



AMN Healthcare:

engagement commentary

Federated Hermes SDG Engagement Equity Fund
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ENGAGEMENT COMMENTARY: AMN Healthcare

In a nutshell

AMN is the leading healthcare staffing company in the United States. Its core business is the placement of nurses and allied health professionals on temporary assignments at hospitals and healthcare facilities throughout the US.

\$3.8bn

market
capitalisation
(May '22)



\$3.9bn

revenue
(FY21)



3,800

employees (end of
2021) of which 65%
are women (56% in
management)



Headline progress

The company has publicly recognised its unique ability to lead the healthcare industry on the issue of gender pay and is supporting initiatives to broaden the diversity of healthcare professionals. To this end, it has repeatedly highlighted the scale of the pay discrepancy problem and begun to explore meaningful actions that can be taken to address it.

Investment case

- Leading US healthcare staffing provider, benefiting from aging population and accelerating shortage of healthcare professionals.
- Established position in managed service provision enabling further share gains.
- Inorganic expansion opportunities.

Theory of change

According to the US Department of Labour¹, women earn less than men in almost every occupation. This is no different in the space of healthcare, indeed, the pay gap is marked. In this setting however, it is exacerbating an already significant and

growing staffing shortage, which, combined with already high levels of turnover (approximately 33% per annum)² risks impinging upon the ability to deliver quality healthcare. If hospitals are not able to recruit enough staff (or are excessively reliant on temporary staff) they may be forced to turn away patients, or operate with inadequate staffing levels, resulting in poorer quality of care, and further driving up turnover among existing staff.

In the United States, like most developed nations, there is an aging population which is putting strain on the healthcare system. This is coupled with a structural shortage of nurses and doctors.

- Nearly half of Registered Nurses (RNs) are aged over 50 (the average age of a nurse is 47.9 years old)³ and are typically beginning to retire from patient-facing roles in their early 50s. Over the past decade, data from the US Bureau of Labour Statistics (BLS) and Census Bureau, illustrates that the growth rate of registered nurses has been outstripped by the growth of the senior citizen population. This mismatch is set to grow wider in the coming decade⁴.
- A report released by the Association of American Medical Colleges in June 2021 projected a shortage of up to 124,000 physicians by 2034⁵.

¹ 5 Facts About the State of the Gender Pay Gap | U.S. Department of Labor Blog (dol.gov)

² AMN Investor Presentation, January 2021

³ Nurses by the Numbers – 2020 Nurse and Midwife

⁴ William Blair, The Nursing Shortage Issue A Deep Dive Into Our Long-Term Proprietary Model of Nurse Availability in the U.S. 2022

⁵ The Complexities of Physician Supply and Demand: Projections From 2019 to 2034 | AAMC

This staffing shortage is exacerbated by three phenomena.

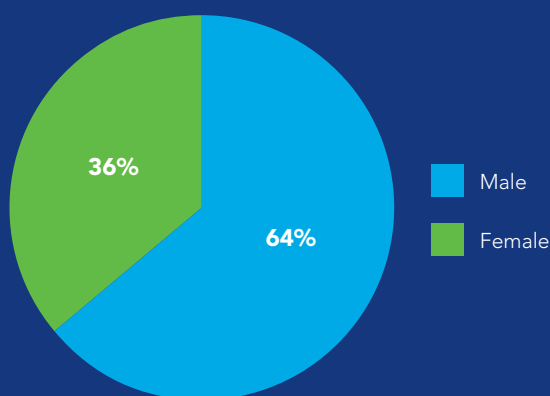


1. A lack of diversity:

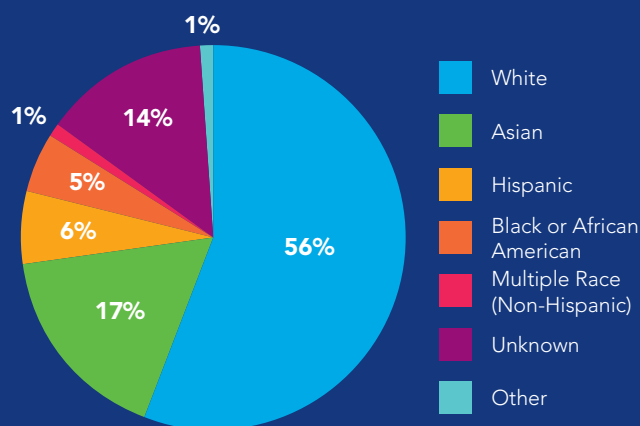
Low levels of diversity. Within physician ranks just 11% are Black, Hispanic, and Native American. The gender mix has improved, but the proportion of active female physicians stands at just 36%.

