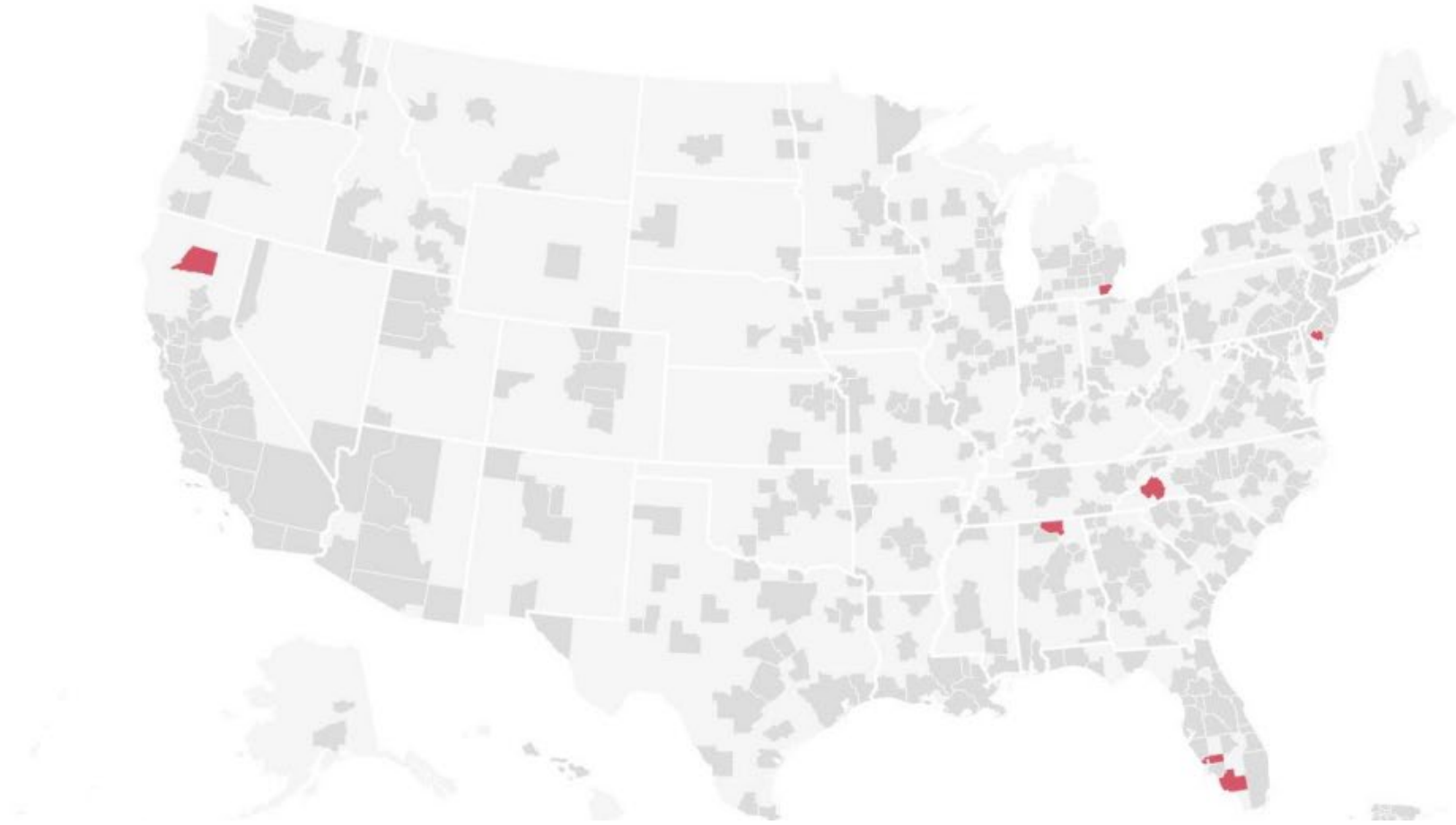


Figure 3B: >30%, 2021

