Rural Health Recruitment and Retention
SPECIAL REPORT 2016

by
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Three of the top challenges rural health organizations will face in 2017 are:

- The transition to value-based healthcare
- Rising costs
- Talent shortages

These are three separate issues but they are all very much connected. In the world of healthcare, quality always counts. However, as we move toward value-based healthcare, quality care becomes more important than ever because now it affects revenues.

If the quality of care fails to meet certain standards, healthcare organizations will suffer penalties from Medicare and Medicaid. This means they could deliver patient care, incur the costs to deliver the patient care, but they won’t get paid for the patient care. This is one of the issues where the challenge of transitioning to value-based healthcare adds to the challenge of rising costs.
Value-based healthcare necessitates that healthcare organizations get the best talent possible, because better talent can deliver better quality patient care. This includes both clinical and non-clinical talent.

The challenge of talent shortages should actually be at the top of the list because it significantly impacts the transition to Value-based Healthcare and rising costs. Talent shortages make it difficult for healthcare organizations to meet the quality standards of Value-based Healthcare. Talent shortages prolong physician vacancies that bring with them lost revenues of about $1 million per year, per vacancy. The shortage of non-physician talent, both clinical and nonclinical, further increases costs with overtime and higher priced temporary help.

Lost revenues and increased labor costs can force healthcare organizations to hire candidates who cannot meet the required quality of care standards of Value-based Healthcare.
Up until now, the most popular recruiting and retention incentive has been some type of tuition reimbursement program.

The problem with these types of programs is that they are only a temporary solution. Many healthcare organizations find that as soon as the brief one to three year commitment period is up, the physician goes elsewhere. The situation can be frustrating because the healthcare organization is left back at square one, with even more turnover costs.

What is really needed is a permanent solution to the problem, because without a permanent solution the situation will only get worse.
Rural Health organizations should look to financing pension plans as part of their overall strategy to meet these challenges, and here’s why:

- Pension plans can be a permanent solution to the challenge of talent shortages.
- Pension plans are a powerful tool to attract and retain top talent, and thereby help healthcare organizations make the transition to value based healthcare.
- Pension plans help lower rising costs by saving ten-of-millions of dollars in turnover costs.
- The first year cost of financing the pension plan for 100 employees is less than the turnover cost of only one employee.
Physician and Nursing Shortage - Future Projections

The Physician Shortage
Demand for physicians continues to grow faster than supply, leading to a projected shortfall of over 90,000 physicians by 2025.

Specifically: A shortfall of over 31,000 primary care physicians.
   A shortfall of over 63,000 non-primary care physicians.

The Reason

1) There are more physicians retiring than coming out of medical school.

2) The aging boomer population is living longer.

3) Every day 10,000 Americans turn 65, and go on Medicare.
The Nursing Shortage

The Bureau of Labor Statistics, estimates that 1.2 million vacancies will emerge for registered nurses between 2014 and 2022.
Recruitment and Retention

Today, According to the Bureau of Labor Statistics...

The average U.S. worker changes jobs every 4.4 years!
History

Years ago, before the 401(k) or 403(b) and similar plans...

the average U.S. worker spent their entire career at the same company, because...
History

They wanted the lifetime pension!!!
In 1978 Congress changed everything with the 401(k)

Baby boomers loved it because it let them to jump from company to company.

Employers thought it would be cheaper than funding pension plans.
History

Fast forward 38 years…. 2016

▲ Almost no one can afford to retire!

▲ Company turnover rates and costs have skyrocketed!
Recruitment and Retention

TURNOVER COSTS ARE ENORMOUS
The Bureau of Labor Statistics Estimates…

▲ The cost of replacing an educated six-figure full-time employee is 213% of salary.

Example:
An executive earning a $250,000 salary will cost over a half-million dollars to replace… $532,500
Turnover Cost Factors

Turnover Cost for Nurses:

The turnover cost for an RN can range from $37,700 to $58,400. One estimate puts it at 130% of Salary*.

Nursing turnover cost factors to consider are:
- The length time a vacancy goes unfilled
- Overtime costs
- Added value a particular nurse brings
  - Experience
  - Special skills

*The Online Journal of Issues in Nursing, report by Cheryl Bland Jones, RN, PhD, FAAN
Position Vacancies

Physician Turnover Cost Estimates are Based on the Following Factors:

- Lost revenue approximately ......$1,000,000 per year
- New physician start-up costs .....$ 200,000
- Recruitment agency fees ............$ 30,000
- Advertising costs ..........................$ 10,000
- Interview & travel costs ..............$ 10,000
- Signing bonuses ..............................$ 30,000
- Moving costs .................................$ 15,000

$1,295,000 Total
Position Vacancies

*When positions go unfilled:*

▲ The turnover cost rises because of lost revenue, overtime, and high priced temporary help.

