INSTITUTING LAYOFFS AMIDST A LABOR SHORTAGE

Current State of the Environment in Health Care

INTRODUCTION

Despite continued labor shortages in vital patient-facing roles and the post-COVID “great resignation,” many health care organizations have had to consider layoffs in the past year. Human resources professionals are experiencing numerous operational pressures, often including an increased push to reduce labor costs.

As these teams grapple with balancing increased burnout, turnover, and staffing shortages with a need to cut costs, they seek alternative strategies to address these challenges. In this article, we will cover:

1. Unprecedented Financial Pressures
2. Pressures on Labor Costs
3. Layoff Trends in Health Care
4. Cost Cutting Alternatives
5. Instituting Layoffs

UNPRECEDENTED FINANCIAL PRESSURES

Health care, especially not-for-profit health care, is not rebounding from the pandemic as quickly as hoped. 2022 was a financially devastating year for many health care organizations. Even major systems with traditionally solid financial performance saw significant operating and net losses in 2022.

Sharp decreases in patient volumes are a significant factor contributing to these financial pressures. Although these volumes have rebounded slightly in the past two years, they have not returned to pre-pandemic levels due in part to the health care staffing crisis. This has had repercussions across network revenue streams, as access limitations affect the potential for full recovery. In addition, patient care delays have led to higher patient acuity, requiring higher staffing-to-patient ratios and thus more expenses, further eating into profitability.

Financial Pressures on Health Care

- Flat or reduced reimbursements
- Depressed patient volumes
- Delays in procedures due to inadequate staffing
- More uncompensated care
- Investment losses
- Higher wages
- Higher supply costs
- Continuing use of contracted labor

Another revenue stream concern is non-reimbursed or reduced-reimbursement care. This problematic trend existed pre-pandemic and has grown more pressing due to the opioid epidemic, Medicare reimbursement penalties and limitations such as observations vs. admissions and the 30-day readmission penalty, and other non-reimbursed or lower-compensated care.

Many organizations have implemented strategies to stabilize their finances with investments, creating a financial cushion when operating expenses negatively impact their operating revenue. However, 2022 and, to some extent, 2023 were challenging investment years as the economy struggled. While some organizations were able to rebound, many health care systems saw significant losses from investments.

PRESSURES ON LABOR COSTS

Even without the revenue troubles and investment losses, most health care organizations struggle to meet operating margins. Universally, the most significant expense in health care is labor (wages, benefits, and other labor costs), representing approximately 56% of the overall expense budget. Supplies are the second largest expense, consuming about 15% or more of hospital budgets. These line items saw significant increases during the pandemic and have continued to climb.[1]

Market and Regulatory Pressure – Minimum Wage (and Living Wage) Rates

In recent years, state and local minimum wage rates have increased nationwide, reflecting a growing recognition of the need to provide workers with a fair and livable wage. These increases have intensified pressure on health care's already strained budgets.

California has passed legislation that increases the minimum wage for all health care workers and support staff at any health care facility in the state to $25 per hour. The increases will be implemented over time depending on the size and type of facility. Larger health systems and dialysis clinics will be held to the $25.00 minimum rate in 2026.[2]

Labor Pressure – Critical Labor Shortage

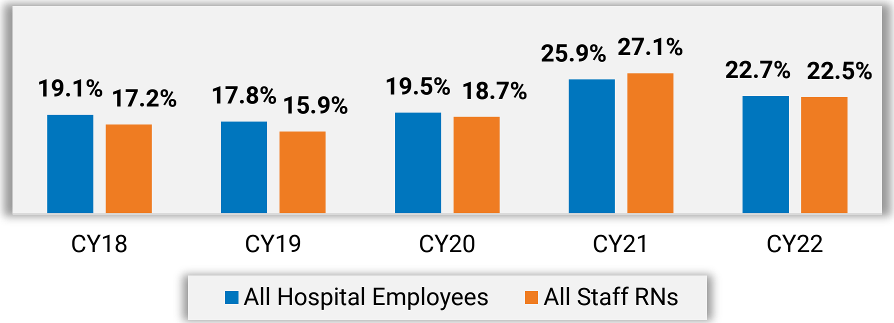
In addition, health care has experienced a vastly different competitive labor market in recent years. Competitive wage pressures and the rise of remote and hybrid work have caused many workers to leave health care careers and seek employment opportunities in other industries.

