
Hospital Contract Labor: Where Has It Been and Who Is Using It?

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Introduction

Many industries rely on individuals who are not considered either part- or full-time employees to provide mission-critical services to an organization. These individuals are loosely referred to as “contractors.” In the healthcare industry, the terminology used for the group of these individuals is “contract labor.” These temporary workers allow a hospital to be flexible in its capacity to provide services without incurring the expense of employing an individual full or part time. Companies provide contract labor in the form of traveling nurses to hospitals, therapists, radiology technologists, pharmacists, and medical laboratory technicians, to name a few. Increasing turnover rates, union strikes, and poor preparation for departures often leave hospitals with little time to find replacement staff; instances such as these result in the employment of contract labor to temporarily fill gaps.

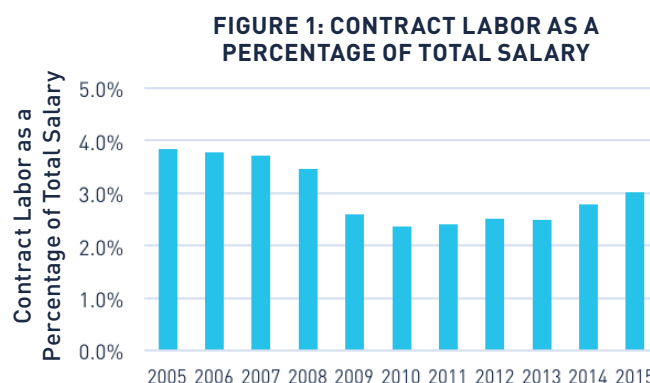
Contract labor is crucial to hospitals. These individuals provide immediate services across a variety of specialties. Specialty service hospitals and emergency rooms are constantly in need of contract labor; and less traditional sites of care, such as microhospitals and urgent care, are starting to employ contract labor more frequently.

While hospitals may find contract labor beneficial to their short-term staffing needs, they may also experience downsides to employing temporary staff. For example, the cost of contract nurses is high, as the hospital could be responsible for their housing, food, and travel. Additionally, having to train and orient contract labor results in lower productivity, in addition to the individuals being less familiar with the protocols in place.

In this paper, we analyze the use of contract labor in short-term acute care hospitals, rural primary care hospitals, and children’s hospitals. We analyze how the utilization of contract labor differs between different types of hospitals (e.g., urban vs rural, hospitals with different numbers of beds, etc.). The first section of the paper describes trends in the contract labor market over the past several years. The second section of the paper explains the types of hospitals that rely upon contract labor.

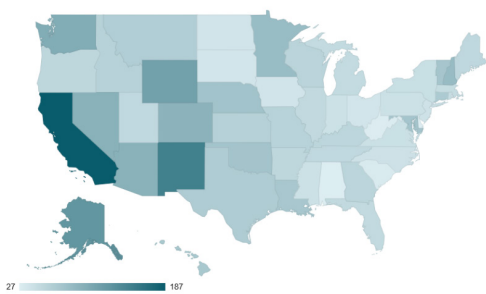
History of Contract Labor

The percentage of contract labor staff in hospitals across the United States has remained relatively stable over the past ten years, with a significant decrease between 2008 and 2009. Figure 1 illustrates contract labor as a percentage of total salary, which was slightly under 4 percent from 2005 to 2008 and then dropped to 2.6 percent in 2009, after which it increased. The decrease was likely caused by the 2008 financial crisis and its impact on the nursing industry.¹ As mentioned, traveling nurses are critical to hospitals; the turnover of registered nursing staff is continuously increasing as veteran nurses retire and less-experienced nurses leave traditional nursing positions.



