



Employer Resource Center

What Are the Costs of Employee Turnover?

[AARP](#), April 14, 2011

Employee turnover results when an employer loses an employee and the vacancy creates a job that may have to be filled. Because of today's changing economy and the competitive business environment, many companies are concerned about the costs of employee turnover and how it will affect the bottom line — in particular, job loss among the older and experienced workers.

The AARP study, "[The Business Case for Workers Age 50+: Planning for Tomorrow's Talent Needs in Today's Competitive Environment](#)," by Towers Perrin, examined the recruitment and retention of older workers from a business case perspective. The report found that replacing an experienced worker at any age can cost 50 percent or more of the individual's annual salary in turnover-related costs, with increased costs for jobs requiring specialized skills, advanced training or extensive experience, which are qualifications often possessed by 50-plus workers.

But these figures pale by comparison, for example, when looking at the turnover rate of nurses at an acute care facility. The AARP report, "Focus on Health Care: Recruiting and Retaining Workers 50 +," found that replacement costs for a medical/surgical nurse earning \$46,835 annually could cost up to three times the nurse's salary. And, based on the turnover rate at the time, the study estimated it would cost \$92,442 to replace a medical/surgical nurse and \$145,000 for a specialty nurse, which translates to a staggering \$2 million in just one year for a hospital with a staff of 100 nurses.

There are many potential causes for employee turnover, including area economic and labor market conditions, the boomer generation approaching traditional retirement age and the employment culture where many persons change jobs frequently, rather than grow with one company over a longer period of time.

Many employers are concerned about the long-term costs of turnover, which can include losses of skilled and talented workers during a time when employers are facing challenges in the current economy, and the need to retain skilled and experienced workers is critical to survival. In addition, the cost of replacing workers due to job loss can affect an organization's profitability. Companies generally report direct job replacement costs as having an impact on only wages and benefits, workers' compensation, and insurance. But many employers may not be knowledgeable about the full range of areas affected across the organization that can significantly hurt the bottom line.

Here is a list of the potential indirect costs of employee turnover:

1. Lost productivity associated with the interim period before a replacement can be placed on the job, the time a co-worker spends away from his or her work to help fill the gap and low employee morale.
2. The cost of formal and informal training to get the new employee up to speed.
3. Severance pay or litigation costs from involuntary turnovers.

4. Costs for advertising and promotional materials, referral bonuses, relocation expenses and background checks.

While job turnover is normal and unavoidable in the course of conducting business today, employers should ask questions such as:

1. What are the costs of work not being done or completed?
2. How is morale and productivity affected?
3. How can you stay competitive with the loss of experienced and highly skilled workers?

Because of the expense and impact on the bottom line, employers should carefully consider all costs associated with employee turnover and develop a retention strategy for current and future talent management needs — in particular, to help the company stay competitive with the potential loss of experienced employees.

An AARP Resource

[AARP Workforce Assessment Tool](#)

This online tool is simple to use and provides you with a workforce profile that will help you make critical talent management decisions, especially in key functional areas, and additional information that will help you recruit and retain your workforce:

- Recruiting Forecasting
- Talent Sourcing and Recruitment
- Succession Planning
- Employee Learning and Development
- Mentoring and Coaching

To order the AARP report, "Focus on Health Care: Recruiting and Retaining Workers 50 +," (D18865), send an email with the name and stock number to fulfillment@aarp.org. Also, here is a link to the full report by the [Robert Wood Johnson Foundation](#) of the research cited in this article on the turnover rate and replacement cost of nurses.