According to one study by ZipRecruiter, 60% of workers today are looking for remote work, while less than 10% of all health care job postings provide that option.[3]

Turnover rates and vacancies in the health care workforce soared in 2021 and 2022, exacerbating strain on the already overworked industry. The 2023 *NSI National Health Care Retention & RN Staffing Report* showed that in 2022, Hospital and Staff RN turnover rates slightly decreased from the highs in calendar year 2021. While these numbers stabilize as we move through 2023, turnover remains an ongoing concern.[4]

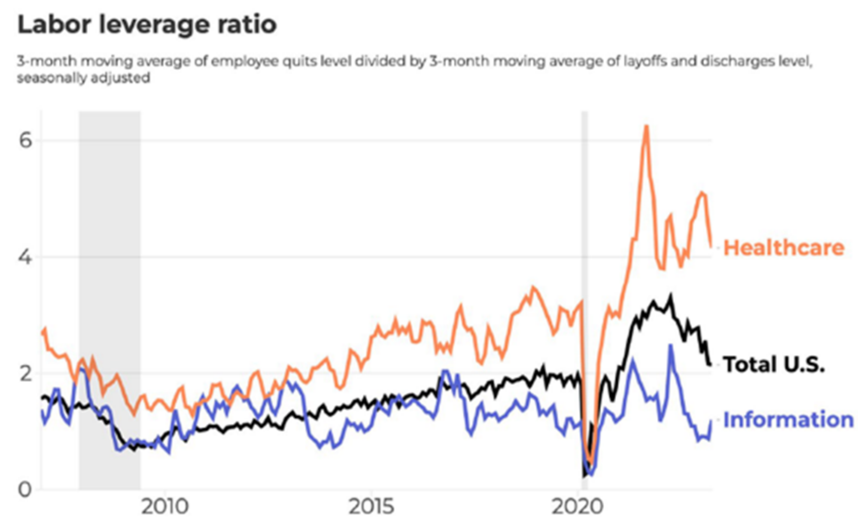
Significant labor costs incurred due to the reliance on the contingent nursing workforce: travel nurses, per diem nurses and temporary nurses. While the contingent workforce generally represents a small percentage of a hospital nursing staff, the labor costs financially strain the organization. At the peak wage in January 2022, travel nurses' weekly wages on average were nearly one and a half times higher than regular staff nurses' wages. Overall, the 2022 travel nurse wages were 103.3% higher than the regular staff nurses, excluding benefits. Travel nurse rates have declined since January 2022. On average, the overage premium paid to travel nurses in 2023 is 98.2% higher than the overage premium paid to permanent nurses (consider that these wage differences do not include the benefits extended to regular staff nurses).[5]

Hospital & Staff RN Turnover (2018-2022)



Source: 2023 *NSI National Health Care Retention & RN Staffing Report*

Health care has experienced a much higher ratio of quits to layoffs than the national average, reflected in the labor leverage ratio chart below (produced by Julia Pollak, Chief Economist at ZipRecruiter for the 2023 WorldatWork Global Total Rewards Conference). This increased labor leverage ratio generally indicates a greater ability for employees to negotiate higher pay and other workplace benefits.[3]



Source: *How to Succeed in the New Work Economy*, Zip Recruiter
Presentation at the 2023 WorldatWork Total Rewards Conference, June 12-14, 2023

The labor shortage for critical jobs in health care, along with the increased minimum wage rates and [collective bargaining ability](), continues to exacerbate labor costs. Health care organizations are raising their starting pay rates and providing more sign-on and retention bonuses to ensure they can attract talent and provide patient care. Coupling this with the significant financial burdens described above, the health care industry is experiencing a perfect storm, with pressures to reduce labor costs while reacting and responding to demands to attract and retain critical clinical talent.

