

SEE WHERE YOU STAND

2018 Benefits Strategy & Benchmarking Survey —
Healthcare Industry Addendum



Gallagher

Insurance | Risk Management | Consulting

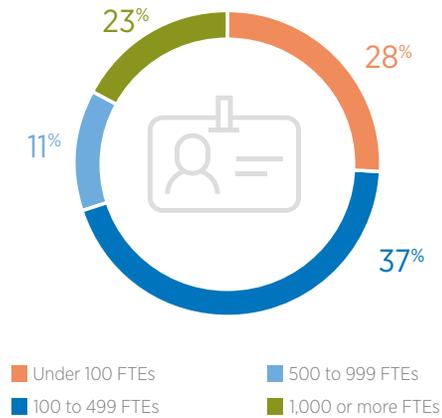
Survey Overview

Gallagher’s 2018 Benefits Strategy & Benchmarking Survey asked U.S. employers close to 300 questions across the total rewards spectrum. This addendum highlights key findings and implications based on responses from 461 healthcare employers participating in this year’s research. Employers include hospitals, health systems, medical groups and other healthcare organizations. The data also contains separate responses from hospitals and health systems to inquiries regarding these providers’ particular place in the healthcare delivery system.

The survey results reflect an industry grappling with longstanding operational challenges, such as the perennial shortage of skilled nursing staff, and newer strategic challenges, such as industry consolidation, declining reimbursement rates and the shift in payment models from volume to value.

Healthcare organizations recognize the importance of employee participation to address these challenges. As a result, they are often reevaluating and rethinking their relationship with employees, including the use of key levers for recruitment, retention and engagement. In doing so, healthcare employers can nurture an environment that is patient-centered, and emphasizes quality and value of care while containing costs.

FULL-TIME EMPLOYEES (FTEs) — DOMESTIC¹

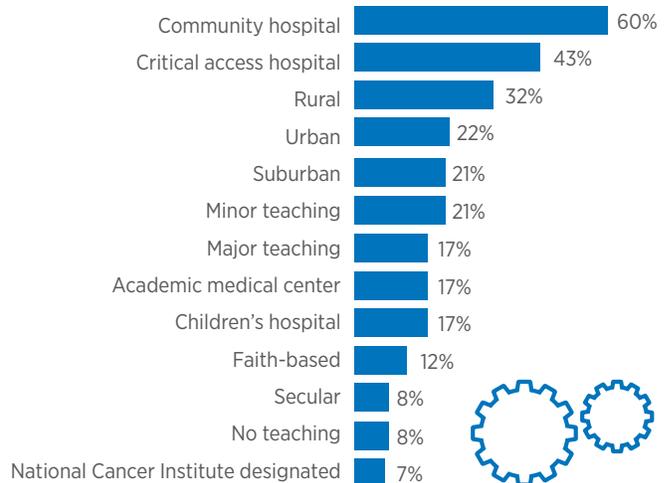


¹Due to rounding, percentages do not total 100%

TYPE OF HEALTHCARE ORGANIZATION

Medical group/clinic	23%
Multi-hospital system	11%
Single hospital system	9%
Psychiatric hospital/behavioral health	7%
Independent hospital	6%
Home health/hospice	6%
Long-term care facility	6%
Freestanding ambulatory services	4%
Continuing care retirement community	4%
Other healthcare facility	24%

DESCRIPTION OF OPERATIONS



Human Capital Strategy

EXPECTATIONS FOR GROWTH OVER THE NEXT TWO YEARS



Revenue	
Increase a little	53%
Increase substantially	17%
Workforce headcount	
Increase a little	48%
Increase substantially	14%

TOP HR PRIORITIES FOCUS ON TALENT



80% Attracting and retaining a competitive workforce

64% Attracting and keeping nursing staff

43%

HAVE FULL-TIME TURNOVER RATES OF 15% OR MORE



Most healthcare organizations face three fundamental strategic challenges:

- Increasing market share as the industry consolidates
- Managing margins in a difficult reimbursement environment
- Navigating the transition from volume to value

Each market issue is daunting in itself; addressing them at once just compounds the difficulty. For example, 70% of healthcare employers expect revenue growth over the next two years while only 6% expect a decrease. In addition, nearly all expect growth in headcount. Given constraints on reimbursement rates, growth is likely to occur through mergers and acquisitions, and winning market share from competitors.

Simple math says that healthcare organizations can't all be right about their growth plans. But because so many providers are taking a similar path, competition for patients will accelerate.

Many healthcare employers are pursuing human capital strategies and tactics to help overcome their challenges. These efforts include:

Recruiting and retaining clinical talent, especially nurses:

Attracting and retaining talent is the most commonly listed human resource priority (80%). Among hospitals and health systems, 64% identify attracting and keeping nursing staff as a top HR challenge. High turnover amplifies retention issues, as 21% report turnover of 10% to 14%, and 43% have turnover of 15% or more.

Increasing employee engagement to help improve quality of care and customer service: Higher workforce engagement and productivity is an HR priority for 46% of healthcare employers, and 37% say creating a strong culture is a priority.

