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***PwC Saratoga  
2012/2013 US human  
capital effectiveness  
report***

**Executive summary for  
the hospital sector**

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## ***About PwC Saratoga's 2012/2013 US human capital effectiveness report***

PwC Saratoga's 2012/2013 US Human Capital Effectiveness Report includes data submitted for calendar year 2011 from US operations for more than 300 organizations representing 12 industry sectors. The hospital sector within this benchmarking database comprises nearly 60 hospital systems and represents the single largest dataset of human capital metrics in the healthcare industry.

Please note that this executive summary covers a select set of metrics tracked by our hospital clients. Benchmarks represented in this report include medians for the hospital sector as well as an all-industry median based on organizations in 12 industry sectors from PwC Saratoga's national database. The full PwC Saratoga Human Capital Effectiveness report contains thousands of additional benchmark results based on more than 30 demographic segments.

The hospital sector within PwC Saratoga's database represents:

- Over one million employees
- Over 175,000 bedside nurses
- Hospitals from all US geographical regions

To learn more about PwC Saratoga's benchmark databases and measurement programs, please visit our website at [www.pwc.com/saratoga](http://www.pwc.com/saratoga) or contact Shebani Patel at 408-817-7445.

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## ***Summary***

PwC Saratoga's 2012/2013 US Human Capital Effectiveness Report revealed that in 2011, organizations across a variety of industry sectors continued to control costs and manage an evolving workforce. Many organizations experienced increases in turnover and continue to struggle with quality of hire and high performer retention. Similar trends can be found in the hospital sector and throughout this report we will provide an overview of how the sector is performing in a variety of areas including:

### **Quality of hires has weakened:**

Contrary to the trend that most industries (including healthcare) have witnessed over the last few years, first year turnover increased in 2011. First year turnover also remains much higher for hospitals when compared with the all-industry median, suggesting that this sector in particular continues to struggle with acquisition, assimilation, and retention of new hires.

### **Executive retirement becomes an issue:**

While the “hot topic” of retirement was somewhat quieted by the economic environment of the last few years, PwC Saratoga believes many hospitals will direct more of their attention to succession planning and knowledge transfer as the percentage of employees and executives eligible for retirement increases.

### **As the economy improves, voluntary turnover rates increase:**

Voluntary turnover in the hospital sector is following an upward trend. Specifically, high performers and employees in key/pivotal roles are departing at increasing rates, compared with the rates over the past two years.

### **Return on workforce investment has diminished:**

Consistent with many other industries, the investment in workforce compensation and benefits for hospitals has risen over the past year. While revenues are also growing, the rate of growth is lagging behind labor cost increases for numerous organizations.

### **Investment in HR increases, indicating the changing nature of the function:**

HR costs per employee rose in the hospital sector but remain well below the all-industry HR costs per employee, a trend that has existed for years. The median HR headcount ratio in the hospital sector has remained about the same as last year and continues to be significantly higher when compared with the all-industry benchmarks.