¹ Jane Wray, “The Impact of the Financial Crisis on Nurses and Nursing,” *Journal of Advanced Nursing* 69 (March 2013): 497–499, available at: https://www.researchgate.net/publication/235627371_The_impact_of_the_financial_crisis_on_nurses_and_nursing

FIGURE 2

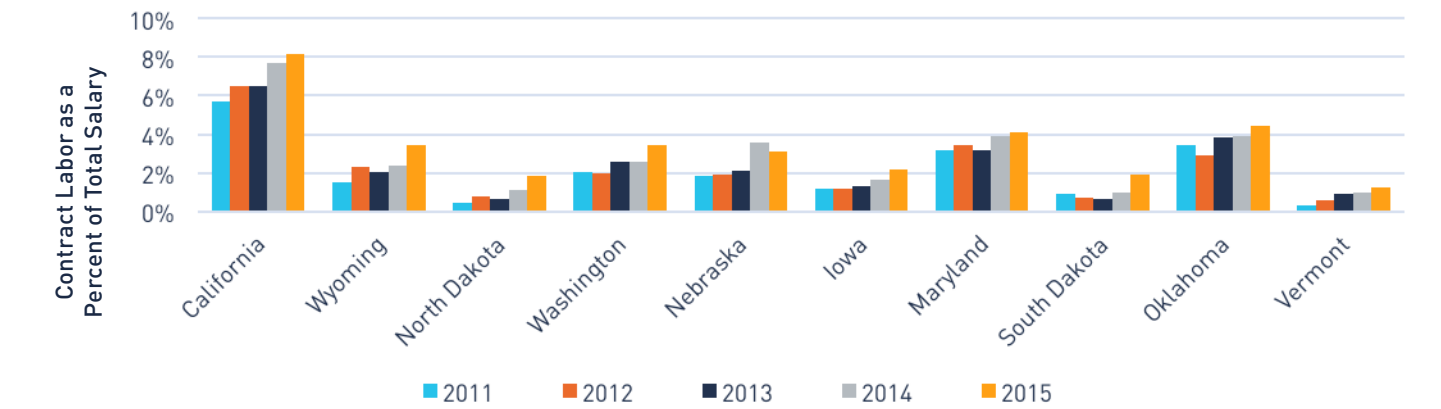


California, New Mexico, Alaska, Washington, DC, and Wyoming spent the most money per day per patient on contract labor between 2005 and 2015 (see Figure 2).

From 2011 to 2015, California, New Mexico, and Washington, DC, also had the highest contract labor as a percentage of total salary. In California, most Kaiser hospitals have over 50 percent of their total salaries associated with contract labor. California has the largest concentration of traveling nurses across the United States. This has contributed to the increase in contract labor in California, from 5.7 percent in 2011 to 8.1 percent in 2015.

Most states increased their spending on contract labor between 2011 and 2015. Minnesota and North Dakota had the highest dollar increase in spending on contract labor, after California. Figure 3 illustrates the increase in contract labor as a percentage of salary for the ten states, with the largest percentage increase from 2011 to 2015. In most cases, there was a steady increase in contract labor year over year. The increase in contract labor for these ten states was larger than the national increase in the percentage of contract labor from 2011 to 2015.

FIGURE 3: CONTRACT LABOR AS A PERCENTAGE OF TOTAL SALARY FOR STATES WITH LARGEST INCREASE FROM 2011 TO 2015



Types of Hospitals That Use Contract Labor

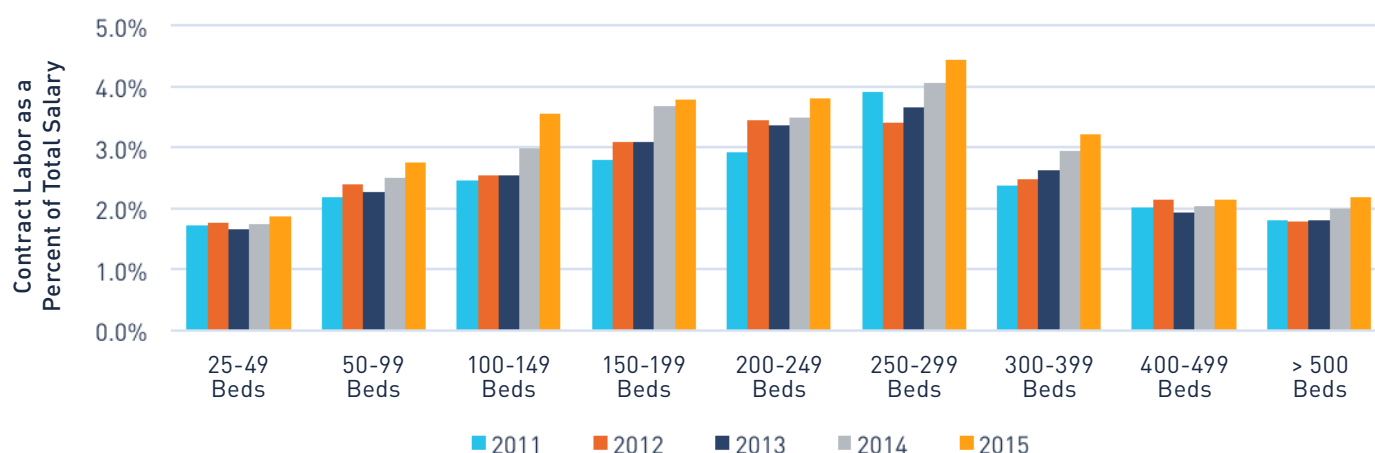
The majority of hospitals in the United States are located in urban areas. Urban hospitals have consistently had a higher proportion of contract labor over the past five years than those located in rural areas. For-profit hospitals also had a higher proportion of contract labor over the past several years when compared to nonprofit hospitals, with the exception of 2014 and 2015, during which the percentage of contract labor at nonprofit facilities was the same as or slightly greater than for-profit hospitals.

