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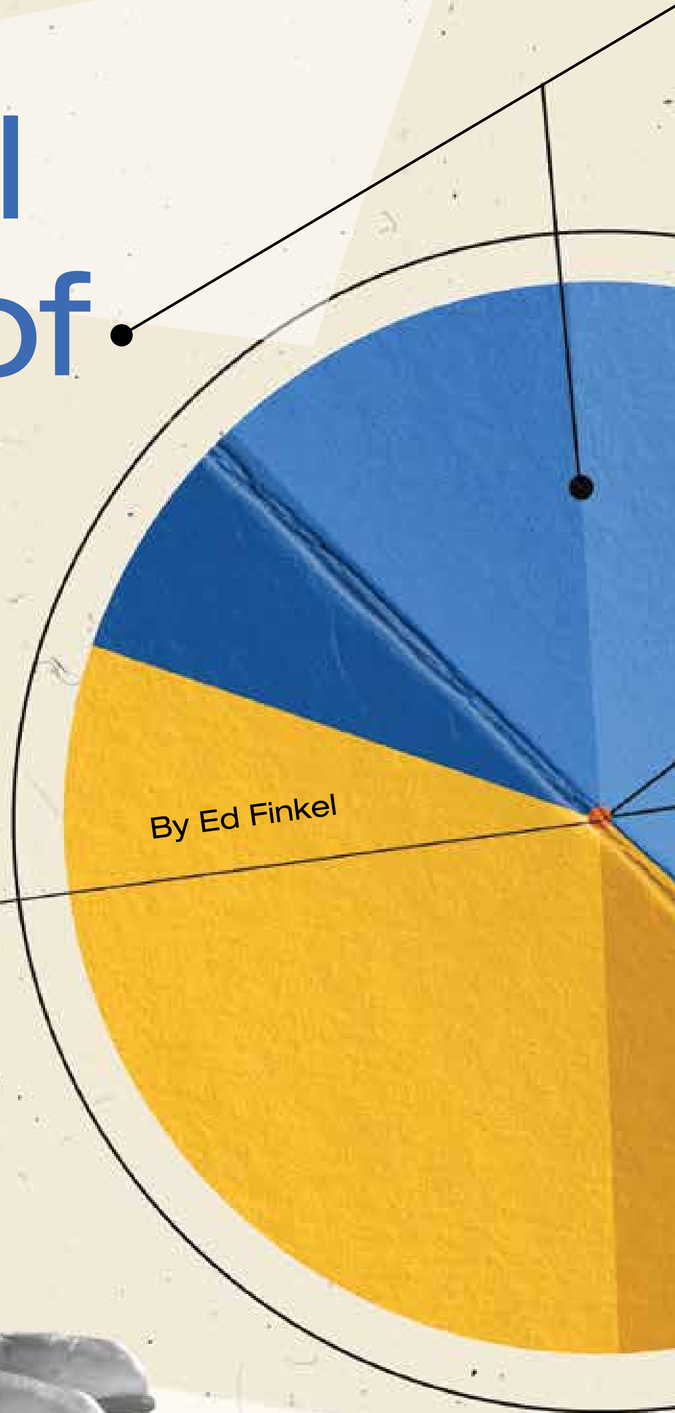
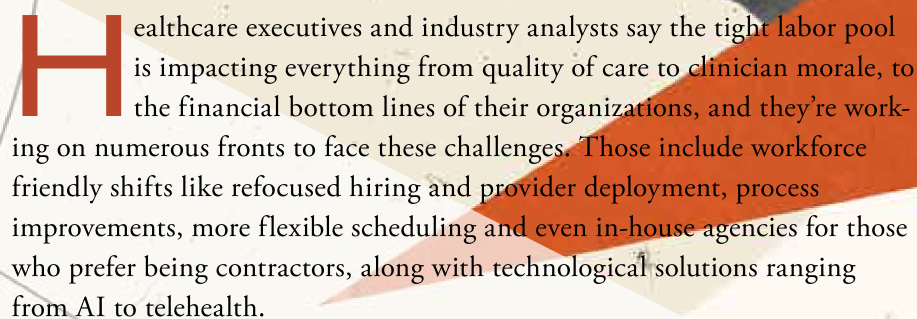
The Financial Impact of