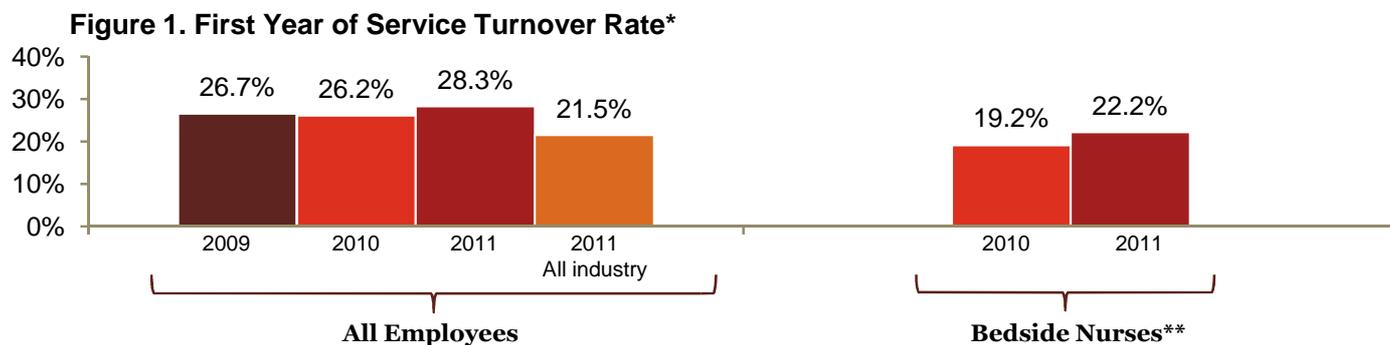
## Quality of hires has weakened

For the first time in several years, many healthcare organizations have experienced an increase in first year turnover, which tends to be a strong barometer of the success of an organization's approach to talent acquisition, onboarding, and assimilation. In the past few years, the economy – rather than acquisition practices – has had a strong impact on the retention of new hires. As the economy strengthens further, organizations anticipate continued increases in first year turnover because employees may feel loyal to the mission and values of the healthcare sector, but not necessarily feel committed to any one particular organization.

While most industries struggle with first year retention, hospitals in particular tend to experience greater challenges in this area, which often come with a hefty price tag. The cost of first year turnover can be burdensome for employers given the major investment made in recruiting, onboarding, and training. PwC Saratoga calculates the cost of turnover as 1.5 times the projected base salary for departing exempt employees and 0.5 times the projected base salary for nonexempt employees.

It is worth noting that PwC Saratoga's definition of turnover includes per diems. Every year, there has been healthy debate around whether per diem employees should be included in the turnover benchmark calculations and as a result, we now offer a turnover benchmark that excludes per diems. Our position is that an organization should assess their turnover both with and without per diem employees. It is important to keep in mind that per diem employees typically require as much attention and management as their permanent employee counterparts to ensure that they are engaged and productive in the workplace. Therefore, the loss of a per diem employee can have an impact similar to that of the loss of a permanent employee, and it is important to monitor their turnover.

In an effort to curb first year turnover, many organizations are revamping their new joiner experience to not only assess traditional orientation concepts (e.g., obtaining a badge on the first day) but also to facilitate cultural assimilation (e.g., buddy and mentoring programs, social events, etc.).



