

CHCANYS Finance University: Financial Impacts on Building & Maintaining the Workforce

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June 14, 2023



Topics/Challenges

- Is your budgeting process for workforce helping or hurting you?
- Does your compensation program support sound financial decision-making?
- Does the strategic/operational planning process adequately consider the cost of workforce?
- Do you actually know what you're getting for your workforce investment?

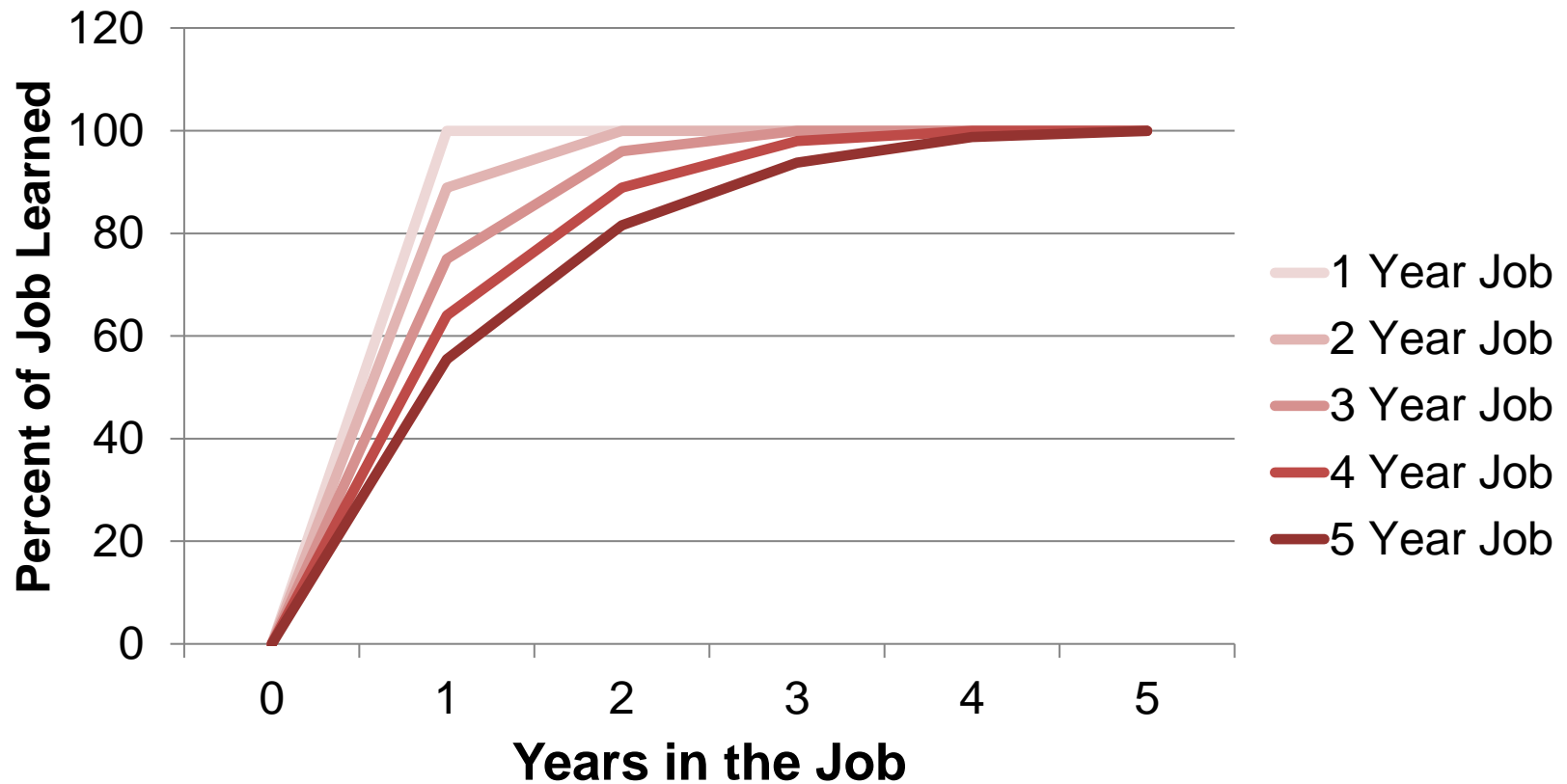
Cost of the Workforce

Percentile	Wage & Benefits as % of Revenue	Wages & Benefits as % of Expenses	Wages as % of Revenue	Wages as % of Expenses
5 th	37.8%	43.5%	28.0%	33.5%
25 th	55.4%	59.9%	45.4%	48.7%
50 th	62.7%	66.1%	52.0%	54.6%
75 th	68.9%	70.8%	57.0%	58.7%
90 th	75.9%	75.9%	64.8%	64.9%