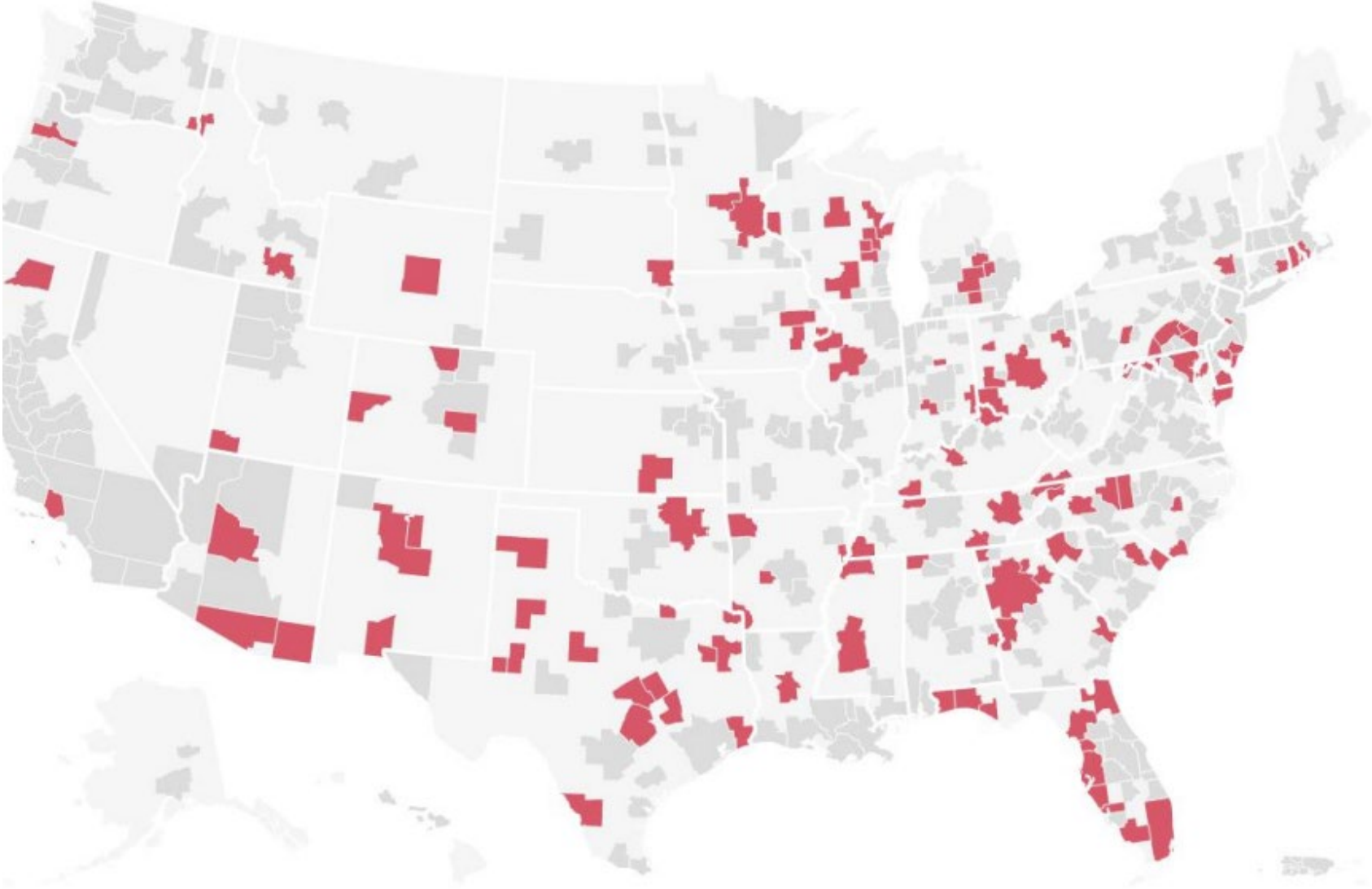
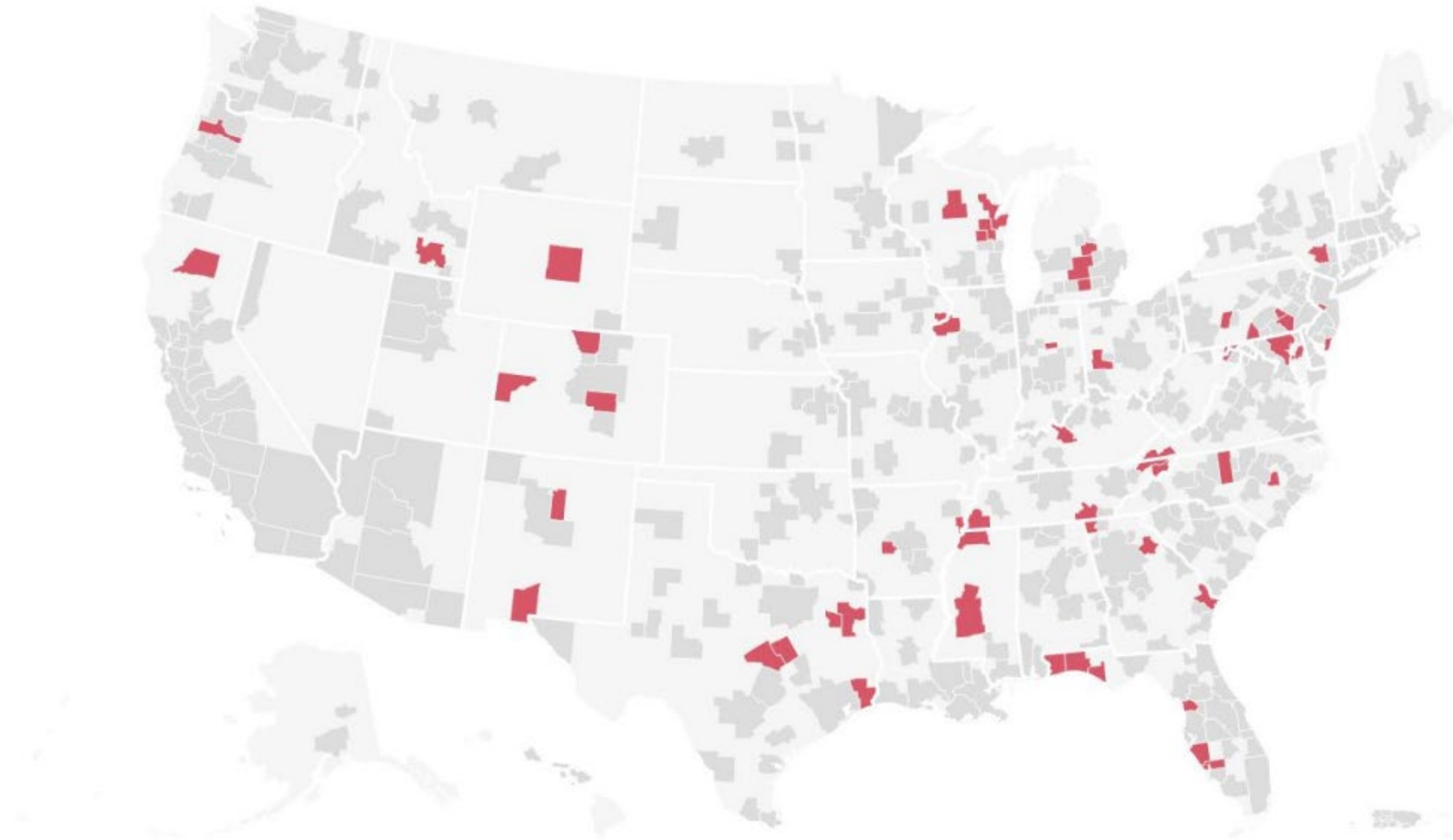


