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MANAGEMENT OF LABOR COSTS IN 2019

In the BiWeekly dated January 22 of this year, AMS predicted management of labor costs would be a major issue in 2019. Up to 70% of the total cost can be in labor and fringe benefit expense. Let's review what did happen.

Low unemployment hovering around 3% means we are in a full employment market. Use of overtime, internal float pools, per diems, and travelers have all been strategies used by health systems to meet workload demand for clinical positions. AMS Labor Benchmarking reports have helped by demonstrating to clients that they are operating within the benchmark range, even with position vacancies. Typically, AMS recommends a customized benchmark target for a hospital department, and a benchmark range for the staffing. Therefore, hospital clients can surpass their benchmark target and take comfort when they have position vacancies they are trying to fill if they are still operating in the AMS benchmark range.



In summary, these changes demand new ways of operating for health care providers. They demand new strategies and tactics. They also hold tremendous opportunity for providers who seek to position themselves for the future. Our clients chose to manage changes through a variety of strategies: redesigning patient care delivery, merging, developing benchmarks or trendicators by which they can evaluate and monitor their efforts, reorganizing functions and departments, downsizing staff, and consolidation of services before it became critical to do so. AMS has been a partner in helping our clients make the tough decisions, create new opportunities, control and reduce costs and improve performance. *Editor's note-The preceding paragraph summing up 2019 was originally published in a 1997 AMS BiWeekly. It is amazing to us how much things have changed, and how little they have.*

20 TO 40 % INCREASE IN PRODUCTIVITY POSSIBLE?

Just like baby boomers changed America in the post-WW II era by working long hours, millennials are making their impact felt now in the 21st century. The four day 32-hour work week for "full" pay, is surfacing. According to a story published last week by the British newspaper *The Independent*, and picked up by many news outlets including Apple News, the latest trend gaining traction and momentum is working less, but producing more. How is this possible? **Microsoft Japan** conducted an experiment into improving work-life balance and found productivity increased 40 %

when they gave staff off Fridays this past summer, but didn't change their base pay. Meetings were also shortened to a maximum of 30 minutes.

If an employee knows you have to get all your work done in 4 days to get an extra paid day off, distractions (both employee-centered and external), may be minimized. Not surprisingly, employee morale was up. Also, in Japan and Europe, summer school vacation is much shorter than in the US; being only 6 weeks starting on July 20. Getting extra time off during this short summer season is very meaningful.

TWENTY YEARS AGO: NOT JUST THE END OF A DECADE, BUT THE END OF A CENTURY



As we approach 2020, many of us remember the conversations that took place as the clock was to strike midnight on December 31, 1999, as hospitals had planned to avoid the Y2K computer disaster predicted to swamp their IT systems and shut down their operations. Health systems had spent millions to prepare and patch, retrofit and be ready. Administrators and IT departments were on standby for the unexpected, working on New Year's Eve and New Year's Day. 1999 was quite a year for health care. Here are the highlights.

- The *Balanced Budget Act of 1997* brought sweeping change to the Medicare program in 1999, as it had an estimated savings of \$115 billion over 5 years. In response, many health care organizations throughout the country are adapting to the most pervasive change in the program since its inception.
- Direct contracting took a giant leap forward in 1999 as the Congress approved *Provider-Sponsored Organizations (PSOs)* in the *Balanced Budget Act of 1997*. Managed care, in particular, Managed Medicaid and Medicare continued its growth across the nation.
- Fraud and abuse was a major focus as the *Office of the Inspector General (OIG)* became a household acronym within the healthcare industry. Federal investigators reported that health care providers were overpaid by \$23 billion or 14 % of total Medicare costs, and sought to recover those funds. With increased oversight on fraud, providers launched renewed efforts on compliance.
- Compliance, Compliance, Compliance: Lab compliance is only one of the areas where the OIG is taking a closer look. In an industry fraught with change, information systems remained the lifeblood, pumping and retrieving vital data and information to all facets of the health care team.
- Labor Benchmarking continued to be a critical tool, not only in assessing an organization's well-being, but also in providing insights for report cards and other external evaluation.

For more information on the topics in this BiWeekly contact any of the AMS Principals, Paul Camara, Michael Foley, Alan Goldberg or Jennifer Schuster.

How does your hospital measure up? Benchmarking provides the answers

AMS's hallmark service is labor benchmarking. Only by identifying a hospital's actual staffing levels and comparing it to our proprietary industry labor benchmark database can an institution confidently begin the process of optimizing productivity. We perform both hospital-wide and department-level benchmarks.