By Ed Finkel

a Competitive Labor Market



Healthcare executives and industry analysts say the tight labor pool is impacting everything from quality of care to clinician morale, to the financial bottom lines of their organizations, and they're working on numerous fronts to face these challenges. Those include workforce friendly shifts like refocused hiring and provider deployment, process improvements, more flexible scheduling and even in-house agencies for those who prefer being contractors, along with technological solutions ranging from AI to telehealth.

The Challenges Facing Healthcare

Lori Kalic, a Cleveland-based audit partner and healthcare senior industry analyst at RSM, sees a few major challenges related to labor and finances in the healthcare sector, as operating margins remain below where they were pre-pandemic. Many systems are at or near zero, and most of the rest are at no more than 3%.

"The federal relief funds are gone, there's all this inflationary pressure and liquidity is a problem," says Kalic. "Expenses are increasing at a higher rate than reimbursements."

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Kalic goes on to say that many healthcare organizations across the country are streamlining their operations to improve their operating margins, which includes addressing their labor strategy.

"Health systems need to think about delivering healthcare in a different way," she says. "A lot of systems are cutting ancillary support and overhead roles. They're reviewing their shared service models to ensure they're supporting services efficiently."

Demand for labor will continue to exist, Kalic predicts, noting that the sector added 450,000 jobs between 2020 and 2022, according to the Bureau of Labor Statistics. "I'm seeing the utilization of traveling nurses trending downward, but I do believe that hospitals are still paying a significant amount of dollars for labor," she says.

The labor picture varies somewhat from market to market, but there are commonalities, says Therese Fitzpatrick, RN, senior vice president at Kaufman Hall, who leads the Chicago-based consultancy's healthcare workforce efforts. "The data from California looks a little bit different than it might in a suburban area of the Midwest," she says. "We have seen significant increases in salaries and flexible benefits and some very creative benefit strategies that started during the pandemic but have continued. These include flexible benefits that are meaningful to the various age spectrums of employees in nursing and other areas."

All healthcare institutions are facing higher costs for labor, supplies and building materials, says Roxie Wells, MD, senior vice president, chief physician executive and strategy officer for the coastal region at Novant Health in Wilmington, N.C., who is also an ACHE Member. She cites labor statistics that predict an average of 195,000 annual openings for registered nurses through 2030.

"This doesn't include allied health jobs," she says. "There is a significant need for an increase in the nursing and allied health workforce. [The current shortage] adversely affects the delivery of healthcare, which makes it important for us to innovate and think about how we can deliver care differently."

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Novant Health

In Mississippi and Louisiana, the Franciscan Missionaries of Our Lady Health System has experienced the same challenges as others, says Kristin Wolkart, RN, FACHE, NEA-BC, CNO, who

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recently spent six months as interim president for the Jackson, Miss., market.

"We have shortages in staffing, with a huge focus on nursing," but also encompassing radiology, the respiratory lab and other caregivers, she says. "Our world has changed since the early part of 2020. None of us were prepared to have the exodus of people who retired or went on to take lucrative travel contracts. ... The majority of [ideas] we're working on are applicable to any department having shortages. Often, we're using the nursing department as an incubator" for the rest of the health system.

Turnover at Franciscan Missionaries peaked between 25% and 28% between mid-2021 and early 2022 as the repeated waves of COVID-19 led to burnout, Wolkart recalls. "We would think, 'it's over,' everybody would take a breath, and then the next wave would come," she says. "People were leaving because a colleague left and took a big contract. They were recruiting their friends. It became very hard with the lockdowns and work-at-home options."

In southern California, Loma Linda University Health Hospitals experienced the same spike of temporary labor a couple of years ago. The tightness of the labor market has eased somewhat, says CEO Trevor Wright, FACHE, "but it's still a super-competitive labor market. Nursing and clinical lab scientists are probably the two that immediately spring to mind. Physician recruitment has seen some of the same challenges. There's been significant wage escalation because of the inflationary environment. … And post-COVID, a lot of people have rethought almost everything about life. It accelerated retirements of people who were relatively close to retiring."