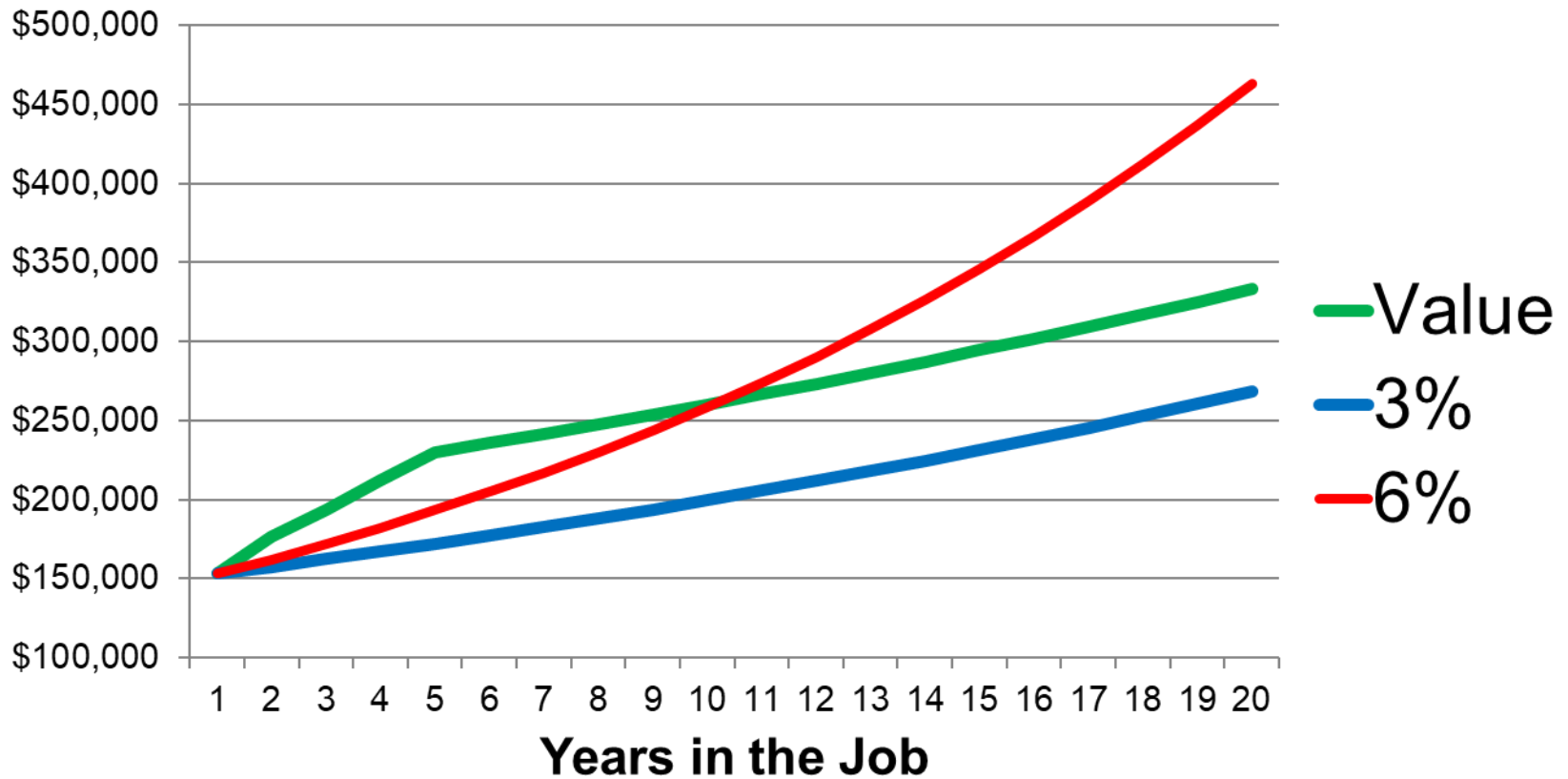
Compensation Design Problems... and why they are more problematic now...

- Not having a compensation philosophy, or understanding what your philosophy means
- Failing to understand the “value” of a job, and how it differs from the value other employers may place on it
- Not separating the value of an individual “to you” from their personal value “in the market”
- Not understanding how the market works (or doesn’t work)
- Inability to match employee growth and pay
 - “general increases” don’t recognize growth
 - “merit budgets” are used for general increases, not leaving enough to recognize growth
 - perception problems don’t allow pay growth
- Inconsistencies between policies for new hires and current employees
- Not having the ability to react quickly to changing circumstances
- Thinking that what the market does is what you should do

