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SENIOR EXECUTIVES 2009 TRENDED SALARY FORECAST STUDY (CEO, COO, CFO, CME, CNO, VP/HR)

and

HEALTHCARE COST REPORT

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2009 CEO CHALLENGES

ISSUE	2007	2008	2009
□ Financial challenges	73%	69%	74%
□ Physician/hospital relations	52%	55%	54%
□ Staffing Shortages	46%	48%	52%
□ Care for the uninsured	41%	43%	44%
□ Quality	32%	33%	37%
□ Patient safety	31%	32%	34%
□ Governmental mandates	22%	21%	24%
□ Patient satisfaction	15%	18%	23%
□ Capacity	12%	14%	14%

Sources: Modern Healthcare; AHA; ACHE; Amalgamation Study, 2009

FINANCIAL CHALLENGES

□ Increasing staff, supply etc. Costs	74%
□ Medicaid	74%
□ Bad Debt	73%
□ Medicare	71%
□ Inadequate funding for capital improvements	62%
□ Managed care payments	48%
□ Revenue Cycle Management	38%
□ Emergency Department	37%
□ Other Commercial Insurance	25%

Source: ACHE Research, 2008

"GROWTH IS NOT A LUXURY-IT'S A MANDATE"

- "Growth comes along the service lines that have the most advantageous revenue mix: heart care, orthopedics, neurosciences, cancer, imaging, and other emerging service areas. Are you maximizing financial and clinical potential that matter most to the top line? Are shifts in payment structures or customer expectations threatening current revenue and potential growth?"
- The industry's top providers are forcing their service lines to answer these questions:
 - What is truly state-of-the art for the service line's clinical technology and IT?
 - How to construct the best physician alignment models to fit the service?
 - What is the most effective marketing to reach new patients?
 - Which quality programs have potential improving outcomes?
 - Are the management and leadership structured to reach the service line's strategic goals?
 - **Which investments will have the most ROI potential?"**

TOP BOARD GOVERNANCE TRENDS

- **Value Determination** (reconciling performance and clinical outcomes with prices providing, customers and payers with value). Boards are insisting on examining how their hospital's value is being measured, maintained, enhanced and communicated to customers.
- **Workforce Shortages** (Ensuring adequate clinical core staffing (i.e. nurses etc.). Boards are insisting on monitoring culture and morale indicators to hold executives accountable. Red flags include: low employee satisfaction scores, high turnover rates, poor exit interviews, an aging work force, declining applicant flows, growing vacancy rates, increasing overtime and use of travel nurses.
- **Information Technology** (Develop an IT decision investment infrastructure (i.e. EMRs) to include physician and nursing input.
- **Competition for Volume** (Competition for in-and-out patient volumes are intensifying). Boards are insisting on monitoring competitive strategies, hold executives accountable for timely implementation by correlating with staffing strategies.
- **Reimbursements** (Health Insurance, Medicare etc.).

Source: Trustee, 2008 Governance Trends, January 2008

COMPENSATION SEEN AS HIGH— BUT PERMISSIBLE...

Steven Miller, IRS Commissioner, Tax Exempt and Government Entities office; Daily Dose January 13, 2009

- **“Although IRS reviewed, not-for-profit executive compensation was pretty high, and while permissible under current law, I wonder how it will be received in the court of public opinion,”**
- **The IRS is about to release final enforcement reports for not-for-profit hospitals, including compensation.**
- **The report will reveal that on average, not-for-profit hospitals spend 9% of total revenue on community-benefit activities, with the cost of uncompensated care just over half that figure. Meanwhile, tax-exempt hospitals reported an average profit margin of 5%.**
- **Meanwhile Sen. Chuck Grassley, presented a proposal that would force not-for-profit hospitals to devote at least 5% of revenue to charity care in order to justify tax exemption.**

NON-PROFIT HOSPITALS' TOP SALARIES ARE BEING CHECKED-UP

- **Non-profit hospitals -- are on the defensive** over billing and collection practices against the uninsured - - are being scrutinized, by both Congress, which is considering new rules for tax-exempt organizations, and by the IRS, which has launched a review of compensation at the nation's hospitals... and the report is critical of executive salaries and perks.
- **The FITCH RATINGS Report on the Healthcare Staffing** identified workforce trends that might lead to an industry crisis and affect credit ratings. **Driven by a Healthcare staffing shortage**, salaries and healthcare costs are accelerating.
- Recent NSI studies update and aggregate: Sullivan, Cotter & Associates, Towers Perrin, Ernst & Young, HR Strategic Solutions, Inc, Watson Wyatt, Hay Group, Segal Co and William M. Mercer surveys indicating the following **2009 Executive Compensation Trending:**

