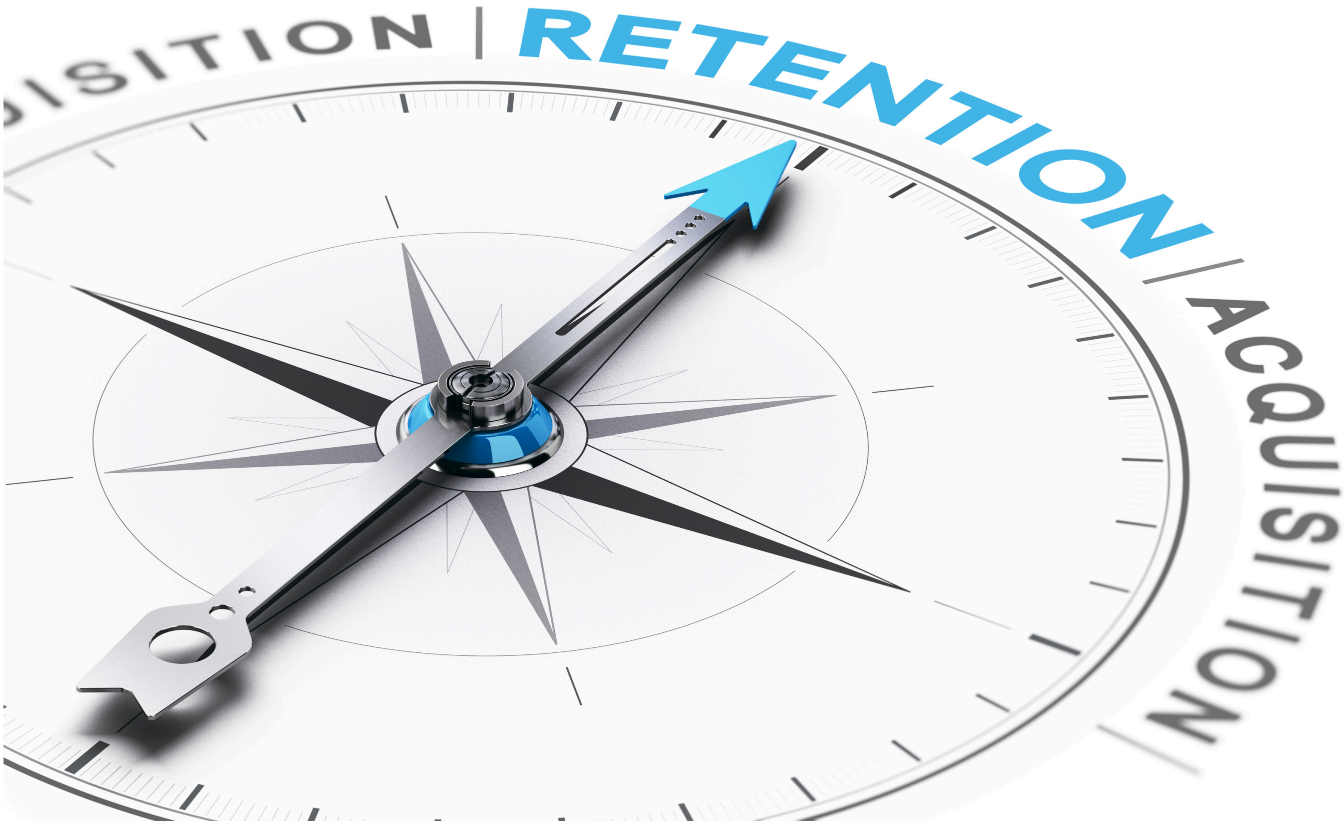
Enhancing Employee Retention in Virginia's Nonprofit Sector



Applied Policy Project

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Disclaimer

The author conducted this study as part of the program of professional education at the Frank Batten School of Leadership and Public Policy, University of Virginia. This paper is submitted in partial fulfillment of the course requirements for the Master of Public Policy degree. The judgments and conclusions are solely those of the author, and are not necessarily endorsed by the Batten School, by the University of Virginia, or by any other agency.

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Excecutive Summary

This report explore strategies to enhance the retention rate in Virginia's 501 C3 nonprofit organizations. Virginia's Nonprofit 501 C3 sector play a vital role in providing services to communities but their long term effects is being undermined by high employee turnover. Research attach high cost to turnover. It take resources away from critical goals by disrupting day to day operations, raising training cost and depleting institutional knowledge. In Virginia alone over 37000 nonprofits employ nearly 10% of state's workforce and generate more than $63 billion in annual revenues.

The reports starts with analyzing the background of policy problem. I specifically explore, Data challenges, cost of turnover, role of public funding, factors affecting retention and what constitutes an optimal turnover. The report then defines the problem: nonprofits struggle to retain employees due to low compensation, burnout, limited career growth and funding instability. Following this, the report offers three proposed alternatives and conduct a literature review:

1. Mental Health Support
2. One Time Retention Bonus
3. Low Interest Loan Program

Next, it evaluates each alternative based on three criteria; net cost, feasibility and equity. The low interest loan scheme stands out as the best suggestion when these parameters are evaluated. By offering immediate financial relief, nonprofits tackle one of the root causes of turnover - financial insecurity - while promoting equitable access for all employees. This approach also proves administratively straightforward, relying largely on payroll-deducted repayments and minimal overhead. Unlike other alternative it has a negative net cost, meaning it adds directs saving to the organization.

Finally, the report concludes with an implementation plan. Nonprofits can begin by internal consensus building, creating partnerships with credit unions, run a small pilot program and finalize the rollout with a clear guidelines. Adopting this strategy, organizations are likely to experience both reduced turnover and a more engaged and mission driven workforce.

Introduction

Nonprofit sector is faced with the challenge of employee turnover. This hinder their efforts to achieve a lasting success in fulfilling their missions effectively over time. The National Council of Nonprofits (2023) reports that 86% of nonprofits struggle to keep their staff while turnover rates have risen by 10% since 2020. Studies indicate that nonprofit executive turnover, which is expected to increase with the aging workforce, exacerbates instability within these organizations (Stewart, 2016).

Employee retention is the term used to describe the several tactics and procedures that businesses use to maintain their staff members' motivation and satisfaction, which in turn encourages them to work for the organization for a long time. (M. K. Sorn et al). An organization's success depends on its ability to retain talented and skilled workers as this can result in higher performance, lower turnover costs, and increased productivity. (M. K. Sorn et al)