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> Loma Linda University Health Hospitals

Healthcare institutions have faced shortages of people and continue to struggle with outdated technology, Wright says. "We're one of the few places that still use fax machines," he says. "We haven't really leveraged technology because we haven't had to, frankly. … Disruption, we've been ripe for it. I think it's going to be a good thing, both for taking expenses out of the equation and [boosting] customer satisfaction. It's going to be bumpy and difficult, but I think we're going to get to a better space. It's taken this industry longer than a lot of others."

Hiring and Retention

To help ease the shortages in nursing and other fields, Kalic sees the need for health systems to begin hiring people earlier in their career trajectories, perhaps by partnering with educational institutions to increase the accessibility of clinical programs to prospective students. (For more about this topic, read this issue's Careers column on Page 36.)

"How do colleges and universities attract and retain more students in nursing programs?" she says. "It's going to be critical to recruit teachers. We all need healthcare: There will be approximately 76.4 million baby boomers fully eligible for Medicare by 2030. We've got to

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find a way to serve this population."

Fitzpatrick also counsels providers to build a solid feeder pipeline that's both "outside-in and inside-up," she says. "You need to make sure you have a pipeline of candidates into your organization. In addition, once those candidates are in your organization, you need to focus a great deal of attention on employee development. For example, what additional education—through creative partnerships with local community colleges or technical schools—do you need to be able to create that next step for employees?"

Novant Health starts early in the process, providing younger people a look at the nursing field and other clinical options, says Wells, a former member of the American Hospital Association Board of Trustees and current member of AHA's Task Force on Workforce. "Even in high school, we talk about the nursing field, the merits of becoming a nurse and what that means to individuals," she says. And then "work closely with colleges, including community colleges, to boost their ability to increase the number of nursing slots they have."

Novant Health holds specific hiring events, totaling 83 both on-site and virtually for nursing recruitment alone in the first six months of 2023, Wells says. "They're not just held at our hospitals—we've taken

The Anatomy of an In-House Contract Agency

Franciscan Missionaries worked with a vendor to implement software that, at first, helped to manage and standardize vendor contracts, which went live in the late spring. Then in September, the system opened an in-house agency to provide current and former employees options like they would have from external contractors, based on three salary tiers: the lowest for those who only want to work in one market, mid-tier for those willing to travel to two places within the same state, and the third willing to go "wherever you need me," Wolkart says. "Our goal is to hire 100 nurses within 100 days."

The conversion started with nurses and quickly moved on to respiratory therapy, radiology and "other key, high-shortage, high-demand professional services," she says. The system is also migrating the 300 to 400 nurses in the previous in-house contract model to the new agency. "It's about having one source of truth, clarity and transparency," she says. "How do we best manage our resources and compete with external contract labor?"

Franciscan Missionaries expects to see the reliance on high-priced agency personnel to continue dropping, Wolkart says. "That's been a huge blessing," she says. "The workforce has told us the old way of doing 12-hour shifts—you work full-time, you get full benefits and this is what you do—not everybody wants to work that way. We're adding work-on-weekend options. We're adding 7-[days]-on, 7-off. We're creating different opportunities to meet people where they are." And nursing turnover has fallen below 15% in most markets, meeting or exceeding national benchmarks.

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them to college campuses, community gathering locations and online to expand our reach outside of the region," she says. "Talent acquisition and hiring leaders often partner at these events to make sure we provide qualified applicants an offer, or at least interviews, on the spot."

From a retention standpoint, Novant Health leans into its emeritus nurse program, comprised of experienced nurses who serve as coaches and mentors, Wells says. "They're able to nurture the newer nurses who are joining the workforce, which adds to their comfort level when caring for patients," she says. The system also has a nursing residency program, in which nearly 120 nurses have participated over the past year in the coastal region. "It helps them get acclimated to being a new nurse and gives them the opportunity to work on various floors and determine what their best fit is—what part of nursing they enjoy most," she says.

