

The Value Proposition of Nurse Staffing

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Mark Stagen

Founder/CEO

Emerald Health Services

Agenda

-  Nurse Staffing Industry Update
-  2011 KPMG US Hospital Nursing Labor Costs
-  Effectively growing in a candidate constrained environment
-  Q&A

Nurse Staffing Industry Update

Outlook for healthcare staffing

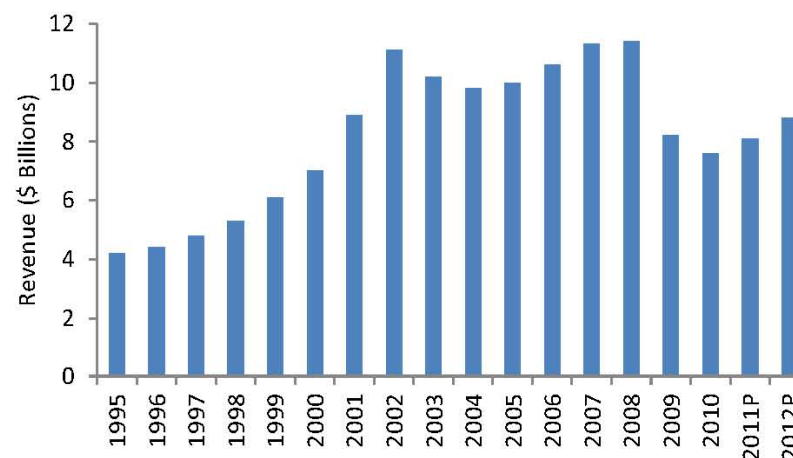
- After it was the only temporary staffing segment to decline in 2010, healthcare is now recovering, and we project 6% growth in 2011 for the healthcare segment overall, accelerating to 9% in 2012. However, as high unemployment lingers and hospitals remain under cost pressure, the healthcare segment will not reach its prior peak anytime soon. In the travel nurse sub-segment, our 17% and 15% growth projections for 2011 and 2012, respectively, only bring that market to \$1.2 billion by 2012, half its size in 2008.
- Through our various surveys we are able to account for more than \$630 million in locum revenue in the first half of 2011, roughly two-thirds of the market. The aggregate, organic y/y growth in the first half of 2011 is 9% among those companies. (We estimate the growth of the entire locum market is a bit lower). We are raising our 2011 locum growth projection from 4% to 6%. Staffing in the hospitalist, emergency medicine, and psychiatric specialties continues to grow by double-digits. Staffing in radiology and anesthesiology continues to decline, though declines might be moderating in anesthesiology.
- We hold to our 3% growth projection for per diem nurse staffing, though the final estimate will depend heavily on this year's flu season. We project the allied market to grow 6% in 2011, accelerating to 10% in 2012, partly driven by strength in health information management.