Figure 3D: >50%, 2021





FINANCIAL HEADWINDS

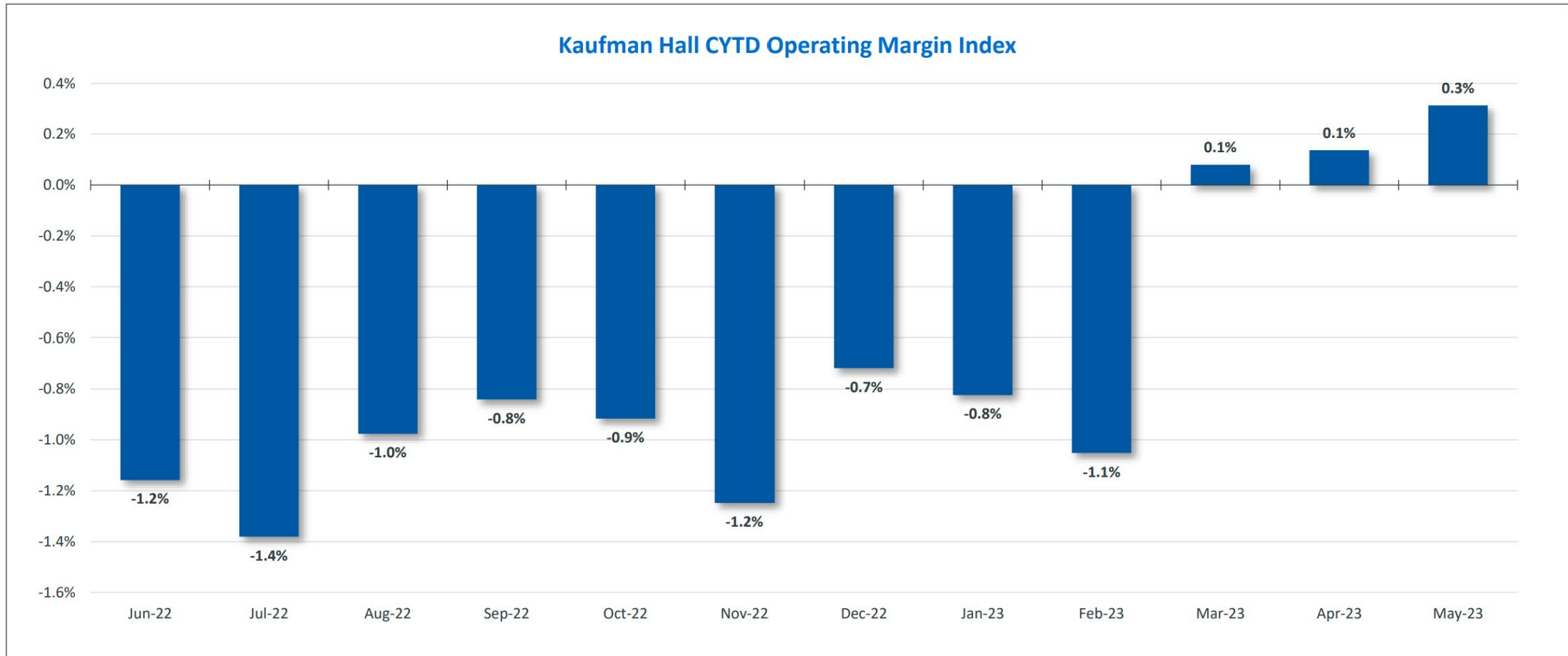
- Labor Expense per Calendar Day 20-23: 21%
(National)
- Labor Expense per Calendar Day 20-23: 26%
(South)



Source: KaufmanHall National Hospital Flash Report,
June 2023.



Operating Margin



Kaufman Hall, National Hospital Flash Report (June 2023)

* Note: The Kaufman Hall Hospital Operating Margin and Operating EBITDA Margin Indices are comprised of the national median of our dataset adjusted for allocations to hospitals from corporate, physician, and other entities.



WHY?