Redeployment and Flexible Scheduling

To boost employee satisfaction while also finding cost-related efficiencies, systems are redeploying their nursing and other staff where they're most needed, with help from granular data. They're also becoming more flexible in scheduling in the wake of the contract nursing boom, when clinicians gained wider options. Some providers are even starting their own in-house agencies to hire clinicians as contractors, if that's what they prefer.

Kalic sees health systems using data to more efficiently deploy personnel. For example, a system turning people away from its emergency department examined trends in terms of when the ED was experiencing higher volumes—and redeployed its clinical teams in anticipation. "Health systems need to be looking at patient acuity," she says. "They need to be thinking about, 'We've got this amount of clinical capability here. Where is the acuity trending, and where is it going to go?' And then make sure you've got people to deal with it."

> "How do you empower middle managers and get the voice of the customers—the boots on the ground—to create improvements? Who knows better what needs to be fixed than the folks who do the work day-in and day-out?"
>
> —**Kristin Wolkart, RN, FACHE, NEA-BC**
> **Franciscan Missionaries of Our Lady Health System**

Kalic also believes systems likely will need to redeploy more caregivers into the home health setting, based on a Bureau of Labor Statistics prediction that the employment of home healthcare and personal aides will grow 25% from 2021 to 2031—adding a total of 712,000 job openings. "Healthcare consumers are demanding that care be accessible," she says. "I believe home health is going to be a popular option for many."

Kaufman Hall has been focusing on optimization of the clinical workforce as well, based on mathematical techniques and logistics science used in other industries to closely align staff with patient demand, Fitzpatrick says. This has facilitated patient

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movement from the ED to the OR and elsewhere in the facility.

"We're helping organizations ensure they have the right caregiver, at the right time, with the right skill set for a particular patient group," she says. "We're doing a lot of work around predictive modeling, studying the demand and helping to shape that demand. … We're getting away from the old way of looking at averages, and basing budgets and staffing patterns on the average day's census at midnight. We're now able to use much more granular information."

In a similar vein, Loma Linda University Health Hospitals has been working to ensure clinicians are practicing at the top of their licenses and scopes of responsibility, which both inspires them and brings efficiencies to the organization, Wright says. "I can look across the organization and see where we have, for example, nurses doing things that don't really require a nurse," he says, like an RN handling a clinic nurse role that could be accomplished by an LVN, or an LVN doing a patient vitals and rooming role that a medical assistant would be able to do. "It's been a rebalancing to make sure we have the right level of support and the right level of clinical professionals doing the right work. … The overall net effect of that should be to lessen the salary burden. Efficiency is something we've always prided ourselves on."

Another type of redeployment involves giving clinicians and other staff more flexibility in terms of scheduling or benefits—or how their hiring arrangement works—for those who want to work fewer hours, or outside the traditional 12-hour shift for personnel such as nurses. "We're seeing different combinations of typical shift lengths to meet employee needs," Fitzpatrick says. "For early careerists, we're seeing some interesting benefits around childcare subsidies and so forth [including housing and commuting subsidies, as well as educational loan forgiveness and investment] that perhaps hadn't been as prominent prior to the pandemic."

Though contract labor certainly still has a presence, the numbers have trended down a bit partly due to such benefits attracting staff back to organizations, Fitzpatrick says. "But hospitals are also coming up with some interesting alternatives, with float pools and flexible private-label staffing companies within larger systems," she says. "They're approximating some of the benefits that … attracted [nurses and other caregivers] to travel contracts. Organizations are beginning to build those sorts of things within their systems."

Franciscan Missionaries of Our Lady Health System, for instance, would love for everyone to take a full-time staff job. While some still do, the organization recognizes that "the world has changed," Wolkart says. "We've had to change with it." The system started with external contract labor in 2020, but "those rates became unbearable, particularly for nursing but also for the respiratory lab, radiology and other bedside caregivers," she says. So the system moved to in-house contracts, "still at a much higher rate, but cheaper than the external agencies." For fiscal year 2023, which ended June 30, external contract labor expense was down $30 million, she adds.

