Staff and Advanced Practice Clinician Compensation Programs

ADDRESSING PAY DISPARITIES TO IMPROVE VALUE AND REDUCE COST

SullivanCotter
AND ASSOCIATES, INC.

Employee compensation expenditures are the largest operating expenses for health care organizations. In times of cost reductions and reimbursement declines, the structure and content of the industry's compensation programs can be problematic. Trying to cut costs or stem spending with staff reductions or freezing base pay increases may do more harm than good.

Why? Because when health care managers believe they are short-staffed or insufficiently competitive with base salary levels, they will find other ways to compensate outside of base pay. Managers may achieve this through add-on or special pay: increasing on-call hours, using call-back or extra shift pay or providing discretionary bonuses. They may use higher-paid per diem or temporary staff. Or they may create career ladders that are all about increasing pay levels rather than skill levels.

These strategies are aimed at maintaining the status quo versus changing the way employees are compensated or for what they are rewarded such as improvements in patient satisfaction, clinical outcomes and financial performance. In a changing health care delivery environment cash compensation programs must keep pace. But that isn't happening routinely.

An example is the approach being used today to pay advanced practice clinicians (APCs), particularly nurse practitioners (NPs) and physician assistants (PAs). The majority of organizations that employ NPs, PAs, midwives and certified registered nurse anesthetists have increased (by about two-thirds), or plan to increase (by about two-thirds), the number of these providers they employ,[1] but few have developed compensation strategies for this group. About 45% of organizations offer some type of reward or incentive plan for APCs, but the payouts are generally modest (accounting for 10% or less of base salary)[1] and such plans may have little or no alignment with the organization's key goals or with the plans in place for the physicians. In the worst cases, the plans put the APCs in competition with the physicians for patient encounters or revenues, resulting in unwise use of financial resources and poorly coordinated patient care.

So what should you do? There is a proven approach to improving the return on investment (ROI) in compensation programs and even reducing costs with minimal negative impact on employee relations. The approach requires some effort and the engagement of leadership across the enterprise, but the outcomes are worth it.

[1] Advanced Practice Clinician Compensation and Pay Practices Survey Report © 2013, Sullivan, Cotter and Associates, Inc. and American Medical Group Association

THE COMPENSATION PROGRAM AUDIT: A PROVEN APPROACH TO IMPROVING THE ROI OF CASH COMPENSATION PROGRAMS

The audit process looks at information from a number of places within an organization. Likely data on patient census, data on staff vacancy rates and pay data for base salaries and call-back pay are extracted from varying reports or even in different IT systems. These elements are like puzzle pieces — and bringing them together provides a true picture of whether base pay and special pay are supporting their intended outcomes and are aligned with market standards and best practices.

The audit will answer these key questions:

1) Are we doing what we said we would do in relation to base pay and special pay?
2) Is what we are doing aligned with market standards and best practices?
3) Does what we are doing still make sense in light of business needs?

There are four phases or steps to the process and the first one is critical.

STEP 1 — Catalog the Current State

Begin the process by gathering and cataloging all of the information about your pay administration guidelines and policies. Collect, among other items, the following:

1) The compensation philosophy statement that guides the programs. If there isn't one, that's an important finding. If there is one, but it's too generic to be useful, that's good to know as well because this suggests there may be compensation arrangements and decisions that aren't aligned with the organization's goals or with industry best practices.
2) Detailed administrative guidelines for the pay program.
3) Policies related to special pay.

Gather a year's worth of data on utilization of special pay, reports of staff vacancy rates and actual patient census or visits compared to budgeted census or visits.

STEP 2 — Compare Current State to Stated Philosophy or Strategy

For example, assess whether the approach to setting market rates, managing salary structures and managing pay adjustments aligns with the stated compensation philosophy, as well as market data and industry standards.

In the example below, a client whose strategy was to target base salaries to the market median (50th percentile) had continuously increased the maximum of the salary range to avoid red-circling employees. This resulted in base salaries far in excess of the strategy and far higher than the competitive market.

Employee Group	Average Base Rate	Base Market Data Effective January 1, 2014				Market Percentile Position
		P25	P50	P75	P90	
XYZ Technicians	$38.55	$28.75	$31.89	$35.13	$38.32	91

STEP 3 — Compare Current State to Market Standards or Best Practices

For example, if your organization is currently paying shift differentials as a percentage of base pay, you should be aware that market standard practice is a flat rate and you are likely paying "over market" as a result of your current practice. In the example below, the client's approach was resulting in a significant overpayment of a weekend differential compared to the market for its region.