Healthcare Staffing y/y Revenue Growth & Market Size

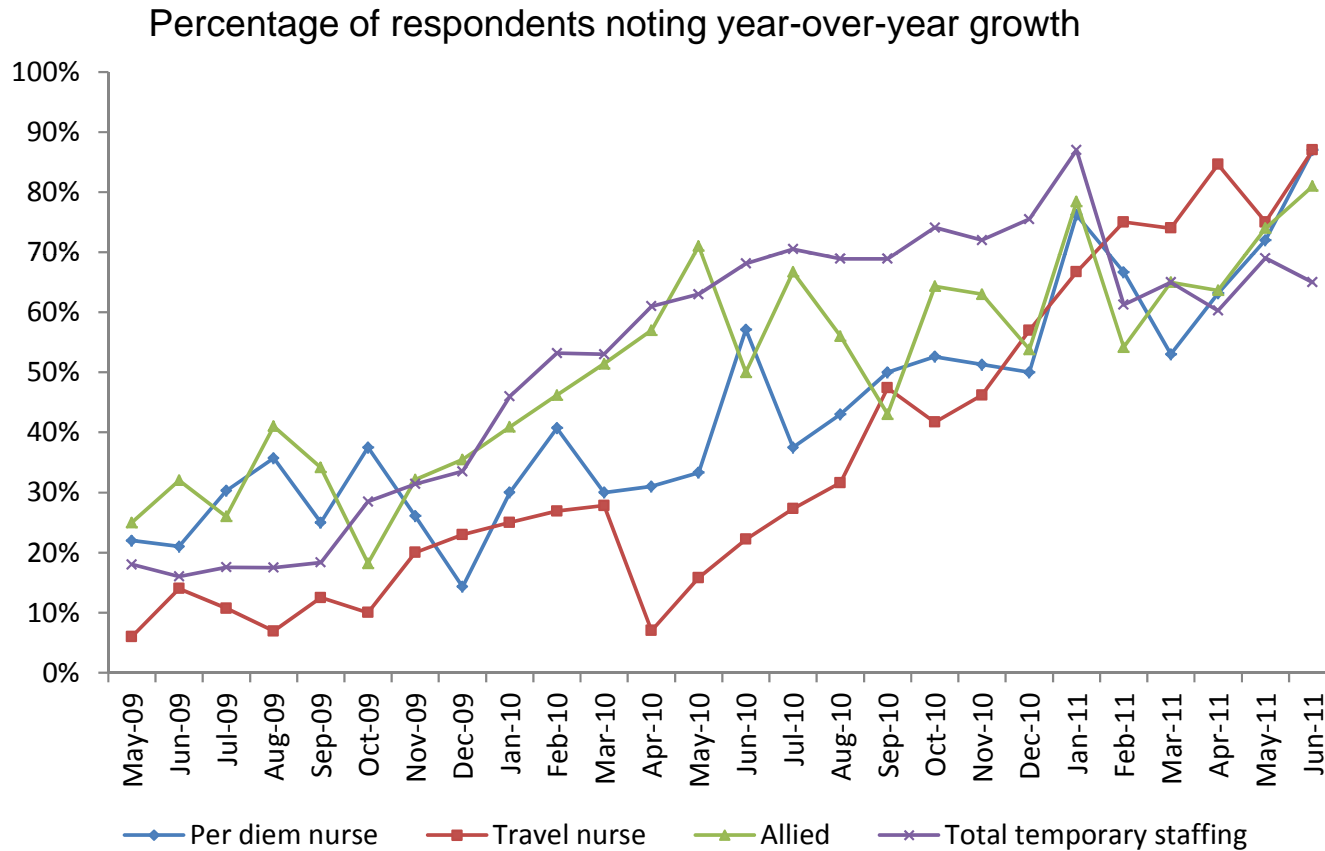
(% change)	2008	2009	2010	2011	2012
Travel nursing	1.5%	-50%	-25%	17%	15%
Per diem nursing	-8.0%	-30%	-6%	3%	6%
Locum tenens	13.5%	-1%	-1%	6%	9%
Allied	7.0%	-25%	-4%	6%	10%
Total Healthcare	1.0%	-28%	-7%	6%	9%
(\$Billions)	2008	2009	2010	2011	2012
Travel nursing	2.4	1.2	0.9	1.1	1.2
Per diem nursing	3.7	2.6	2.5	2.5	2.7
Locum tenens	1.8	1.8	1.8	1.9	2.1
Allied	3.4	2.6	2.4	2.6	2.9
Total Healthcare	11.4	8.2	7.6	8.1	8.8

Source: Company reports, Staffing Industry Analysts

U.S. Temporary Staffing - Healthcare (1995-2012P)