Franciscan Missionaries also launched a Leadership Development and Accountability Program in 2020 that empowers middle managers to be "CEO of their work area" in every sector of the organization, Wolkart says. On a rotating basis, departments have "100-day workouts" during which the leader's goal is to bring about eight significant improvements. "Sometimes it's financial—how do we reduce waste or grow programs," she says. "Sometimes, it's how do we improve the patient experience?"

The organization has undertaken six or seven rounds of those over the past three years, with occasional breaks during the peaks of COVID waves, "when people were too exhausted to do another project," Wolkart says. "How do you empower middle managers and get the voice of the customers—the boots on the ground—to create improvements? Who knows

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better what needs to be fixed than the folks who do the work day-in and day-out?"

For example, a radiology leader at St. Dominic's Hospital in Jackson, Miss., realized the scheduling tool in the EHR was built in a way that led to an enormous backlog for patients trying to schedule MRIs, some of whom were opting to go elsewhere. "They had too much time slotted for certain tests," Wolkart explains. "One test took 20 minutes, but it was built in the [EHR] to take an hour. They were able to clean that up and get the actual times in—and add more slots."

Technological Innovations

Health systems are drawing upon technology to bring about these and other innovations. The burgeoning use of artificial intelligence is a key part of that, Kalic says. "Technology is being utilized to alleviate burnout," she says. "Mundane and repetitive tasks are being identified, and leaders are figuring out how can they use technology to handle those tasks, rather than people? ChatGPT is one tool that's being used to read patient messages and draft responses." Transcription, scheduling and handling of insurance claims and the prior authorization process are other use-cases of AI, she adds.

While clinicians still need to review and approve AI-generated patient responses, reducing the clinical documentation they need to churn out after being with patients all day will represent a "transformative" change, Kalic adds. "We're just on the edge of this," she says. "Organizations are going to have to find the capital to invest in it. It's not cheap. But to fix the operational deficits, providers are going to have to spend some dollars to get the technology embedded."

Telehealth is another technological opportunity, Kalic says, if insurers can be convinced to provide adequate reimbursement now that the pandemic is past. "For many people who can't access healthcare, telehealth is a great option. I'm hopeful this will continue to be a solution," she says. "It's a challenge. Reimbursement rate increases have not kept pace with expenses. That is not a sustainable model."

Fitzpatrick of Kaufman Hall is working with a couple of organizations that have embraced the virtual nurse concept at a time when experienced nurses are wanting to cycle off day-to-day patient care and a large swath [of new nurses] are entering the field. "How do we best leverage those experienced folks? That is our brain trust, if you will," she says. "An experienced nurse can sit in a command center and provide support for nursing staff on a unit, through direct communication on a device that the [bedside] nurse might wear. … This is an opportunity to connect with an experienced nurse and get tips and last-minute coaching."

Wright of Loma Linda University Health Hospitals also sees AI and machine learning as a way to reduce the administrative burden. "The great hope is this: If you look at how a physician or nurse spends their day in a hospital, we have them doing 25% to 30% of their work actually providing direct patient care and 70% to 75% doing administrative work," he says, adding that those percentages need to be reversed. "I think physicians and nurses, that resonates with them: 'I want to be back with [patients], doing clinical care,'" he says. The administrative work "has taken away their passion and fire for providing care—that mission people felt called to do. ... [Clinicians] didn't sign up to be a physician or nurse to chart all day."

Loma Linda's moves on various fronts have helped keep turnover between 3% and 4% below the California state average, although the rate is higher than it's been historically, Wright says. "I don't know that at this point, I'd say we're where we need to be," he says. "It's too early to point to results directly from this. We win in this when professionals feel, 'I'm doing the work only I can do. I know why I do this work. I'm spending time doing the work I want to do—caring for people.' Administrators need to figure out, 'What can we take off their plates?'"

Ed Finkel is a freelance writer based in Chicago.

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