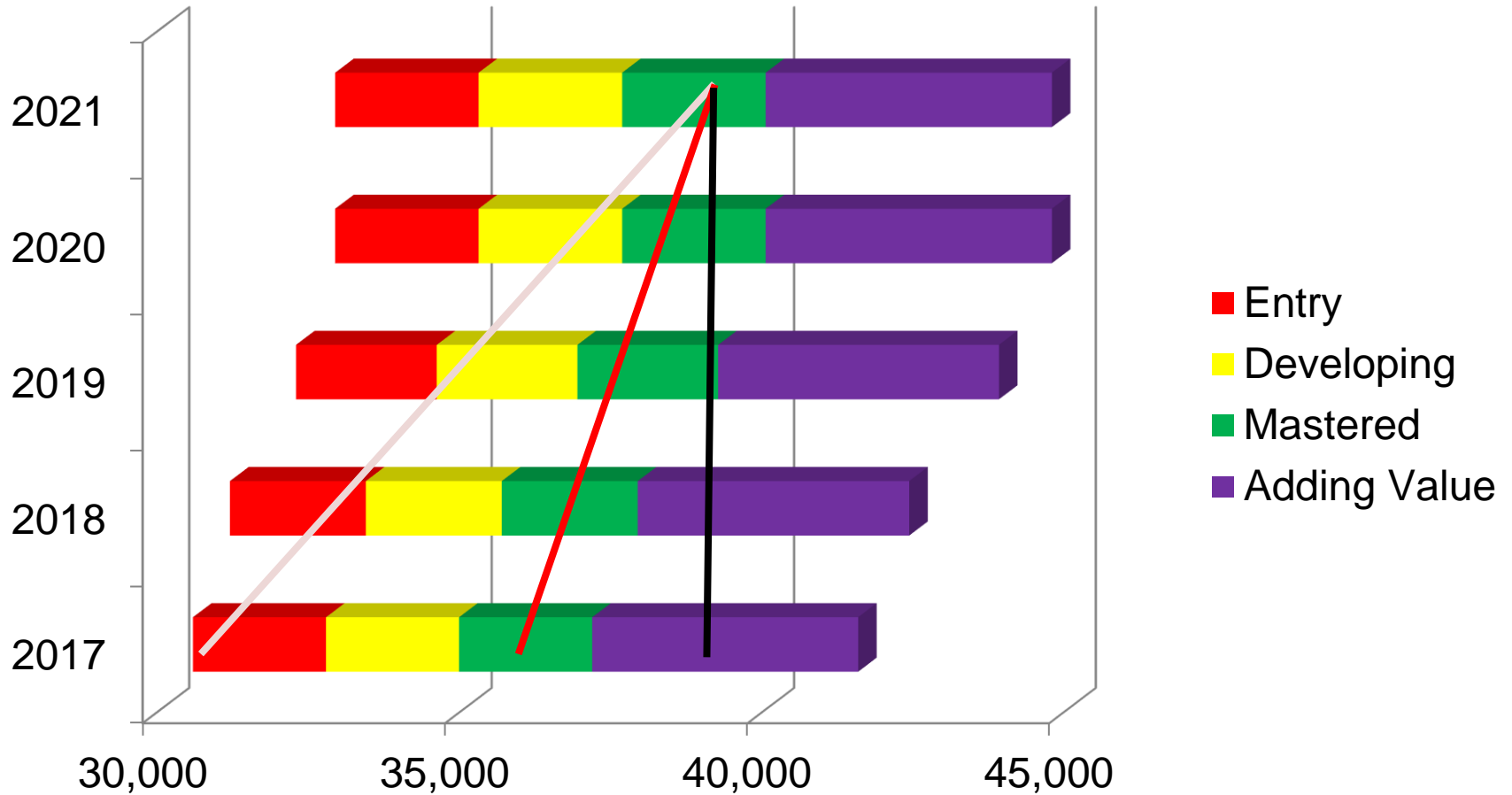
Understanding How People Grow



The Current Flawed Pay Model



Strategic Management of Individual Pay

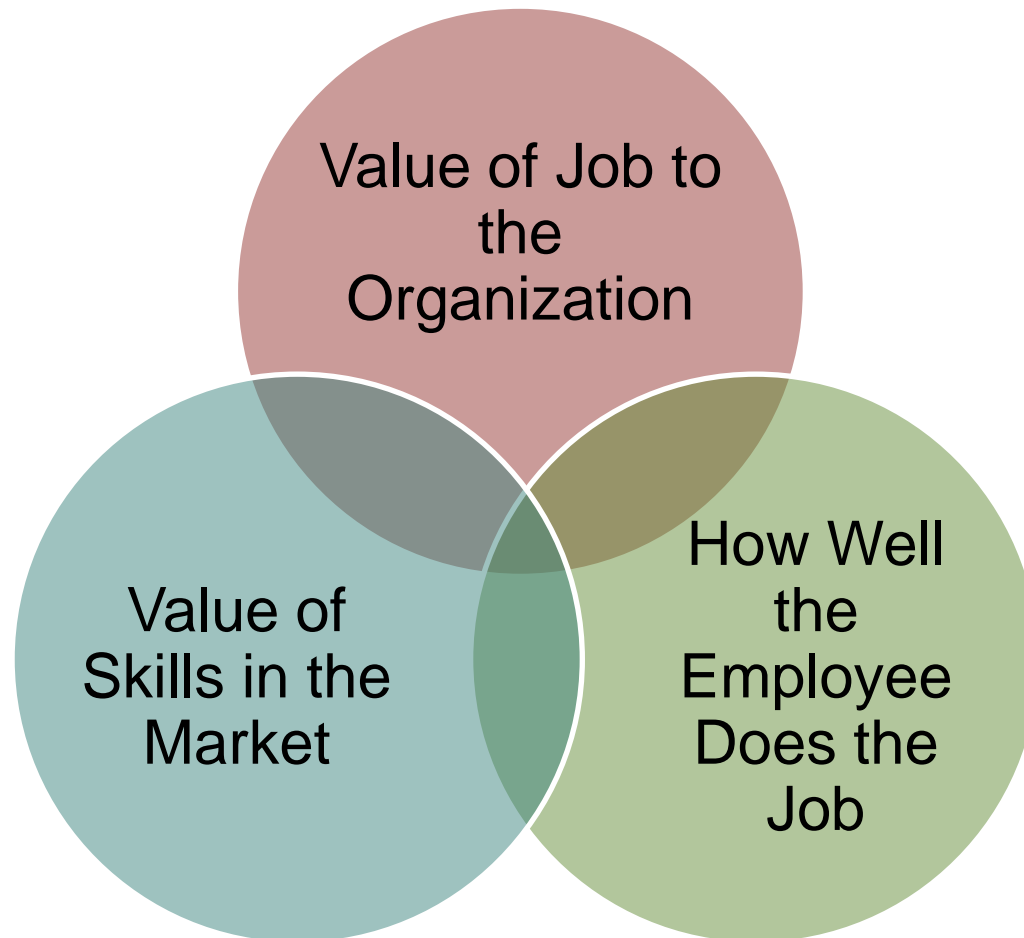


Strategic Approaches to Compensation



The ultimate objective of your compensation program should be to give you the ability to determine the “price tag” for each (current or future) individual’s contribution to the success of the health center.

The Strategic Compensation Model



Pay Grade & Range Structure

Sample Organization											
Compensation Administration Program											
Exhibit 2 - Recommended Base Pay Structure											
Grade	Eval. Score		Job Title	Job Score	Entry Level		Mastery		Unique		
	Low	High			Minimum	Developing	Midpoint	Added Value	Maximum		
ANNUAL AMOUNTS											
23	900	1000	CEO	954	168,700	185,600	202,500	210,900	219,300	236,200	253,100
22	850	899	no jobs assigned	--	139,100	153,000	166,900	173,900	180,900	194,800	208,700
21	800	849	VP CFO	813	122,400	134,600	146,900	153,000	159,100	171,400	183,600
20	750	799	no jobs assigned	--	107,800	118,600	129,400	134,700	140,100	150,900	161,700
19	700	749	no jobs assigned	--	94,800	104,300	113,800	118,500	123,200	132,700	142,200
18	650	699	IT Director	682	83,400	91,700	100,100	104,300	108,400	116,800	125,100
			Operations Director	650							
17	600	649	Human Resources Director	612	73,700	80,900	88,100	91,800	95,400	102,600	109,800
16	550	599	no jobs assigned	--	65,400	71,500	77,700	80,800	83,800	90,000	96,100
15	500	549	Center Manager	545	57,800	63,100	68,400	71,100	73,800	79,100	84,400
			Accounts Receivable Manager	509							
14	460	499	Senior Accountant	491	52,000	56,600	61,200	63,400	65,700	70,300	74,900
			IT Systems Administrator	482							
13	420	459	no jobs assigned	--	47,100	51,200	55,200	57,200	59,300	63,300	67,400
12	380	419	no jobs assigned	--	43,100	46,500	50,000	51,700	53,400	56,900	60,300
11	340	379	no jobs assigned	--	39,000	42,000	45,100	46,600	48,100	51,200	54,200
10	300	339	Administrative Assistant	323	35,400	38,100	40,800	42,100	43,500	46,200	48,900