LAYOFF TRENDS IN HEALTH CARE

Traditionally, health care has been seen as recession-proof and somewhat resistant to layoffs. According to the Bureau of Labor Statistics, the health care industry's layoff rate over the last decade is about 42% lower than all industries.[6] However, today's unprecedented pressures are leading health care organizations to seek ways to trim expenses and improve their bottom line. Layoffs have shown up front and center. Challenger, Gray & Christmas, an outplacement firm that tracks layoffs across the country, listed health care as the third hardest-hit industry for layoffs in the first part of 2023.[7] Although the July 2023 Challenger Report indicated that July saw 42% fewer job cuts than one month prior, the health care industry, including medical products, continued to experience significant layoffs, with July 2023 seeing double the number of layoffs/job cuts from the previous year.[7] According to the SullivanCotter 2023 *Total Rewards Pulse Survey Report*, approximately one-third of organizations reduced headcount in current or open positions last year. Another 18% expect to reduce positions or headcount further next year.[8]

In an August 2023 article, *The New York Times* coined the phrase "quiet cutting," referring to the reassignment of employees with the hope of avoiding severance and potentially encouraging impacted employees to quit on their own. However, the media quickly criticized the practice, highlighting the lack of transparency. The term was referenced by *Becker's Hospital Review* in an August 28, 2023, article, acknowledging a recent trend in health care towards outsourcing certain functions, resulting in layoffs and reassignment of duties.[9]

To date, the reductions in force being considered by health care organizations remain targeted and still represent a small portion of the total workforce, usually in non-clinical areas. The most prevalent reasons cited for layoffs impacting non-clinical roles include:

- Outsourcing functions and departments
- Reducing administrative support and operational support roles
- Addressing redundancies and streamlining opportunities created through mergers and acquisitions
- Consolidating management oversight

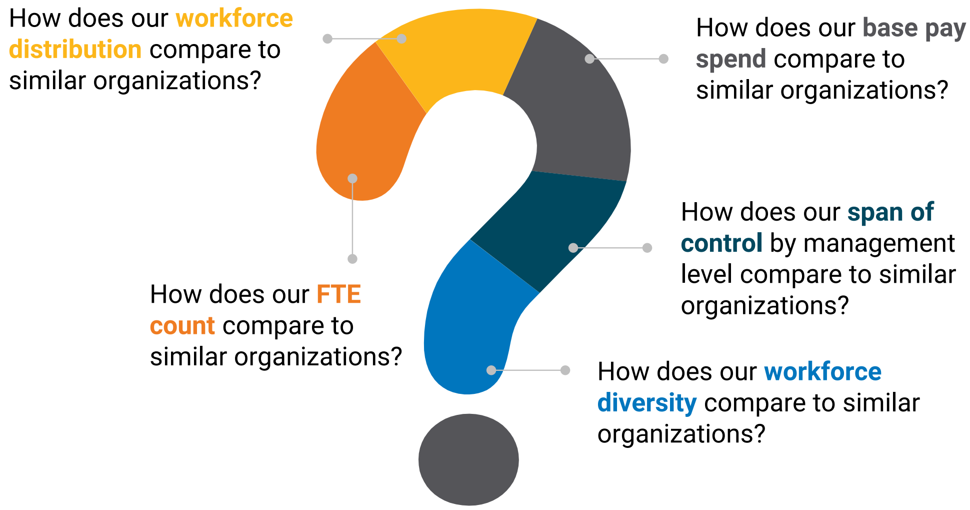
When a layoff has impacted clinical jobs, the reasons cited for the job loss are:

- Decisions to close or sell underperforming service lines
- Changing the services provided at a particular location, such as converting an inpatient hospital to an outpatient center, shifting the type of clinical professional required for the facility
- Rural hospital closures

COST CUTTING ALTERNATIVES

Most employers would agree that layoffs should be a last resort – they come with a cascade of negative ramifications from an engagement perspective and can have a detrimental impact on the organization's status and reputation in the community. In addition, the cost-saving opportunities presented by layoffs are not achieved until the end of the severance period. By adopting a proactive approach and exploring alternative solutions, organizations may be able to mitigate the negative impacts while fostering a more stable and resilient workforce. The following measures can help pave the way for not only short-term savings but also long-term organizational stability:

