

Estimate of the Situation

Critical Information for Critical Times, Edition of Wednesday, April 9, 2014



Little Things Mean A Lot!

Sometimes the greatest opportunities to improve the bottom line are the easiest to miss.

Financial challenges caused by unprecedented utilization and reimbursement changes are being experienced today by hospitals of all sizes, settings, and ownership types, including many hospitals with long histories of positive financial results.

Unfortunately, too many managers don't fully understand that the relationship between workload and staffing requirements is not linear.

Let's assume that a mid-size urban hospital is experiencing significant changes in the number of visits to its Emergency Department. The ER's benchmark-based staffing standard was 2.38 worked hours and 2.67 paid hours per Emergency Department visit. These standards were developed a little more than two years ago when workload was 113 visits per calendar day. Applying the management standard to this workload resulted in staffing 52.94 hours-paid FTEs.

Over the last two years, emergency department visit volume increased to 132 visits per calendar day. Applying the old standard to the current visit volume created an apparent need for 61.85 FTEs on an hours-paid basis. Consequently 8.90 FTEs were hired adding \$532,754.00 to the department's annual salary and wage expense. Add 30% for benefit costs and total new labor expense is \$692,580.20.

Had management recalibrated its benchmark-based staffing standards based on the new volume of 132 visits per calendar day, the result would have been very different. The new standards would have been 2.19 hours worked and 2.46 hours paid per Emergency Department visit. Applying the new standard to current workload would produce an apparent staffing need of 56.98 FTEs (hours paid). The department would have hired 4.04 FTEs instead of the old standard's 8.90 FTEs. Total new labor expense (salary, wages and benefit cost) would have been \$378,499.40.

In this example, failure to update staffing standards in just one department cost the hospital an annualized \$314,080.80. It should be understood that volume changes cut both ways. In departments that have had a significant decline in workload, application of staffing standards developed during busier time can materially understate staffing needs with potentially negative effects on quality, patient satisfaction, employee relations, and community image.



brady & associates

7667 N.W. Prairie View Road, Suite 204

Kansas City, Missouri 64151

(816) 587-2120

<http://bradyinc.com>