Figure 1: The healthcare profession is held back by a limited diversity

Percentage of physicians by sex, 2018



Percentage of all active physicians by race/ethnicity, 2018



Source: Association of American Medical Colleges

Similarly, nurses from underrepresented minority (URM) backgrounds represent less than 20% of the registered RN workforce. Men account for a little over 9%.

Worryingly, the 2019 AMN Healthcare Leadership Diversity survey noted only 43% of organisations making diversity a primary recruiting focus. The concern is that an organisation's lack of diversity is often tied to inadequate recruitment rather than an empty pipeline.



2. Pay inequity

There is substantial evidence of a significant gender pay differential across the healthcare professions in the US.

In the case of nurses, the 2020 Nurse Salary Research Report⁶ found female RNs make 90 cents for every dollar earned by men in the same roles.

With respect to physicians, in 2018, Merritt Hawkins, an AMN Healthcare subsidiary, completed a survey that revealed male physicians are paid approximately 50% more than their female counterparts in the State of Maryland. Even when corrected for hours worked, this gap remained at close to 40%. A further study in 2022 found that this gap continues to persist⁷.

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In other research⁸ Merritt Hawkins found that approximately three-quarters of female physicians cite discrimination as being detrimental to their morale and career satisfaction and 32% of those are considering early retirement – further impacting the already sizable staffing shortfall.

Given a growing shortage of physicians, patients can ill afford the early retirement of female doctors. While unjustifiable in of itself, when gender discrimination is diminishing the overall supply of physicians, it is also a serious matter for the maintenance of the public health system.

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⁶ https://wp.nurse.com/wp-content/uploads/2020/11/Salary_Survey-2020_v13_B2C.pdf

⁷ Merritt Hawkins, 2022 survey of Maryland physician compensation

⁸ Merritt Hawkins' 2019 Survey of Women in Medicine



3. Covid-induced burnout

In pre-pandemic 2019, the rate of physician burnout was already hitting new highs – with 77.8% reporting some level of professional burnout – a rate nearly twice as high as those experienced by workers in other fields⁹.

AMN's 2021 survey of registered nurses¹⁰ had some sobering insights. Based on the responses of 6,562 registered nurses, it found:

- As a result of the pandemic, 63% of nurses felt emotionally drained, and 56% felt burnt out most days.
- Nearly one-quarter of nurses – 23% – said it was somewhat likely or extremely likely they would leave the field of nursing because of Covid-19, reflecting the high level of frustration and distress among many nurses practicing during the pandemic.

This growing staffing shortfall puts increasing pressure on hospital budgets. Nurse spend is approximately 25% of a typical hospital budget and labour more broadly is approximately 50%¹¹. The cost of turnover can have a profound impact on the already diminishing hospital margin and needs to be managed.

- The average cost of replacing a nurse is \$38-50k¹².
- The average cost of replacing a physician staff member who leaves their facility is between 1.5-5x average salary (\$300k and \$1m)¹³.

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Role for AMN

As the largest healthcare staffing company in North America AMN is well situated to impact upon each of the three issues identified above. The unjustifiable pay disparity that exists between male and female physicians and male and female nurses and the significant under supply of physicians and nurses, including from non-white populations, are structural and cannot be resolved by AMN alone. That said, the company can certainly take a leadership position. It can catalyse action. It can accelerate change. And it can inspire, cajole and influence action elsewhere.

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50%

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Practice of change

Over the period of our investment we have met extensively with management and board members to discuss issues of interest and have been encouraged at the progress made.

- Approximately 20 interactions since the beginning of 2018 – spanning meetings with the chair and CEO through to other members of management.

We have consistently found the company to be receptive to shareholder engagement. On governance matters, the company has typically responded to any suggestions on improvements to practices and policies in quick order.

- We suggested improvements to proxy access, the company in turn made such changes.
- We suggested a need to focus on board refreshment and diversity – the board subsequently appointed four new independent directors in three years (three of whom were female and/or people of colour) and female representation is now over 50%.
- We more recently raised the matter of incorporation of sustainability metrics within executive compensation and diversity goals are now to be factored into the executive directors' cash incentive plan.

We have been especially pleased by the recognition that management and the board have given to their ability to take a leadership role in the industry to redress the problems discussed.

