

THE COST OF FRONTLINE TURNOVER IN LONG-TERM CARE

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EXECUTIVE SUMMARY

Across the country, the high rate of turnover among frontline workers in long-term care is a serious workforce problem. Concern about high turnover rates has led to numerous initiatives to improve recruitment and retention of this critical workforce. Much less well explored have been the costs of turnover—their magnitude, their bottom line impact on provider finances, and their effect on the quality of the services provided to long-term care clients and consumers.

This report details what is known about turnover costs among the direct care workforce, presents a framework for measuring them, and explains why they are important to track. Turnover among frontline workers is a critical cost driver for the long-term care industry, affecting the fiscal health of providers, the quality of care that long-term care consumers receive, and the efficiency of resource allocation within the public payer system. The potential magnitude of these costs, and the fact that key elements of the total cost of turnover are not visible or easily measured, lead to important implications for practice and policy, and for future research.

Evidence on Direct-Care Turnover Costs

To date, only a handful of detailed studies have been conducted that attempt to quantify the per worker costs of frontline turnover in different long-term care settings—nursing home care, home care, and community-based care facilities for individuals with intellectual or developmental disabilities (ID/DD). All of these studies pertain to one or more providers or facilities located in one state only, and most concern ID/DD settings. A review of the literature indicates that:

- turnover costs at the enterprise or organizational level are best estimated by using an expanded accounting model that includes both direct and indirect costs;
- the *indirect* costs of turnover may be substantial and tend to be overlooked because they are less visible and harder to measure; and
- the *direct cost* of turnover per frontline worker is at least \$2,500, based on a conservative working estimate.

Accounting for Turnover Costs among Direct Care Workers

Empirical studies on the cost of turnover for direct-care workers and low-wage service workers generally use an accounting framework for costing turnover per worker at the **enterprise level**. This approach usually distinguishes between several categories of direct and indirect costs, and identifies turnover-related productivity losses as an important but often neglected cost category.

While the enterprise or organizational level tends to be the main focus of turnover cost analysis, significant costs are also incurred at two other levels. First, costs are incurred at the **service delivery level** by consumers who may receive lower quality of care from inexperienced workers, and by frontline workers who may be subject to greater stress and risk of injury. Second, costs are incurred at the **third-party payer level** by public funders and private insurers, who play major roles in designing, managing, and financing long-term care services.

Understanding these two additional layers of costs is critical to calculating the full cost burden of frontline turnover and leads to a wider set of practice and policy implications. For example, because turnover costs at the service delivery and payer levels are not integrated into providers' cost structures, providers may not find it cost-effective to make the investments needed to reduce turnover. But by not making those investments, substantial "downstream" turnover costs may be incurred by the other stakeholders — consumers and their families, workers, and third-party payers.

Implications for Practice, Policy and Research

Practice/Provider Implications

Overall turnover costs borne by long-term care providers appear to be substantial and can constitute a significant financial drain on a provider's bottom line. Far from being an inevitable cost of doing business, providers can measure and track turnover costs, make informed decisions about how much they can afford to invest in keeping or retaining employees, and assess whether or not such investments are improving their bottom line. The strict financial case for reducing turnover will be sensitive each provider's costs and organizational infrastructure. However, all providers can reduce turnover costs by: 1) knowing the true cost of turnover; 2) calculating turnover rates carefully; and, 3) investing in proven retention strategies.

Policy Implications

High turnover costs have serious financial impacts on federal, state and local governments, which together foot most of the bill for long-term care. The costs of turnover to the public sector are tantamount to an implicit tax on reimbursement rates paid to publicly-financed providers -- a hidden tax which ultimately is paid by taxpayers for high industry turnover costs. While the exact costs are difficult to measure, the evidence suggests that the price paid by government payers for turnover in long-term care is on the order of roughly \$2.5 billion. This figure does not include the costs of increased health care costs due to lower care quality for consumers or higher injury-related medical costs for workers.

Public policy can play an important role in creating better feedback mechanisms so that significant costs borne in one part of the system (e.g., increased medical costs due to turnover-related lower quality care) become more visible and are taken into account by other stakeholders in the long-term care system. Policymakers themselves would benefit from research comparing which public policies and which provider practices have the greatest impact on stabilizing the direct-care workforce. This would help in the development of rate adjustments or incentives for provider investments that result in lower turnover rates.

Research Implications

Field work and research are needed in several areas. Further improvements and refinements are needed in both the statistical and fiscal measures used to measure turnover costs, along with applications of these measures in the field to document actual turnover costs. It would also be useful to develop methods at both the state and national level to monitor turnover costs across the spectrum of long-term care settings.

To better calculate the indirect costs paid by consumers and payers, research is also needed on the links between turnover and care quality and how care outcomes differ between high and low turnover environments. Lastly, further investigation is needed to understand the sensitivity of turnover rates to different variables, such as improved compensation and other retention strategies, as well as which factors differentiate low and high turnover organizations.

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