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Contemporary Issues in Employment and Workplace Policy

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Employee Turnover – A Critical Human Resource Benchmark

President's Summary

Companies need timely and reliable turnover benchmark data to gauge their retention and staffing performance and to plan effectively. Using two BLS surveys, EPF constructed turnover benchmarks by industry and by full-time/part time work status. With an average annual turnover benchmark of 23.8 percent, a Fortune 500 company with 40,000 employees faces turnover costs of $119 million per year. Every one percent reduction saves $5 million.

Ed Potter

Introduction and Summary

Human resource managers know that turnover is a major cost and significantly impacts the corporate bottom line. This *HRBenchmarks* shows that with an estimated turnover cost of $12,506 per full-time vacancy[1] for the average employee with total compensation (wages and benefits) of $50,025 and with an annual 23.8 percent turnover rate for full-time employees, a Fortune 500 corporation with 40,000 full-time employees would face turnover costs of $119 million per year. A change in the turnover rate of one percentage point would add to or subtract from corporate operating costs up to $5 million per year.

The Job Openings and Turnover Survey (JOLTS) data series published by the Bureau of Labor Statistics (BLS) provides monthly updates on turnover trends for the overall economy, by industry and by region. The JOLTS reports provide estimates of total employee separations, hires, job openings and three subcomponents of separations. The latest BLS data for August 2002 shows that 26.5 million private sector employees voluntarily quit their jobs over the past year – 24.0 percent of all private sector employees – and that another 3.3 million retired, were disabled or died – 3.0 percent of employees. Combining these two groups, 27.0 percent of private sector employees quit, retired, became disabled, or died – turnover events that give rise to replacement staffing costs.

This *HRBenchmarks* report assesses the usefulness and limitations of the BLS JOLTs data series and presents the results of a new EPF analysis that adds additional detail to distinguish between turnover rates for full-time versus part-time employees. Because the JOLTS data is updated monthly, it is a timely indicator of turnover trends, but EPF found that human resource managers should be careful when using the JOLTS data for company human resource planning and benchmarking. Only two components of the JOLTS turnover estimate are directly relevant to companies' human resource benchmarking needs – voluntary quits and other separations

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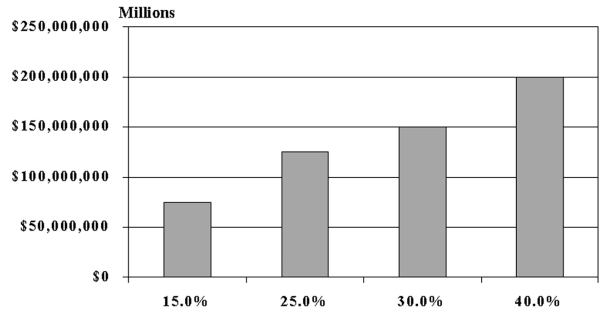
Figure 1
Annual Cost of Turnover
Illustrative Annual Employee Turnover Rates, Company with 40,000 Full-time Employees



Source: Employment Policy Foundation analysis.

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(retirements, etc.) The third element – layoffs – includes separations associated with downsizing that do not result in immediate employee turnover costs for replacements.

EPF tabulated the detailed JOLTS data for the past 12 months to calculate industry-specific turnover estimates that reflected only the quits and retirement separation elements that are relevant to turnover cost benchmarking. EPF also analyzed employment change information from an alternate government data source (the Current Population Survey March Annual Demographic Supplement) to distinguish turnover for full-time employees versus part-time employees – a distinction that the JOLTS data omits. The EPF analysis found that overall annual turnover varies significantly by employee schedule status – from 23.8 percent for full-time workers to 45.9 percent for part-time workers.

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Turnover Is a Bottom Line Issue

Employee turnover is a critical cost driver for American business. The costs of recruiting and filling vacancies, lost productivity from vacant jobs, and the costs of training new employees increase operating costs, reduce output, and cut into profits. Estimates of the costs of employee turnover vary widely and depend on whether all cost elements are recognized.[2] The three primary elements of turnover cost include:

- **Staffing.** Staffing costs – sometimes called cost-per-hire – include the costs of recruiting job applicants (such as advertising or job-board postings), screening applicants, personnel search service brokerage fees, relocation expenses and signing bonuses.
- **Vacancy**. While a position is vacant, the productivity of the former employee is lost and the productivity of the overall organization is reduced as remaining workers cope with being short-handed.
- **Training.** No new employee starts work at 100 percent efficiency. The replacement employee's time, other employee's time and valuable resources must be expended to train each new employee and to facilitate the transition.