▲ Staff shortages create stress on the remaining staff.

▲ Studies show one common reason many nurses leave is the work related stress due to short staffing.
Better Talent Provides Better Healthcare!

▲ Value-based healthcare means having top talent is more important than ever… *(This includes both clinical and non-clinical talent)* … Because healthcare organizations can be penalized by Medicare and Medicaid if certain standards of quality care are not met.

▲ Talent shortages make competition for the best talent tough. Some healthcare organizations are forced to settle for almost anyone who is licensed… just to fill the position.
Solutions

One solution that solves two problems

Rural Health organizations have a *retention and recruitment* problem

Physicians and key healthcare employees have a *retirement* problem
The World’s Most Powerful Retention Tool

The Solution… Pension Plans.

A lifetime pension plan, with a long-term vesting period, is the most **POWERFUL** retention and recruiting tool in the world!!!
Most physicians and key healthcare employees have a HUGE problem…
They Both Have the Same Problem...

They can’t retire!!!
A Retirement Problem

Physicians and key healthcare employees with six-figure salaries have a huge retirement problem!!!

▲ They have lots of lifestyle… but very little savings

▲ In most cases their net income is about equal to their monthly living expenses
A Retirement Problem

*Their income is based on fee for service.*

▲ When they stop working their income stops but…

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Income
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A Retirement Problem

Their lifestyle is not sustainable without their income.

▲ Their monthly bills to maintain their lifestyle keep going up because of taxes and inflation!
A Retirement Problem

The fact is... they are living beyond their means.

▲ They are living paycheck-to-paycheck...

...It's just a bigger paycheck!
Retirement... The Top Concern for Physicians


The reports covered:
1) Private practice physicians
2) Employed physicians
3) Women physicians
4) Young physicians *(under the age of 40)*

All three reports showed…
Having enough money to retire is the #1 financial concern for physicians!
Think...Concept

“Innovation distinguishes between a leader and a follower.”

~ Steve Jobs
The Concept of Financial Leverage

▲ You financed your college education

▲ You financed your car

▲ You financed your home
The Concept of Financial Leverage

You can very safely and easily, finance a group pension plan in a similar way that you finance a home, or any other large purchase.
A Business Decision That Makes Sense

Financing a Group Pension Plan **Costs Less** Than Turnover…

“A Smart Business Decision”
The first year cost to finance a pension plan for 100 employees is less than... the turnover cost of only one employee.
How it Works

1. A rural healthcare organization decides to offer pension benefits to a 40-yr old physician.

2. Utilizing a $144,429 business line of credit as collateral, the healthcare organization takes out a $1,370,369 bank loan.

3. Over the next 7 years, the healthcare organization puts $195,767 per year from the loan into the life insurance policy. ($1,370,369 total)

4. The healthcare organization services only the interest portion of the loan, while the cash value in the life insurance policy grows tax-deferred.

5. In the 13th & 14th year of the plan, the loan principal is paid back from the cash value of the life insurance policy.

6. At age 70 the physician enjoys a lifetime tax-free income of $120,000 per year, from the life insurance policy in the form of policy loans.

The physician retires at age 70 with an annual $120,000 lifetime tax-free income.

1st year payment is only $6,167.00
A Rural Healthcare Organization Case Study
Mountain River Regional Medical Center is located in a very rural part of the country. The location is designated by the federal government as a Medically Underserved Area (MUA).

Retention and recruitment has been an ongoing challenge for years. Mountain River Regional Medical Center has a group of 79 key employees consisting of management and clinicians.

Over the past 12 months, the group has experienced 23 terminations totaling over $6,800,000 in turnover costs. The loss of staff has been attributed to the remote location and harsh weather conditions. Up until now, there has been nothing to prevent anyone from leaving the organization and seeking employment elsewhere.

<table>
<thead>
<tr>
<th>Occupation</th>
<th>No. of Lives</th>
<th>Terminations</th>
<th>Average Salary</th>
<th>Turnover Cost</th>
<th>Cost Per Turnover</th>
<th>Total Turnover Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physicians</td>
<td>14</td>
<td>2</td>
<td>$214,666</td>
<td>$1,000,000.00+</td>
<td>$1,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Senior Executives</td>
<td>10</td>
<td>3</td>
<td>$165,769</td>
<td>213% of Salary</td>
<td>$353,088</td>
<td>$1,059,266</td>
</tr>
<tr>
<td>Dentists</td>
<td>5</td>
<td>1</td>
<td>$135,703</td>
<td>213% of Salary</td>
<td>$289,047</td>
<td>$289,047</td>
</tr>
<tr>
<td>Directors</td>
<td>8</td>
<td>2</td>
<td>$108,678</td>
<td>213% of Salary</td>
<td>$231,484</td>
<td>$462,968</td>
</tr>
<tr>
<td>PAs, NPs, LCSWs</td>
<td>25</td>
<td>9</td>
<td>$121,425</td>
<td>213% of Salary</td>
<td>$258,635</td>
<td>$2,327,717</td>
</tr>
<tr>
<td>Registered Nurses</td>
<td>17</td>
<td>6</td>
<td>$87,543</td>
<td>130% of Salary</td>
<td>$113,806</td>
<td>$675,032</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>79</strong></td>
<td><strong>23</strong></td>
<td></td>
<td></td>
<td></td>
<td>$6,814,030</td>
</tr>
</tbody>
</table>