- National demographic shifts
- Fewer people working
- Other employment options within healthcare
- Non healthcare employment options
- Fragile “pipeline”
- Pandemic fatigue

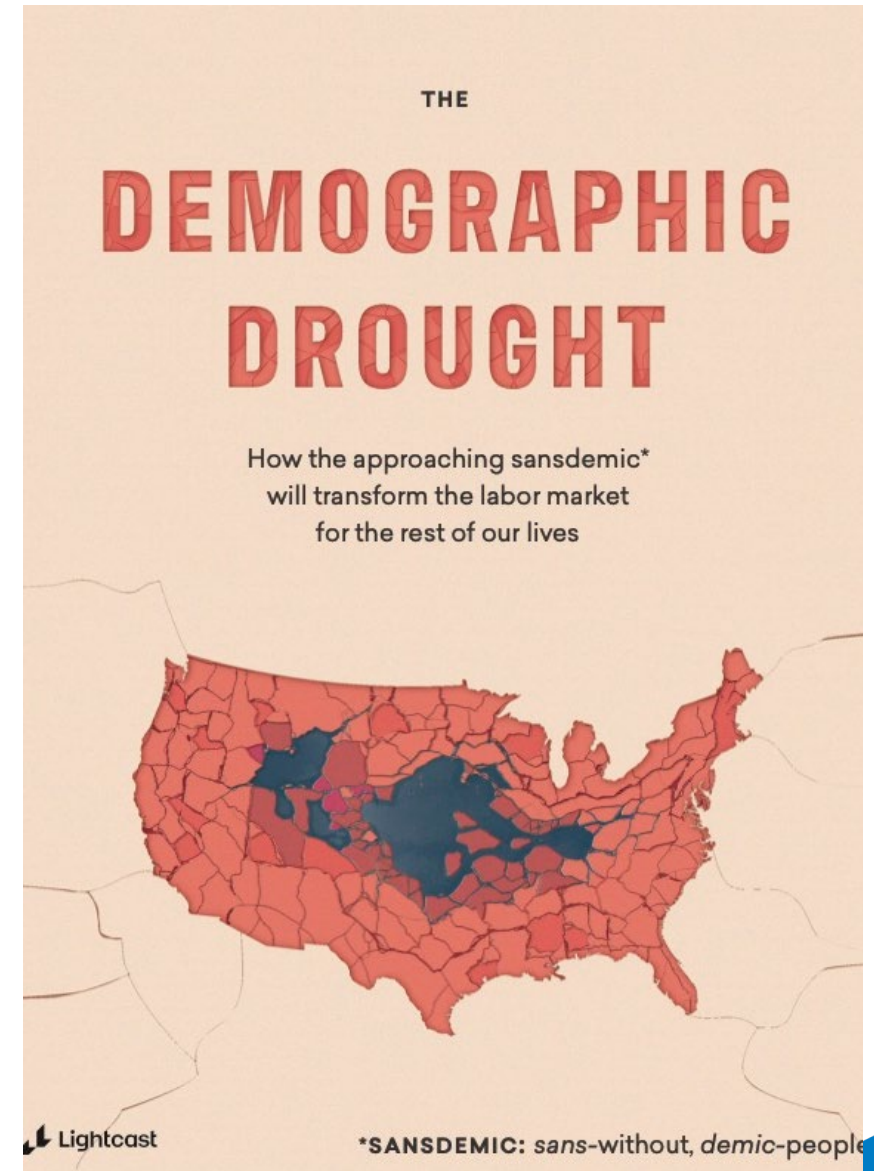


The Great Sansdemic – “Without People”

“The United States is suffering the beginning phases of a great sansdemic. This is no Covid paradox. This is history catching up with us.”