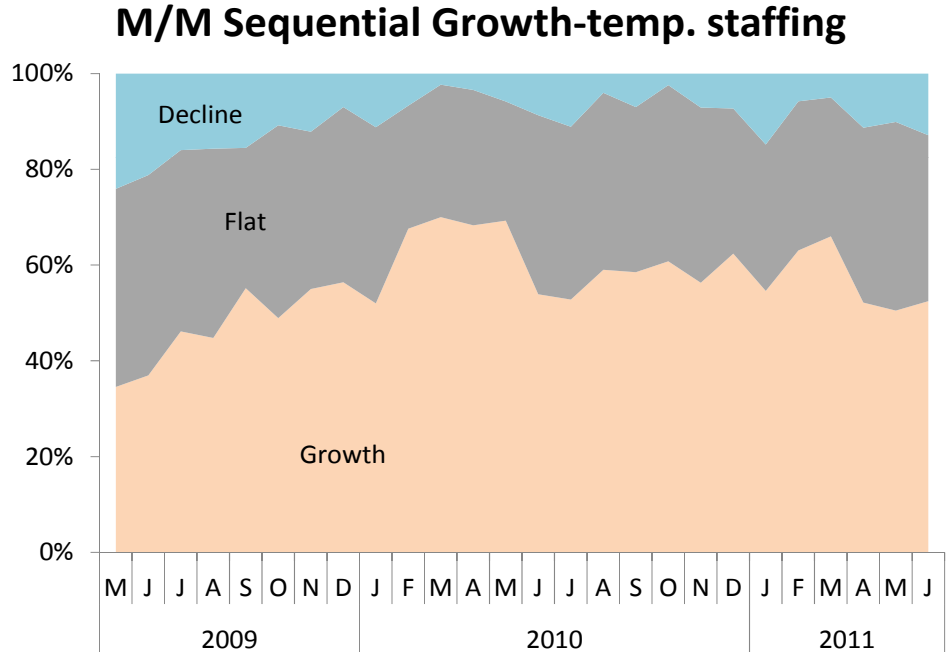
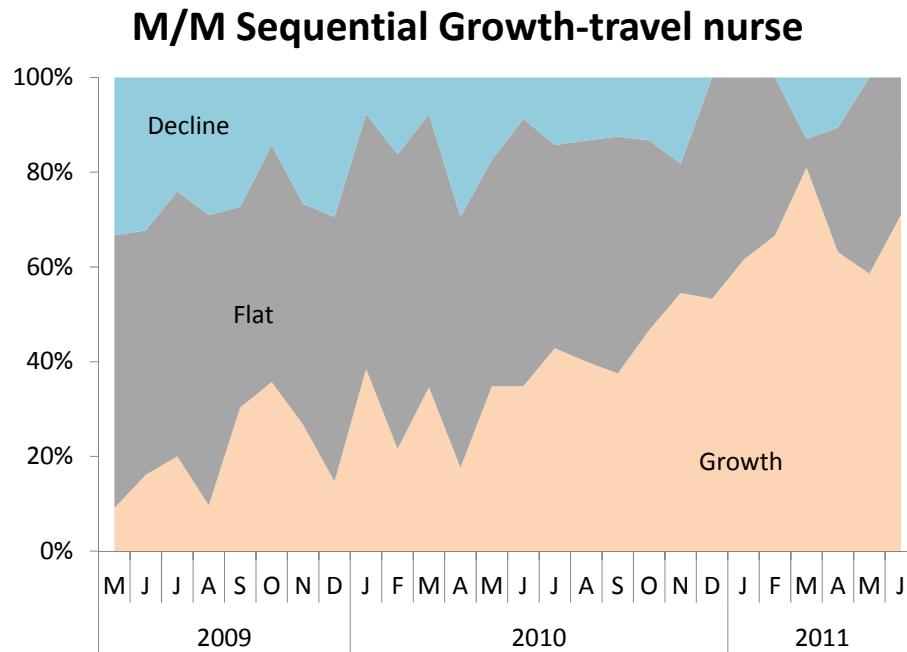


Improving revenue trends in healthcare staffing



Source: Staffing Industry Monthly Pulse Survey

Travel nurse vs. total temporary staffing: percentage reporting month-over-month growth