Controlling benefit costs: Controlling benefit costs is a top HR priority for 49% of healthcare organizations.

Employee Engagement

FEWER REPORT A HIGHLY ENGAGED WORKFORCE



57%

HAVE A STRATEGY TO IMPROVE
EMPLOYEE ENGAGEMENT



TOP TACTICS USED TO IMPROVE ENGAGEMENT



Give timely and constructive feedback	73%
Define clear performance goals	72%
Identify development needs and create action plans	69%
Communicate in a way that fosters trust and confidence	67%
Connect employees' efforts to positive impacts on strategy, mission, vision or values	64%

Forty-seven percent (47%) of healthcare employers agree and 7% strongly agree their workforce is highly engaged. However, this represents a decline from 2017, when a total of 65% said their workforce is engaged. One explanation for the drop: As employers now recognize the importance of engagement to their mission and objectives, they more closely evaluate their own organizations and are better equipped to recognize any gaps in engagement.

Awareness is often the first step toward improvement, which would be a good development for many healthcare organizations. Currently, only 57% have a strategy to improve employee engagement, and only 55% have conducted an engagement survey within the last two years. The most common tactics to improve engagement are giving timely and constructive feedback (73%), defining clear performance goals (72%) and addressing employee development needs (69%).

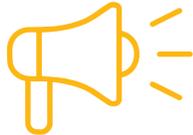
Healthcare organizations have to determine if they're doing enough to improve employee engagement. They will need employees to act like owners, and help them become self-empowered individuals accountable to the organization's goals. This translates into getting employees to embrace the need for improvements in quality, value and the patient experience in light of changing patient, payer and purchaser expectations.

In return, many employees are looking for the organization to recommit to protect and care for them as valuable human partners — albeit in a less paternalistic way than their parents' generation may have expected. This level of mutual commitment may go beyond traditional measures of employee engagement.

Employee Communication

61%

CONSIDER MORE EFFECTIVE COMMUNICATIONS A TOP SOLUTION TO ADDRESSING HR CHALLENGES



A COMPREHENSIVE COMMUNICATION STRATEGY IS UNCOMMON



72% Have a strategy for one or more specific programs

16% Take a comprehensive approach

TOP EMPLOYEE OUTCOMES TARGETED THROUGH COMMUNICATIONS



60% Knowledge of benefits and how to use them

57% Understanding of the total value of compensation and benefits

The most cited (at 61%) solution to achieve strategic HR objectives for healthcare organizations is improved communications. And yet, only 16% have implemented a comprehensive employee communication strategy. Instead, most have communication strategies for individual programs such as safety or wellness (72%).

Fifty-four percent (54%) of healthcare employers say their organization communicates effectively with employees. However, that's down from 61% a year ago. The reason for the drop is likely the same reason why engagement has dropped: Healthcare organizations now examine employee communication with a more critical eye, with better awareness of what constitutes effective communication.

For healthcare organizations, the most important communication outcomes are for employees to understand their benefits and how to use them (60%), and for employees to understand the total value of their compensation and benefits (57%). Other top communication outcomes are strategic, like for employees to understand how they contribute to the organization's success (50%), and employees understanding the vision, mission and values of the organization (45%).

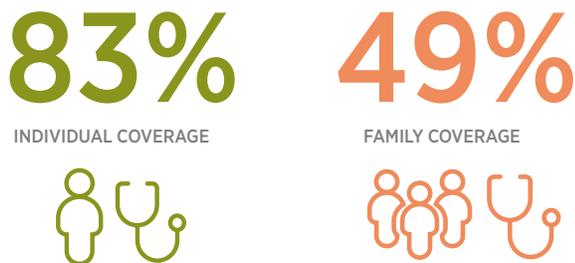
Email (at 85% of respondents) is by far the most widely used benefits communication platform. The second-most common is online enrollment sites and portals (51%), followed by live group enrollment meetings (50%). Healthcare organizations rarely use newer technology — like mobile apps (12%), video (11%) and text messaging (8%) — but these have the potential to reach a wider audience than more traditional channels alone.

Medical Benefits

EMPLOYER HEALTH BENEFIT PERCEPTIONS



AFFORDABILITY OF MEDICAL PREMIUMS FOR EMPLOYEES



69%

OFFER A MEDICAL BENEFITS TIER WITH LOWER EMPLOYEE COST SHARE FOR USE OF DOMESTIC FACILITIES OR PHYSICIANS



Unsurprisingly, most healthcare organizations consider health benefits central to their total rewards strategies: 48% agree and 19% strongly agree that medical and pharmacy benefits are the cornerstones of their benefits offering.

Ninety-one percent (91%) of healthcare employers believe their employees have access to the quality medical services they need, and in terms of their health benefits, 71% think they are as competitive as other employers in their industry or region. But only a slim majority think employees are satisfied with their health benefits (56%). And not even half (49%) of sector employers say premiums are affordable for family coverage, while only 56% say additional costs like deductibles are affordable.