- Ron Hetrick

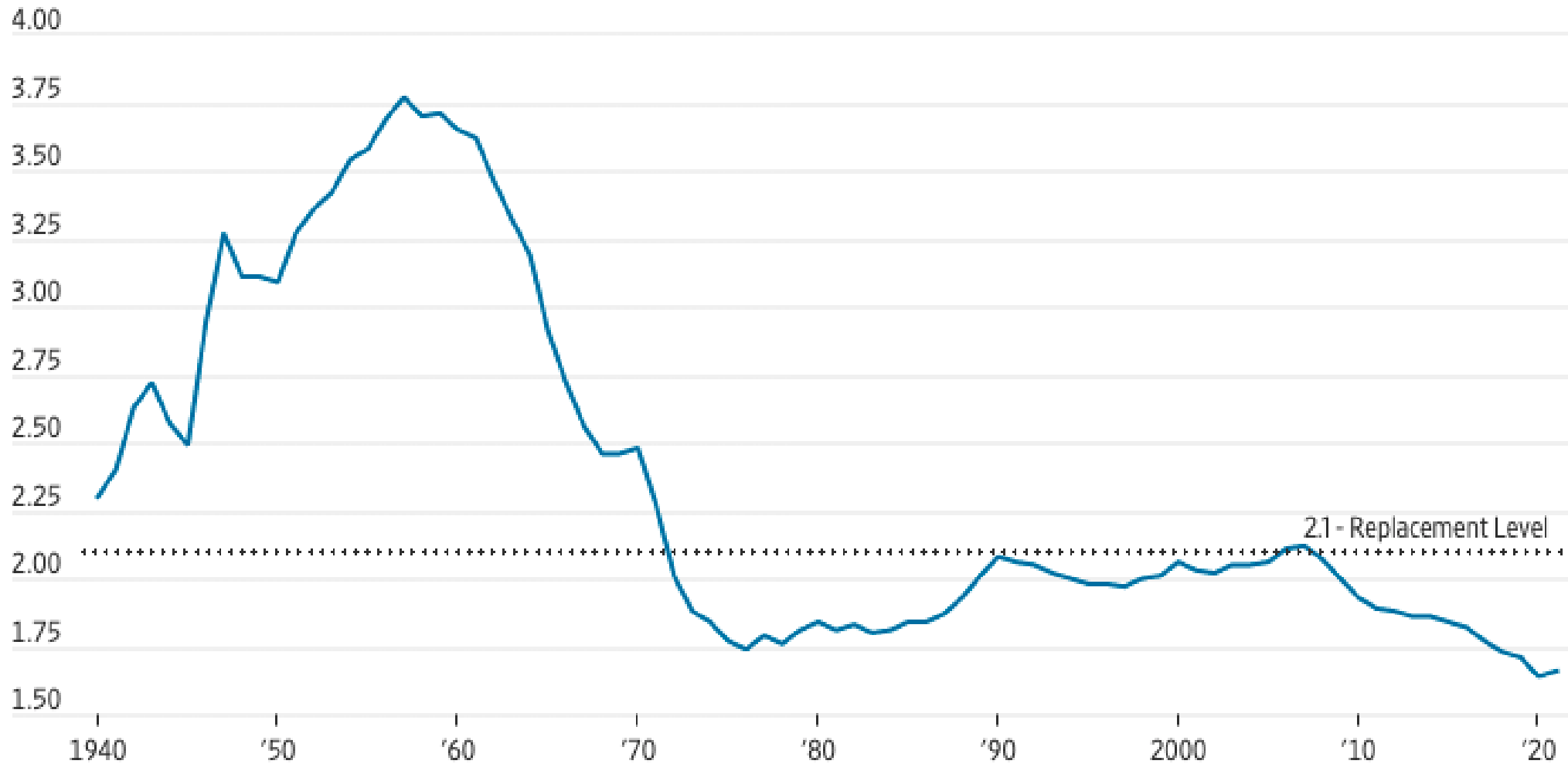
The Demographic Drought



Fertility Slump

The U.S. total fertility rate in 2021 remained below the “replacement” level of 2.1.