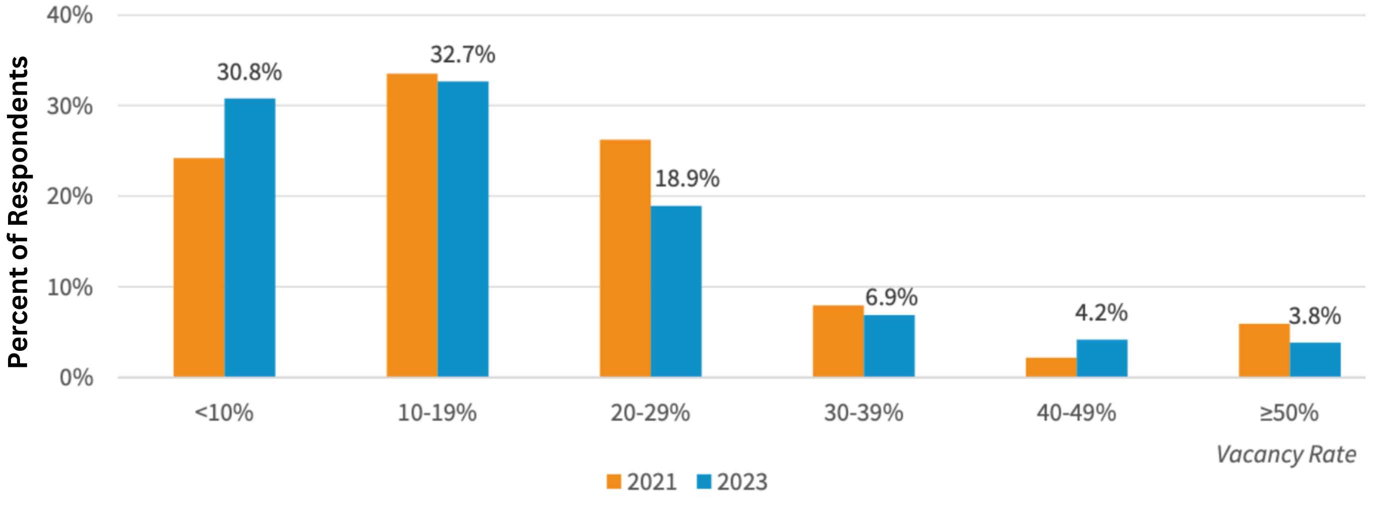
Turnover leads to high training cost and low average productivity. Low retention in NGOs presents several challenges, such as difficulty in delivering essential community based programs, disrupting daily operations, depleting institutional knowledge, and straining the already limited resources. While mission attachment draws individuals to nonprofit work, dissatisfaction with compensation, burnout, and lack of advancement opportunities often outweigh their commitment to the mission (Brown & Yoshioka, 2003). Moreover, funding pressures and the shift toward project-based funding have increased temporary contracts, leading to difficulties in retaining skilled staff and lowering morale, job satisfaction, and service effectiveness (Akingbola, 2004; Cunningham, 2001; Parry et al., 2005).

For nonprofit human service organizations, employees are one of the most critical inputs required to deliver on mission and make a difference in the lives of people served. Therefore, developing HR systems that view employees as a critical strategic asset and that foster the retention of high-quality employees over time will improve employee outcomes. (Taylor & Francis, 2015).

Background and Policy Orientation

There are 37,860 nonprofit organizations in Virginia. It includes public charities, foundations, and civic groups. The sector employs over 277,787 people, accounting for more than 9% of Virginia's workforce. Collectively, nonprofits generate over $63 billion in annual revenues and hold nearly $153 billion in assets. (Independent Sector, 2016). Nonprofits heavily rely on consistent staff members to provide essential services. They often encounter obstacles in maintaining program quality and consistency due to such workforce transitions. The expenses associated with hiring and training personnel further burden already limited budgets drawing attention away from the primary objectives of the organization.

According to two surveys conducted by Council of nonprofits, Three out of four respondents report job vacancies (74.6% in 2023, 76% in 2021). In contrast, only a third (33.0%) of private businesses had job vacancies at any time between August 2021 and September 2022, according to U.S. Department of Labor data. Although the severity of crisis has decreased since 2021, yet a third of the responding nonprofits with vacancies reported 20% or more of their jobs were going unfilled. another 32.7% reported vacancy rates between 10% and 19%, highlighting ongoing challenges in filling essential roles.



Source: National Council of Nonprofits

Note: Data adapted from 2023 Nonprofit Workforce Survey Results by National Council of Nonprofits, 2023, retrieved from https://www.councilofnonprofits.org/reports/2023-nonprofit-workforce-survey-results

Data Challenges and Workforce Analytics

Having better data will allow organizations to understand workforce trends, identify areas for improvement, and advocate more effectively for resources and support. The Bureau of Labor Statistics (BLS) provides quarterly data on employment and wages for industries, including goat farming and limousine service, but not for the nonprofit sector – the nation's third-largest workforce. (Independent Sector).

Data on the charitable sector is released only once every five years, contingent on available resources, with the latest BLS data published in 2017. This lack of timely and accessible information leaves policymakers and nonprofit executives without the critical data needed to assess sector needs and develop effective strategies for this vital segment of the American economy. (National Council of Nonprofits).

Furthermore, the Bureau of Economic Analysis (BEA), creates detailed reports, called satellite accounts, that focus on specific parts of the economy, like health care, arts, and outdoor recreation, to help policymakers and researchers better understand these areas. However, the BEA does not have a satellite account on nonprofit sector meaning it doesn't fully measure the contribution of nonprofits to the economy, leaving policymakers and nonprofit leaders without crucial information needed to assess sector contributions and challenges. This forces the sector to divert valuable resources to collect alternative data and rely on uncertain estimates. (Independent Sector)

Cost of Turnover

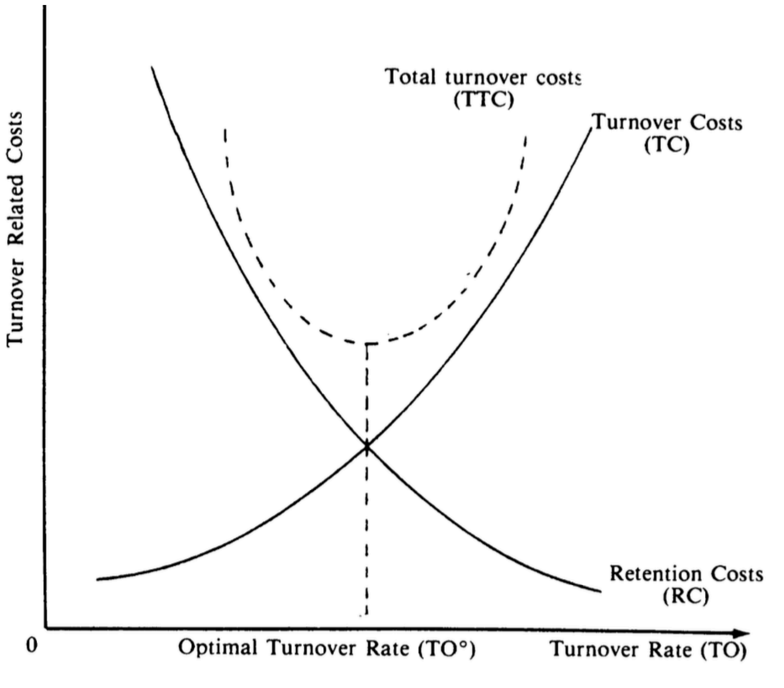
Turnover is universally acknowledged as a costly issue by HR professionals. Between direct costs like severance, hiring, and training, and indirect costs such as lost productivity and morale, the expenses add up quickly. According to the Center for American Progress (n.d), replacing employees in positions earning under $50,000 annually—a category that includes many nonprofit roles and encompasses 75% of the American workforce—costs about 20% of the position's annual salary. For jobs paying less than $30,000, representing roughly half of the workforce, replacement costs are slightly lower but still significant at 16% of the annual salary. The Society for Human Resource Management paints an even grimmer picture, estimating that recruiting and training a replacement can cost between six- and nine-months' salary. For mid-level roles, the expense can climb to 150% of the salary, and for highly specialized positions, it may reach a staggering 400%. (SHRM)

Role of Public Funding

The relationship between government and nonprofit agencies is as a partnership that offers mutual benefits where the government provides funding and nonprofit deliver services (Salamon, 1995).This dynamic allows nonprofits to influence government programs while maintaining some autonomy in defining the scope and nature of their services. Nonprofit effectiveness is weakened when government-funded initiatives rely on temporary employees (Akingbola, 2004). The problem is not just with spending levels; it's also with how well services match agency objectives. Despite efforts to professionalize, frequent personnel turnover brought on by short-term contracts strains resources, interferes with operations, and lowers service quality.