Source: Staffing Industry Monthly Pulse Survey

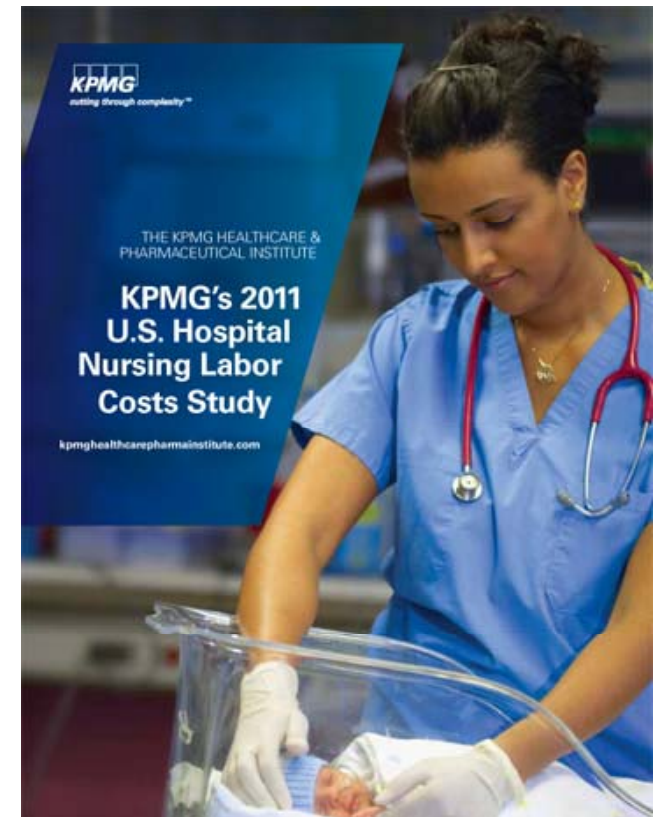
KPMG 2011 US Hospital Nursing Labor Costs Study

Why the Survey Was Conducted

Hospital executives often don't consider total nurse labor costs when developing strategic staffing plans.

KPMG LLP, a leading audit, tax and advisory services firm, conducts its 2011 U.S. Hospital Nursing Labor Costs Study to better understand total labor expenses, and how to successfully blend full-time and supplemental labor strategies.

KPMG conducted the third-party independent survey with funding support from the National Association of Travel Healthcare Organizations (NATHO), a non-profit association of travel staffing firms founded in 2008.



Drivers Behind Examination

As demand increases for nurses due to a variety of factors :

Jobs being added to the healthcare sector

- Recent BLS statistics from March show the number of healthcare job openings is 551,000 up 26% over the same period last year and at a high point not seen since 2008.
- Meanwhile the number of hires made during that same month was only 369,000 a decrease from prior year indicating that hospitals ability to recruit and hire is not keeping up with their openings growth.
- According to the Bureau of Labor Statistics, more than 580,00 new nursing jobs will be added by 2018 increasing the nursing workforce by 22%

Increasing attrition rates as more options open up for nurses, including retirement

- Nurses in their 50s becoming the largest segment of the nursing workforce – making up almost 25%.
- New nurses are not graduating at levels to meet the demand
- With 37,000 jobs added in March 2011 alone, that provides opportunity for transition.
- According to the recently published 2011 RN Satisfaction Survey: (1,002 responses collected)
 - 42% are not happy with current job
 - Nearly one quarter (24%) of nurses plan to seek a new place of employment as the economy recovers
 - 32% of nurses plan to take steps in the next one to three years that would take them out of nursing altogether, or reduce the volume of clinical work they do.

Census increases

Hospital expansions

How do I address my workforce **budget** most efficiently?

Key Survey Findings

- The all-in cost of full-time direct care registered hospital nurses is on average \$98,000 per year.
- The actual costs per hour for a full time nurse is on average 176% of their base hourly wage.
- RN base wages can reach upwards to \$75/hour due to wage variations across facilities and regions.
- Wages and other payroll costs are only part of the story.
 - ~ Payroll costs/wages – 78% (base wages represents 57%)
 - ~ Insurance costs – 8%
 - ~ Recruiting costs – 1%
 - ~ Other costs – 1%
 - ~ Non-productivity costs – 12%

Key Survey Findings



- When all labor expenses are included, the study found the cost of a full-time nurse is comparable to that of a supplemental nurse.
- Study results call into question whether full-time hiring is best staffing strategy.
- Survey respondents state that the ideal staffing ratio is 90% permanent and 10% contingent labor.