\*First year turnover rate includes voluntary and involuntary separations

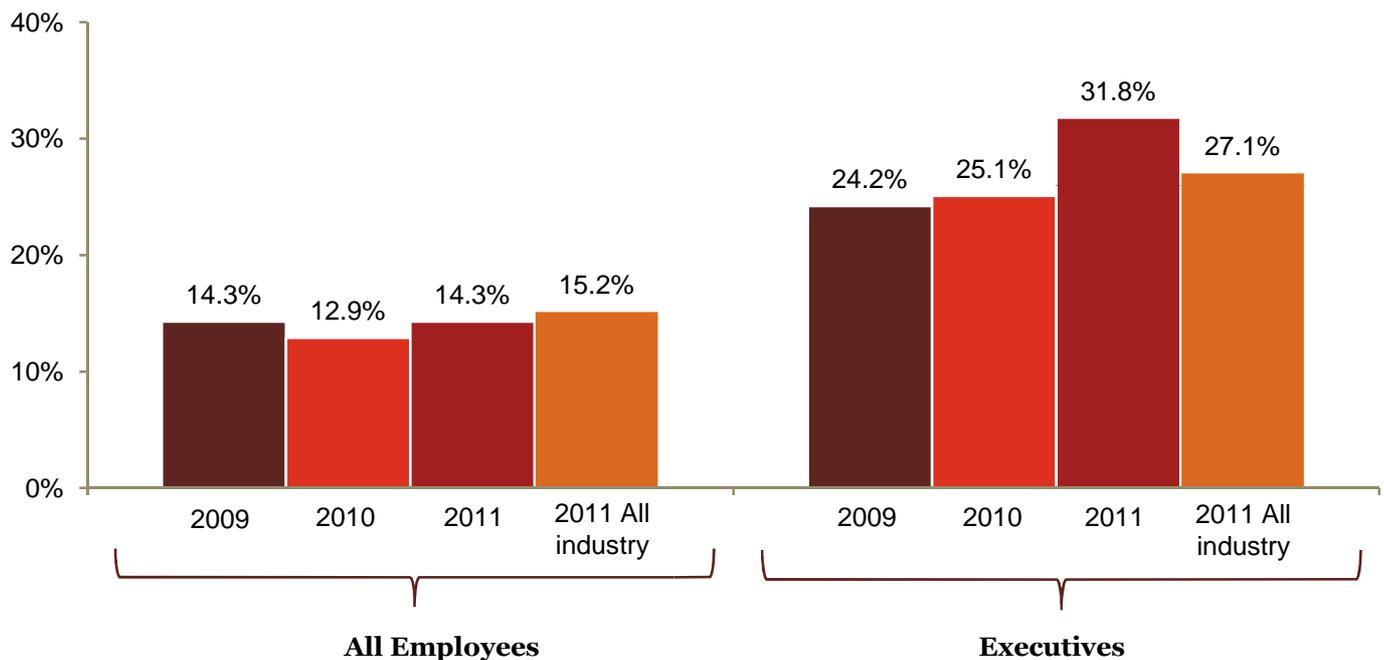
\*\*PwC Saratoga defines bedside nurses as direct care RNs whose primary responsibility is direct patient care. This includes bedside nurses in an outpatient environment and nurse supervisors who have bedside care responsibilities. LPNs, nursing assistants, CRNAs, nurse practitioners, nurse anesthetists, case managers, head nurses, and nurse management are excluded from this definition.

## *Executive retirement presents as an issue*

The economic slowdown in 2009 and 2010 led to a decrease in voluntary turnover and retirements for a large number of organizations across industries. As a result of this drop in employee retirements, many organizations had reduced the emphasis they placed on succession planning programs and long term workforce planning.

As the economy improves, PwC Saratoga sees more organizations focusing on workforce and succession planning. As the data below illustrates, the median values for employees and executives eligible to retire in the next five years in the healthcare sector increased between 2010 and 2011. More and more hospitals are focusing on developing robust workforce planning tools that will help them meet their future supply and demand needs.

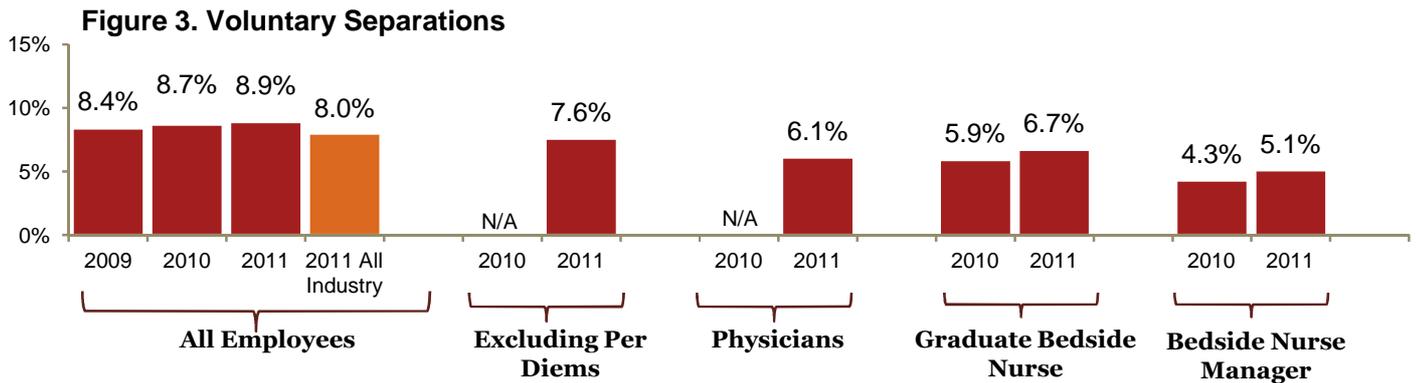
**Figure 2. Percent Eligible for Retirement within Five Years\***