A common expense-control strategy for hospitals and health systems is to encourage employees to use in-house medical resources. Sixty-nine percent (69%) of healthcare employers offer a domestic (i.e., using their facilities or physicians) tier with lower levels of employee cost sharing; of these, 59% report that at least three-fifths of their total medical and pharmacy claims are paid under their domestic tier.

These healthcare organizations face the additional opportunity and challenge of applying population health management strategies to their own employee populations as both a tool to control costs and as part of a longer-term strategy to bring these capabilities to other employers. However, only 12% use a domestic, clinically integrated network as a pilot to measure results and share them in success stories through direct-to-employer marketing materials. And just 21% more report this is under consideration.

Nearly all healthcare organizations (96%) offer prescription drug coverage, and of these, 89% offer it as part of the health plan. Healthcare organizations' approach to pharmacy benefits is not necessarily more sophisticated than in other industries. For example, half (50%) of healthcare employers are unaware of their health plan's strategy for high-cost specialty medications. What's more, most healthcare organizations have not considered cost-cutting policies related to specialty drugs. These policies include mandating the use of a specialty pharmacy (68% have not considered), requiring preauthorization (67%) or using step-care therapy (74%).

Final Remarks

The primary mission of any healthcare organization — providing the utmost quality in patient care — naturally lends itself to employee engagement, as their roles are ultimately directed towards improving patient health. Healthcare organizations also have some unique advantages in the approaches they can pursue to control medical and pharmacy benefit costs, because they have internal resources and expertise unavailable to employers in other industries.

Healthcare employers have an enormous opportunity to leverage these advantages while helping employees fully embrace change in the pursuit of better care, lower costs and improved customer service. Healthcare organizations that address this core management challenge will place themselves in a strong position for sustained success.

This report explores how healthcare employers are managing and optimizing their workforce in an environment in which attracting and retaining employees is challenging but critically important. The report is intended to provide direction that can help organizations compare their approach to their industry peers and consider tactics that they may not be currently using, align with sustainable operational goals and create better employee and business outcomes.

To learn more, contact Healthcare Practice Managing Director, Robin Mancuso (robin_mancuso@ajg.com), or visit ajg.com/healthcare.

About Gallagher

Better. It's something all companies strive for. Better outcomes from better performance. But how do you get there?

You start by building a better workplace. One that attracts, engages and retains top talent. What does that look like? It's a workplace where people feel they belong — where there's a stronger sense of developing a career than punching a clock and a culture of opportunity that draws new talent because it inspires employees to deliver their personal and professional best.

Gallagher's comprehensive approach to benefits, compensation, retirement, employee communication and workplace culture aligns your human capital strategy with your overall business goals. It centers on the full spectrum of organizational wellbeing — strategically investing in your people's health, talent, financial security and career growth and developing benefit and HR programs at the right cost structures to support a multi-generational workforce.

From evaluating the demographics of your workforce to surveying and analyzing competitor trends, Gallagher helps you gather new insights and apply best practices that promote productivity and growth. A data-driven focus allows you to continually improve.

That's what it means to create a better workplace culture. It's about never being content to rest each time you reach your best. Your better is never finished.

As you develop and sustain this destination workplace culture, your people can thrive and perform at a higher level — optimizing your annual talent investment and mitigating organizational risk to maximize your profitability. Best of all, you gain a competitive advantage as a workplace that simply works better.

TERMS OF USE

The intent of this Survey is to provide you with general information regarding current practice within the employee benefits environment. The data does not constitute recommendations or other advice regarding employee benefit programs, and the user is in no way obligated to accept or implement any information for use within their organization(s). The decision to utilize any information provided rests solely with the user, and application of the data contained does not guarantee compliance with applicable laws or regulations regarding employee benefits. Information provided by the Survey, even if generally applicable, cannot possibly take into account all of the various factors that may affect a specific individual or situation. Additionally, practices described within the Survey should not be construed as, nor are they intended to provide, legal advice.

The Website and the Content do not constitute accounting, consulting, investment, insurance, legal, tax or any other type of professional advice, and should be used only in conjunction with the services of a Gallagher consultant and any other appropriate professional advisors who have full knowledge of the user's situation.

Gallagher does not represent or warrant that the Content will be correct, accurate, timely or otherwise reliable. Gallagher may make changes to the Content at any time. Gallagher assumes no responsibility of any kind, oral or written, express or implied, including but not limited to fitness for a particular purpose, accuracy, omissions and completeness of information. Gallagher shall in no event whatsoever be liable to licensee or any other party for any indirect, special, consequential, incidental, or similar damages, including damages for lost data or economic loss, even if Gallagher has been notified of the possibility of such loss. For the purposes of this section the term "Gallagher" shall be construed so as to include Gallagher Surveys as a marketing division and/or Gallagher Benefit Services, Inc. and its affiliates.

© 2018 Arthur J. Gallagher & Co.

All rights reserved. No part of this book, including the text, data, graphics, interior design and cover design may be reproduced or transmitted in any form, without explicit consent from Arthur J. Gallagher & Co.

www.ajg.com



Insurance | Risk Management | Consulting