Dysfunctional and Optimal Turnover

There are two main theories that conceptualized the turnover across organizations; The Human Capital and Cost Benefit Theories. The Human Capital Theories suggest that turnover has a linear impact and is always detrimental to an organization's performance. This is because losing human capital disrupts operations and can lead to crises in task execution (Becker, 1964; Schultz, 1961). In contrast, Cost-Benefit Theories argue that turnover is only detrimental if its dysfunctional- its when losing a valued employee hurts the organization's performance or long-term success. Some turnover can be healthy, offering chances for innovation. The goal is to find an optimal turnover rate that balances the costs of both turnover and retention (Abelson & Baysinger, 1984).



Source: (Abelson, Babysinger, 1984)

As illustrated in above figure, Increased retention spending typically results in lower turnover, whereas lower effort results in greater rates. Retention and turnover, however, have expenses. The optimal turnover rate (OTR) minimizes the sum of all expenses, forming a U-shaped total cost curve (Abelson & Baysinger, 1984).

Factors Influencing Turnover

Empirical studies examining turnover in the private, public, and nonprofit sectors reveal minimal variation in the factors influencing turnover across these sectors. (Selden & Sowa, 2015) These factors are typically grouped into three main categories: economic conditions, organizational conditions, and individual characteristics (Griffeth, Hom, & Gaertner, 2000; Moynihan & Pandey, 2007; Selden & Moynihan, 2000).

Individual-Level Factors:

Compensation

Pay is a significant factor in retention (Sorn et al., 2023). Nonprofit organizations often struggling to offer competitive salaries due to invariable nature of donor funding and limited resources. This financial uncertainty creates challenges for employees, particularly those committed to the organization's mission but unable to meet their financial needs. Even mission driven employees might leave when unable to meet their financial needs. Kim and Lee (2007) highlight that even mission-driven employees may eventually leave if their compensation remains inadequate. Budgetary constraints limit nonprofits' ability to offer competitive salaries, bonuses, or benefits, forcing employees to seek more stable opportunities elsewhere.(Stater and Stater, 2024)

Role ambiguity and mission misalignment

Role ambiguity and mission misalignment are key drivers of employee turnover, as noted by Glance, Hogg, and Huberman (1997). They emphasize that proper training is essential for aligning employees with an organization's mission and clarifying their roles. When employees encounter a gap between their anticipated responsibilities and the reality of their work, turnover becomes more likely. This mismatch is often worsened by inadequate training, leaving employees unprepared and overwhelmed, which can lead to disillusionment. As a result, they are more likely to seek new opportunities, contributing to higher turnover rates. employees who feel unprepared or disconnected from the organization's mission are more likely to leave (Glance et al., 1997).

Public Service Motivation (PSM)

Perry and Wise developed the concept of public service motivation (PSM) to understand the behavior of public organizations and the management of staff. They found that the greater the PSM of the employee, the lower the turnover intention, and the higher the work stress, the higher the turnover intention. In addition, work stress and task performance play a mediating role between PSM and turnover intention. (Perry et al., 1990)

Work-life Imbalance and Lack of Recognition

Work-life imbalance is another significant contributor to turnover in nonprofits. Limited resources often lead to overwork, with employees feeling morally compelled to contribute beyond their capacity. The lack of recognition further demoralizes dedicated employees, increasing the likelihood of their departure. Low work engagement is significant contributors to employee burnout. Nonprofits, like other sectors, are susceptible to poor management practices and high-pressure environments, which can heighten stress and emotional exhaustion. (Stater and Stater, 2009),

Age

Older employees are less likely to leave, as age correlates with greater job stability and commitment to the organization (Kellough & Osuna, 1995). Older employees are also more likely to have a stronger sense of public service (Moynihan & Pandey, 2007; Perry, 1997) and to want to work in the public sector (Lewis & Frank, 2002). Lewis and Park (1989) found turnover significantly associated with an employee's age. Turnover was high for younger workers presumably due to higher quit rates and for older workers, due primarily to retirement. Possible explanations for the relationship between quit rates and youth include in decision by younger employees regarding preferred career paths and region of residence, as well as the possible absence of increased family responsibilities and /or financial obligations that may their willingness to quit. Older employees are more likely to possess traditional values and a supportive work ethic, making them feel more positive about their position (Ting, 1997)

Length of Organizational Membership

The longer individuals continue with the same organization, the stronger their sense of organizational loyalty (Romzek, 1990). Crewson (1997) found that correlates of length of organizational membership, seniority and pay grade, have been found to have a positive relationship with organizational commitment, and Kim (2002) found that length of organizational membership is positively related to job satisfaction. However, Length of time in the same position has a negative relationship with commitment and with job involvement.

Organizational-Level Factors

Inadequate Training

Inadequate training also significantly contributes to turnover. Without sufficient training, employees may experience role ambiguity, disengagement, and dissatisfaction. Training is critical for providing the skills necessary for employees to perform effectively. As noted by Delery and Doty (1996), continuous learning enhances performance and fosters career development. Conversely, comprehensive training programs increase commitment and performance, improving retention (Sinha et al., 2010). When training meets employee expectations, it strengthens the relationship between employees and employers, fostering long- term loyalty (Dysvik & Kuvaas, 2008).

Funding Instability and Temporary Staffing

Dependence on government funding has negative impact on nonprofit agencies. Much research note that the contracting system of funding makes nonprofit agencies highly susceptible to changes in government policies and budget cuts. As a result, nonprofit organizations are less able to cover shortfalls in government funding with private donations. Many agencies have been forced to discontinue services when government funding has dried up and charging fees for service is not an alternative (Akingbola, k.2004). Given this pressure, NPOs are forced to recruit temporary staff which affects the retention of employees. A survey of social service nonprofits revealed that 45% of temporary staff left within the first year, citing instability and lack of job security as primary reasons (Ridder, Piening, & Baluch, 2012).

Nonprofits also face funding challenges, with dependency on donor contributions making it difficult to maintain competitive salary structures. This financial instability creates pressure on the employees as they seek for better employment opportunities in other organizations. Cheng and Waldenberger (2013) highlight those insufficient salaries, especially in high-cost areas, exacerbate turnover by pushing employees toward sectors or regions with better financial prospects.

The Nonprofit "Starvation Cycle"

Nonprofit organizations often struggle with high employee turnover, driven in part by chronically low salaries and understaffed teams. This issue is partly due to the nonprofit sector's "starvation cycle" as identified by the Bridgespan Group. This is because the nonprofits are under immense pressure to meet the donor's expectations of having low overhead costs. To appease donors, nonprofits frequently underreport these expenses . Similar to startups, nonprofits focus heavily on channeling resources toward their mission. However, this often comes at the cost of their workforce, as they attempt to extract maximum productivity from employees while providing minimal financial support. (Lecy & Searing, 2012)

The cycle begins with funders unrealistic expectations about the true costs of running a nonprofit. These expectations set the stage for the second step, where nonprofits feel pressured to align with these misconceptions. In response, nonprofits adopt two problematic strategies: they cut overhead expenses and underreport their actual costs on tax forms and fundraising materials. This cycle perpetuates itself, as the underreporting reinforces funders' false assumptions, leading them to expect nonprofits to achieve greater impact with increasingly limited resources. This approach perpetuates a cycle of burnout, turnover, and diminished organizational capacity, ultimately undermining the mission nonprofits aim to achieve. (Lecy & Searing, 2012). This cycle causes organizations' financial health to deteriorate until they are forced to run at unsustainable levels, endangering their capacity to carry out their goal.