The hospital has a group of 79 key employees.  
In the last 12 months there were 23 terminations.  
The turnover cost for each employee was estimated using these factors.  
Total turnover cost to replace 23 people in the last 12 months: $6,814,030
In addition to the recent terminations, some of the remaining staff members are in their senior years and will likely want to retire in the foreseeable future.

The goal is to stop the mass exiting of employees, by financing a lifetime pension plan with a 10-year vesting period. The senior staff members nearing retirement will be offered a shorter vesting period of only 5 years. The shorter vesting periods are in exchange for their commitment to delay retirement until the end of the five-year vesting period.

**By planning retirements, and hiring replacements to overlap the retirement dates...**

... most vacancies can be mitigated along with the bulk of turnover costs; lost revenues, overtime, etc.
### Increased Cash Flow

A 35% reduction in turnover cost over an 11 year period could save the organization over $29 million.

#### Annual increase in cash flow

<table>
<thead>
<tr>
<th>Plan Year</th>
<th>Increased Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$2,181,286.20</td>
</tr>
<tr>
<td>2</td>
<td>$1,952,420.20</td>
</tr>
<tr>
<td>3</td>
<td>$1,701,042.20</td>
</tr>
<tr>
<td>4</td>
<td>$1,427,153.20</td>
</tr>
<tr>
<td>5</td>
<td>$1,130,752.20</td>
</tr>
<tr>
<td>6</td>
<td>$811,840.20</td>
</tr>
<tr>
<td>7</td>
<td>$470,416.20</td>
</tr>
<tr>
<td>8</td>
<td>$391,626.20</td>
</tr>
<tr>
<td>9</td>
<td>$312,836.20</td>
</tr>
<tr>
<td>10</td>
<td>$234,046.20</td>
</tr>
<tr>
<td>11</td>
<td>$1,162,506.20</td>
</tr>
</tbody>
</table>

#### Total Savings

Add 11th year $17,248,465 Cash Surrender Value

**$29,024,390.20**

Totals **$11,775,925.20**
Increased Cash Flow

A 75% reduction in turnover cost over an 11 year period could save the organization over $59 million.

<table>
<thead>
<tr>
<th>Plan Year</th>
<th>Increased Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$4,904,167.50</td>
</tr>
<tr>
<td>2</td>
<td>$4,675,301.50</td>
</tr>
<tr>
<td>3</td>
<td>$4,423,923.50</td>
</tr>
<tr>
<td>4</td>
<td>$4,150,034.50</td>
</tr>
<tr>
<td>5</td>
<td>$3,853,633.50</td>
</tr>
<tr>
<td>6</td>
<td>$3,534,721.50</td>
</tr>
<tr>
<td>7</td>
<td>$3,193,297.50</td>
</tr>
<tr>
<td>8</td>
<td>$3,114,507.50</td>
</tr>
<tr>
<td>9</td>
<td>$3,035,717.50</td>
</tr>
<tr>
<td>10</td>
<td>$2,956,927.50</td>
</tr>
<tr>
<td>11</td>
<td>$3,885,387.50</td>
</tr>
<tr>
<td>Totals</td>
<td>$41,727,619.50</td>
</tr>
</tbody>
</table>

Add 11th year $17,248,465 Cash Surrender Value

**$59,040,451.00**

Total Savings
The vesting schedule can be structured in any way that the healthcare organization desires. It could be 5 years, 10 years, 15 years or more.

Here is an example of a 10-year vesting schedule designed for retention.

<table>
<thead>
<tr>
<th>Yr-1</th>
<th>Yr-2</th>
<th>Yr-3</th>
<th>Yr-4</th>
<th>Yr-5</th>
<th>Yr-6</th>
<th>Yr-7</th>
<th>Yr-8</th>
<th>Yr-9</th>
<th>Yr-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>30%</td>
<td>30%</td>
</tr>
</tbody>
</table>

As the vesting schedule progresses, the incentive for the plan participant to stay increases.