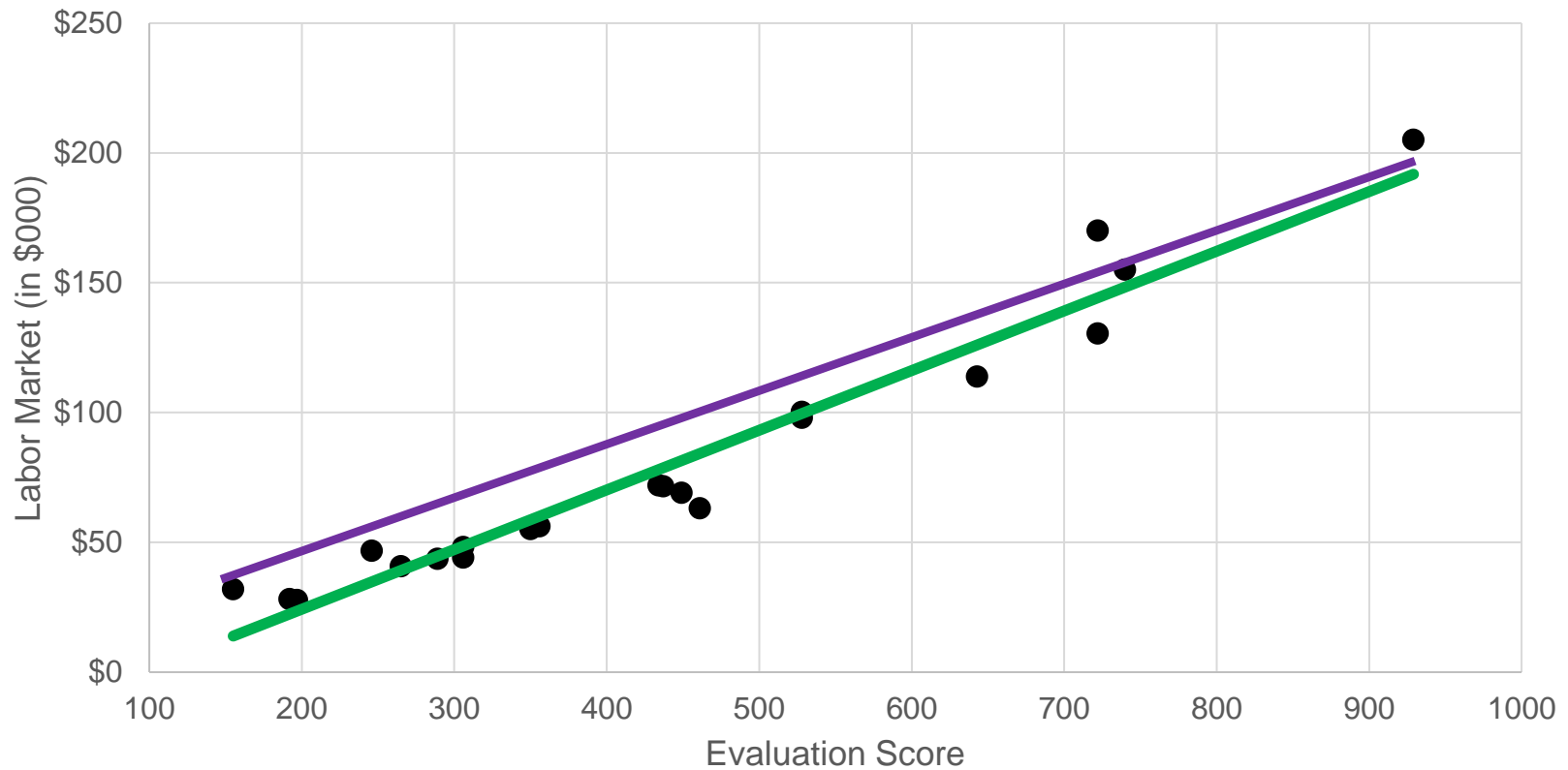
Factors Influencing Structure Increases

- Structures need to be reviewed annually
- Health center growth – If the health center grows at a faster rate than average:
 - Senior management rates will go up faster than entry-level staff
 - Gap between top and bottom will expand
- Minimum wage/entry-level pressure:
 - Senior management rates will follow general trends
 - Entry-level jobs will increase at a faster rate
 - Difference between top and bottom will compress
- Do you see why...
 - 3% across the structure won't work?
 - What you “can afford” doesn't matter?

What is the Impact of New “Floors”

- There are several “floors” to consider
 - Minimum wages: \$15.00/\$14.20 for 2023, \$16.00/\$15.00 for 2024
 - Living wages: Statewide \$21.46 (1 person) \$41.59 (1 person, 1 child)
 - Living wages: NYC \$22.51 (1 person) \$44,20 (1 person, 1 child)
 - Behemoth employers: BoA \$21, Amazon \$19, Costco \$17, USAA \$21
- What will be the impact of minimum wages, or new hiring wages, on jobs that are typically above the minimum/market wage?
 - Some jobs don’t seem to have a tie to the minimum wage... when the minimum wage is very low (e.g., MAs seem to be paid about the same throughout the Midwest, even with different minimum wages)
 - In NY, MA median (2022) of about \$19.00 is \$5.80, or 44%, higher than minimum wage (\$13.20). But if minimum wage went to \$16.00, would the new MA median increase \$5.80/hour (\$24.80), or by 44% (\$27.36) or by something less or something more?
- Will rising wages cause health centers to become more efficient, resulting in need for fewer employees, thus creating more availability, resulting in wages going back down?