The Nonprofit Starvation Cycle: Three intense pressures which are both self-perpetuating and provide constant debilitating force on overhead costs.

Source: *Lecy, J. D., & Searing, E. A. M. (2012). Anatomy of the Nonprofit Starvation Cycle*

Economic Conditions

The effects of economic factors on turnover vary significantly depending on the measures used. While accession rate - the rate at which people are hired into jobs, and unemployment rate are often employed as proxies for employment perceptions - how people perceive job opportunities, their predictive power differs. Employment perceptions consistently show a strong correlation with turnover, whereas accession rate does not. Additionally, unemployment rate effectively predicts aggregate turnover but fails to account for individual turnover behavior. (Cotton & Tuttle, 1986)

National economic data, such as unemployment and accession rates, are consistently linked to aggregate turnover. However, employment perceptions - typically gathered through individual assessments of the economy or potential job opportunities - are better predictors of individual turnover behavior. In summary, aggregate economic measures reliably correlate with aggregate turnover, while individual-level data more accurately predict individual turnover behavior (Cotton & Tuttle, 1986)

Problem Statement

86% of the nonprofits are facing difficulties retaining staff and turnover rates have increased by 10% since 2020 (National Council of Nonprofits, 2023). Key drivers of turnover include low compensation, burnout, and lack of career advancement opportunities, which often outweigh employees' commitment to the mission. Moreover, funding instability and the rise of project-based contracts have resulted in increased reliance on temporary staffing, which further lowers morale and job satisfaction.

Client Overview

Center for Nonprofit Excellence envisions equitable, thriving, and just communities powered by healthy nonprofits and to achieve that vision, it serves as a champion, learning partner, and advisor to Virginia nonprofits. It offers varieties of program like Board Academy, Leadership Circles and advocacy to strengthen understanding of sector and how to support it. Since turnover directly jeopardizes NGOs' efficacy and stability, CNE takes turnover a serious concern. Regular personnel turnover impairs services, depletes resources, and makes it harder for organizations to carry out their missions and thereby weakening the trust and continuity within communities. CNE tackles this difficulty by assisting NGOs in creating plans to keep employees, develop leadership, and increase their long-term success.

Alternatives Literature Review

Alternative #1: Mental Health Support Program

According to the National Council of Nonprofit study, nearly 25% of participants said they lost more employees than usual in 2024, with burnout being one of the most often mentioned causes (GoodGrant,2024) Organizations with wellness initiatives have a 25% decrease in employee turnover compared to those without these programs. (American Fidelity). Reduced productivity, absenteeism, and increased turnover rates are all consequences of poor mental health that impose significant direct and indirect replacement costs on firms (Greenberg et al., 2010). As a result, organization face significant financial repercussions, often needing to cover replacement costs that exceed half of the departing employee's annual salary.

Gallup conducted a survey on Employee Wellbeing and measured themes, like "life evaluation, daily negative emotions, burnout, and how strongly employees believe their organization cares about their wellbeing" . The result of survey, shows that Survey that employee perception of organizational care about their wellbeing peaked in May 2020, however, it decreased to it lowest in February 2024. (Johncenter,2025)

Employees who suffer from depression see an increase up to seven times the turnover rate among with six-month turnover rates reaching 12-15% compared to only 2% among non-depressed individuals in a primary care setting. (Lerner et al). Furthermore, stress have been linked to low engagement which in turn affect the turnover rate (Gallup, 2013). Teams who have higher engagement typically have 25% lower turnover rates than low engaged teams (Gallup, 2013). Workers are increasingly looking to their companies for wellness and health benefits. According to PeopleKeep's 2024 Employee Benefits Survey, 92% of workers think health benefits are crucial. An additional 80% recognize the advantages of wellbeing and/or mental health. (Peoplekeep, 2024)

A study evaluated 14 companies, analyzing the retention rates among employees who accessed evidence-based mental health care compared to those who chose usual care or received no mental health support at all (falcon et al). As a result of the study, only 11% of employees who used the evidence-based mental health benefit left their jobs within a year, while 22% compared to those who didnt have access. In companies providing health plan claims, turnover was even lower for those utilizing evidence-based resources (7%) compared to those relying on traditional health plan psychotherapy (15%). Employee productivity was positively correlated with having access to routine mental health risk screening or assessment, but employee sadness, anxiety, stress, and intention to leave were adversely correlated (Fadzlina et al, 2025).

Compared to organization without wellness programs, those with wellness efforts had a 25% reduction in employee turnover and a strong a return on investment (7-15%) as a result of mental health programs (AmericanFidelity, 2024). In another study, the results revealed that mental health care (for example telephonic support and structured programs) In another study, the results revealed that mental health care (for example, telephonic support and structured programs) contributed to reduced turnover and greater job satisfaction compared to typical care options (Wang et al, 2020). For instance, Employee Assistance Programs, a type of mental health service, have shown to improve mental health and have lower levels of stress, anxiety, and depression and a lower desire to leave, while also encouraging organizational engagement. (Fadzlina et al, 2025)

Alternative #2: One-Time Retention Bonus

Retention bonuses are lump sum amounts given to employees on the condition that employee remain in the organization. In a survey of councils of nonprofit 40% of organizations recognized one time bonuses as a potential solution to address turnover. (NCN, 2023). Pay is a major determinant in retention, employees who are paid more are more likely to stay with their organizations. (Sorn et al, 2023)

There has been several studies indicating the positive effects of financial incentives on the job satisfaction and employees willingness to stay within organization. In studies of voluntary turnover, compensation, including pay and benefits indicated to be a critical explanatory factor in explaining the decision to exit an organization (Gomez-Mejia, 2001). The nonprofit organization that provides human services must determine the employee's return on investment and address any performance issues that can compromise the organization's capacity to fulfill its goal. An employee's sense of belonging to the company can be strengthened by regular performance reviews, which give them the impression that the company values and desires their success. (Taylor & Francis, 2015)

Usage of retention bonuses have surged in recent years. A study of WorldatWork found that almost 66% of organizations use retention bonus, which is a 8% increase since 2021 and 21% higher than the pre-pandemic level.(WorldatWork, 2024). Similarly, according to a 2021 Society for Human Resource Management (SHRM) survey, 57% of companies utilize retention bonuses, and over half of them had given out more of them in the previous 12 months. Organizations have frequently used retention bonuses to keep their limited personnel during times of high turnover or talent shortage (like the COVID-19 pandemic recovery). One-time "commitment" bonuses have been employed by sectors like healthcare and education to keep employees. To encourage teachers to stay through the school year several schools in many U.S. states provided them with COVID-19 retention awards, which can amount to thousands of dollars. (Newsweek, 2022).