Conservative estimates put the comprehensive cost of replacing a lost employee at 25 percent of the annual compensation amount.[3] For the typical full-time employee who earns $38,481 and receives $50,025 in total compensation, the total cost of turnover would amount to $12,506 per employee. Figure 1 on the previous page illustrates the annual total corporate turnover cost for various annual turnover rates in the context of a Fortune 500 firm with 40,000 full-time employees. For such a firm, total annual turnover cost can range from $75 million to $250 million per year, depending on the employee turnover rate. Each one percentage point variation in the turnover rate for full-time employees is equivalent to $5 million dollars a year in cost.

Separations, New Hires and Job Openings

In May 2002, the Bureau of Labor Statistics began monthly reporting of information from its Job Openings and Labor Turnover Survey (JOLTS).[4] The most recent JOLTS report covers August 2002 and prior months to August 2001. For August 2002, BLS reported 5.4 million total employment separations[5] – down 11.5 percent from the total of 6.1 million reported for August 2001. Relative to total payroll employment,[6] the separation rate in August 2002 was 4.1 percent for the month – equivalent to an annualized separation rate of 49.2 percent. The rate of separations in August was significantly higher than in other months, in part because of seasonal employment changes. Over the 12 months ending in August 2002, nationwide employee separations – layoffs, quits, and other separations – totaled 51.3 million, including both private sector and government. The cumulative separation rate for the 12 months ending in August 2002 was 39.3 percent.

The JOLTS report also tabulates hires[7] and job openings. In August 2002, new hires totaled 4.8 million, down from 5.2 million in August 2001. Total new hires over the 12 months ending in August 2002 were 51.2 million.[8] Job openings reported in August 2002 totaled 3.5 million – equivalent to a 2.6 percent job vacancy rate.[9] The job vacancy rate in August 2001 was 2.8 percent and reached a low of 2.1 percent in December 2001.

Employee Turnover

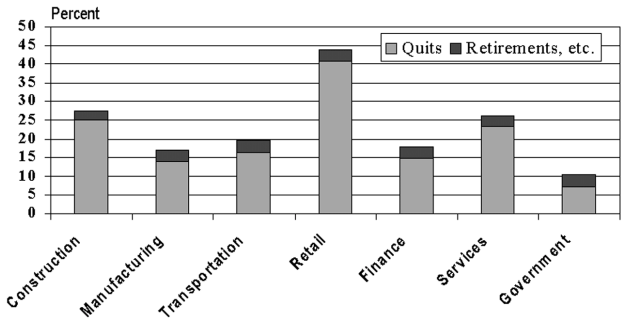
In the context of corporate human resource management, employee turnover typically refers to separations that require hiring a replacement. Separations related to layoffs – reductions of workforce because of general economic conditions or company-specific changes – do not impact costs in the same way as separations that necessitate recruiting, hiring and training a replacement. [10]

The JOLTS total separations data is not an appropriate benchmark to use for planning or comparison of company-level employee turnover rates and costs. Total separations in the JOLTS data include layoffs that do not trigger replacement staffing. For turnover benchmarking purposes, the JOLTS reports of "quits" and of "other separations" (retirement, disability and death) – two of the three subcategories of total separations – provide a relevant benchmark estimate for human resource management turnover analysis.[11]

In August 2002, the JOLTS report showed quits totaling 3.2 million and other separations (retirement, disability or death) totaling 374,000. These two categories totaled 3.6 million – 2.8 percent of the employees on payrolls in August separated that month for reasons likely to require replacement staffing. Over the 12 months ending in August 2002 the total of quits and other separations reported by JOLTS was 32.0 million, corresponding to a cumulative annual turnover rate of 24.3 percent.

Voluntary quits amounted to 28 million over the 12 month period and retirements amounted to 4 million. Retirement, etc. (3 percent of total employees on payroll) accounted 12.5 percent of employee turnover. For the private sector, total separations over the 12 months totaled 29.8 million and the cumulative turnover rate was 27 percent. Voluntary quits in the private sector totaled 26.5 million – a 24 percent annual rate. Retirements annually averaged 3 percent of payroll count in the private sector.

Figure 2
Annual Employee Turnover Rates
JOLTS Quits and Other Separations Data by Industry, September 2001- August 2002.



Source: Employment Policy Foundation tabulation of Bureau of Labor Statistics JOLTS data.