Strategic Structure Updates/Adjustments



Structural Compression... an example

Pay Grade	Market March 2021	April 2021 (Living Wage 12.55 at Grade 1 Min)	May 2021 (Fedex/ Costco – 15.00 at Grade 4 Min)	Total Change in 3 Months
15	\$26.44	\$27.48	\$28.41	+7.5%
13	\$21.78	\$22.31	\$24.66	+13.2%
11	\$19.47	\$20.63	\$22.79	+17.1%
9	\$17.40	\$18.41	\$21.01	+20.7%
7	\$15.58	\$17.69	\$19.38	+24.4%
5	\$13.94	\$16.39	\$17.88	+28.3%
3	\$12.45	\$15.19	\$16.49	+32.4%
1	\$11.20	\$14.13	\$15.29	+36.5%
Wage Gap	136.1%	94.5%	85.8%	

Calculating Individual Compensation



Measuring Development

Duty	Performance	Start Date
1	Has no experience in this duty; objective will be to start working on this in three months	0%
2	Has performed to a limited extent; needs additional practice.	25%
3	Won't have time to do this this year.	0%
4	Needs practice.	25%
5	Needs training; should go to national meeting next year to learn how to do this.	0%
6	Needs training; will take intensive Executive MBA course to learn.	0%
7	Has no experience in this duty; will need to start working on this in second quarter.	0%
8	Needs practice	25%
Total		0.75/8.0
Percent		9.4%

Several Years of Data

Duty	Start	Year 1	Year 2	Year 3	Year 4	Year 5
1	0%	75%	100%	100%	100%	100%
2	25%	50%	75%	125%*	125%	125%
3	0%	50%	75%	100%	100%	100%
4	25%	75%	100%	100%	100%	100%
5	0%	75%	100%	100%	100%	100%
6	0%	50%	75%	75%	100%	100%
7	0%	50%	75%	125%*	125%	125%
8	25%	75%	100%	100%	100%	125%
Total	0.75/8.0	5.00/8.0	7.00/8.0	7.75*/8.0	8.50/8.0	8.75/8.0
Percent	9.4%	65.0%	89.0%	98.0%	106.2%	109.4%

Calculating “Target Pay”

Range Segment	Low Limit	High Limit
Entry Level	\$37,500	\$40,200
Developing	\$40,200	\$42,900
Mastery	\$42,900	\$45,600
Added Value	\$45,600	\$48,300
Unique	\$48,300	\$51,000

Up to 100%: $\text{Minimum} + (\text{Performance} * (\text{Midpoint} - \text{Minimum})) = \text{Target Pay}$

Example at 85% Performance:

$$\$37,500 + (0.85 * (\$44,200 - \$37,500)) = \$43,195$$

When above 100%: $\text{Midpoint} * \text{Performance}$

$$\text{Example at 105\%: } \$44,200 * 1.05 = \$46,410$$

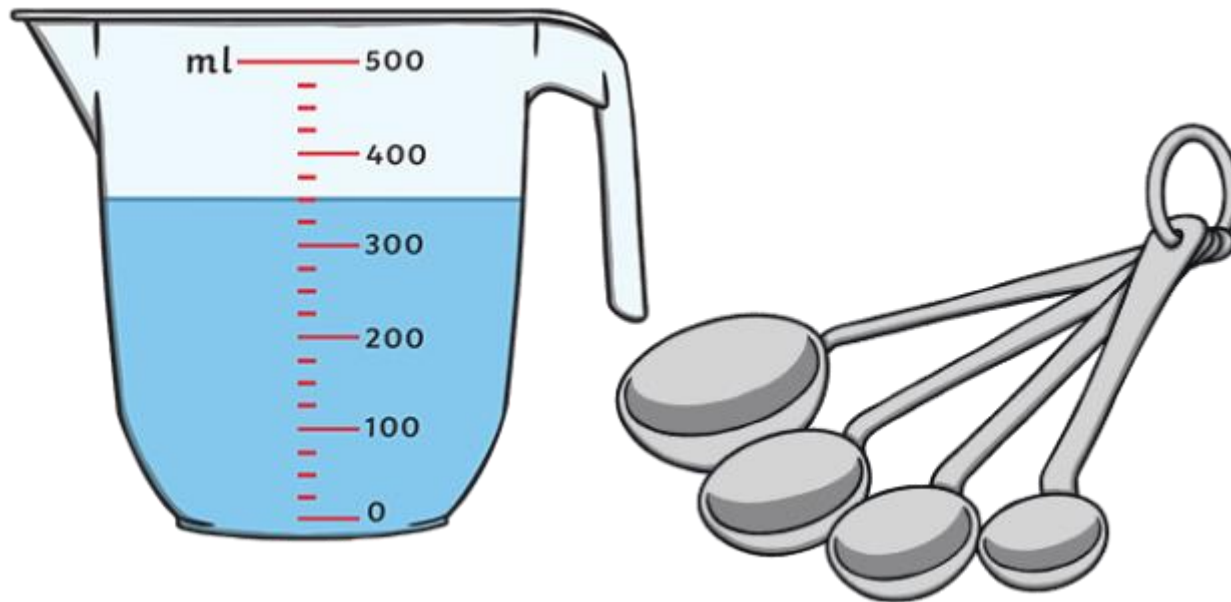
Sample Pay Progression – The Right Way

Year	Score	Minimum	Target	Value	Increase
Start	9.4%	32,500	39,000	33,111	--
1	65.0%	33,300	40,000	37,643	13.7%
2	89.0%	34,100	41,000	40,223	6.8%
3	98.0%	35,000	42,000	41,859	4.1%
4	106.2%	35,900	43,000	43,494	3.9%
5	109.4%	36,800	44,100	44,816	3.0%