The amount of retention bonus frequently differs depending on tenure and job. According to WorldatWork, retention bonuses are usually one-time costs rather than ongoing pay raises, and they are not usually intended to provide long-term career benefits. (WorldatWork, 2024)

One important concern is whether retention bonuses create any long-term success in loyalty or if they only postpone turnover (keeping an employee until the bonus payout, but not much longer). According to industry professionals and scholarly studies, the impacts are mostly temporary. Harvard Business Review's analysis (2023) concluded that there's no evidence of retention bonus increasing engagement or long-term loyalty. In other words, a retention incentive can buy time by increasing retention during the bonus period, but it doesn't alter an employee's long-term dedication to the company. Researchers also noted that resignation frequently happened soon after achieving retention incentive payouts, in their analysis of the "Great Resignation" by the U.S. Bureau of Labor Statistics (BLS.GOV). A retention bonus can, in fact, serve as a temporary barrier; once the lock opens (the bonus is paid), an employee who was on the verge of quitting may do so right away.

There is variation on how employees react to the retention bonus. Financial needs, career stage, or even psychological issues may determine whether a bonus will influence someone's decision to stay, according to recent studies. In a study conducted in utopia, the field trial revealed that a long-term incentive only affected certain subsets of workers - those with higher patience and baseline mental well-being. On the other hand, employees who were more anxious or impatient did not alter their conduct and kept quitting at high rates (GLM, 2024)

Despite the ineffectiveness of retention bonus on longterm, several studies shows that it greatly impacts the short term retention goals. In a pilot study conducted by the Tennessee Public Schools, teacher retention increased by 20% for the following year as a result of offering a one time $5000 bonus to top rated teachers. (UNC, 2019). Out of 473 qualified teachers, 321 remained and received the incentive, resulting in a notable retention rate of about 68% in that group.

In another experiment, Alabama Department of Corrections (ADOC) established a retention program in 2019 that provided bonuses upto $7,500. The study revealed that Correctional officer resignation declined by 4% and voluntary turnover decreased by over 5% post the implementation of the program. Correctional officers were 28% less likely to leave the department during the post-program study period than they were during the pre-program period. (Alabama Commission on the Evaluation of Services, 2024). In another case, Harvard Law school offered retention bonuses ranging from 5% to 17% . The result of the program showed that only one out of 22 senior fundraisers resigned before the campaign ended and it demonstrated the effectiveness of retention bonus calculated as lower percentages of base salary. (Benefactor Group, 2022)

Alternative #3: Low Interest Loan Program

Loan programs is designed to help the financial emergencies of employees. According to the 2022 Survey of Household Economics and Decision Making (SHED) by the Federal Reserve Board, 37% of respondents were unable to pay for a $400 emergency bill, which is a 5% increase from the year before. 60% of workers are stressed about their money, and 44% of stressed workers report that their productivity has suffered as a result of their financial concerns, according to the 2023 PwC employee financial health study. Stress related to money affects not only how an employee performs but also whether they are able to perform at all. (Talent Rewire)

Many low wage employees cant access a reasonably prices a structured small loans and as a result they rely on payday loans (300% APR), auto tile loans, bank overdrafts and other costly financial products to receive credit support (Harvard Kennedy School, 2018). This in turn, weaken the morale and job performance of employees. In my third alternative i am suggesting low interest loan programs which is an affordable credit offered to employees and serves as strategic tool linking financial relief with loyalty. The goal of this program is to improve the financial stability and job satisfaction of employees which in turn enhance their commitment to the organization. Companies have used them to deter customers from switching to competitors, educational institutions have used them to increase completion rates and prevent dropouts, and employers have used them to recruit and retain talent in a competitive labor market. In a survey, 84% of employers believe that providing financial wellness tools may lower employee attrition, and 81% believe that wellness tools help draw in better candidates. (Napa-net, 2022)

The finding of a study on a Florida health system with more than 13,000 workers reveals that participants in BMG Money's LoansAtWork program experienced a lower attrition rate than the total employee population. The total retention rate was 82.3%, while the program's participants had a better retention rate of 89.8%. Compared to the overall attrition rate of 17.7%, the attrition rate among loan participants is only 10.2%. According to these figures, the annual staff turnover rate has decreased by 1.2%, demonstrating the effectiveness of BMG Money's LoansAtWork program as a retention strategy. (Texas Healthcare Trustees, 2024)

The literature review on the impact of loan programs on the retention is quite robust. According to a study, a Harvard analysis of two salary-linked fintech loan products, a type of low interest loan programs, caused a decrease of 28% in attrition.(Harvard Kennedy School, 2018). In another case, Rhino Foods provided its employees with $1000 emergency loans through collaboration with a credit union which employees were required to repay the loan by payroll deductions. Following the implementation of the program, Rhino Foods saw an increase of 65% to 85% increase in annual retention rate and turnover rate decrease from 35% to 15%. (SHRM, 2018).

Criteria

Criteria #1: Cost

As a result of the limited resources of the nonprofit sector as well as the possible federal spending cut, my client is interested in a cost-effective criterion. I will determine the relative cost of each alternative by looking at direct and indirect expenses: initial implementation costs, ongoing maintenance, and the potential cost savings from enhanced retention. To this end, I will include program cost per employee, funding availability, and cost saving & efficiency gain such as increased productivity and reduced recruitment and training costs in my analysis.

The first criteria incorporated into this policy analysis is cost, specifically administrative cost. This criterion will be measured by projecting the cost to the nonprofit organization to realize each alternative. For the study I used actual data about annual operating budgets between $2.5 million and $9.99 million, for which TSNE reports an average of 36 full-time equivalent (FTE) employees. All cost estimates and turnover impacts are tailored to this category. Other industry research (e.g., from the Society for Human Resource Management) frequently cites that turnover costs can be ~33% of the departing employee's annual salary. I take the current turnover rate of 20% in the nonprofit sector as reported by Nonprofit Times. For demonstration purposes, I will assume:

1. Average Annual Salary = $40,000 (ZipRecruiter)
2. Turnover Cost per Employee = $40,000 × 0.33 = $13,200
3. Current Turnover Rate = 20% (i.e., 7.2 employees leave each year out of 36)

Based on these assumptions, the baseline annual turnover cost for this nonprofit category is:

- 7.2 (exiting employees per year) × $13,200 = $95,040 (exiting employees per year)
- Any strategy that reduces turnover below 20% will yield direct savings against that $95,040 figure.

Funding will be sourced through a combination of grants, employer-sponsored wellness funds, and partnerships with mental health organizations, ensuring that financial barriers do not prevent nonprofits from prioritizing staff well-being. Training sessions and support resources will be accessible both in-person and virtually, ensuring flexibility for employees working remotely or in dispersed locations.

Criteria #2: Administrative Feasibility

Feasibility is an important aspect in assessing potential solutions to nonprofit turnover as even the most effective alternative will fail if it cannot be realistically implemented within the sector's constraints. Feasibility includes aspects such as the degree of administrative capacity required to put the program into effect, the time within which it should be done and the degree of organizational change that is likely to be required to sustain it. For Mid-sized nonprofits it's important to know if the alternative under consideration demands excessive training, policy changes or additional personnel to function effectively. A good solution should be feasible, non-burdensome and easily adoptable and maintainable by most nonprofits with minimal impact on their operations.

Criteria #3: Equity

Equity & Inclusivity are important factors that should be taken into account when examining turnover reduction strategies in the nonprofit context as new insights show that there are differences in the ways different groups of employees are treated in the workplace. While many nonprofits are run by people who are passionate about social justice and equality, internal inequities such as pay inequality, limited promotion, or leadership bias can go against these principles and lead to high employee turnover, especially for people of color, women or individuals from low-income backgrounds.