Typical initial savings identified is up to 10% of total labor expense

Immediate Benefits

- Identify, by department and cost center, staffing based on AMS work-function level benchmarks
- Identify departments with potential for productivity and operating system improvement
- Provide a focal point for senior management to discuss labor resource issues
- Establish a starting point for improvement efforts
- Assist with development of long-term labor strategies

Recent Results

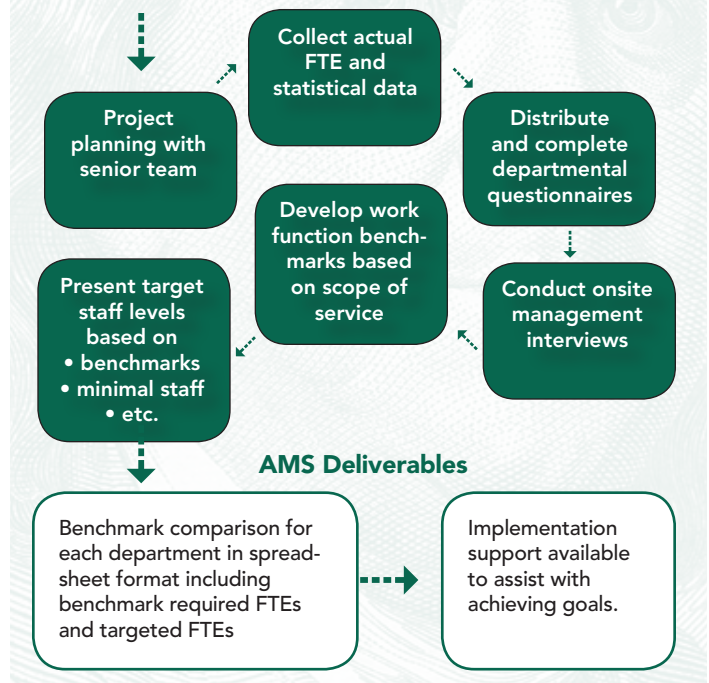
200-bed community hospital: AMS identified a labor improvement opportunity of 108 FTEs of the hospital's 1,250 FTEs. Eight outlier departments accounted for 50% of the opportunity.

3-hospital, 600-bed regional system: AMS identified areas with staffing opportunity equal to 3% (136 FTEs) of the system's 4,500 FTEs.

Critical access hospital: AMS identified an 8% staffing opportunity (48 FTEs) in a system of 600 FTEs comprised of a 25-bed acute care, 25-bed nursing home, 10-bed rehab unit, and support staff for physician practices.

Average ROI = more than 30 times

How we do it



The AMS Benchmarking Advantage

- Hospital-wide benchmarks compare your hospital/health system to similar institutions (size, type, and case mix) on a global basis.
- Department benchmarks are based upon a key volume indicator and paid hours per indicator for each department or area of the hospital.
- AMS's proprietary benchmarking database is based primarily on:
 - Actual studies AMS performs for its clients
 - Best practice targets developed by AMS content experts who specialize in all facets of health care.

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Quantify™ — An Enterprise-wide Productivity Monitoring Tool

Quantify™ is a productivity monitoring tool for tracking and measuring department and organization performance. **Quantify** combines AMS' decades of labor productivity improvement experience and proprietary data with additional department-specific and management engineered workload standards. The standards can be developed by AMS or supplied by the user.

*Manage more effectively...
Monitor decision-making results*



With reports and dashboards that are easily accessible via internet by all levels of the organization — from front-line managers to the executive leadership team — **Quantify** helps promote transparency and accountability.

Overcome these productivity challenges...

- Productivity monitoring is inconsistent or non-existent
- Current solution/process is time consuming and manual
- Need to automate and implement management accountability and standardize across the organization
- Need for cost-effective, state-of-the-art solution

...with these productivity benefits

- Match labor resources to workload demand
- Provide effective patient care
- Encourage accountability for the use of labor resources throughout organization
- Promote transparency
- Promote the stewardship of the cost of providing care
- Provide a catalyst for process improvement

QUANTIFY™

Features and benefits

- “Hosted” reporting system, delivered over the internet, accessible through a web-browser — no software installation required
- Designed using industry standard secure web and database programming technologies
- Interactive dashboard reports
- Consolidates disparate data
- Supports reporting throughout management structures and service lines
- Reports generated in both HTML and PDF formats
- Integrates with AMS Benchmarking
- Easy to update — as your organization changes



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