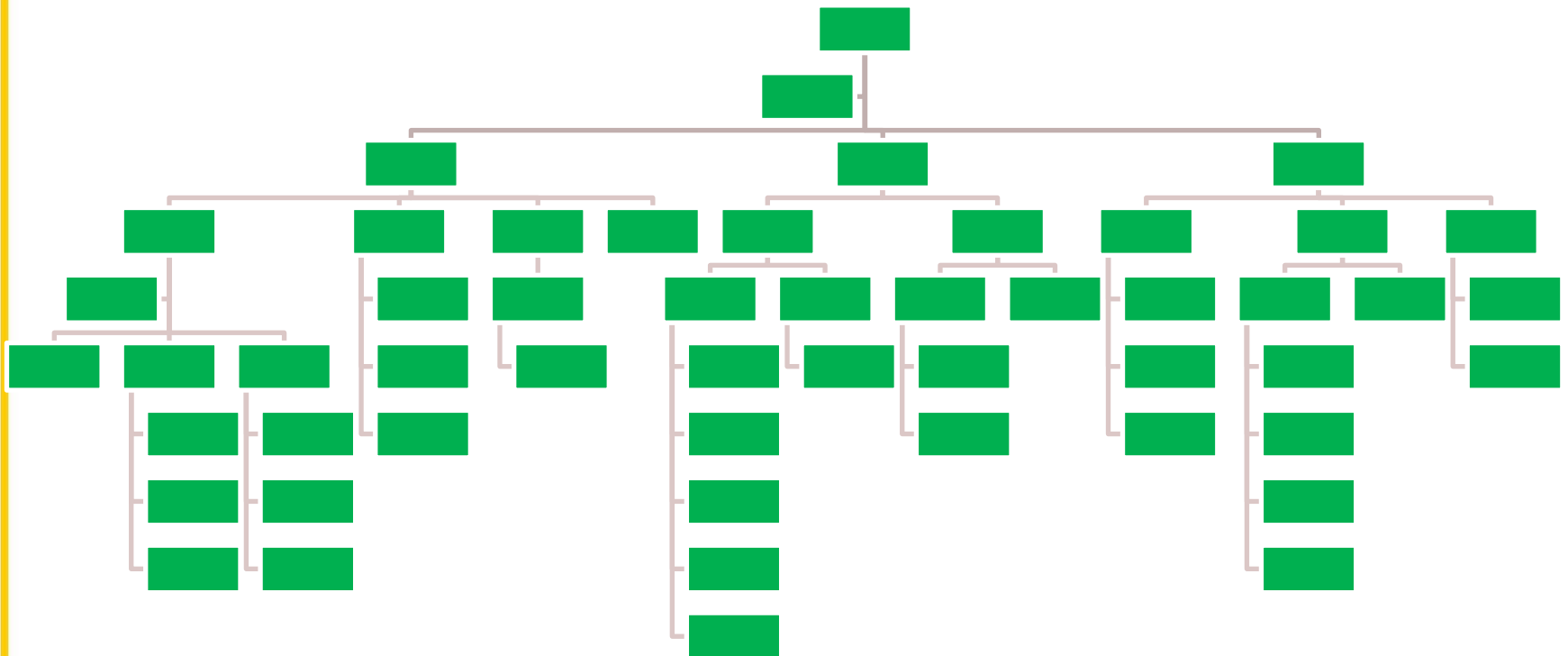
Measuring Compensation Effectiveness

Employee	Development Score	Target Salary	Actual Salary	Variance	[Variance]
A	100%	70,000	85,000	+21.4%	21.4
B	75%	95,000	85,000	-10.5%	10.5
C	100%	125,000	150,000	+20.0%	20.0
D	50%	95,000	85,000	+10.5%	10.5
E	25%	105,000	105,000	0.0%	0.0
F	100%	65,000	70,000	+7.7%	7.7
G	75%	70,000	90,000	+28.6%	28.6
H	75%	150,000	110,000	-26.7%	26.7
I	100%	115,000	105,000	-8.7%	8.7
J	100%	90,000	80,000	-11.1%	11.1
Total		980,000	965,000	31.2%	145.2
Scores			98%	3.1%	14.5