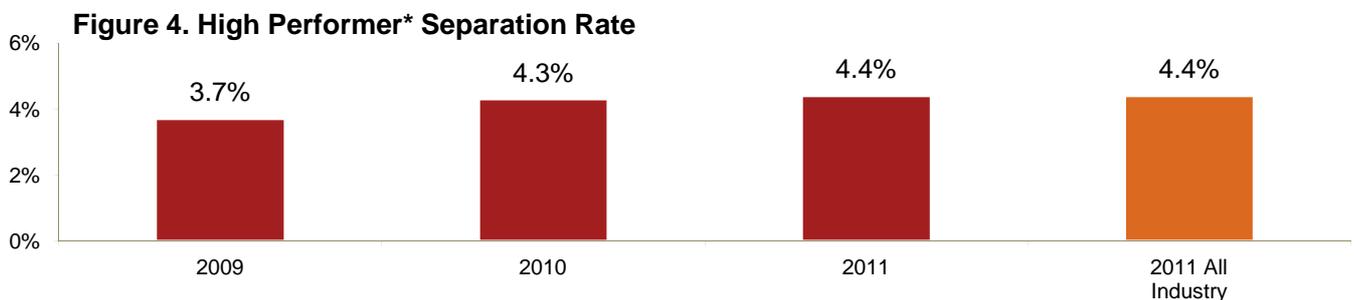
\*PwC Saratoga defines eligibility for retirement as employees/management that are aged 62 or above (if no pension plan exists) or those who are eligible for a fully vested pension.

# As the economy strengthens, voluntary turnover rates increase

Voluntary turnover for the hospital sector has consistently increased over the past few years. Based on PwC Saratoga's analysis of historic, current, and projected economic figures, we anticipate that voluntary turnover will continue to climb year-over-year across PwC Saratoga's national database, especially for high performers and employees in key/pivotal roles.

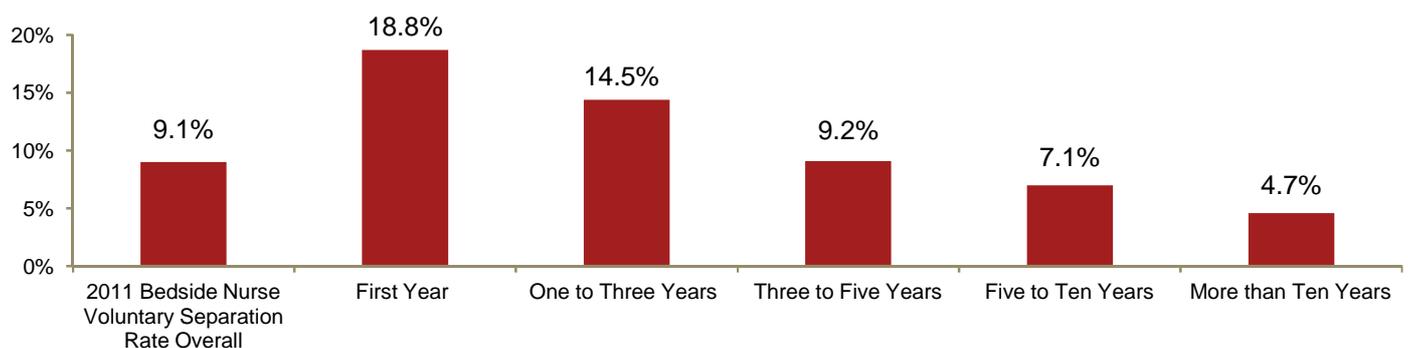


These expected increases in voluntary turnover for the hospital sector underscore the importance of developing programs to engage high performers and key/pivotal employee segments.



