

# ARTICLE: GAIN CONTROL OF OVERTIME COSTS

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Overtime can be an enormous expense within a healthcare organization. However, this big expense can provide big opportunities for savings. The following examples show how a reduction in overtime costs can have a tremendous impact on the bottom line.

#### Hospital with 1000 Employees

- Operating Expenses = \$116 million
- Labor Costs = \$69.6 million  
(approx 60% of operating expenses)
- Overtime Costs = \$4.9 million  
(7% of labor costs)
- Cut OT to 4% = \$2.1 million in savings annually

#### Hospital with 5000 Employees

- Operating Expenses = \$570 million
- Labor Costs = \$342 million  
(approx 60% of operating expenses)
- Overtime Costs = \$23.9 million  
(7% of labor costs)
- Cut OT to 4% = \$10.3 million in savings annually

### Different Types of Overtime

Although on paper all overtime hours incur the same premium costs, it's important to understand how, where and why the overtime is occurring. Following are three types of overtime:

**Unscheduled Overtime** – When the schedule was created, it showed few or no overtime hours. But at the end of pay period, a comparison of scheduled vs. actual hours worked shows that labor costs are far above what was budgeted, and the culprit is overtime. The dynamic environment of healthcare creates an ever-changing set of labor needs. Employees call in sick and need to be replaced or census goes up and extra employees need to be called in – these types of situations often lead to unscheduled, and unexpected, overtime.

**Scheduled Overtime** – With the shortage of skilled nursing staff, there is no choice – in order to meet anticipated patient care needs, many departments regularly need to schedule employees for overtime. However, at the end of the pay period, analysis shows that census was lower than expected, and the scheduled overtime was unnecessary. By then it is too late – the overtime costs have already been incurred.

**Incidental Overtime** – At many healthcare organizations, incidental overtime is not an incidental cost. When employees regularly clock in a few minutes early or stay a few minutes late, the overtime costs can quickly add up. For example, if an employee arrives 10 minutes early every day, during a two-week pay period, they will receive over 1.5 hours of overtime

pay. If 1000 employees badge in 10 minutes early each day, it costs the organization over 1600 hours of 'incidental' overtime costs during just a two-week pay period.

### Technology Helps Control Overtime Costs

Knowing how to gain control of the different types of overtime situations allows organizations to reduce labor costs without impacting patient care. Technology provides the key to taking the right proactive action.



### **Stop Unscheduled Overtime Before It Happens**

-- Technology can provide the tools to immediately create an alert if a schedule change now will create an overtime situation later in the pay period. Take, for example, an employee scheduled for 40 hours/week, 7:00am-3:30pm five days/week who is called in to work an extra shift at the beginning of the pay period. A sophisticated system can calculate the pay policies based on hours already worked and hours scheduled to be worked and immediately alert the supervisor that an overtime situation is pending. That supervisor can then take proactive action to prevent the overtime before it happens. For example, the employee can be sent home after a half day of work on two days with low census.

### **Schedule According to Actual Need**

-- Actual acuity and census often vary from the predictions and budgets. Organizations that schedule overtime based on predicted labor needs can utilize technology to make sure labor resources are matched to actual needs. For example, managers can utilize an integrated time/attendance, scheduling/staffing, and patient classification system on a daily or shift-by-shift basis to compare *actual* acuity-based census against scheduled labor resources. The real-time information gives them accurate feedback about instances of overstaffing during that day or even on that shift. Armed with that information, managers can send employees home before they go into overtime.

### **Alerts Prevent Incidental Overtime**

-- Using a time/attendance and scheduling/staffing system to determine when and where incidental overtime is occurring allows administration to develop policies to discourage the practice. Real-time information goes a step further, giving managers the information they need to prevent the occurrence of incidental overtime. For example, if the manager receives an automated alert early in the shift showing that an employee clocked in 10 minutes early, they can make sure the employee takes a longer lunch or leaves 10 minutes early at the end of the shift.

Tackling the challenge of controlling overtime costs can seem overwhelming. However, by first understanding how the overtime is occurring and then using technology to address the issues, healthcare organizations can make better use of their existing staff, cut overtime costs and have a dramatic positive impact on the bottom line.



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