EXECUTIVE COMPENSATION 2009 FORECAST

TITLE	Less than \$150M	OVER \$150M	OVER \$300M	ALL HOSPITALS
	NET REVENUES			N=761
2009 TRENDED BASE SALARY/TOTAL COMPENSATION				
CEO	\$292.1/\$343.8	\$331.2/\$431.9	\$445.1/\$587.9	\$336.1/\$479
COO	\$185.4/\$214.6	\$273.3/\$331.4	\$346.7/\$431.8	\$288/\$355.9
CNO	\$166.2/\$182.8	\$220.0/\$263.7	\$275.0/\$341.1	\$222.6/\$274
CHRO	\$138.1/\$168.0	\$188.6/\$238.9	\$251.7/\$302.8	\$196/\$252.9
CME	\$249.4/\$287.5	\$312.7/\$359.9	\$335.9/\$388.5	\$279.7/\$345
CFO	\$184.3/\$235.8	\$249.0/\$319.6	\$300.1/\$352.6	\$254.9/\$321
% CHANGE IN TOTAL COMPENSATION				
CEO	5.9%	7.4%	9.6%	7.7%
COO	3.3%	6.9%	5.1%	5.1%
CNO	6.5%	6.7%	7.1%	6.7%
CHRO	5.9%	5.6%	6.3%	5.8%
CME	3.5%	5.8%	4%	4.8%
CFO	4.2%	7.8%	8.1%	7%

Source: Compensation Analyst, 2008; Towers Perrin; William M. Mercer; Watson Wyatt; HR Strategic Solutions; Segal & Co; Hay Surveys. Sullivan Cotter and Associates

2009 BONUS FORECAST TRENDS

N-435

Bonus Program Prevalence

Bonus Type	Hospital	System	Effectiveness Rating
□ Group Incentives	4.9%	29%	47%
□ Lump Sum	31%	21%	53%
□ Gain Sharing	22%	16%	57%
□ Non-Cash Recognition	13%	3%	26%
□ Key Contributor Programs	14%	4%	30%
□ Profit Sharing	8%	14%	52%

Sample Employment Agreements are available on request

PREVALENT EXECUTIVE PERQs

□ Cell Phones	71%
□ Car or Car Allowance	62%
□ Severance Pay	46%
□ % Receiving 6 months to 1 year	31%
□ % Receiving 1 year to 18 months	42%
□ % Receiving 18 months to 2 years	27%
□ Employment Contracts	45%
□ Non-Qualified Deferred Compensation Plan	43%
□ Physical Examinations	37%
□ Executive Parking	35%
□ Executive Group Life	33%
□ Executive Long Term Disability	33%

Source: Hay Group Prevalence 2008 Report

HEALTHCARE COSTS ACCELERATING RAPIDLY

Type of Cost	2009 Healthcare Costs		
	2006	2007	2008
Labor & Benefit Costs per Staff Occupied Bed	\$435,123	\$455,147	\$475,111
Labor & Benefit Expense per FTE	\$74,208	\$76,168	\$78,473
RX Costs per Adjusted Discharge at 50%	\$574	\$631	\$694
Cost of Benefits Increase	7.7% - 9.6%	8.7% - 10.1%	6% - 9%
RN Working in Agencies*	101,387	111,798	101,387 Represents a shrinking pool)

*Represents an estimated \$12,000,000,000 in Industry Cost compared to \$6,000,000,000, with RNs as employees. **This represents cost savings of \$76,573/employed RN or an average hospital cost savings of \$1,531,460.**

Sources: Amalgamation & confirmatory study of the: William M. Mercer; Hewitt Associates; Watson Wyatt; Hay Group; Segal & Co; Towers Perrin and HR Strategic Solutions Compensation surveys; SIR; AON Consulting

CEO TURNOVER RATES

Average Tenure	5.4 years
Median Tenure	3.6 years
2003	14.4%
2004	16.1%
2005	14.2%
2006	15.2%
2007	15.3%
2008	15.6%
2009 (Forecast)	16.1%

Source: Compensation Analyst, 2008; AON Consulting; ACHE; Watson Wyatt; Modern Healthcare; AHA; HealthLeaders

