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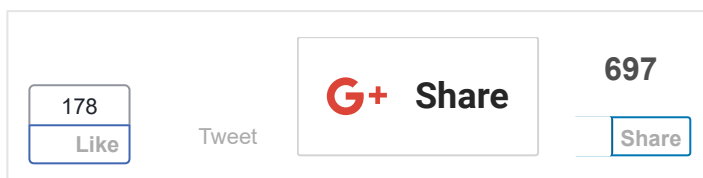
Small Business Employee Benefits and HR Blog

Employee Retention - The Real Cost of Losing an Employee



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For businesses to thrive in today's economy, [finding and retaining](#) the best employees is important. This is especially true for small businesses and nonprofits competing with larger businesses, and larger budgets, for top talent. Benefits play a large role in employee retention, and employees want benefits personalized to their needs.

Happy employees help businesses thrive

Frequent voluntary turnover has a negative impact on employee morale, [productivity](#), and company revenue. Recruiting and training a new employee requires staff time and money. According to the Bureau of Labor Statistics, turnover is highest in industries such as trade and utilities, construction, retail, customer service, hospitality, and service.



The cost of employee turnover

Studies on the cost of employee turnover are all over the board.

Some studies (such as SHRM) predict that every time a business replaces a salaried employee, it costs 6 to 9 months' salary on average. ***For a manager making \$40,000 a year, that's \$20,000 to \$30,000 in recruiting and training expenses.***

But others predict the cost is even more—that losing a salaried employee can cost as much as twice their annual salary, especially for a high-earner or executive-level employee.

Turnover seems to vary by wage and role of employee. For example, a [CAP study](#) found average costs to replace an employee are:

- 16 percent of annual salary for high-turnover, low-paying jobs (earning under \$30,000 a year). For example, the cost to replace a \$10/hour retail employee would be \$3,328.
- 20 percent of annual salary for midrange positions (earning \$30,000 to \$50,000 a year). For example, the cost to replace a \$40k manager would be

\$8,000.

- Up to 213 percent of annual salary for highly educated executive positions. For example, the cost to replace a \$100k CEO is \$213,000.

What makes it so hard to predict the true cost of employee turnover is there are many intangible, and often untracked, costs associated with employee turnover.

Improving benefits is one way to reduce employee turnover. Learn how to offer more personalized health benefits at a price you set in our [Comprehensive Guide to the Small Business HRA](#).

So, what is the *real* cost of losing an employee?

In a [recent article on employee retention](#), Josh Bersin of Bersin by Deloitte outlined factors a business should consider in calculating the "real" cost of losing an employee. These factors include:

- The cost of hiring a new employee including the advertising, interviewing, screening, and hiring.
- Cost of onboarding a new person, including training and management time.
- Lost productivity—it may take a new employee one to two years to reach the productivity of an existing person.
- Lost engagement—other employees who see high turnover tend to disengage and lose productivity.
- Customer service and errors—for example new employees take longer and are often less adept at solving problems.
- Training cost—for example, over two to three years, a business likely invests 10 to 20 percent of an employee's salary or more in training

- Cultural impact—whenever someone leaves, others take time to ask why.

One of the reasons the real cost of employee turnover is an unknown is that most companies don't have systems in place to track exit costs, recruiting, interviewing, hiring, orientation and training, lost productivity, potential customer dissatisfaction, reduced or lost business, administrative costs, lost expertise, etc. This takes collaboration among departments (HR, Finance, Operations), ways to measure these costs, and reporting mechanisms.

Best practices on employee retention

So, what can you do about employee retention? Some employee retention tips include:

- Benchmark your employee retention rate.
- Use proven retention strategies, not guesswork.
- Don't assume employees are happy (create a high-feedback environment).
- Implement a health benefits program, like a [Small Business Health Reimbursement Arrangement](#) (HRA).
- Provide personalized benefits to employees.
- Conduct exit interviews.

Editor's Note: This post was originally published in August 2013.



**Reduce turnover and improve
employee retention at a cost
your business can set.**

SHOW ME HOW

What do you think are key factors in the cost of losing an employee? What are your tips for employee retention? Join the discussion by leaving a comment below.

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Note: This should not be taken as legal or tax advice.

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Eileen

Very interesting article! I would like to add that there is another cost to losing a seasoned employee, and that loss is 'wisdom withdrawal'. Longterm employees that decide to leave the company take all of that historical knowledge with them. And many times, this historical knowledge is quite difficult to learn for the new employees.

Reply to *Eileen*