

HERE DOES LABOR FIT IN THE HOSPITAL COST CONUNDRUM?

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When examining a hospital's overhead costs with the purpose of making budget cuts, there is no getting around the labor factor. Because they take up the lion's share of expenses, salaries are found in every nook and cranny of a facility.

And because personnel are so integral to a hospital's performance, removing even one position can have a ripple effect throughout the entire organization.

Yet some executives aren't shy about criticizing the labor segment.

William Bertschinger, divisional chairman of finance at the Rochester, Minn.-based Mayo Clinic, told an audience of providers and payers in January that 70 percent of the high cost of healthcare is due to labor costs.

"There are too many full-time employees and too many employees paid at too high a rate," he said in a speech at the Symposium on Payment Solutions for Healthcare Providers and Payers in Las Vegas.

Pointing to figures from the Bureau of Labor Statistics and the Kaiser/HRET Survey of Employer-Sponsored Health Benefits, Bertschinger showed healthcare worker earnings are rising at a faster rate than those of other workers and faster than the rate of inflation. For instance, while the inflation rate in 2008 was 29 percent higher than in 1999, workers' earnings rose 34 percent over that same period, while healthcare workers' earnings have risen 57 percent since 1999.

Other statistics temper the assertion that high wages are solely to blame for hospitals' mounting cost burden, countered Bob Gift, director for Philadelphia-based IMA Consulting.

"Productivity continues to be a challenge for providers," he said. "If you look at productivity data for hospitals, the number of FTEs has gone up 1 percent a year from 2006-09, so productivity is eroding. They are using more labor resources for the same productivity volume."

Labor costs are directly influenced by how many patients come through the hospital door – what Gift calls "service intensity." In determining whether a hospital is getting maximum value and productivity from its workers, he recommends looking at different activities and who is assigned to do them.

"Is the highest-paid person doing something a lower-paid person could do?" he asked.

The nature of hospital work is also growing more complex, requiring a higher degree of technical skill, Gift added.

"Therefore, I don't think salaries are that far out of line," he said. "But as we work with hospitals, there are labor-saving opportunities and hospitals have to look at the underlying work processes themselves to identify where they can achieve savings."

Automating and outsourcing

If Mayo is burdened by high labor costs, it most likely is not in accounts payable, where last year the clinic contracted with Ashburn, Va.-based Brainware to automate certain accounting activities.

“They process maybe one million invoice pages a year, work with over 100,000 suppliers and couldn’t get out from under the paper backlog,” said Charles Kaplan, vice president of marketing. “By using technology to move paper invoices to an electronic format, they can increase capacity and reduce manual data entry labor by 40 percent while keeping the process in-house and maintaining control.”

Principals at subcontracting companies see the challenges of the current fiscal environment as an opportunity to provide services to hospitals they claim are cost effective. By letting an outside firm handle administrative tasks such as human resources and claims processing, hospitals can realize substantial savings in labor expenses, they contend.

For instance, Rochester, N.Y.-based Paychex focuses on the payroll function to defray the workload of HR departments.

“We take over the day-to-day fires that keep HR personnel so busy,” said Paul Davidson, director of product management for the company’s human resources division. “We give them more time to spend on strategic business initiatives, such as salary planning and income replacement.”

Most of Paychex’s customers are small hospitals, along with physician clinics and long-term care facilities. Davidson said outsourcing seems to make the most sense for smaller organizations because they tend to have small staffs that are overburdened with multiple responsibilities. Moreover, he said, it’s difficult for small organizations to get the necessary bargaining leverage for the best health insurance and workers’ compensation rates.

Brookfield, Wis.-based Pinstripe Healthcare handles a different area of HR – talent management. President Jill Schwieters is a former hospital HR officer who now channels her experience into helping hospital clients find the best job candidates, from entry level to the c-suite.

She said hospitals are facing three challenges in recruitment: “First, they are having a hard time managing the volume of applicants and finding the best candidates; secondly, the need for highly specialized clinical workers has not changed and these roles continue to be difficult to fill; and lastly, midlevel leadership roles are very challenging, and many hospitals have difficulty finding qualified and interested candidates to serve in these roles.”

Regarding Bertschinger’s assertion that healthcare workers are overpaid, Schwieters points out that wages for the most part have mirrored other sectors of the economy, staying flat with modest increases at best. Still, she says, hospitals that want to attract top talent must offer attractive compensation packages.

Surprisingly, salary isn’t the most important factor for most qualified applicants, she said.

“It’s about opportunities and the job environment.”