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# Rethinking RIF Workforce Optimization in Healthcare

Healthcare organizations have recently been stretched extremely thin to serve as front-line response to accommodate care during the COVID-19 pandemic. This has caused massive changes in workforce stability, ranging from increased turnover and mass furloughs to a large increase in contract labor. While volumes of COVID-19 patients may be difficult to plan for in the near and medium term, provider organizations are faced with more healthcare workforce decisions to be made than ever before. However, we must keep in mind that workforce optimization struggles precede the pandemic, and our future decisions should avoid repeating or worsening the trends of the past.

## Labor Expense: A Constant Concern

Expense growth is outpacing revenue growth in many healthcare organizations across the country. Before COVID-19, salary and benefits combined were the largest expense line item and often accounted for more than 50 percent of total operating costs for healthcare organizations. With revenue loss and financial pressure caused by the pandemic, most of the nation's provider organizations are looking for a way to reduce labor expense.

Rather than immediately begin planning for a Reduction in Force (RIF), it is increasingly important that organizations start by properly managing their workforces. Not only can workforce optimization programs save money, they can also avoid the negative publicity related to staff layoffs. Effective workforce optimization programs manage full-time employee (FTE) counts and increase staff productivity and engagement. Improved engagement can decrease staff turnover, a large and often unnecessary cost.

## Reductions in Force

RIFs are a widespread issue, and especially so as a result of the ongoing COVID-19 pandemic, which has affected nearly every healthcare organization in some way. Becker's Healthcare reports that 221 hospitals have defaulted to large-scale RIFs in response to COVID-19. However, even when accounting for potential skews due to COVID-19, we see that some geographic areas are significantly more prone to turnover and layoffs than others. Geographically, coastal states tend to see higher percentages of employees laid off. Specifically, California, Florida and New York saw the highest rates of RIFs in 2019. In an analysis of hospitals,

turnover rates vary by organization size, as larger hospitals are significantly more prone to layoffs. Hospitals with fewer than 200 beds have an aggregate turnover rate of 16.8 percent while those with 200 to 349 beds and those with 350 or more beds have rates of 17 percent and 19 percent, respectively. Many healthcare organizations struggle to make the right operational decisions to meet their volume-based needs. When faced with increases in workload, instead of improving staff productivity, the default is to increase headcount. This labor management mindset can result in avoidable mass layoffs.

## RIFs Have Hidden Costs

Because of the hit to employee morale, RIFs tend to increase staff turnover after the event, which can be extremely expensive for hospitals. For example, Sanford Health reported that it costs their organization approximately $70,000 each time a nurse is replaced. This includes the cost to advertise and recruit new candidates and the time and expense to onboard and train a new employee to be as productive as an existing one.[1] NSI Nursing Solutions, a nursing staffing organization, reported in a 2019 survey that hospitals can either save or lose $328,400 with each percentage point increase or decrease in RN turnover.[2] Staff turnover can negatively affect an organization far beyond these initial costs. Turnover can lead to dissatisfaction and low morale among employees. This can negatively affect employee well-being, impact patient care and begin the vicious cycle of continuous turnover within an organization.

These tangential expenses associated with turnover are amplified when the mix of management and staff are misaligned. If possible, adjust management staffing prior to making any changes to front-line and patient care staff. Failure to conduct RIFs in line with these span-of-control ratios can increase departmental dysfunction and result in unintended consequences. MGMA highlighted this in its 2019 report, detailing that organizations most often make this mistake with nursing supervisors[ok?]. On average, organizations furloughed nursing supervisors who managed approximately 49 nurses. These mistakes were followed by critical losses in volumes.[3]

When hospitals are understaffed, labor costs often increase as well. Contract workers, traveling nurses or overtime hours are used to cover the required work effort. Understaffing can also lead to fatigue among workers, which can be detrimental to patient care.[4] This challenge is evidence of the need for workforce optimization and indicates that the right balance of labor is essential.

1 Fugleberg, Jeremy. “Losing rookie nurses is expensive. Here’s Sanford Health’s plan to make sure they stay.” Grand Forks Herald, 5 November 2019.

2 “2019 NSI National Healthcare Retention & RN Staffing Report.” NSI Nursing Solutions, March 2019.

3 “2019 MGMA DataDive Management and Staff Compensation Data.” Medical Group Management Association, Jan. 2019,data.mgma.com/DataDive/rdPage.aspx?rdReport=Basic.Comp&DatasetId=109&inpBucket=&inpChapter=&inpCut=&inpMeasures=&inpMetric=78&inpQtile=&inpRegion=1&inpRollup=TitleMgrC5&inpSort=&inpSpec=-1&inpSubVar1=ALLCATS&inpSubVar2=ALLCATS&rbSubVar2=1&rdRnd=72358.

4 Gooch, Kelly. “Healthcare hiring platform expands efforts to link nurses with permanent hospital jobs.” Becker’s Hospital Review, 12 September 2019.

## Workforce Optimization: More Than Ratio Management

Many healthcare organizations are trying to get ahead of this issue. To prevent over-hiring, they are taking precautions such as leveraging technology and implementing new hiring policies that determine when a new position is appropriate. To reduce turnover, some organizations are investing in better human capital management programs to manage their existing workforce. They are integrating workforce governance committees, productivity benchmarking programs and vacancy management into their cultures and adjusting policies accordingly. Additionally, advanced organizations are planning staff contingency protocols to deal with future pandemic volume surges.

However, workforce optimization in practice is more than just ratio management. Next-generation programs need to take advantage of new analytics and insights. Hospitals can use arrival/discharge research to establish ideal shift staggering to better care for patients while managing times of high demand. The use of patient volume data to inform staffing will also allow flexibility if volumes do not return as quickly as hoped. By analyzing COVID-19 seasonal and ED volumes, organizations can better predict patient needs on a pay period basis. Combining these insights, leaders can create a streamlined financial plan for an annual budget that takes traditional productivity and benchmarking exercises to the next level.

Balancing the right type of staff within an organization is more critical than ever. Core FTE levels should be calibrated annually to properly proportion the use of agency staff with PRN and regular hours. Carefully managed, the utilization of these agile resources can reduce unplanned overtime and provide a safety valve for downsizing non-hospital employees during volume shifts. By coordinating these efforts with outpatient operations, organizations can fully optimize their network of care while saving on overall labor expenses.

With a robust workforce optimization program, healthcare organizations can gain more than improved financial results. Though budget control may be the most immediate challenge in the context of volume stoppages and declines, the right labor balance can raise performance in many ways. The stability of a culture free of layoffs can raise employee satisfaction. Resulting loyalty can translate into lower turnover and better productivity, quality of care, patient experience and reputation.

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