CEO HIGH TURNOVER STATES

RANK	STATE	ADJUSTED %
1	New Mexico	36%
2	Nevada	25%
3	Louisiana	24%
4	Arkansas	22%
5	Florida	21%
6	Hawaii	20%
7	Oklahoma	20%
8	Texas	19%
9	Alabama	19%
10	Arizona	19%
11	North Dakota	19%
12	Wyoming	19%
13	Colorado	19%
14	California	18%
15	Virginia	18%
16	Vermont	17%

Source: Compensation Analyst, 2008; AON Consulting; Watson Wyatt; AHA; ACHE, 2008

CEO MEDIUM TURNOVER STATES

RANK	STATE	ADJUSTED %
17	Oregon	17%
18	Washington	16%
19	Missouri	16%
20	Rhode Island	16%
21	Alaska	16%
22	North Carolina	15%
23	Nebraska	15%
24	Michigan	15%
25	Utah	15%
26	Pennsylvania	15%
27	Mississippi	14%
28	New York	14%
29	Kentucky	14%
30	Georgia	14%
31	Tennessee	14%
32	Indiana	13%
33	Minnesota	13%
34	Ohio	12%

CEO LOW TURNOVER STATES

RANK	STATE	ADJUSTED %
36	Kansas	12%
37	Massachusetts	12%
38	New Jersey	10%
39	South Carolina	10%
40	Iowa	10%
41	Montana	10%
42	Illinois	9%
43	Idaho	9%
44	Wisconsin	9%
45	South Dakota	8%
46	West Virginia	8%
47	Connecticut	6%
48	Maine	2%
49	Maryland	2%
50	New Hampshire	0%

Source: ACHE; Watson Wyatt; AHA; Modern Healthcare

HEALTHCARE ECONOMICS

- ❑ National Health Expenditure 2009: \$2,565 billion
- ❑ National Health Expenditure per capita 2009: \$8,341
- ❑ National Health Expenditure 2010: \$2,676 billion
- ❑ National Health Expenditure per capita 2010: \$8,624
- ❑ Number of Hospitals: 5,708
- ❑ Hospitals in the "Red": 27%
- ❑ 2008 Net Revenues: \$887.1 billion
- ❑ Hospital CPI 2008 and Expenses: 3.2%/6.7%
- ❑ Staffed Beds 2009: 965,000
- ❑ Admissions, but ED volumes up 4%+: Flat
- ❑ ALOS and Inpatient days: 5.6 days/177.8 million
- ❑ ER Visits: (2006 – 119 million, with 12% of EDs closed) 123.3 million

Sources: AHA; Modern Healthcare; Daily Dose; HealthLeaders; HFMA; CBO

SOURCES

- MODERN HEALTHCARE, BY THE NUMBERS AND DAILY DOSE
- FITCH REPORTS
- PRESS GANEY
- MOODY INVESTER SERVICES
- SULLIVAN COTTER ASSOCIATES
- AMERICAN HOSPITAL ASSOCIATION (AHA)
- HOSPITAL FINANCE MANAGEMENT ASSOCIATION, "Financing the Future"
- AMERICAN SOCIETY OF HEALTHCARE HUMAN RESOURCES ADMINISTRATION
- SARATOGA INSTITUTE
- WILLIAM M. MERCER CO.
- HAY GROUP
- HEWITT ASSOCIATES
- WATSON WYATT CO.
- TOWERS PERRIN
- AHCA FINANCIAL DATA
- HRSA BUREAU OF WORKFORCE STUDIES, THE NATIONAL RN SURVEY, 2007-08
- HOSPITALS & HEALTH NETWORKS
- 2004 ALMANAC OF HOSPITAL FINANCIAL & OPERATING INDICATORS #7353
- HOSPITAL & HEALTH COMPENSATION SERVICES
- US BUREAU OF LABOR STATISTICS, 2006 REVISION OF HHS 2000 REPORT

All survey information and data is obtained from: consulting firms and other published data, professional journals, white papers, professional associations and governmental websites, NSI surveys, etc., and all are coalesced, amalgamated and where applicable are trended and forecasted in the variously published NSI surveys and reports.

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- ***NSI* NURSING SOLUTIONS, INC** is an 9 year old national high volume U.S. nurse recruitment firm; that recruits only within the continental U.S. for American *Experienced Nurses*, as your core employee staff, in an average **time-to-fill of 32 days**.
- ***NSI*** is not a foreign recruiter nor a travel or temporary agency.
- The partnership is "RISK FREE", since you must hire the nurses BEFORE ***NSI*** is paid.
- The relationship is also a "WIN-WIN", since not only are the nurses guaranteed for 6 months, ***NSI*** provides "On-Boarding Coaching" for the nurses, for 365 days.