Figure 2 shows the combined turnover rate derived from the JOLTS data for the 12 months ending August 2002 by major industry. The shading of the bars in the chart distinguishes the quits and other separation (retirements, etc.) components of the turnover rate.

Turnover rates ranged from 43.8 percent annually in the retail sector to a low of 10.3 percent in the government sector. The overall private sector turnover rate derived from the JOLTS quits and other separations data was 27.0 percent for the 12 months ending in August 2002. In every industry, quits were the predominant source of employee turnover, averaging 87.5 percent of total turnover.

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The time trend available in the JOLTS data series is short. The monthly series started in December 2000. The impact of the recession cannot be distinguished from normal seasonal variations in the data because of the shortness of the series.

Turnover Estimates from the Household Survey

A draw-back of the JOLTS data is that it provides detail only by major industry categories. Human resource managers often need to tailor strategies and performance metrics to reflect differences between full-time and part-time employment. The JOLTS report does not provide that breakout of the data. Neither does it facilitate analysis of turnover in terms of demographic characteristics or occupation.

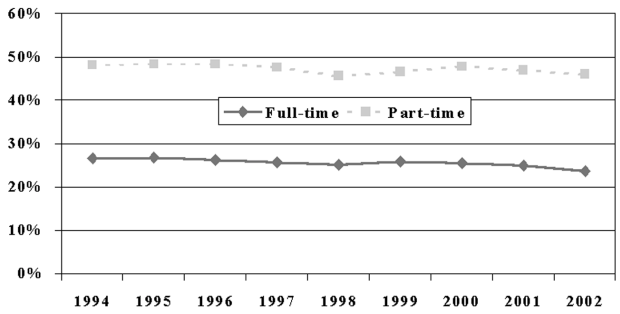
To fill this gap in the benchmark information provided by the JOLTS data, EPF examined data available in the Current Population Survey (CPS) Annual March Demographic Supplement microdata file. The CPS is the so-called household survey that BLS and Census use to produce estimates of total unemployment, employment and earnings. The March edition of the monthly CPS survey includes a supplemental set of questions that review individual labor market experience over the preceding year. From the March CPS data for 1994-2002, EPF identified persons who experienced job turnover during the prior year.

From the March 2002 CPS file, representing work experience for the prior year, the EPF analysis identified responses representing 35.2 million persons who experienced one or more employment events that would be relevant to human resource management concerns regarding turnover costs. Included were persons who changed employers and persons who retired or otherwise

left the labor force during the previous year. Persons who were unemployed because of layoffs were excluded because their separations would not trigger replacement cost activities by the former employer. An estimated 6.6 million individuals experienced multiple employment changes, bringing the total number of relevant turnover events identified by the EPF analysis for 2002 to 42.5 million.[12]

The EPF analysis showed that turnover rates varied significantly by work schedule. Part-time workers experienced significantly higher job turnover than full-time workers – 45.9 percent annual average turnover for part-time workers compared to 23.8 percent turnover for full-time workers. (See Figure 3.) The higher turnover rate for part-time workers reflected, in part, the tendency of many part-time workers to also be part-year workers who move into and out of the labor market on a seasonal basis. The overall turnover rate, including both full-time and part-time workers was found to be 28.1 percent.

Figure 3
Employee Turnover Rates
Household Survey Data by Schedule Status, Year Ending March 2002



Source: Employment Policy Foundation tabulation of Current Population Survey data, March 2002.

The EPF analysis of turnover from the household survey data also provides a time trend perspective. Figure 3 shows estimated annual turnover rates for full-time and for part-time employees from March 1992 through March 2002. The trend shows little change in turnover across the period and no clear impact from the recession.

The EPF analysis also shows that the cost of employee turnover is significant. Based on full-time vacancies at 23.8 percent per year and $12,506 per vacancy turnover costs (based on the generally accepted 25 percent ratio of turnover costs to compensation), a Fortune 500 corporation with 40,000 full-time employees would face turnover costs of $119 million per year. A change in the turnover rate by one percentage point (400 vacancies) can add to or subtract from corporate operating costs up to $5 million per year.

Need for Reliable Turnover Benchmarks

Companies that can achieve a lower than average turnover rate gain a competitive advantage. Moreover, companies that experience high turnover suffer in the increasingly competitive environment. It is critical that companies have good turnover benchmark data to help them gauge their competitive position and plan effective human resource management strategies. This *HRBenchmarks* provides you with national and industry turnover benchmarks.