The vesting schedule does not have to be the same for each plan participant. Some plan participants could be granted a shorter vesting schedule than others.
Illustration for a 32-year old male

Annual Lifetime Tax-free Income

Starting at age 60: $120k per yr
Starting at age 65: $150k per yr
Starting at age 70: $200k per yr
Recruiting Talent Long Term

**Illustration for a 40-year old male**

**Annual Lifetime Tax-free Income**

- Starting at age 65: $100k per yr
- Starting at age 70: $130k per yr
- Starting at age 75: $170k per yr
Maximizing Retention

Engagement with Plan Participants
An onsite financial adviser* is a key retention component because it keeps plan participants engaged.

The financial adviser’s role:
▲ Maximize retention efforts by engaging plan participants to help them understand the value of staying for the entire vesting period.
▲ Improve plan participants retirement readiness.
▲ Raise and maintain plan participant financial self-confidence.
▲ Maximize the benefits of the plan for plan participants.

*American Hospital Association studies show more than 60% of healthcare organization plan sponsors employ the services of an onsite financial adviser.
Nine in ten sponsors use a single-vendor arrangement.
The physician and nursing shortage will continue to grow and make competition for talent even tougher in the future.

Value-based healthcare makes having top-talent more important than ever.

Pension plans have a proven history of attracting and retaining employees long-term and can be a permanent solution to the long-standing problem of retention.
Turnover costs are one of the biggest expenses any organization has. It is many times more costly than financing a pension plan.

The first year pension plan cost for 100 employees is less than the turnover cost of one employee.

Financing a pension plan is similar to financing the purchase of a building or equipment. The low interest rate makes the plan affordable for literally pennies on the dollar.
American Medical Association studies conducted in 2013, 2014, 2015 show that retirement is the #1 concern for all US physicians.

Pensions are the ideal solution to recruit top talent long-term, because both physicians and key healthcare employees have a retirement problem.

Engagement with employees by an on-site financial advisor helps increase retention by keeping employees focused on achieving their personal financial goals.
Conclusion

Pension plans can be a permanent solution to solving the long-standing and growing challenge of talent retention and recruitment. Financing the pension the pension plan makes it affordable, saves money, and significantly increased cash flow.

The talent shortage continues to grow, in part because many physicians are nearing retirement age and a boomer population that is living longer. Pension plans with shorter vesting periods for older physicians would lead to “planned retirements.” Replacement physicians could be recruited in advance of the retirement dates, thereby mitigating physician vacancies and the resulting huge losses in revenues. Further savings can be achieved in a similar fashion with non-physician key employees by mitigating overtime and high-priced temporary help.
Conclusion Continued

The transition to Value-based Healthcare makes having top talent both clinical and non-clinical more important than ever because now it affects revenues. Pension plans are the most powerful and effective tool available to retain and recruit top talent. Without a pension plan with a long-term vesting period, many rural healthcare organizations may not survive.

The benefits include:

▲ Long-term Cost Savings in the Tens-of-millions-of-dollars

▲ A Permanent Solution for Talent Retention and Recruitment

▲ Helps with the Transition to Value-based Healthcare

▲ Better Patient Care
The benefits of pension plan financing are great enough that rural healthcare organizations should at the very least discover if a pension plan financing strategy is right for them.
About the Author

David Alemian, Vice President, Capital Crest Financial Group

Successfully recruiting and retaining physicians and key healthcare executives is a unique, specialty skill. It’s a challenging arena but respected columnist and writer David Alemian makes it look easy when delivering the talent you want.

Alemian is the top expert in the nation when it comes to using pension plan financing for physician and key healthcare employee retention and recruitment.

His expertise is shared via video columns, numerous journals, talk shows, webinars, and speaking engagements. Last year, MD Magazine and Physician’s Money Digest signed Alemian to a five-year contract to produce and host a weekly financial video series titled “The Alemian File.” The successful video series just released its 79th episode. Alemian has also published well over 100 written magazine articles.

His national recognition results from using pension plan financing to revolutionize and revitalize how healthcare organizations attract and retain top talent. He’s considered “The Go-To Guy” for creating and implementing absolutely irresistible retention and recruitment programs.

In todays world of talent shortages, imagine the benefit of having physicians and key healthcare employees “standing in line” to work for your organization. Alemian’s proprietary strategies and techniques are rooted in a long history of success. The result is an enormous savings in turnover costs, increased revenues, and most importantly... better patient care.

Alemian has produced and is featured in over 250 financial education videos. Additional content can be found in many well-respected, publications including: Physicians Practice, Journal of Clinical Oncology, Consultant Live, Psychiatric Times, Cancer Network and OB/GYN.net., The Oside News.
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