Evaluation and Recommendation

Alternative #1: Mental Health Support

Summary

Organizations that integrate mental health into their policies experience higher retention, lower absenteeism, and improved employee morale (Kim & Lee, 2007). A Mental Health stipend combined with Employee Assistance Program will not only prevent burnout and stress-related turnover but also cultivate resilience, psychological safety, and sustainable engagement across nonprofit teams. Additionally, Nonprofits will offer Employee Assistance Programs (EAPs) which is an employee benefits program designed to provide support and services that enhance the well-being and productivity of staff at all levels of the organization. EAP resources include counseling, legal assistance, work-life services, grief counseling, and even help with scheduling medical appointments. (TechnologyAdvice, 2023).

One of the best ways to include mental health support is through offering stipend to employees. Several high-profile companies, including Basecamp and Salesforce, have introduced mental health stipends of $100–$250 per month. Nonprofits would be gauging staff interest, typically via anonymous surveys or focus groups, to clarify the services employees most want covered such as therapy appointments or even stress management courses. The nonprofit would integrate stipends directly into their existing payroll system. The stipend is a direct payment model and doesn't require employees to pay upfront costs and get reimbursed. Additionally, nonprofits will plan for minor administrative efforts related to compliance and documentation, such as ensuring proper tracking and requiring receipts so that the organisation knows the amount goes to wellness programs, not personal use.

Net Cost

A combined mental health stipend program for employees would cost $4,400 per year. The annual cost per eligible employee for standard EAP (Employee Assistance Program) services is $21 covering five sessions of mental health support (CareFirst, 2024)

For 36 employees, the total EAP cost is:

- $36 \times 21 = 756$

The total cost of mental health support is:

- 36 (employees)×$100 (stipend/month) ×12 (months) + (12×$1.75×36) =$43956

Impact on Employee Retention

Mental health services have been shown to increase retention by 5.5% (Modern Health).

Given the current 20% turnover rate, the program would reduce turnover as follows:

- 20% - (20% × 5.5%) = 20% - 1.1% = 18.9%

This results in 1.36 fewer employee departures (from 7.2 to 5.84)

The estimated savings from reduced turnover is:

- 1.36 × 13,200 = 17,952

The net cost of the mental health program after savings

43,956-17,952 = $26,004

Equity

In terms of equity, this policy alternative is promising. A universal stipend acknowledges that all employees deserve mental health support. It also signals a culture valuing well-being. Most of the EAPs include counseling, legal, and financial services. This can benefit employees who lack robust social or financial safety nets. The only caveat is some EAPs have usage limits and non-English speaking staff or those from culturally diverse backgrounds might face language barrier or stigma to utilize EAP.

High (3)

Administrative Feasibility

In terms of administrative feasibility, this policy appears moderate. Securing a funding of $45000 is difficult for nonprofits as they often underreport their overhead cost to appear lean and don't explicitly cover the employee well-being initiative. Another challenge is ensuring employee utilization as it is often difficult for employers to gauge the mental health needs of their employees due to the stigma that still exists related to mental health conditions. (Ashley et al. 2021). Despite offering EAPs, research indicates that only 3-6% of employees use them annually.(SHRM, 2014). To ensure utilization, administration must improve awareness through regular communication, such as discussions, emails, and newsletters.

Low (1)

Alternative 2: One-Time Retention Bonus

In a survey of councils of nonprofit 40% of organizations recognized one time bonuses as a potential solution to address turnover. (NCN, 2023). Effectively a short-term incentive with a deferred payment. To ensure success, the nonprofit should establish clear eligibility criteria, track retention rates, and align the program with its budget and mission. Incentives are awarded only to employees whose performance is above average. Macdonald and CVS Health implemented this program for warehouse workers at some of its facilities with a $1,000 bonus, if they stay on the job for three months. For this alternative, I chose a one-year minimum employment requirement, referencing the U.S. Securities and Exchange Commission guidelines. (U.S. SEC, 2013). The bonus can be paid earlier under the 3 conditions:

- Death or Disability
- Termination by the Employer without Cause
- Resignation by the Employee for Good Reason (e.g., salary reduction, relocation, or unpaid wages)

Typically, a retention bonus ranges from 10% to 25% (PCBB, 2024). However, some programs, such as Harvard Law School's fundraising staff retention bonus program, have offered lower rates ranging from 5% to 17.5% (Benefactor Group, 2022). For this analysis, I used the midpoint of 10% and 25%, resulting in 17.5% of base pay.

Net Cost

Assuming that every qualifying employee is entitled to a one-time retention bonus of 17% of salary ($6800 on Average) at the end of the year after completing full time service of 12 months of service. Since the number of employees leaving on average is 7.2 thus the same amount is recruited again. if all 7.2 employees meet the criteria for the bonus payout scheme; the total payout would amount to $48,960. Currently, the turnover baseline of 20% means about 7.2 employees leave each year, and at an estimated turnover cost of $13,200 per employee (33% of $40,000, per SHRM estimates), the organization spends $95,040 on turnover annually. Organizations that offer strong benefits and incentives to employees reduce the likelihood of turnover by 26% (Ahlam et al, 2021). Thus, Implementing a bonus program reduces the turnover rate by 26% from 20 % to 14.8%.

Current Turnover Cost Calculation:

o Turnover rate (before bonus program) = 20%

o Number of employees leaving annually = 36 × 20% = 7.2 employees

o Turnover cost per employee = $40,000 × 33% = $13,200

o Total turnover cost (before bonus program) = 7.2 × $13,200 = $95,040

Turnover Cost After Bonus Program:

o Turnover reduction = 26% of 20% = 5.2%

o New turnover rate = 20% - 5.2% = 14.8%

o New number of employees leaving annually = 36 × 14.8% = 5.33 employees

o New total turnover cost = 5.33 × $13,200 = $70,356

Savings from Reduced Turnover:

o Savings in turnover costs = $95,040 - $70,356 = $24,684

Net Cost =$48,960 - $24,684 = $24,276

Equity

One-time Retention bonuses in case of being structured in a uniform format like anyone who meets the retention threshold ensures everyone is treated equally (horizontal equity). On the negative side, it requires 12 continuous months of services which inadvertently exclude part time or contracted employees who don't qualify which might lead to exacerbating existing inequities. Additionally, employees who need extended medical or parental leave might miss eligibility, penalizing employees from groups that have higher leave demands such as women, caregivers, persons with disabilities, etc.

Moderate (2)

Administrative Feasibility

On the administrative front this alternative scores high because of the administrative complexity, tracking employee and performance metrics in order to maintain the program. Additionally, HR would be required to track retention rates, turnover costs and employee feedback. The effectiveness of the program will be regularly assessed through turnover analysis, cost-benefit evaluations, and employee feedback, ensuring ongoing alignment with organizational retention and sustainability goals.

High (3)

Alternative #3: Low Interest Loan Program

Summary

The last alternative offered is an employer-sponsored, low-interest loan program as an employee benefit. The goal of this program is to help employees cover short term financial emergencies or other needs that might disrupt their ability to get to work or perform well on the job. Many nonprofits have adopted this program such as Local United Ways, Catholic Charities, etc. The Urban Institute report on Employer-Sponsored Small-Dollar Loans explains how these programs operate. Usually, small-dollar loans are between $500 and 2,500 (Urban Institute, 2021). The repayment is made by payroll deductions within 3-12 months. This will reduce default rates, which is the rate at which an employee is unable to repay the loan, by deducting loan repayments directly from employees' paychecks, thus making it a more secure and manageable option for both employees and lenders. Such loan offerings may involve local credit unions or community banks as partners for underwriting and collections, while requiring repayments by payroll deductions to reduce default risk. To ensure responsible participation, eligibility criteria would include a minimum requirement of 3 to 6 months of employment. This will ensure employees are somewhat established before accessing the benefit.