Workforce Restructuring and Redeployment



- Conduct a comprehensive analysis of the current workforce, including department size and staffing ratios, to identify areas of redundancy or inefficiency. This analysis can help identify opportunities to allocate resources effectively, ensuring employees are placed in positions that align with their skills and the organization's needs. This also improves organization design, leveling definitions, functional oversight, and span of control. This lays the strategic foundation for the organization to allocate resources effectively.
- Implement internal redeployment programs to match employee skills with suitable positions in other departments or facilities. This approach allows the organization to leverage existing talent and expertise, minimizing the need for layoffs while promoting internal mobility and professional growth. Some could view this as "quiet cutting," so redeployment must be transparent and, to the extent possible, a win-win proposition with the impacted employee.
- Offer retraining and upskilling opportunities to enable employees to transition into areas with greater demand or emerging roles within the organization. Health care organizations can adapt to evolving needs and retain valuable talent by investing in employees' development.

Voluntary Separation Programs

- Introduce voluntary separation packages or early retirement incentives to encourage employees considering retirement or career changes to explore such options voluntarily. Of course, you may not want to offer this alternative in areas where the jobs are in short supply, as it could exacerbate the critical labor shortage for those roles.

Review Use of Supplemental Workforce, Premium Pay Programs and Overtime

- The health care industry experienced unprecedented pressure on its workforce during the COVID-19 pandemic and implemented programs to reduce the burden and provide additional benefits during those difficult times. Many of these programs, like supplemental workers and certain premium pay programs, have persisted despite the end of the pandemic, as organizations have found it difficult to unravel premium pay and incentives and staffing models that were introduced as temporary measures. Before resorting to layoffs, organizations should understand these added costs and examine whether there are opportunities to reduce or eliminate them without compromising patient care.
- Reducing the amount of scheduled and incidental overtime can be another area of cost savings opportunity without the need to reduce budgeted headcount.

Job Sharing and Reduced Work Hours

- Encourage employees and management to take time off and reduce their paid time off (PTO) balances, reducing the PTO bank liability.
- Explore the possibility of implementing job-sharing arrangements, where two employees split the responsibilities and workload of one full-time position. This approach allows for workload redistribution while promoting work-life balance and employee flexibility.
- Consider reduced work-hour options, such as offering four nine-hour day workweeks vs. five eight-hour work weeks, voluntary unpaid time off, or additional part-time schedules, to retain talent while optimizing workforce utilization.

Engagement

- Consider soliciting opinions and suggestions from employees as you explore these cost-saving options. This effort can empower employees, showing them that their opinions matter and that they are a partner in the organization's success.

Protect the clinical staff and those essential to day-to-day organizational operations

- Reassess open positions
- Reassess capital spending, projects and use of consultants
- Reduce contractor and agency use
- Encourage PTO usage or unpaid furloughs
- Offer reduced hours and transfers to redeploy talent

- Find efficiency and cost savings opportunities
- Evaluate benefits, incentives and perks provided to current and retired workforce
- Reduce employees' hours, including scheduled and incidental overtime

- Revise benefit offerings
- Outsourced functions
- Layoffs

STEPS TO TAKE WHEN A LAYOFF IS INEVITABLE

In the event your organization still determines it needs to implement a layoff, consider the following to facilitate a smooth transition for employees, leaders, and managers while minimizing negative impacts:

Preparing for the Layoff

- *Plan.* First and foremost, HR must collaborate with senior management and legal to assess the organization's financial standing, evaluate the reasons necessitating the layoff, and establish clear financial impact objectives and timelines.
- *Analyze and Review.* When determining which jobs and employees will be impacted, it is imperative to thoroughly analyze the workforce, considering factors such as job performance, seniority, skills, qualifications, and the organization's strategic priorities. Be thoughtful and unbiased in selecting jobs for elimination using objective selection criteria and conduct thorough adverse impact analyses. Confirming compliance with labor laws, collective bargaining agreements, and other contractual obligations is also important.
- *Communicate.* Develop a communication strategy that addresses the scope of the layoff, defines the selection criteria for affected employees, and sets out a timeline for execution. The more open, honest, and transparent you can be, as early as possible, the more you will minimize uncertainty and anxiety among employees. However, it is essential to balance the layoff decision and open communication with the need to preserve the brand and reputation of the organization, especially when there continues to be a need to retain key talent and hire critical clinical roles.