U.S. total fertility rate



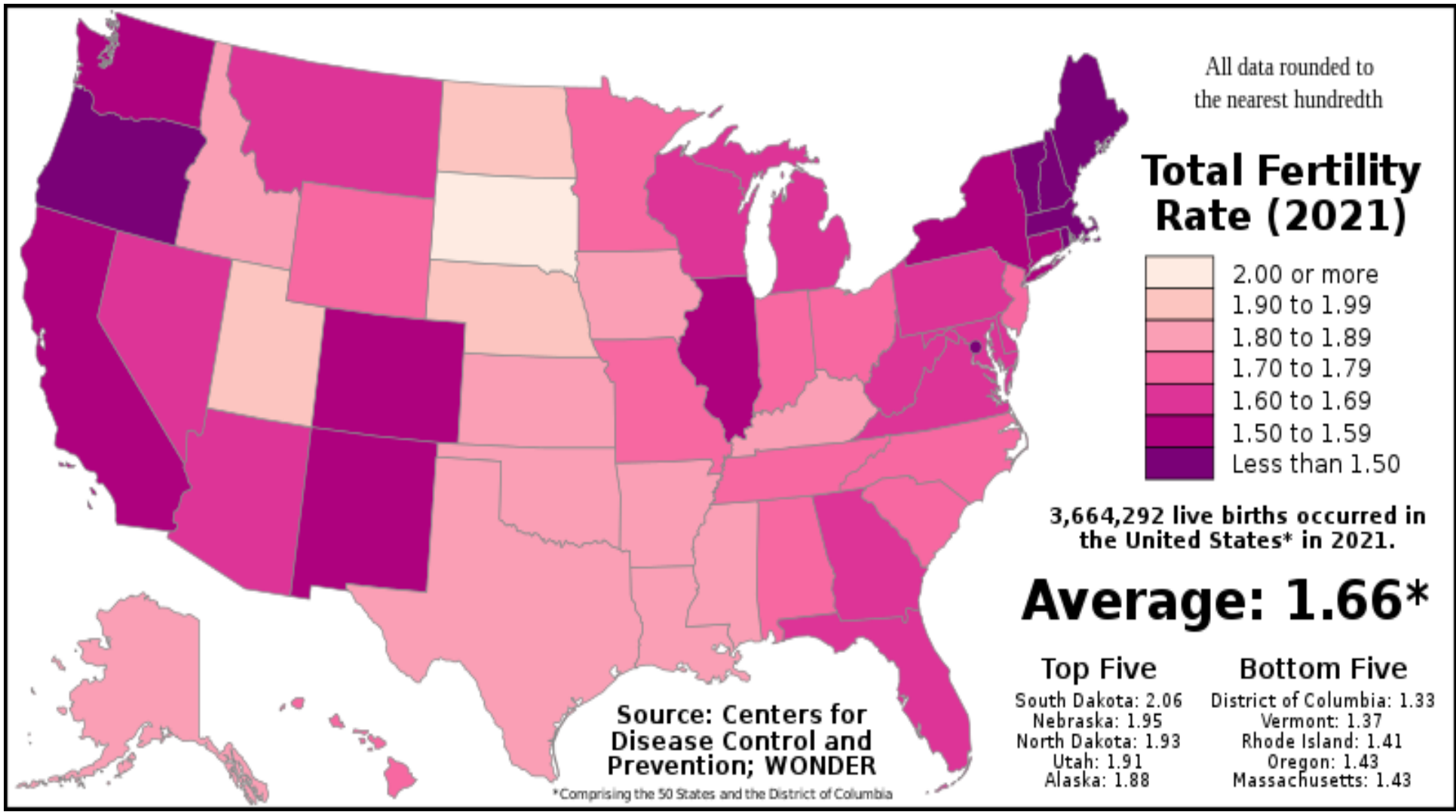
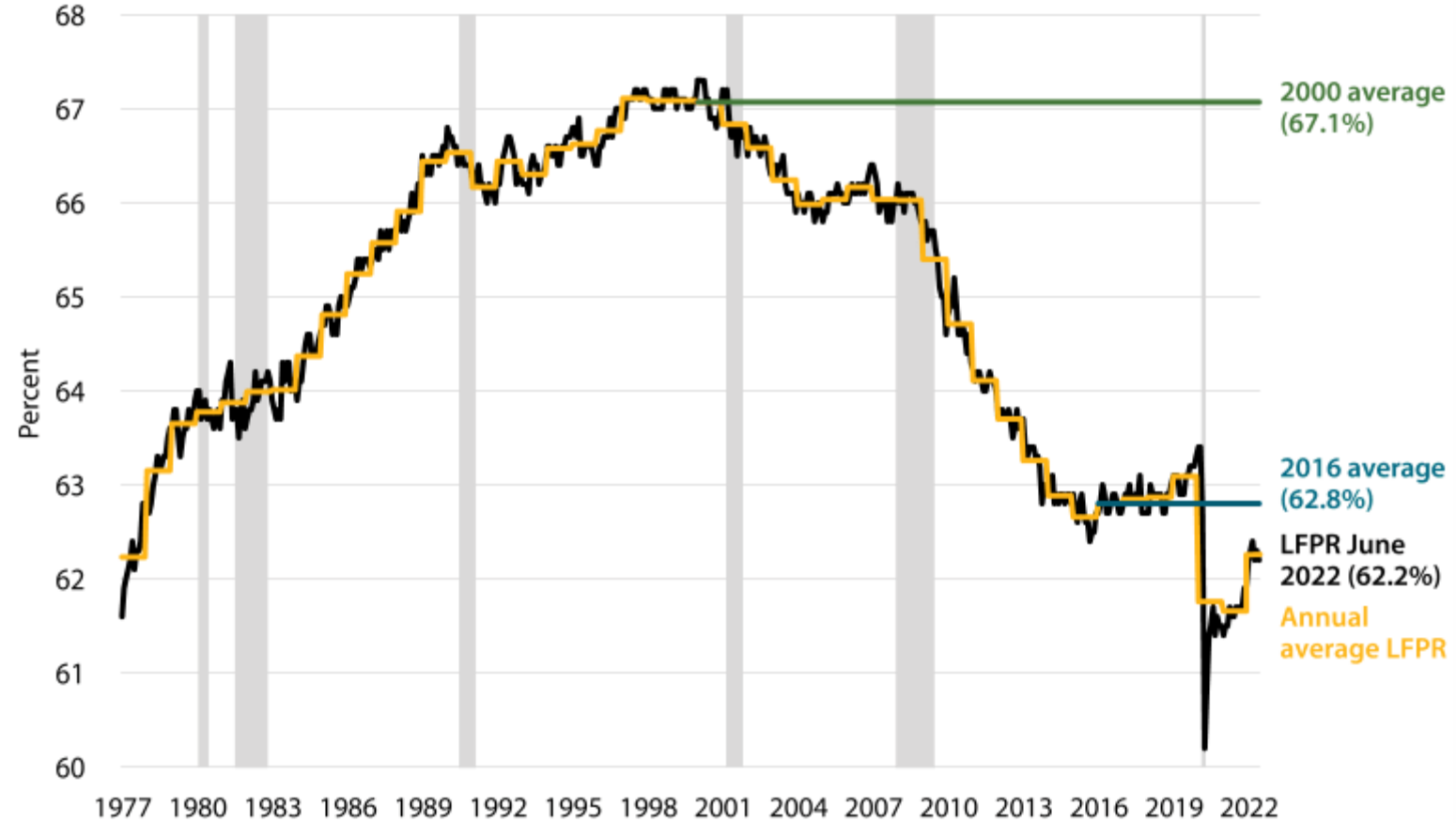


FIGURE 1.