The loan amount is based on length of employment and credit score of employees with a typical loan term of 12 months. Applicants will be required to submit an application and the loan would be delivered within 24-48 hours. The program will incorporate basic financial counseling or training to reinforce responsible borrowing habits and improve financial literacy.

Net Costs

A low-interest loan program designed for employees or community members can be structured in two main ways: an external-partner model (using a financial institution) or an internal loan pool (self-funded by the nonprofit). Each approach has different cost implications and risk levels. There are two mechanisms through which it can be operationalized: External Partner such as partnering with credit unions and Internal Loan pool model which is funded by the nonprofit itself (Urban Institute, 2021). In terms of cost, the main difference between the two is the initial capital in the internal loan pool model. For instance, for a midsized nonprofit a reasonable amount could be $20000 which is ten $2000 or twenty $1000. However, due to the high administrative burden the second model creates, I exclude it from my analysis.

In the case of the external model, many credit unions do not charge an initial setup fee. However, some credit unions may charge a modest setup fee to cover administrative expenses for smaller employers. For instance, NorthCountry FCU in Vermont charges $100 to $300 for setting up. (Urban Institute, 2021). This same program also has an annual fee ranging from $50–$750 based on usage and loan losses. The administrative cost of monitoring the program through HR would be $720-$1440 per year assuming $30/labor, requiring 2-4 hours per month. The default rates, which refer to the rate at which employees fail to repay the loan, on well-designed employer loan programs have been low – on the order of 2–3% of loan balances. (Urban Institute, 2021). Assuming that the nonprofit takes 50% risk of default, for instance, if $20,000 in loans are issued per year, a 3% loss rate is $600 in defaults. In general:

For External Model: $200 initial setup + $200 annual fee + ~$1,000 in staff time + $600 in potential default-sharing = roughly $2,000 in the first year and afterwards, the ongoing expenses would be $1700 yearly. As a result of the loan the retention rate increases 20% (Psico Smart, 2024). A 20% reduction of $95,040 is $19,008 saved per year. The net cost would be 19008-2000 = - $17008

Equity

Most of the credit unions have flexible credit requirements for employer sponsored loans so employees with lower credit history can still qualify for the loan. This can be especially valuable for those from historically marginalized or low-income backgrounds who might otherwise be excluded from traditional credit. Furthermore, the program applies equally to all employees. The only issue is flat interest rate, even though it applies equally to all, some employees who are at the lower end of pay scale, even a small interest could be burdensome. This solution can reduce the stigma around borrowing as the loan is provided by an external institution. Additionally, it significantly helps employees who lack emergency savings or family safety net, thereby, reducing the financial stress and burnout.

High (3)

Administrative Feasibility

This alternative scores high in feasibility criteria. Application of it is straightforward: The lender handles loan approval (often instant or same-day decisions using simplified criteria), disbursement, servicing, collections, and regulatory compliance. The nonprofit mainly facilitates payroll deductions and promotes the benefit

High (3)

Evaluation Summary

Alternatives	Net Cost	Equity	Feasibility
Mental Health Support	$26,000	High (3)	Low (1)
One-Time Bonuses	$24,276	Moderate (2)	High (3)
Low Interest Loan Programs	-$17,008	High (3)	High (3)

Final Recommendation

My final recommendation for enhancing retention in mid-sized nonprofits is the Low Interest Loan Program. It has a lower implementation cost with a high saving, high equity benefit, and high administrative feasibility. Furthermore, it offers a high impact and low burden solution that would enhance employee’s loyalty and aligns with the nonprofit sector's commitment to equity and social justice. Given that financial stress is the main driver of turnover, this solution offers mid-sized nonprofits a more stable and engaged workforce and ultimately reinforces the organization's reputation as an equitable employer.

Implementation

CNE would play a centralized role in order to facilitate the adoption of lending programs. Initially, it would create partnerships with one or more community banks or credit unions and negotiate favorable setups and interest rates on behalf of its members. This approach reduces the transaction costs and complexities that nonprofits typically face when setting up financial benefits. CNE would then produce standardized materials such as overview documents, FAQs, employee communications, and HR toolkits that explain program components in straightforward terms. It then distributes these resources through its monthly newsletter, ensuring that NGOs can adopt the approach confidently.

Individual nonprofits would adopt the loan program in a four-phase process:

Phase 1: Program Design & Internal Consensus

A practical first move is to assemble the internal task force comprising HR, Finance, Executive Leadership and legal get a consensual decision. They will review CNE provided materials, make alignment with the program goals, and clarify any local HR policies such as payroll cycles, eligibility criteria, etc. As part of that, It then conducts a quick risk assessment on matters such as irresponsible borrowings and how it would impact the organization. In this phase, they would partner with a credit union/community bank and finalize the partnership model. By the end of phase 1 the nonprofit will have a designed document incorporating the eligibility issues, maximum loan caps and the percentage of defaults each partner would handle. This phase would take a 2-4 week process.

Phase 2: Setup & Building the Administrative Backbone

In this phase the nonprofit moves toward execution of the program. It would formalize an agreement with the chosen financial partner through a Memorandum Understanding (MOU) or a contract. Then, it would set up payroll deductions mechanisms in order to improve repayment reliability. Furthermore, the nonprofit would update employee manuals to ensure that the loan benefit is recognized as a standard practice and there is an official policy documentation. This phase will be closed on weeks 5-8

Phase 3: Strategic Rollout & Communication

Before releasing the program to all staff, a soft launch or pilot program (Weeks 9–12) targets a small employee cohort which would allow for real-time troubleshooting. Once tested, the nonprofit would launch a communication campaign. A statement from the CEO to reaffirm the organization's stance on the issue of employee well-being and financial security would be released. FAQ documents, informational webinars, and one-on-one HR support sessions would help to create familiarity and positive feedback. At the end of this phase, the lessons of the pilot are used to fine tune the program, and then the program is announced organization-wide.

Phase 4: Institutionalization & Monitoring

In this final stage, the full rollout extends the loan benefit to all eligible staff, retaining consistent guidelines to avoid frequent changes that might undermine credibility. An ongoing oversight committee-involving HR, Finance, and employee representatives - monitors program metrics such as usage rate, default levels, and user satisfaction to build a durable structure. The data would be tracked periodically and reported to maintain transparency. The nonprofit would incorporate Monthly or quarterly performance reviews to help identify improvements.

Phase	Tasks	Timeline
Phase 1: Program Design & Internal Consensus	• Finalize goals & budget • Select external lending partner • Draft policy & underwriting standards.	Week 2-4
Phase 2: Setup & Building the Administrative Backbone	• Sign MOU with a lending partner • Configure payroll system • Updating Employee Manual	Week 5-8
Phase 3: Strategic Rollout & Communication	• Pilot Launch • Develop marketing & FAQs	Week 9-12
Phase 4: Institutionalization & Monitoring	• Full Rollout • Performance Review	Week 13 onward

Implementation Logistics

Despite the straightforward application, implementing the Low Interest Loan Program requires a careful considerations. In terms of risk management, there are two possible high risk scenarios that must be addressed; Banking partner withdrawing from the agreement and higher expected default rates. CNE can mitigate this risk by maintaining relationships with multiple partners and including a 60 - 90 day exit plan clause in all agreements. This buffer period would allow the organization to address any remaining debts, logistics and find an alternative partner. To address the second risk scenario, nonprofits would adopt a 10% contingency fund, calculated as the percentage of the total loan volume. This would ensure that nonprofits have a financial cushion in the event of high default rates - employees not able to pay the amount of loan.

