Gatefold

Managing Workforce Costs

For hospitals, the most important assets are not the buildings or investment portfolios. It's the workforce — the individuals who directly or indirectly care for patients.

Research by Lee Ann Jarousse

ABOUT THIS SERIES

H&HN has created this exclusive yearlong series called Fiscal Fitness with the support of the VHA. Finding ways to rein in expenses without sacrificing quality and safety is imperative for hospitals as they struggle to maintain financial viability in a shifting payment system even as their operational costs continue to climb. Over the next several months we'll look at everything from the supply chain, energy, clinical efficiency, construction, IT and more. Follow the Fiscal Fitness series in our magazine and in our e-newletter H&HN Daily. Click here *for a PDF version of Gatefold.*

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For hospitals, the most important assets are not the buildings or investment portfolios. It's the workforce — the individuals who directly or indirectly care for patients. The recruitment, management and retention of the hospital workforce has a direct impact on the cost and quality of patient care. Yet, like most industries, hospitals are feeling the impact of the recession and have to look for ways to cut expenses. Wages and benefits account for about two-thirds of every dollar spent by hospitals, according to the American Hospital Association. And that cost is expected to increase. The AHA reports that labor costs are the single most important driver of spending growth for hospitals, accounting for about 35 percent of overall growth.

There are multiple opportunities for organizations to cut labor costs without downsizing staff and without sacrificing quality and safety. "Hospitals are doing everything they can to avoid layoffs," says Caroline Steinberg, the AHA's vice president of health trends analysis. "Even given all of the cost-reduction activities that hospitals are doing, hospital employment is still going up." Hospitals added 9,000 jobs in November alone, Steinberg notes.

_H&HN_ Web Exclusive

Labor costs are the single largest driver of spending growth for hospitals. Lee Ann Jarousse, senior editor of custom publications for _H&HN_ magazine, talks with Brad Fetters, managing director of Huron Consulting Group, about ways to cut workforce costs without compromising quality and safety. Running time: 4:04

Determining the organization's true workforce expenses is a good first step. "It's a challenge for organizations to understand the total cost of labor, even though it's their biggest cost," says Jill Schwieters, president, Pinstripe Healthcare, Brookfield, Wis. It's not just a matter of calculating recruitment and retention costs, agency fees and overtime. "It's the quality of talent and making sure you have the right people with the right competencies and skills in the right job," she says. Ensuring that clinicians are practicing at their highest level of training will improve quality of care and reduce overall costs.

Another area of focus should be total rewards, including wages and benefits. Organizations should focus on benefits that have the highest impact on employee behavior and enhance employee engagement. A comprehensive review of benefits may identify outdated and unnecessary offerings, including those put in place during times of intense workforce shortages.

The shift to pay-for-performance and value-based purchasing should be reflected in new rewards systems; employees should be rewarded for the quality of services performed, rather than the quantity. "These incentives are common at the top of the house, but should be moved down to the middle-management level," says Heidi Toppel, senior consultant, Towers Watson.

A review of benefits offerings should include a survey to understand employee preferences. Communication is key. Employees must know the reasons for changes in benefits and be allowed to provide input to maintain and increase their engagement. "A lot of it starts with transparency," says Jamie Hale, another Towers Watson senior consultant. "It's important to be open and honest about the organization's financial situation and how the employees can affect that."

Employee wellness programs also can generate big savings by curbing growth in health benefits costs, reducing absenteeism and serving as a model within the community. "Health care systems that can truly impact the wellness of their employee population and reduce their costs gain credibility with the business community," says Bruce Bradley, a faculty member of the Institute for Healthcare Improvement. "Seeing a health care system that gets it with respect to its own health care strategy goes a long way."

Five ways to reduce labor costs

1. Analyze staffing costs

To optimize staffing levels, hospitals must ensure that the right employee is working in the right place at the right time. Mosthospitals are analyzing staffing costs to varying degrees already.By automating the workforce planning process, organizations can identify anomalies in staffing patterns and make better-informed staffing decisions.

2. Set expectations

Hospital leaders should meet with medical staff leaders and department heads to set expectations on the number of full-time employees by skill mix allowed per
acuity level. Organizations may find that departments are staffing at levels above national benchmarks.

3. Revamp total rewards

Total rewards programs should support the organization's strategic objectives, achieve the optimal workforce composition and behaviors and provide opportunities to build skills and develop leaders.

4. Track additional labor expenses

Create pay codes to accurately track additional labor expenses such as standard overtime pay or on-call bonuses.

5. Focus on wellness

Provide incentives to employees to improve their health. Wellness programs can curb increases in health insurance premiums, reduce sick time and enhance employee engagement.

Source: *H&HN* research, 2012

Case Studies

Bellin Health Care Systems
Green Bay, Wis.

Faced with a 30 percent increase in employee health benefits, Bellin Health launched a wellness program in 2002 to improve workers' health, educate them on the appropriate sources of care and reduce costs. To begin, the organization launched an awareness campaign, froze employee premium costs and provided a financial incentive for plan members who participate in a health risk appraisal. "We took a look at the organization's culture. We did not want to change benefits too much," says Randy Van Straten, vice president. A review of employees' health claims found that 70 percent of employees' emergency department visits were inappropriate. By providing incentives to use Bellin's retail clinic network, the organization was able to reduce ED visits by 64 percent in one year. Two full-time registered nurses are dedicated to assisting plan members with their health and health care decisions. Employee premiums now are linked to how well they do on the health risk assessment and the program offers reimbursement for gym membership, weight loss programs and making better choices in the cafeteria, among other things. The program saved more than $4 million in the first year. "Our goal next year is to keep premium increases to 3 percent, below the national average of 10 percent," says Van Straten.

Valley Health
Winchester, Va.

Understanding the new "normal" in total rewards, Valley Health revamped its program to be fair, competitive and sustainable. Elizabeth Savage-Tracy, vice president of human resources, says pending changes in reimbursement compelled the organization to take a look at its cost structure from a total rewards standpoint. The organization focused on benefits, premium pay and absenteeism. "It's the right thing to do," says Savage-Tracy. "There was a real need to be proactive." By taking a proactive approach, the organization was able to transition to the new system over time. For example, employee salaries will not change for the first two years. Prior to and during that time, employees will receive extensive communication and education about the changes, which include a benefits revamp and the separation of premium pay from base pay, among other things. Savage-Tracy stresses that the savings will be long-term since changes will be phased in over time. "We are bending the cost curve," she says. "We don't have to make knee-jerk reactions."

Total rewards optimization

Hospitals, like other businesses, are experiencing escalating growth in labor costs. To rein in labor expenses, organizations should assess total rewards thoroughly, including compensation benefits, development and training, and the work environment. Total rewards should align with the organization's business strategy. Optimizing them helps organizations identify which benefits have the biggest impact on employee satisfaction and performance and then develop benefits plans that provide the greatest return on investment.

Top five total rewards priorities

1. The cost of providing health care benefits

2. The ability of reward programs to attract, motivate and retain talented employees

3. Clear alignment of total rewards strategy with business strategy and brand

4. The willingness of employees to pay for an increasing portion of benefit plan coverage and to manage their own "rewards budget"

5. The ability of reward programs to accommodate the varying needs and interests of different generations with distinctly different needs and priorities

Source: Deloitte, 2010 Top Five Total Rewards Priorities Survey