Bedside nurses represent a pivotal employee segment of focus for many hospitals. Losing this critical talent not only translates into greater agency, hiring, onboarding, and training costs but also translates into productivity loss and potential negative impact on patient satisfaction. The data suggests that there remains an opportunity to elevate retention, especially for bedside nurses with tenure of less than three years, a population that experiences double-digit voluntary separation rates.

**Figure 5. Bedside Nurse Voluntary Separation Rates by Tenure**



\*PwC Saratoga defines high performers as those who fall into the top ranking or top 20% of performance rankings.

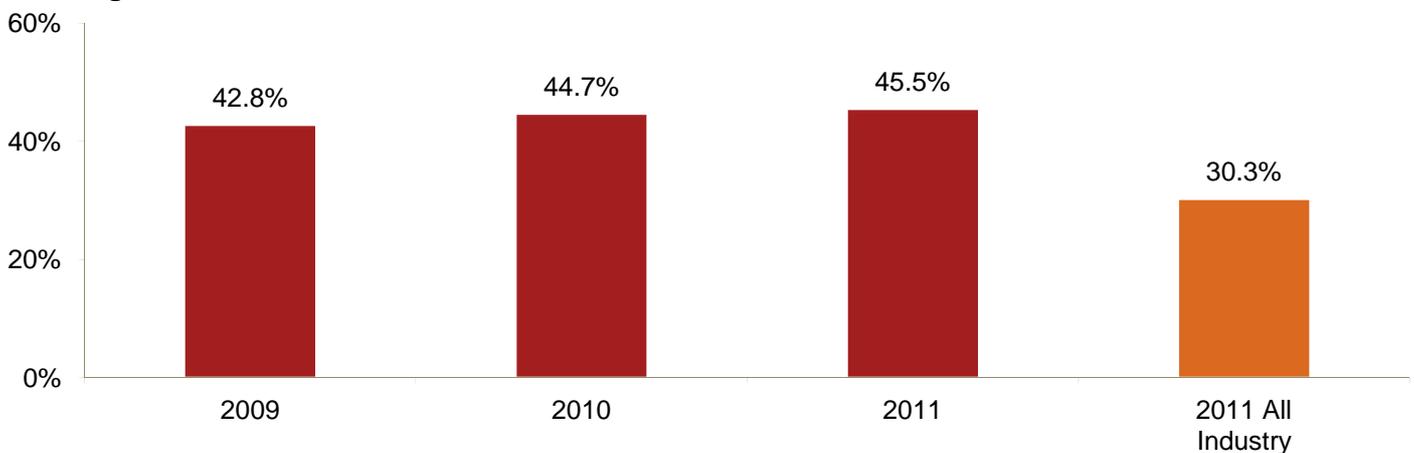
## *Return on workforce investment has diminished*

Labor cost revenue percent is frequently used by organizations to assess the return on workforce investment (“ROWI”). This metric assesses the relationship between dollars invested in labor costs (cash compensation and benefits) and revenue (a measure of output/productivity).

As the median benchmarks suggest, labor cost revenue percent for hospitals increased between 2010 and 2011, implying that ROWI has slightly weakened. A number of organizations have experienced a weakening in ROWI due to revenue remaining static or only slowly increasing, while labor costs grow at a faster rate.

Labor cost revenue percent is an important indicator for HR to examine as it evaluates programs that may have an impact on labor investments in the context of wider organizational financial objectives (e.g., compensation, benefits, workforce planning, etc.). If revenue is not viewed as a strong measure of productivity, we encourage organizations to find a proxy; some clients utilize admissions/discharges or patient visits. Organizations that place a stronger emphasis on costs as opposed to revenue may prefer to use this measure with operating expenses substituted for revenue.