Labor Force Participation Rate, Age 16+, 1977–June 2022



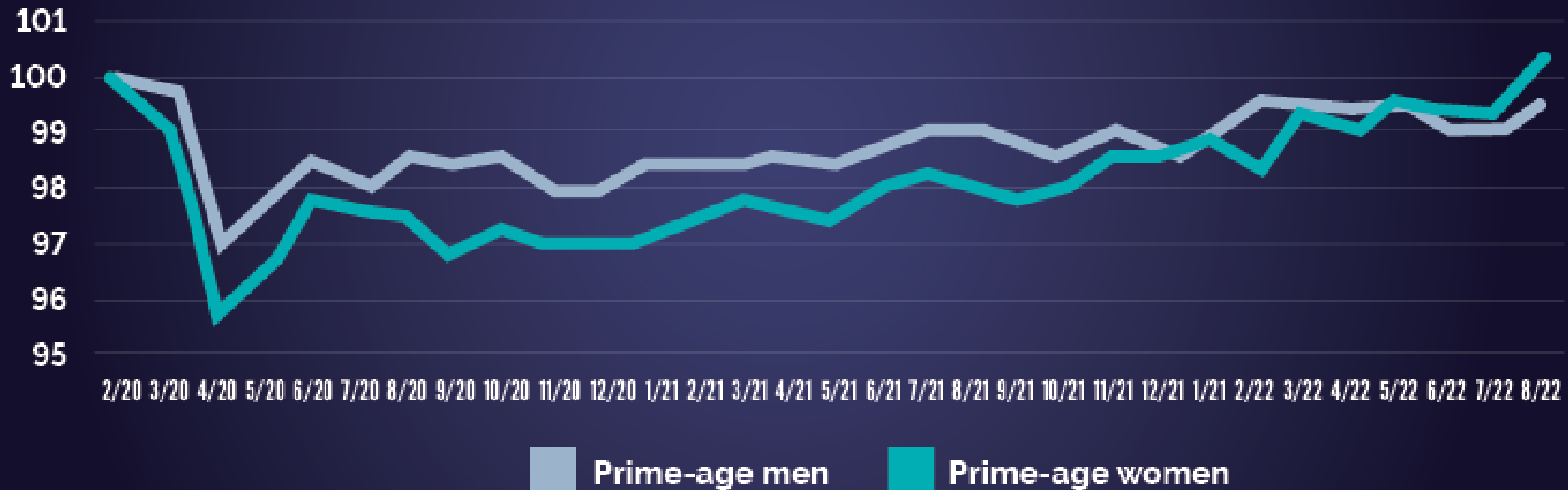
Source: Bureau of Labor Statistics n.d.; National Bureau of Economic Research n.d.; authors' calculations.

Note: Grey shading represents US recessions. The annual average in 2022 represents 6 months of data through June.



Change in Labor Force Participation Rate, February 2020 to August 2022

(INDEXED, FEBRUARY 2020 = 100)



LABOR FORCE PARTICIPATION TRENDS

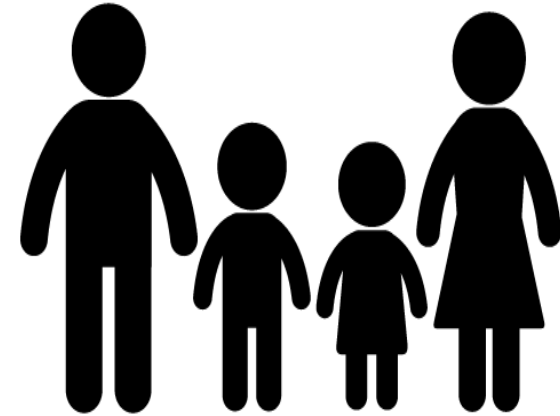
- 2-4M women exited workforce from 2020-2021
- Males increasingly prefer part-time work over full-time work (6M in 2007; 8M in 2019)
- 13% of millennials had first job after age 20
- As of 2014, more men age 25-34 living with parents rather than spouse (first time since 1880)

- Source: EMSI



BABY BOOMERS

- Parents of boomers averaged families of about 4 children.
- Boomers averaged families of about 1.8 children.
- Pre-pandemic, 2M boomer retirements per year.
- In 2020, 3M boomer retirements.
- Average net worth of boomer household = \$1.2M.
- Source: EMSI



CONSEQUENCES

- US population will decline by 2062.
- K-12 enrollment will decline by 8.5% by 2030.
- Higher education enrollment decline of 2M students (past 10 years).
- By 2100, 2/3 of the population will be financially dependent on the remaining 1/3.
- Talent deficit of over 6M in the next 7 years.

- Source: EMSI



IMMIGRATION

- Declining birth rates in almost all other countries.
- Mexico fertility replacement rate = 2.12.
- (Legal) immigration declined between 2016-2021.
- Green card processing “pause” for applicants after February 2022.



THE TEMPORARY STAFFING MARKET

- 2021 = \$24B market
- Expected annual growth rate = 5.6%
- 96% of hospitals reports using temporary staffing companies
- 2019 industry margin = 15%; 2022 industry margin = 62%

Sources: Business Wire, American Hospital Association



WHAT'S DIFFERENT ABOUT THE HEALTH CARE WORKFORCE?

- Tremendous variety in job categories, covering all education & skill levels.
- 24/7/365 coverage.
- Most patient-facing roles have licensing and/or certification requirements.
- Licensing/certification educational requirements increasing for some roles (Physical Therapy, Pharmacy, Nurse Anesthetists)



WHAT'S DIFFERENT (continued)

- Workforce demographics range from high school students to great-grandparents, with differing financial/benefit needs.
- Technology and Artificial Intelligence that REPLACES labor is (unfortunately) still limited.
- Background check requirements.
- Most jobs cannot be conducted virtually.