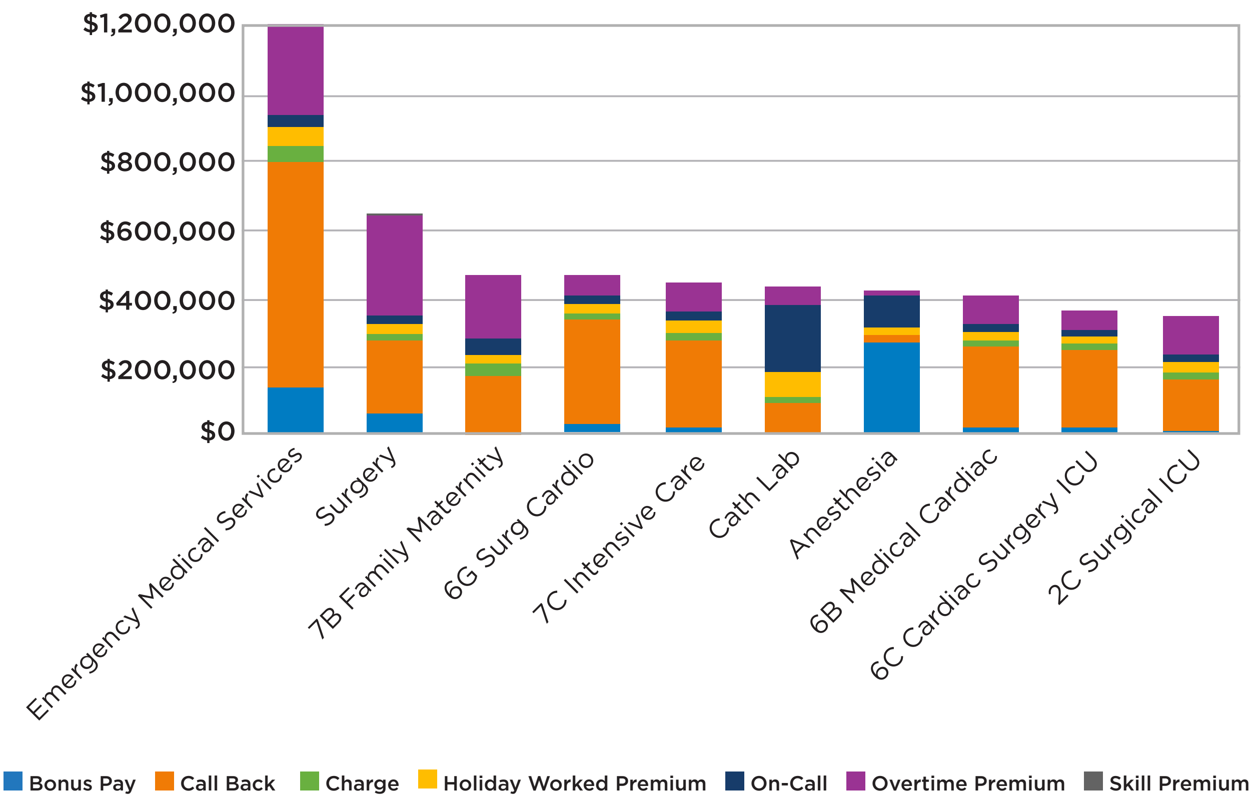
Position	Actual Client Average Hourly Base Rate	Client Weekend Differential 15% of Base Rate	Competitive Market Data Weekend Differential	Client as % of Market Weekend Differential
Staff RN II	$35.59	$5.34	$2.77	192.7%

STEP 4 — Compare Current State to Stated Purpose or Business Need

In this example, an assessment of RN bonuses revealed an opportunity to reduce costs by ensuring the conditions or triggers for payment were being observed. In this case, either high staff vacancy rates or a higher-than-expected patient census could trigger additional pay for working added shifts.

The client's trigger for paying the bonus was a vacancy rate above 15%. However, the vacancy rate for emergency medical services for the period assessed was 4.3% for direct care registered nurses (RNs) and 2.5% overall for the department. Furthermore, the actual patient volume was 16,633 patient visits, which was below the budget of 17,209 patient visits.

None of the top 10 departments with the highest utilization of RN bonuses in the first quarter of the assessed calendar year had vacancies greater than 15%, nor did they exceed budgeted census or visits.



Reviewing your organization's compensation programs offers several valuable benefits:

1) **Savings** from eliminating redundant or obsolete programs, revisions to programs or limiting use of special pay programs. These savings can range from thousands of dollars to hundreds of thousands of dollars.

2) Improved **alignment** of the employee compensation program with the strategic goals of the organization. This means compensation programs that reward people for improving patient outcomes, patient satisfaction and controlling costs.

3) **Improved retention and recruitment** through alignment of base salary programs with actual recruitment and retention needs, as well as the organization's desired compensation philosophy. This means making sure you're paying competitively but not aggressively. It also means that pay strategies may need to vary by service line or even unique jobs.