**Figure 6. Labor Cost\* Revenue Percent**



\*PwC Saratoga’s definition of labor costs includes base, overtime, cash bonuses, payments for time not worked, severance pay, healthcare costs, retirement and savings plan payments, social security, Medicare, unemployment taxes, Workers’ Compensation premiums, and life insurance premiums.

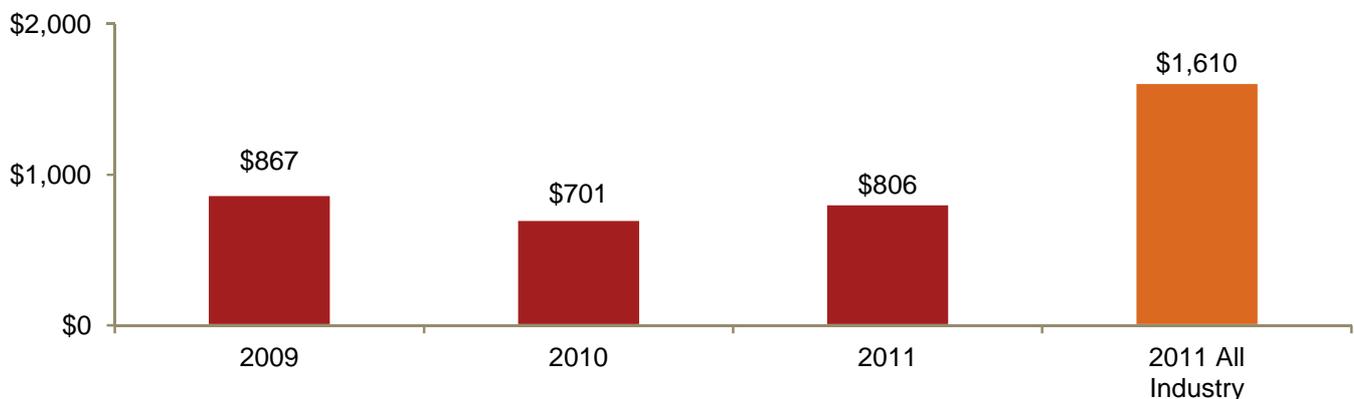
## *Investment in HR increases, indicating the changing nature of the function*

HR investment levels experienced an interesting trend in 2011 in the hospital sector as HR costs per employee rose whereas HR headcount ratio remained stable. This trend can be partly attributed to the on-going transition of HR from a transactional role to the role of a consultant/strategic partner to the organization – an approach that more and more organizations are instituting.

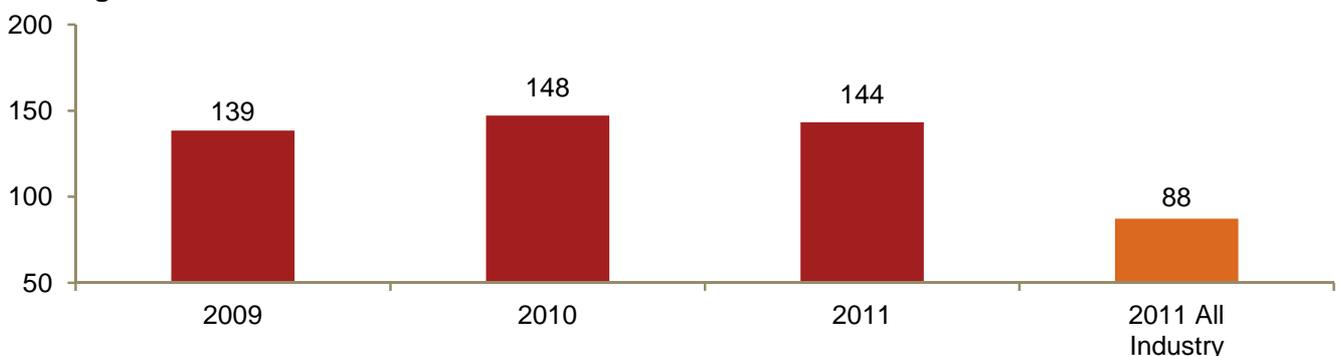
Healthcare organizations are paying closer attention to their operating models, with many organizations using models that require more consulting at the local level (e.g., business partners at the hospital/facility level). While this new model may enable increased value add from HR, it may also result in increased expenses.