Key Survey Findings

- Key reasons cited to hire travel nurses include:
 - ~ Seasonal needs – 45%
 - ~ Local nursing shortage – 41%
 - ~ Facility growth – 28%
 - ~ Various other reasons
- When considering travel nurses, respondents say the following were most important:
 - ~ Quality – 63%
 - ~ Flexibility – 27%
 - ~ Cost – 10%



Survey Results Suggest

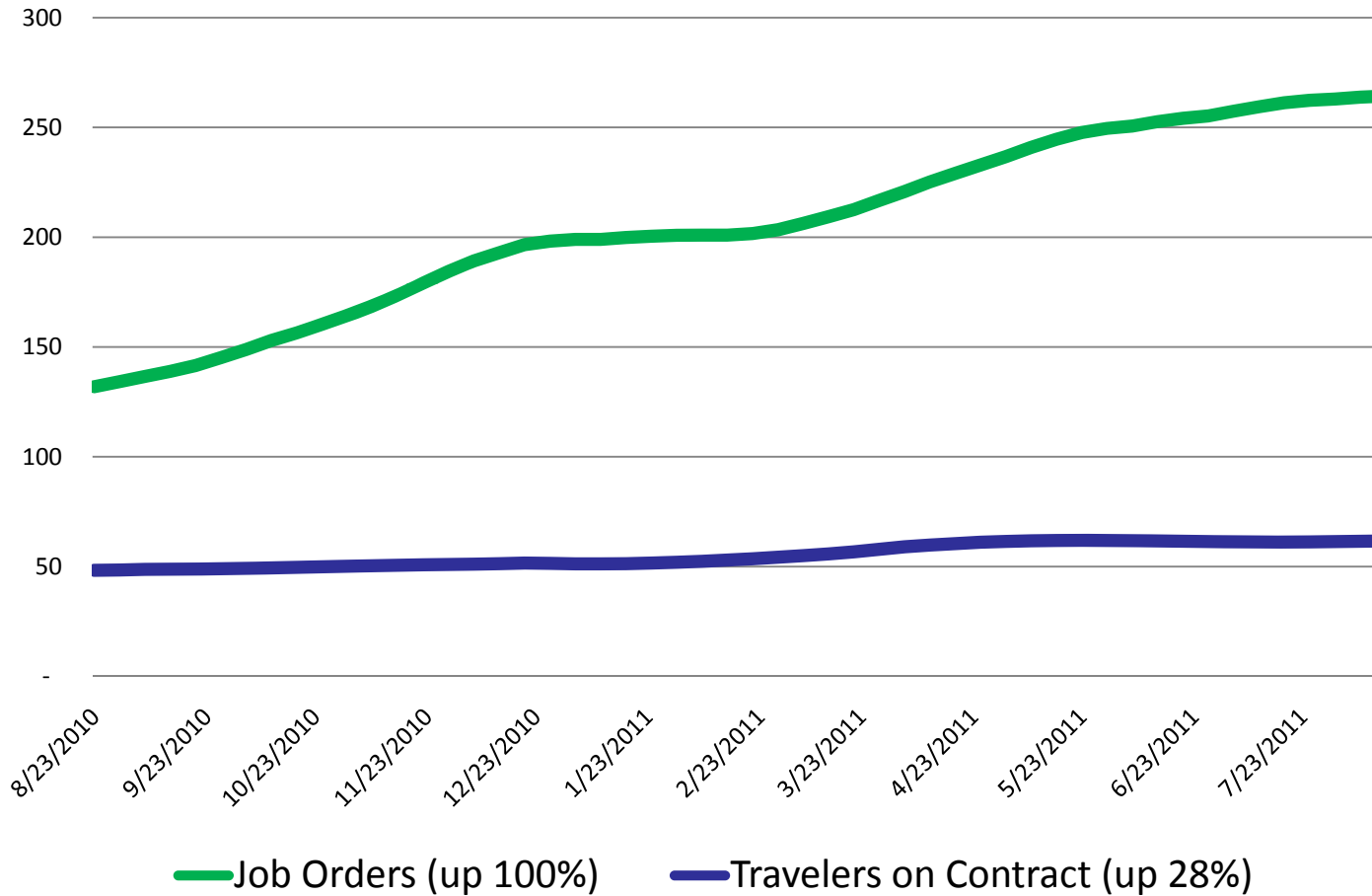


- Hospitals should reevaluate their staffing model considering the KPMG study reports cost of full-time and contingent RNs to be comparable.