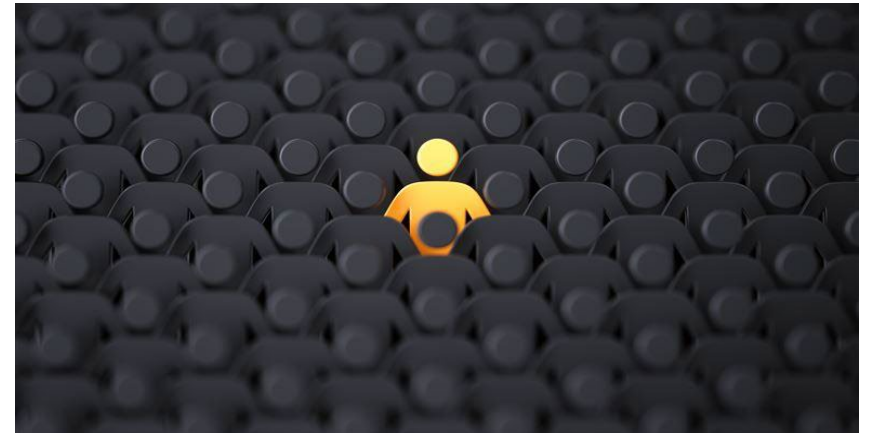






THE CEO'S ROLE (+ EXECUTIVE LEADERSHIP)

- Maintains responsibility for all staffing and human resource matters.
- Transparency/communication with the board.
- Leadership of new partnerships to increase/support the talent pipeline.
- Leadership of the internal culture.
- Full accountability to the board.



THE BOARD'S ROLE

- The CEO.
- Education.
- High-level review of leadership's workforce development plan.
- Physician workforce strategies.
- Strategy development impact.
- Capital planning and financial implications.
- Organized labor strategies.
- Enterprise risk management.
- External reputation.
- Leadership succession planning.
- Oversight.



THE BOARD'S ROLE: HOW?

- Focus on the future.
- Clarify board committee responsibility.
- Request periodic workforce updates.
- Factor higher labor costs into long-range strategic and financial planning.
- Selection of the CEO's people-related goals.
- Add workforce metrics to the board's dashboard.
- CEO succession planning.
- Request periodic leadership development updates.
- Board composition implications.



SAMPLE BOARD QUESTIONS

- Do we have a 3-5 year forecast of workforce needs?
- What is our strategy for acquiring new talent from external sources?
- Does our strategic plan require new talent/skill sets?
- How do we measure the effectiveness of internal succession planning?
- How do our workforce development plans sync up with larger community or regional workforce development efforts?



THE BOARD'S IMPACT ON EMPLOYEE ENGAGEMENT/RETENTION

- CEO Selection & Ongoing Evaluation
- Board-CEO Relationship/Partnership
- Board Room Culture
- Future Focus



FURTHER CONSIDERATIONS

- Are we learning from other industries?
- Are we re-inventing traditional human resource processes?
- Is our workforce culture welcoming?
- Is our workforce culture a competitive advantage?
- Are we investing appropriately in leadership development at all levels?



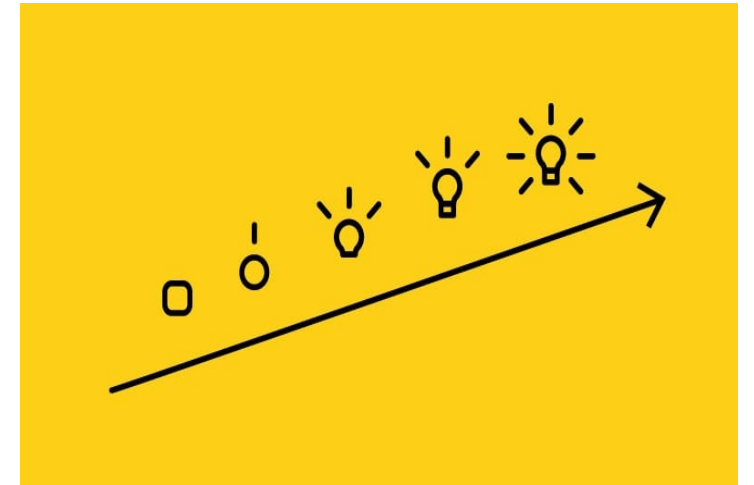
THE LEMONADE

- Shortages encourage creativity & innovation.
- Long-standing human resource practices are being reexamined and retooled.
- Deeper engagement of hospitals in the educational pipeline.
- Others?



TAKEAWAYS

- Long-standing demographic trends existed prior to the pandemic.
- Workforce shortages extend across all job categories.
- There is no single solution “silver bullet”.
- Set realistic goals for the CEO.
- Use data; avoid decisions based on anecdotes.
- Devote board time to strategic discussion of potential future impact matters.
- The governance role related to workforce shortages is distinctively different from the management role.





ADDITIONAL RESOURCES

- Ron Hetrick et al, “The Demographic Drought,” EMSI, 2021.
- Kimberly A. Russel, “Healthcare Workforce Scarcities: The Governance Role,” The Governance Institute, April 2022.
- Paul DeNicola, “A Deeper Dive Into Talent Management: The New Board Imperative,” Harvard Law School Forum on Corporate Governance, August 12, 2021.
- Richard Scheffler et al, “Monetizing Medicine: Private Equity and Competition in Physician Practice Markets,” American Antitrust Institute, July 10, 2023.



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*Thank
you!*