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The key to profitable human resources management is to keep turnover costs low relative to the competition by careful management of both the turnover rate and the efficiency of the staffing and training of new employees. Relevant and timely data regarding turnover rates across the economy, for specific industries, and by occupation can help companies plan and evaluate their own human resource management operations to achieve realistic and effective goals that payoff in terms of lower turnover costs, higher productivity and enhanced profitability.

Turnover benchmarks that are relevant to corporate human resource management decisions and cost analysis should distinguish between separations that trigger replacement staffing activity and separations that result from workforce reduction layoffs.

Notes

[1]Nobscot Corporation, "Retention Management and Metrics," webpage @www.nobscot.com reports a meta analysis of staffing cost surveys showing total turnover cost as 25 percent of the total compensation of the employee being replaced. The $12,506 amount is based on 2001-02 average total compensation of a full-time employee estimated at $50,025 including wages of $38481 and benefits of $11,544. Average earnings of full-time, year-round employees were tabulated from the March 2002 Current Population Survey Annual Demographic File. Benefits were estimated based on Employer Cost of Employee Compensation, March 2002.

[2]Estimates of turnover costs also depend on the statistical reliability of the underlying turnover rate and cost per position filled

data. The JOLTS and CPS data sources provide estimates of turnover rates that are statistically reliable because they are derived from large, random and representative scientific surveys conducted under government auspices. Sample size, sample selection procedures, and representativeness of the sample frame are important considerations for evaluating the reliability of any turnover or turnover cost survey. At this time no large, randomly selected, representative sample frame, scientific survey data is collected to facilitate estimates of company-level turnover and staffing costs.

[3]Nobscot.com, op. cit.

[4]The JOLTS program compiles monthly reports collected from a statistically representative sample of 16,000 establishments out of the universe of eight million establishments covered by unemployment insurance tax requirements.

[5]Separations include all terminations of employment for any reason that occurred during the month.

[6]Total employment includes all persons on the payroll who worked any hours for pay during the pay period that includes the 12th day of the month.

[7]Hires include the total number of additions made to the payroll at any time within the month. Hires include both new employees and furloughed employees recalled to work during the month.

[8]Hires include furloughed employees who have been recalled.

[9]The unemployment rate in August 2002 was 5.7 percent. Although the unemployment rate statistic and the job openings rate statistic are not strictly comparable (they are derived from different survey bases), it is reasonable to conclude that job seekers exceeded job openings in August 2002.

[10]Hires data presents a similar problem. New hires include both replacement and expansion positions. Both involve staffing costs, but only the replacement hiring is associated with turnover. The JOLTS data does not distinguish between replacement and expansion hires. Although layoffs do not give rise to replacement staffing costs, layoffs are not costless. Severance payments, early exercise of pension benefits, and expenditures for job search assistance benefits, and higher unemployment insurance taxes are among the costs of layoffs.

[11]In addition to these two categories, replacement costs are also triggered by terminations for cause – a separation type that is included among the layoffs category in the JOLTS data but not separately tabulated. Anecdotal evidence suggests that terminations for cause are small in comparison to total separations. Lack of definitive data regarding terminations for cause, the turnover rate derived by summing quits and other separations (retirement, etc.) is an underestimate of the ideal turnover benchmark for company-level human resource management purposes.

[12]In 2002, 4.4 percent of workers accounted for 32 percent of all turnover events. One-third of these were part-time workers. Some of these multiple job changes may be independent contractors and temporary workers who routinely move between project assignments. The JOLTS data underestimates the ideal turnover benchmark by not including persons terminated for cause. The turnover estimates derived from the household survey include persons terminated for cause but may slightly over-estimate relevant turnover because it was not possible to definitively exclude persons who changed jobs because of the end of temporary assignments.

Established in 1983, the Employment Policy Foundation is a research and education foundation whose purpose is to provide policymakers and the public with the highest quality economic analysis and commentary on U.S. employment policies affecting the competitive goals of American industry and the people it employs.

The global marketplace and the pace of technological change are redefining products, production, markets, the nature of work, employer-employee relationships, workplace skills and the workplace itself. Unfortunately, federal and state policymakers have often imposed broad requirements without fully understanding their economic, social and human resources consequences. Through policy analyses and economic studies, EPF seeks to encourage an employment policy framework that will facilitate economic growth, increasing productivity, job creation, job security and a rising standard of living for a growing population. As a consequence, EPF policy analysis adds a crucial element to employment policy debates.

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