- Reactive vs. Proactive: As spend and utilization among facilities increases, the organizations who use contingent staffing proactively & strategically will be better prepared to attract the best quality with quick turnaround.
- **An online KPMG Wage Calculator will be available to NATHO members in the near future. This web tool will allow NATHO Members to demonstrate the actual costs of full time employees to their hospital clients**

Effectively Growing in a Candidate Constrained Environment

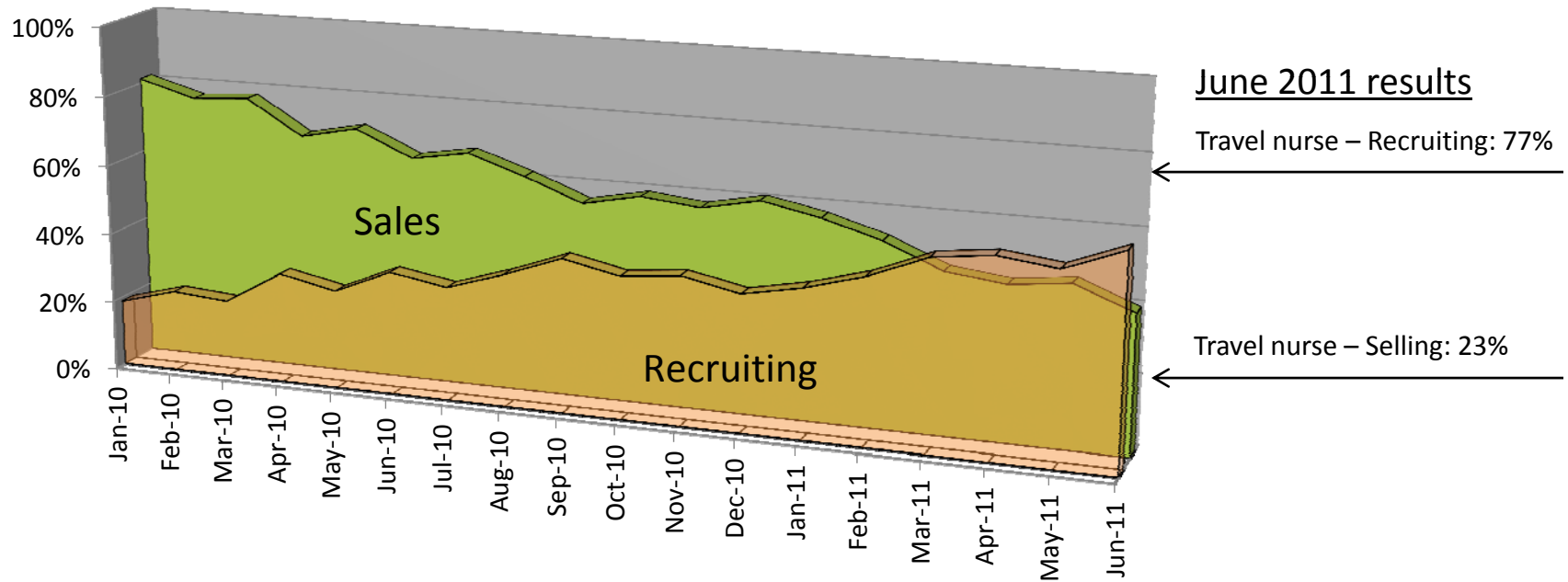
NATHO Job Order and Traveler Index

Trailing 13 week avg.