The Merritt Hawkins' surveys in 2018 and 2022 (see box) have been important in shining a spotlight on the problem. That the implication of this pay disparity was reinforced in other surveys means we have continued to keep a focus on this topic. We would like to see AMN maintain this focus and, to the extent that it is practicable, work with its client base to further highlight the pervasive nature of pay inequity and its implications for staffing levels and motivation.

⁹ www.merrithawkins.com/uploadedFiles/MerrittHawkins/Content/News_and_Insights/Articles/AMN-Headspace-White-Paper-2021%20Final.pdf

¹⁰ AMN, Nursing and the Nation: Extreme Challenges, Extraordinary Impact, 2021

¹¹ American Hospital Association, Cost of Caring report, 2022

¹² [The High Cost of Nurse Turnover - University of New Mexico \(unm.edu\)](https://www.unm.edu/~nursing/The_High_Cost_of_Nurse_Turnover_-_University_of_New_Mexico_(unm.edu))

¹³ [How much physician burnout is costing your organization | American Medical Association \(ama-assn.org\)](https://www.ama-assn.org) and Merritt Hawkins, 2021 Review of Physician and Advanced Practitioner Recruiting Incentives



We continue to believe there is a significant role for AMN to play, working with its clients, and the wider industry, to promote equitable recruitment practices. While on the supply side it is also well positioned to provide coaching, mentoring and support to female physicians at earlier stages of their career, recognising that the pay disparities start early and grow wider.

With respect to diversity, there is a need to both redress biases among recruiting parties (e.g. hospitals) and to expand the diversity of those entering the profession. With respect to the latter, AMN has donated more than \$700,000 to Nursing Organisations over the past year to support initiatives directed towards this goal. This is welcome and we encourage further programmatic partnerships to build on this financial support.

While we continue to engage with AMN around its role in highlighting and redressing problems in the wider industry, it is pleasing to note that the company is walking the talk at home. This is important if AMN is to retain credibility to advocate for wider change. As of January 2022, 67% of its workforce is female, 60% of team leaders are female, 36% of the workforce is comprised of people of colour as are 25% of people in leadership roles.

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Next steps

We will continue to engage with AMN around the topics set out in this note. While we have been heartened by an evident commitment to playing a leadership role in redressing the problems identified, there is no doubt that the causes are deep rooted. An ongoing and concerted effort is therefore needed and wider recognition of those problems will be key going forward.

AMN's long-serving CEO Susan Salka is to retire during 2022. The outgoing CEO has steered the company successfully for many years, taking the business from \$700m of revenue to more than \$4bn today. She has been regularly recognised as one of the most influential individuals in the healthcare industry and therefore leaves big shoes to fill, however, we are confident and hopeful that there is substantial bench-strength within the firm and the commitment towards wider societal goals is firmly embedded within the corporate culture. In that context, we look forward to engaging with Susan's successor to ensure that momentum around this agenda is retained and built upon in the period to come.

AMN addresses United Nations (UN) Sustainable Development Goals

In 2018, Merritt Hawkins, an AMN company, released research that demonstrated the scale of pay inequality among physicians in the state of Maryland. The report found that, even when controlled for hours worked, female physicians earned 37% less than their male counterparts. Unfortunately, these findings are not confined to physicians, as female nurses make 10% less than their male counterparts, according to data from the Bureau of Labour Statistics. The pay discrepancy in nursing exists even though women outnumber men ten to one in the profession.

Recognising our unique ability to lead the healthcare industry on this issue, AMN is working to not only highlight the scale of the pay discrepancy problem, but also to take action to address it.

Encouraged by an investment community that values holistic financial returns, such as Federated Hermes, AMN is seeking ways to generate positive changes for three UN Sustainable Development Goals.

The UN Sustainable Development Goals are 17 calls to action that seek to promote global prosperity while addressing a range of social and environmental needs such as education, health, and climate change.

3 GOOD HEALTH AND WELL-BEING



SDG Goal 3 – Good Health and Well-Being

which seeks to substantially increase the recruitment, development, training and retention of the healthcare workforce in lesser developed countries.

5 GENDER EQUALITY



SDG Goal 5 – Gender Equality

which seeks to ensure women's full and effective participation and equal opportunities at all levels of decision-making in political, economic, and public life.

8 DECENT WORK AND ECONOMIC GROWTH



SDG Goal 8 – Decent Work and Economic Growth

which seeks to achieve full and productive employment for everyone and equal pay for work of equal value by 2030.



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