We consider these trends to be improvements as the hospital sector has traditionally lagged behind other industries in adopting models and programs that facilitate HR operations on a higher strategic level. While the delay in implementing new programs or models may have helped HR to keep costs low in the past, the evolving needs of the workforce are requiring HR to evolve.

**Figure 7. HR Costs per Employee**



**Figure 8. HR Headcount Ratio**



\*PwC Saratoga excludes employees supporting learning & development, security, safety, payroll, medical & childcare centers, and cafeteria from our definition of HR.

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## ***Conclusion***

In line with predictions from last year, turnover for employees in their first year increased in 2011 in the hospital sector as the economy strengthened. As the economy continues to strengthen, PwC Saratoga expects that turnover for employees in their first year will rise. Organizations are continuing to focus on the quality of new hires by evaluating and enhancing their hiring, onboarding, and assimilation practices in order to improve engagement among new joiners.

A similar trend can also be found among the high performer employee population and among employees in key/pivotal roles in the hospital sector – employee groups that are also departing at rates higher than those in the past couple of years. Hospitals will face expensive repercussions if no attempt is made to limit the turnover in these groups.

In addition, the percentage of employees and executives eligible for retirement continues to grow rapidly. As hospitals recognize their increasing vulnerability in this regard, they are increasing their attention to the implementation of succession and workforce planning tools in an effort to mitigate any future challenges caused by the retirement of these populations.

Furthermore, labor cost as a percentage of revenue is on the rise, indicating that hospitals are generating revenue at a slower rate than the growth of human capital spending i.e., labor costs. In other words, the return on workforce investment has declined slightly. It is important for hospitals to monitor costs and align labor investments with their organizations' financial strategies.

Contrary to previous trends, hospitals have shown increased investment in the HR function in 2011 as HR costs per employee increased, although still remaining well below those across all industries. This metric highlights the changing role of HR from one of a transactional provider to one involving more consulting and strategy. This trend points to hospitals' transformation and progress in terms of the nature of their HR functions.

# About the PwC Saratoga Hospital Consortium

The purpose of the PwC Saratoga Hospital Consortium is to bring together hospital systems to focus on the unique challenges of the hospital industry and to provide a forum through which workforce and HR topics can be benchmarked. Membership in the consortium includes participation in an annual human capital benchmarking survey and access to benchmark results, access to webcasts on human capital topics, and the opportunity to poll members on key issues.

In addition to the metrics covered in the executive summary, the consortium focuses on the following metrics:

<p><b>Retention and Separations</b></p> <ul style="list-style-type: none"> <li>• Bedside Nurse First Year of Service Voluntary Separation Rate</li> <li>• Bedside Nurse Five to Ten Years of Service Voluntary Separation Rate</li> <li>• Bedside Nurse Manager Voluntary Separation Rate</li> <li>• Bedside Nurse More than Ten Years of Service Voluntary Separation Rate</li> <li>• Bedside Nurse One to Three Years of Service Voluntary Separation Rate</li> <li>• Bedside Nurse Three to Five Years of Service Voluntary Separation Rate</li> <li>• Bedside Nurse Voluntary Separation Rate</li> <li>• Graduate Bedside Nurse Voluntary Separation Rate</li> <li>• Per Diem Voluntary Separation Rate</li> <li>• Physician Voluntary Separation Rate</li> <li>• Voluntary Separation Rate</li> <li>• Voluntary Separation Rate (Excluding Per Diems)</li> </ul> <p><b>HR Cost and Structure</b></p> <ul style="list-style-type: none"> <li>• HR Costs per Employee</li> <li>• HR Headcount Ratio</li> <li>• Learning &amp; Development Investment per Employee</li> </ul>	<p><b>Workforce Productivity and Profitability</b></p> <ul style="list-style-type: none"> <li>• Average Benefits per Employee</li> <li>• Bedside Nurse Labor Cost per Hospital Bed</li> <li>• Bedside Nurse Overtime Pay Percent</li> <li>• Bedside Nurse Paid Time Off Days per Employee</li> <li>• Bedside Nurse Per Diem Costs as a Percent of Total Costs</li> <li>• Bedside Nurse Sick Days per Employee</li> <li>• Healthcare Costs per Active Employee</li> <li>• Labor Cost per FTE</li> <li>• Total Cost per FTE</li> <li>• Bedside Nurses per Hospital Bed</li> </ul> <p><b>Workforce Diversity</b></p> <ul style="list-style-type: none"> <li>• Average Retirement Age</li> <li>• Ethnically Diverse Headcount Percent</li> <li>• Percent of Employees Eligible for Retirement within Five Years</li> <li>• Percent of Executives Eligible for Retirement within Five Years</li> <li>• Percent of Bedside Nurses Eligible for Retirement within Five Years</li> <li>• Promotion Rate</li> </ul>	<p><b>Talent Acquisition</b></p> <ul style="list-style-type: none"> <li>• 90 Day Turnover Rate</li> <li>• Bedside Nurse 90 Day Turnover Rate</li> <li>• Bedside Nurse First Year of Service Turnover Rate</li> <li>• Bedside Nurse Time to Accept</li> <li>• Bedside Nurse Vacancy Rate</li> <li>• Cost per Hire (Excluding Relocation)</li> <li>• Ethnically Diverse External Hiring Percent</li> <li>• First Year of Service Turnover Rate</li> <li>• First Year of Service Voluntary Separation Rate</li> <li>• Internal Hires Percent</li> <li>• Offer Acceptance Rate</li> <li>• Per Diem Turnover Rate</li> <li>• Rehire Percent</li> <li>• Time to Accept</li> <li>• Turnover Rate</li> <li>• Vacancy Rate</li> </ul> <p><b>Span of Control and Succession Planning</b></p> <ul style="list-style-type: none"> <li>• Bedside Nurse Manager Span of Control</li> </ul>
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If you have questions about becoming a member of the Hospital Consortium, please contact Shebani Patel at (408) 817-7445 or shebani.patel@saratoga.pwc.com.

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## ***About PwC Saratoga***

As part of PwC's Human Resource Services, PwC Saratoga is the world's leading source of workforce measurement, teaming with hundreds of executives and HR departments each year to apply a more vigorous, evidence-based approach to decision-making around their workforce.

PwC Saratoga has leveraged technology and meaningful metrics to help organizations maximize return on HR investment for more than 30 years.

Today, we integrate employee attitudinal research and metrics to drive execution action and support clients who are looking to develop and deploy dashboards, employee surveys, predictive solutions, conduct workforce planning initiatives and benchmark the workforce and HR function.

### **Metrics and Benchmarking**

- Regional measurement available for the United States, Canada, Europe, Asia, and Latin America
- Industry consortia
- Metrics selection workshop
- Dashboard strategy support

### **Employee Surveys**

- Employee engagement surveys
- Exit surveys
- New joiner surveys
- Employee financial fitness assessments

### **Predictive Analytic Solutions**

- Employee flight risk
- Quality of hire
- Employee performance

### **Workforce Planning**

- Workforce demand
- Technology and process road mapping

### **HR Department Efficiency**

- HR activity analysis
- HR voice of the customer
- HR/payroll total cost of ownership

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