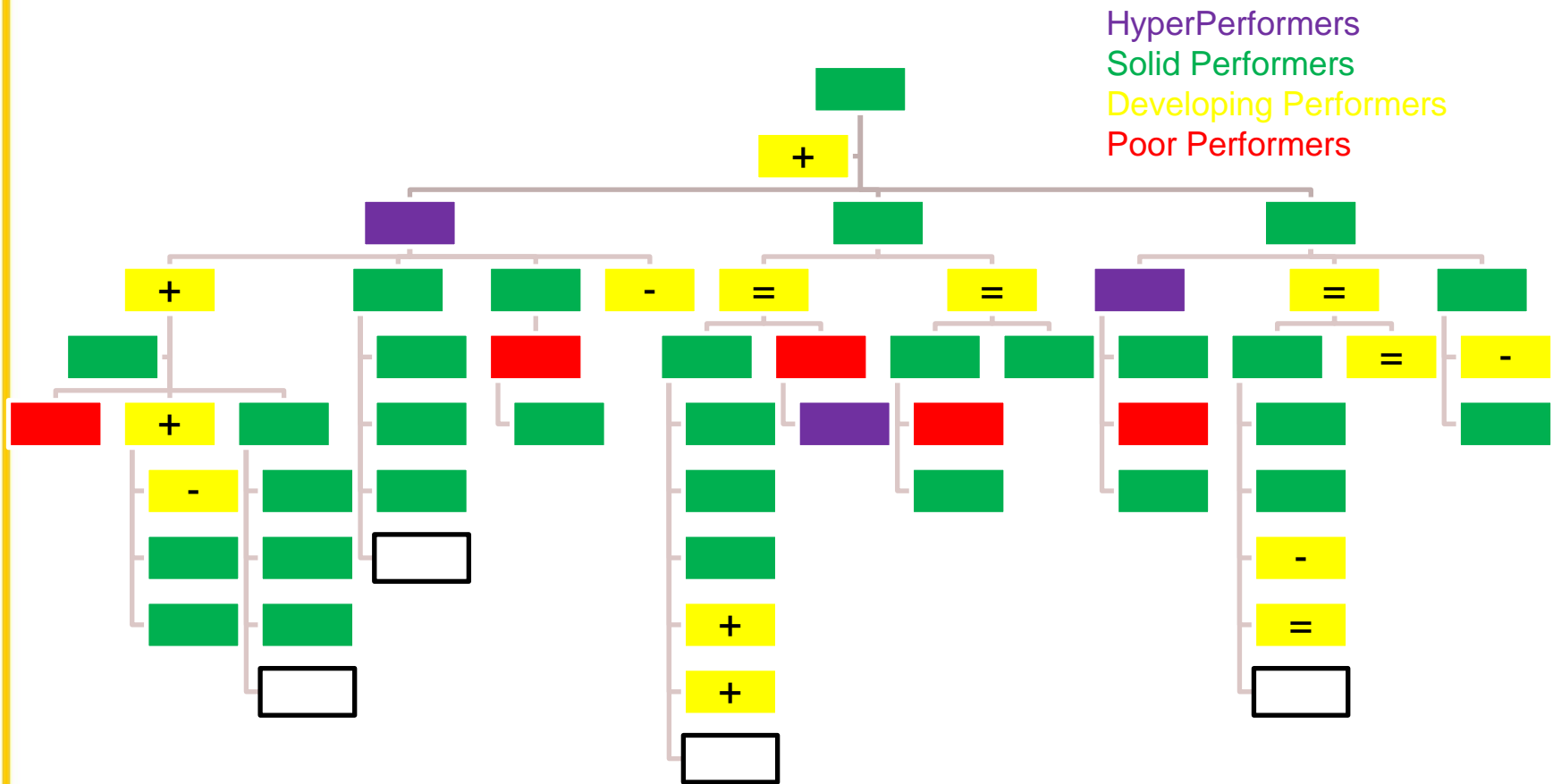
Workforce Capacity



Your Organization (in your mind)



Your Organization (in reality)



Calculating Organizational Capacity

Employee	FTE	Perf. in Role	Weight	Target Capacity	Score	Variance
A	1.00	0.75	3	3.0	2.25	-25.0%
B	1.00	0.25	3	3.0	0.75	-75.0%
C	1.00	0.60	2	2.0	1.20	-40.0%
D	1.00	0.95	2	2.0	1.90	-5.0%
E	1.00	0.88	2	2.0	1.76	-12.0%
F	1.00	1.00	1	1.0	1.00	0.0%
G	1.00	0.96	1	1.0	0.96	-4.0%
H	1.00	0.75	1	1.0	0.75	-25.0%
8.00	8.00	6.14		15.00	10.57	-29.5%
	100.0%	76.8%			70.4%	

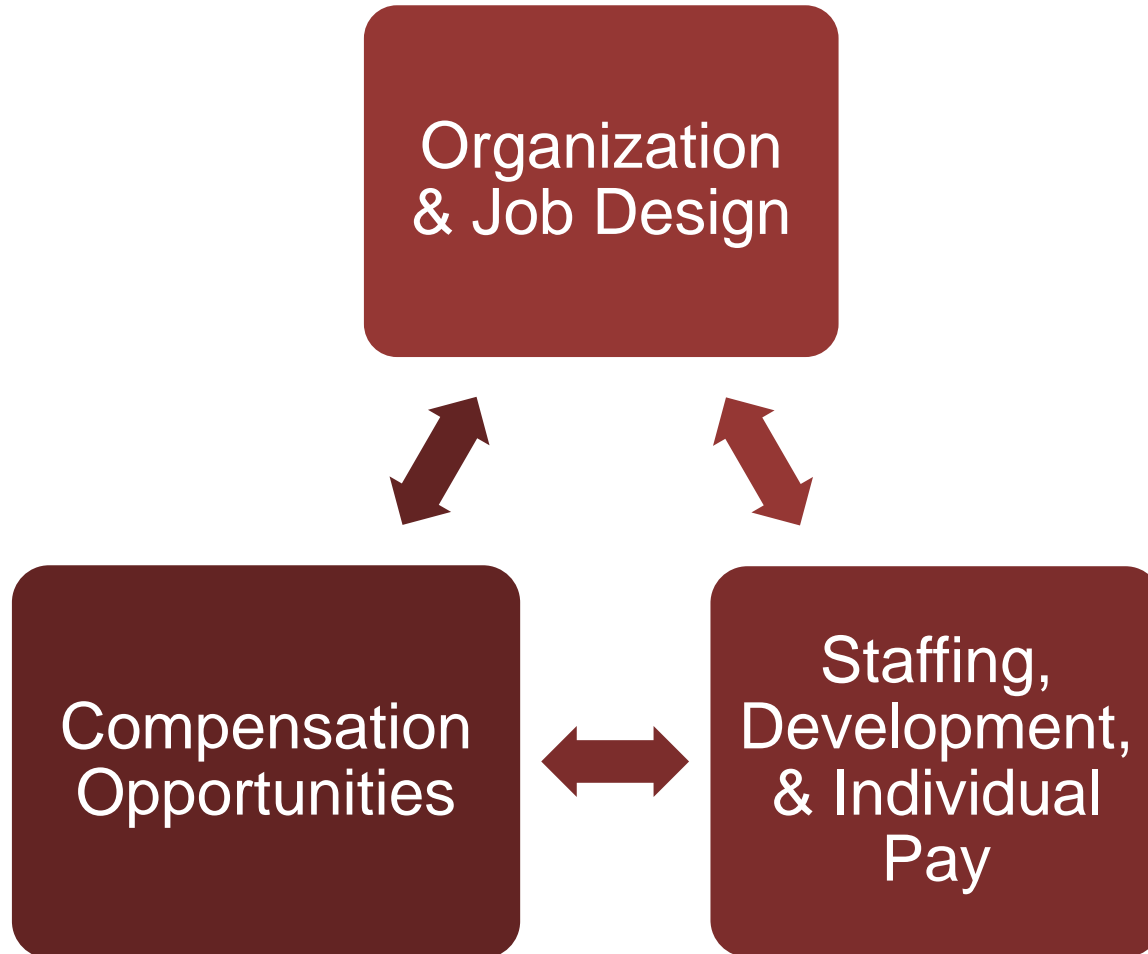
Changing Organizational Capacity

	FTE	Target Capacity	Perf. in Role	Weighted Capacity	MA Leaves (FTE)	Perf. in Role	New Weighted Capacity
A	1.00	3.0	0.75	2.25	1.00	0.75	2.25
B	1.00	3.0	0.25	0.75	1.00	0.25	0.75
C	1.00	2.0	0.60	1.20	1.00	0.60	1.20
D (as Supv.)	1.00	2.0	0.95	1.90	0.00	0.00	0.00
D (as MA)	1.00	1.0	--	--	1.00	0.75	0.75
E	1.00	2.0	0.88	1.76	1.00	0.88	1.76
F	1.00	1.0	1.00	1.00	1.00	1.00	1.00
G (as MA)	1.00	1.0	0.96	0.96	0.00	--	--
G (vacant)	0.00	1.0	--	--	0.00	0.00	0.00
H	1.00	1.0	0.75	0.75	1.00	0.75	0.75
8.00	8.00	15.00	6.14	10.57	7.00	4.98	8.46
	100.0%		76.8%	70.4%	87.5%	62.2%	56.4%

What Do I Know Now?