Layoff Considerations

- *Severance.* Review existing severance plans and rehire policies. Are they aligned with the market? Do they meet your goals? If you don't have a severance plan, consider implementing one. Not only can a severance plan help a laid-off employee transition between jobs, but if set up correctly, it can provide an opportunity to leave a lasting positive impression. Consider what level of pay, continuation of benefits, and outplacement assistance should be offered.
- *Compliance.* Ensure compliance with legal requirements, including

SEVERANCE PROGRAMS

Below is a summary of the general trends identified in the SullivanCotter 2022 *Benefits Practices in Hospitals and Health Systems Survey Report*.[10]

While the data generally shows that the standard severance payout calculation is one week per year of service, payout range minimums and maximums vary by level from a minimum of 4 weeks to a maximum of 9 to 12 months.

In addition to different payout caps, the policies at each level may have additional benefit offerings, such as welfare benefits continuation, outplacement services, or dual employment limits.

Position Level	Minimum Number of Weeks	Maximum Number of Weeks
Individual Contributors	4 weeks	12 to 26 weeks
Managers and Supervisors	5 weeks	27 weeks
Directors*	6 weeks	6 to 12 months
Vice President*	13 weeks	9 to 12 months

**Health benefits would continue through the severance period.*

applicable WARN Act notice requirements, SEC disclosures, adverse impact, and Older Worker Benefits Protection Act (OWBPA) requirements. Maintain detailed documentation of the rationale behind job elimination decisions, including objective criteria and metrics.

- *HR Actions.* Avoid conflicting moves. For example, if possible, don't increase hiring or spending while laying off employees at the same time, especially within the same department. If it is necessary to continue hiring within an area of the organization, be open and honest about the need and ensure that laid-off employees are made aware of the opportunities. The key is that the organization assesses and realigns resources with strategic business needs.
- *Financial.* To reinforce the message of cost-cutting and realignment of resources further, consider implementing other cost-management measures across the organization and revisit people and business strategies to ensure alignment with the layoff plan.

Implementation and Communication

- To the extent possible, be transparent about cost-cutting measures being implemented and avoid using the term "quiet cutting."
- Develop a media strategy to manage any possible local or broader reaction to the reduction in force.
- Provide training and talking points to leaders and managers, including strategies for addressing employee concerns and providing emotional support. Equip them with resources to support their teams through the transition. Work with leaders to ensure consistent messaging that aligns with the overall business strategy.
- Hold employee meetings or town halls to announce the decision, explain its reasons, and provide as much information as possible. Demonstrate empathy, actively listen to employees' concerns, and address questions transparently.
- Provide support services to aid affected employees, such as career counseling, job placement assistance, paid time to search for a new job, and access to outplacement services. Communicate these resources clearly and encourage their utilization.
- Foster a supportive and resilient work culture by offering training, upskilling, and professional development opportunities for the remaining employees. Focus on rebuilding morale, trust, and teamwork within the organization.

FINAL OBSERVATIONS

Health care organizations need help resetting their financials based on the post-COVID labor shortages and increased costs. Difficult choices will have to be made. While layoffs are often an option, they are not always the best and fastest way to find savings. Implementing cost-cutting measures requires a comprehensive workforce optimization approach that includes employee, leader, manager, and legal considerations and careful analyses to understand where labor costs, benefit offerings and positions can be streamlined. If layoffs are imminent, consider the above recommendations and consult your legal counsel and leaders. By doing so, HR professionals can navigate the process with empathy, transparency, and compliance, minimizing negative impacts and maintaining organizational stability during challenging times.

CONTRIBUTORS:

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