
Tool 1 – Calculating the Cost of Employee Turnover

This Tool Includes

- Guidelines on what to factor in when calculating the costs of turnover.
- A turnover calculator.
- Guidelines on how to use calculators to estimate the cost of turnover in your agency.

Guidelines

Knowing how much turnover costs your agency is important. Many agencies simply accept high turnover as an organizational reality and give little thought to the very real economic costs of continually replacing experienced staff. Too few agencies have worked through the process of determining how dollars spent on continuously recruiting and training new staff could be better diverted to turnover-reduction strategies.

Most of us are dependent on others to authorize our budgets and staffing levels. You may work with an appropriations committee of the legislature, a board of commissioners, or an executive board, each of which need to understand the cost of turnover in real dollar terms. In all likelihood, you will be

required to explain how money spent on turnover reduction strategies will result in real savings to the agency. The most valid methodology for calculating the cost of turnover will be:

- **Based on Facts** – Your estimates should be based on the actual costs of advertising vacancies, interviewing applicants, providing training, etc. You should be able to explain how you calculated these and other costs.
- **Easy to Understand** – Your methodology should be straight forward, and you should be prepared to answer questions about how you arrived at your numbers
- **Logical and Reasonable** – Certain elements in your cost estimate, such as the costs of recruiting, interviewing and training new employees are obvious. Other elements, such as the cost of the productivity differential between the experienced departing employee and the replacement, are not only less obvious but much more difficult to estimate. Basing your estimate on a reasoned analysis is critical to its acceptance.

Direct and Indirect Costs of Turnover

Unfortunately, there is no silver bullet. Estimating the cost of turnover will take some time and effort. Your estimate should include both the direct costs and the indirect costs of turnover. Direct costs are the specific measurable expenditures

associated with processing the departing employee's separation and the new employee's hiring and training. **Direct costs** might include:

- Processing departing employees' paperwork.
- Pay out of any vacation pay, sick pay, and severance pay.
- Unemployment compensation payments.
- Recruitment activities, including costs of advertising, job fairs and search firms.
- Interviews, reference checks and other background checks.
- Hiring bonuses or referral bonuses.
- Training, including both formal classroom training and on-the-job training provided by supervisors, coworkers and mentors.

Rather than measuring expenditures, indirect costs include the value of the lost productivity, reduced service, and impact on children and families. **Indirect costs** might include the value of:

- The productivity differential between the departing employee and the replacement.
- Errors due to inexperience.
- Lowered morale and productivity of other employees.

- The financial consequences of slower service resulting in longer placements in out-of-home care.
- The emotional consequences for children and families due to lack of continuity and delays.

As a general rule, direct costs are easier to measure than indirect costs, but even some direct costs can be difficult to establish. Recruitment activities such as advertising and attending job fairs must be converted to a "per-hire" cost.

How Could You Use \$323,532?

The Facts:

- An Agency has 100 Children's Protective Services Workers
- Average salary is about \$35,553*, not including benefits
- Annual turnover averages 26%
- Each turnover costs \$24,887 (70% of average annual salary*)
- Annual turnover costs are \$647,064
- Worker caseloads average 24 children
- New employees earn \$30,000, not including benefits

Cutting turnover in half would result in:

- Reducing annual turnover costs to \$323,532
- Enough dollars to hire 11 new child welfare workers (not including benefits)
- Reducing caseloads to 22 children per worker

**Based on the American Public Human Services Association 2005 Workforce Planning Report.*

Training costs should include the expenditures for facilities, materials, and the trainer’s time for development, preparation, and presentation.

Aside from being more difficult to measure, the indirect costs may also be much higher than direct costs. Estimating the productivity difference between an experienced and an inexperienced employee will require some effort, but it is intuitively obvious that an inexperienced employee, while earning a full salary, will not be able to carry a full caseload, perhaps for several months. Because the indirect costs are usually more subjective, they may be more closely scrutinized by legislative bodies.

Although the cost of turnover may differ from one profession to another and from one organization to another, “...multiple studies suggest that the cost of replacing key people runs between 70 and 200 percent of the person’s annual salary.” (Graef and Hill 2000) Using the most conservative estimate of 70 percent, the American Public Human Services Association (APHSA) calculated the cost of each turnover of a Children’s Protective Services worker to be \$24,887. This was based on their finding that the average Children’s Protective Services worker salary was \$35,553 effective April 1, 2004.

Turnover Calculator

The Annie E. Casey Foundation sponsored the development of a Turnover Calculator to calculate both the direct and indirect costs of turnover in a human services agency. In the following example from a public agency, the overall turnover cost of one person was estimated at 115 percent of the average annual salary, and the direct costs alone were 45 percent of average salary. See page 12 for the web pages showing the Casey Turnover Calculator.

The Casey Calculator

Example:

1. One Public Human Services Agency
2. Cost of turnover for one person where the average Children’s Services Worker salary = \$44,803:

Separation Costs	\$4,325
Replacement Costs	\$1,165
Training Costs	\$14,807
Lost Productivity	\$49,592
Salary Savings (deducted)	\$18,378
Total Turnover Cost	\$51,511

Some organizations believe it is appropriate to deduct the salary savings of the departed employee when calculating the cost of turnover; others do not. The different perspectives are based on what one is trying to measure. We believe that using savings from turnover to, for example, balance budgets is short-sighted. Ultimately, turnover increases caseloads which, in turn, can lead to even greater turnover rates.

If your agency believes it appropriate to deduct salary savings, the Casey cost calculator does that for you, otherwise simply leave this out of the formula.

References

American Public Human Services Association. (2005). *Report from the 2004 Child Welfare Workforce Survey, State Agency Findings*. Washington, DC, February.

Annie E. Casey Foundation. (2004). *HR Turnover Calculator*.

Graef, Michele I. and Erick L Hill. (2000). "Costing Child Protective Services Staff Turnover." *Child Welfare*, Sept/Oct, 79 (5): 517.