- Not hitting objectives, Workforce Effectiveness < 100%?
 - we know why and shouldn't be surprised.
 - we start working on increasing Workforce Effectiveness:
 - Increasing FCEs
 - Decreasing FTEs
- If we are hitting our objectives, and our other measures are okay (e.g., turnover),
 - our planned staffing might just be too high, and we might have too many people.
 - which might be why we can't afford to pay competitively
 - or we should increase our expectations

The Dynamics of “Workforce Planning”

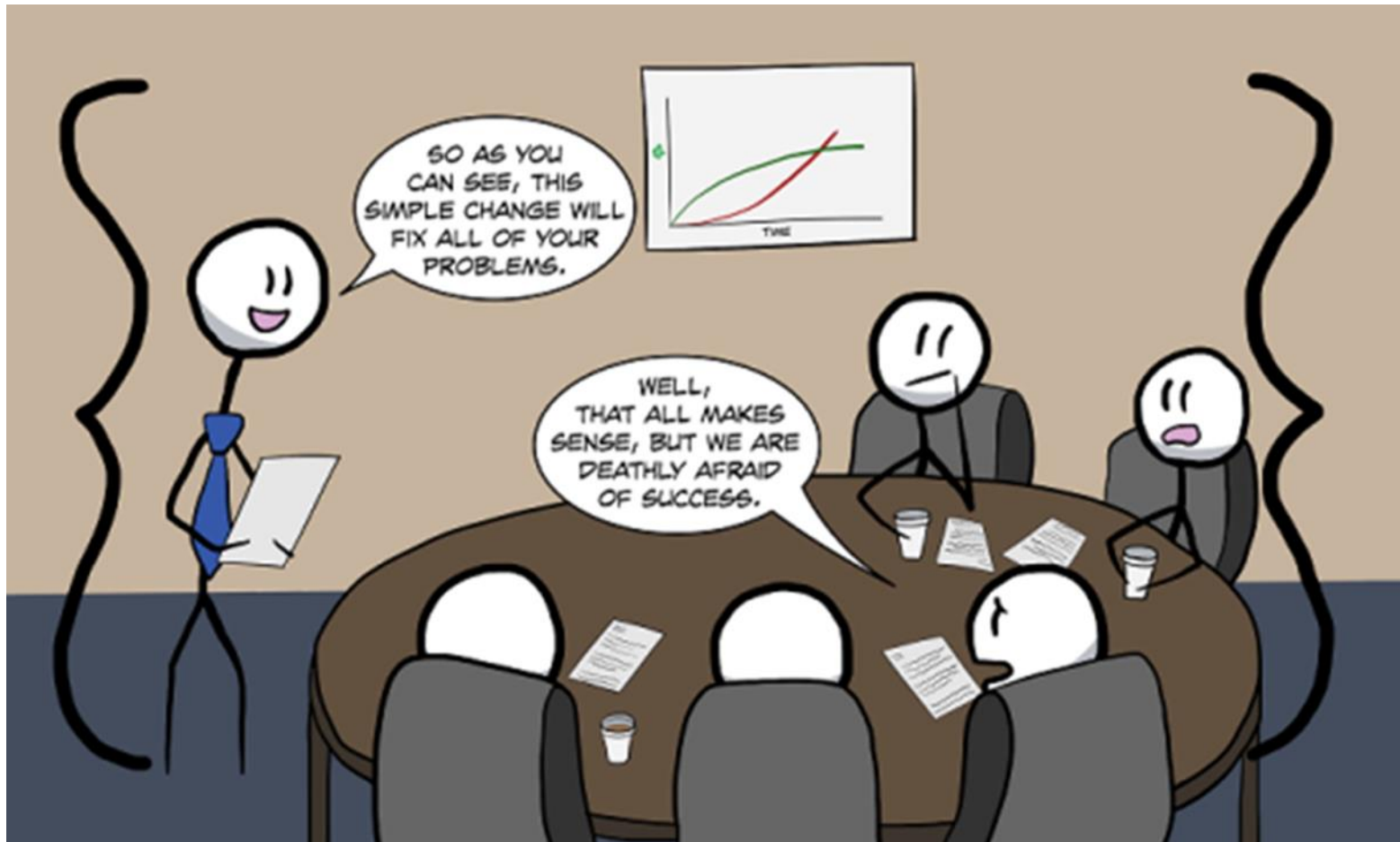


Pay, Capacity, & Organization Design

	One Approach	Another Approach	Yet Another Approach
Units of Work	1,000	1,000	1,000
Capacity of Individuals	100	200	100 & 200
Hourly Cost of Capacity	\$12/hour	\$18/hour	\$12/hour & \$18/hour
Number of People	10	5	2 @ 200 & 6 @ 100
Annual Cost Per Person	\$24,960	\$37,440	\$24,960 & \$37,440
Total Annual Cost	\$249,600	\$187,200	\$224,640

Paradigm Shift - Budgeting

- Old way
 - Focus on distributing scarce resources
 - “How much can we afford to increase wages?”
 - We feel what we want to pay is what employees are willing to take
 - Each additional FTE is a separate decision
- New way
 - Focus on figuring out how to pay for what we need
 - “What is the price tag of every employee? Can we afford this, and if not, what do we change?”
 - Budget is what we need to spend.
 - Workforce decisions need to be made holistically



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