Overall, the percentage of contract labor has been steadily increasing year over year for each of these four classifications of hospitals, except for nonprofit hospitals, which had a steep increase between 2013 and 2014.

	Contract Labor as a Percentage of Salary			
	Rural	Urban	For-Profit	Nonprofit
2011	1.6%	2.5%	2.8%	2.3%
2012	1.7%	2.6%	2.8%	2.4%
2013	1.7%	2.6%	2.9%	2.3%
2014	1.8%	2.9%	2.7%	2.9%
2015	1.9%	3.2%	3.0%	3.0%

In 2015, 50 percent of hospitals in the United States had a bed size of fewer than 100 beds, while 39 percent had bed sizes between 100 and 299. Contract labor as a percent of total salary has been increasing nationwide over the past several years, with bed sizes between 150 and 199, 200 and 249, and 250 and 299 having the highest percentage on contract labor in 2015. Nearly one-quarter (24 percent) of hospitals fall into those three categories.

FIGURE 4: CONTRACT LABOR AS A PERCENT OF TOTAL SALARY BY BED SIZE



Occupancy rate—the percentage of Medicare beds that were occupied within a year—is another metric that can be used to determine which hospitals are using the most contract labor. Contract labor as a percentage of total salary has increased the most in hospitals in the United States with occupancy rates between 40 percent and 79 percent. Moreover, in 2015, hospitals with an occupancy rate from 40 percent to 49 percent had the highest contract labor as percent of total salary, followed by hospitals with an occupancy rate from 60 percent to 69 percent.

Occupancy Rate	Contract Labor as a Percentage of Total Salary		Percentage of Hospitals with:	
	2015	Difference between 2011 and 2015	Increase between 2011 and 2015	No change between 2011 and 2015
Less than 39%	2.5%	0.5%	23%	55%
40%–49%	3.9%	1.5%	52%	15%
50%–59%	3.3%	0.7%	55%	8%
60%–69%	3.6%	1.0%	62%	6%
70%–79%	3.0%	0.6%	63%	5%
80%–100%	1.9%	-0.3%	44%	16%

Conclusion

This increase in contract labor as a percentage of total salary has been seen nationwide over the past several years, with California, Wyoming, and North Dakota having the largest overall increase. The hospitals most commonly using contract labor are urban, for-profit hospitals with between 250 and 299 beds and occupancy rates between 40 percent and 70 percent. Further, in 2015 California hospitals had the highest average contract labor as a percent of salary across the United States. With continued economic growth in the United States and a forecast for growing demand in the healthcare sector, it appears likely that the trend in utilizing contract labor will continue.

Additional information about the analysis and underlying data is available upon request. Please contact Busi Akanbi or Greg Russo for additional information.

About the Authors

Busi Akanbi is a senior managing consultant with BRG in Washington, DC, who provides consulting and analytical services to clients in the healthcare industry and their counsel. In particular, her capabilities relate to mining complex and disparate data systems, providing business analytics services, developing data models, and providing guidance using her extensive skills in coding and systems analysis. She can be reached at BAkanbi@thinkbrg.com.

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