4) Strengthened employee **value** proposition by addressing equity issues that result from the review and changes made to the compensation programs. Because how an organization pays people says a great deal about its values.

The following case studies provide examples of outcomes from compensation program reviews for two health systems.

CASE STUDIES

Scott & White Health Care, Temple, TX

Scott & White Health Care (S&W) had experienced rapid growth, which outpaced the oversight needed to control its compensation programs. "We didn't modify programs as we grew and didn't fully integrate new practices as we acquired them," reports Lorraine Bell, Interim Chief Human Resources Officer and former Vice President, Human Resources.

2005	TODAY
1 Hospital and 30 Clinics	12 Hospitals and 160 Clinics
Revenue: $800M	Revenue: $2B
500 Employed Physicians	Doubled Employee and Physician Head Count

S&W Human Resources (HR) and SullivanCotter partnered to assess the current state of compensation for APCs and special pay for all other non-management and non-physician staff through two concurrent projects:

- Cataloging current practices.
- Comparing current practices to typical and best practices.
- Determining costs of current practices and potential changes to save dollars and create a better value proposition.

A review of the current state of APC compensation, much of it driven by growth through acquisition, showed the following:

Incentive Plans

- There were seven different incentive plans in place.
- There were no formal plan documents.
- Some plans were productivity based and others were not.

Special Pay

APCs were, in some cases, eligible for special pay that was not being factored into the value proposition, including:

- Overtime (even for exempt APCs).
- Extra shift pay.
- Shift differentials (at varying rates by department or service line).

Bell reports that, "The review of pay practices really brought to light the many inequities we had unwittingly created over the years, particularly with respect to incentive programs. The departments that had the initiative to create incentive programs paid their employees more than the departments that did not. Although we reduced costs in some areas, we used the cost savings to improve programs in others and create programs that were more equitable across the organization."

For pay practices pertaining to the rest of the employees, significant savings were realized through aligning practices with the market and eliminating practices that were not effective.

Practices Aligned With Market Standard and Competitive Practices Annual Savings and Costs	
Evening, Night and Weekend Differentials	$67,300
On-Call Pay (Flat Dollar Rate Versus Percentage-Based Rate)	$502,000
Call-Back Pay (Straight Time)	$146,000
Holiday Pay (Time and One-Half Versus Flat Rate) *Note: S&W did not pay time and one-half for holidays at its main campus, but rather provided a flat rate differential. This was a significant cause of dissatisfaction to employees. The savings from aligning other programs allowed S&W to switch to time and one-half.*	($290,600)
Charge Pay	$81,500
Potential Annual Savings From Market Alignment	$506,200

Practices Eliminated Savings	
Award	$28,200
Bonus	$23,000
Cash Bonus	$1,352,000
Retirement Appreciation Program (Bonus Upon Retirement)	$258,400
Potential Annual Savings From Market Alignment	$1,661,600

Bell observes that, "Managers are very generous...with the company's money. The increased visibility to all the ways that cash was flowing out of the system was very valuable. Making the change to consistent practices was not as easy as flipping a switch. We had to implement little by little and we had to get leadership buy-in from the outset, because for every dollar saved, there was a dollar less for an employee — even if the dollar was not one we should have been spending."

University of North Carolina Health Care, Chapel Hill, NC

Every year, the HR department of University of North Carolina Health Care (UNC Health Care) found itself debating the appropriate process and budget for making pay adjustments.

HR leadership determined they needed a strategy and consistent process to guide these decisions. HR partnered with SullivanCotter and met with more than 30 senior leaders across the system to develop a compensation strategy. Individual and group meetings were held to outline the purposes for developing the strategy, as well as to gather leader insights related to the talent market, how to position pay competitively and other components of the pay program.

“The commitment of time and effort for these meetings was significant but essential to ensuring support for any changes going forward,” said Bill Rotella, Vice President, Human Resources.

Additionally, a detailed review of special pay practices provided UNC Health Care with opportunities for cost savings.

For example, a review of on-call pay for clinical departments showed that some departments were routinely providing on-call pay but never calling staff back to work. **On-call pay that may not have been needed amounted to more than $570,000 for the year reviewed.**

According to Rotella, “The assessment helped us identify opportunities for cost savings, but just as important, the information we developed provided a framework for setting our compensation priorities and work plans going forward.”

SOME FINAL THOUGHTS

If you proceed with an audit, it will be critical to engage your administrative and clinical leader colleagues. Most special pay utilization occurs in the nursing area, so work with the CNO at the very beginning of the effort to define the objectives, scope and shared responsibilities for communication and implementation.

And remember, the most important step is the first one: finding out where the dollars are going.