Which is the greater challenge?

Sales/Recruiting Challenge



- Increase Hospital Bill Rates (Difficult)
 - ~ Long Sales cycle
 - ~ Must convince C-Level executives to raise rates in budget constrained times
- Lower Experience/Clinical Requirements (Difficult)
 - ~ Long sales cycle
 - ~ Must convince C-Level executives to take “lower quality” nurses
- Utilize Limited Nurse Resources More Efficiently (Easiest)
 - ~ Short sales cycle
 - ~ Dealing primarily with mid-level staffing resources (i.e. HR Manager, Unit Directors)

- **How can your facility attract more, higher quality, Travel Nurses WITHOUT raising bill rates or lowering clinical standards?**
- As you know, the economy is recovering and the unemployment rate is declining. This is creating an increasingly competitive market for nurses and hospitals are having a more difficult time attracting high quality Travel Nurses. As the demand for nurses increases, it is important that your facility's job openings become more attractive in order for you to fill your needs with the highest quality Travelers.
- One very easy way for your facility to attract higher quality Travel Nurses, without raising bill rates, is to make your job openings more attractive to Travelers.

13 x 36 vs. 26 x 48

- Why are Travel Job Orders primarily 13 weeks long and 36 hours per week?
 - ~ 13 week length of assignment was originally based on
 - o Maternity Leave
 - o Minimum length of apartment leases
- Considering the dramatic increase in nurse demand over the previous 30 years, the 13 x 36 makes less sense in many situations
- In a supply constrained environment, we (hospitals and staffing firms) should be using scarce resources (nurses) more efficiently
 - ~ By migrating the industry standard job order to 26 weeks long and 48 hours weekly, both hospitals and staffing firms benefit
- **The following slides offer 26 x 48 discussion points for your hospitals**

- **The easiest way to make your job openings more attractive to Travelers is to make them 26 weeks in length and 48 hours per week (26x48)**

- 26x48 assignments cost you the same per hour:
 - ~ If your contract currently allows us to bill you overtime for the 4th shift in a week, we will not charge you that 4th shift OT for any 26x48 job orders.
 - ~ By not charging you any 4th shift OT, your cost for the 4th shift is the same as the 3rd
 - ~ For example, if you currently have 4 nurses on assignment at 36 hours per week each ($4 \times 36 = 144$ Total Hours), it would cost you the **SAME** to have 3 nurses on assignment at 48 hours each ($3 \times 48 = 144$ Total Hours).

- You can cancel the 26x48 assignments after 13 weeks
 - ~ Beginning with day 60 of the assignment, you can cancel any 26x48 assignment with 30 days written notice.
 - ~ This flexibility allows you to decide whether to keep Travelers longer than 13 weeks.
- 26x48 assignments save you overhead and administrative costs:
 - ~ By bringing on board fewer travelers, you save on hard and soft costs by having to do fewer candidate screenings, interviews and orientations.
 - ~ By keeping your Travelers on board longer, you save on hard and soft costs by having to do fewer candidate screenings, interviews, orientations and having lower turnover.

- 26x48 assignments will improve the quality of care for your patients:
 - ~ Multiple studies have shown that continuity of care is one of the greatest determinates for quality of care
 - ~ By having the same Travel Nurse work more shifts per week, for more weeks, you improve the continuity of care and thereby it's quality.
- 26x48 assignments attract the highest quality nurses:
 - ~ 26x48 allows us to offer higher pay rates, and more weekly hours, to our Travelers.
 - ~ In general, the higher quality Travelers prefer the highest paying assignments and would thereby gravitate towards 26x48 assignments.

Q&A