Appendix

Questions Asked to Stakeholders During my Interviews

Interview Questions

Background

1. *Can you tell me about your current role and your journey within this field?*
2. *What led you to work on issues related to nonprofit turnover (or your specific area of*
3. *expertise)?*

Understanding of the Problem:

1. *From your perspective, what are the primary challenges facing nonprofits when it comes to staff turnover?*
2. *What do you think are the most pressing issues that contribute to nonprofit turnover?*

Historical Context:

1. *In your view, why has the issue of nonprofit turnover persisted over time?*
2. *What do you believe are the historical barriers that have made it difficult to resolve this*
3. *issue?*

Politics of the Problem:

1. *How do political factors or institutional dynamics influence the issue of nonprofit turnover?*
2. *Are there any political intricacies that you think contribute to or help alleviate this problem?*

Unwritten Knowledge:

9. What do you know or understand about the issue of nonprofit turnover that isn't widely known or isn't covered in books or articles?

Solutions:

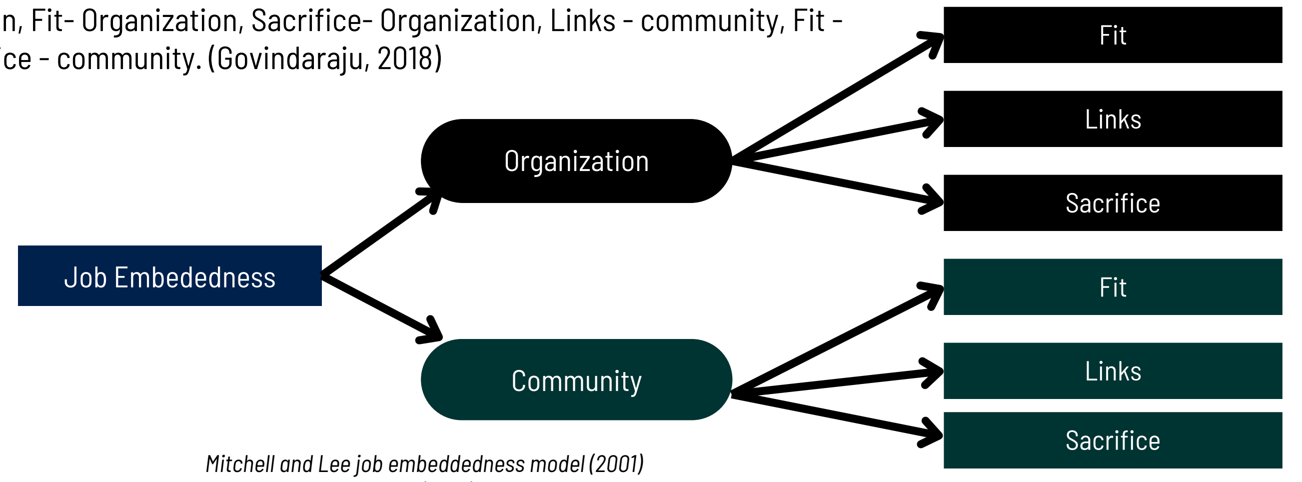
1. *What solutions or strategies do you believe could be effective in addressing nonprofit turnover, and why?*
2. *Are there any specific workforce development initiatives or models you believe could be effective in addressing these issues?*
3. *Are there any potential interventions or changes you think could make a significant impact?*

Two of the Most Prominent Turnover Models

Job Embeddedness

Job embeddedness (JE) refers to a wide range of psychological, social, and financial factors that influence employee retention (Mitchell et al., 2001; Yao et al., 2004). These factors extend beyond the workplace to include influences outside the employee's immediate work environment. The individuals would get stuck in a "Web", making it harder to them to leave. (Griffeth et al.)

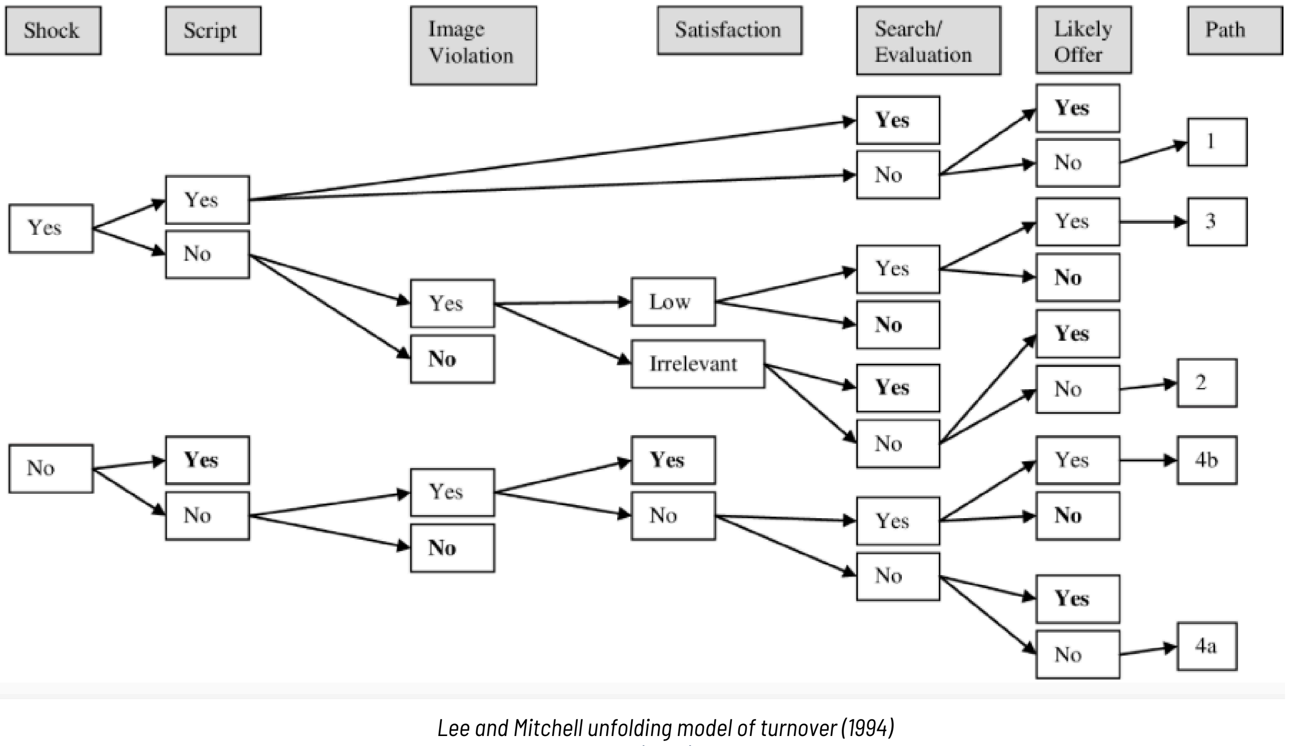
The theory introduced three kinds of attachments (links, fit, and sacrifice) with six dimensions (links – Organization, Fit- Organization, Sacrifice- Organization, Links - community, Fit - community, Sacrifice - community. (Govindaraju, 2018)



Mitchell and Lee job embeddedness model (2001)
Source: Govindaraju, N. (2018). Addressing Employee Turnover Problem

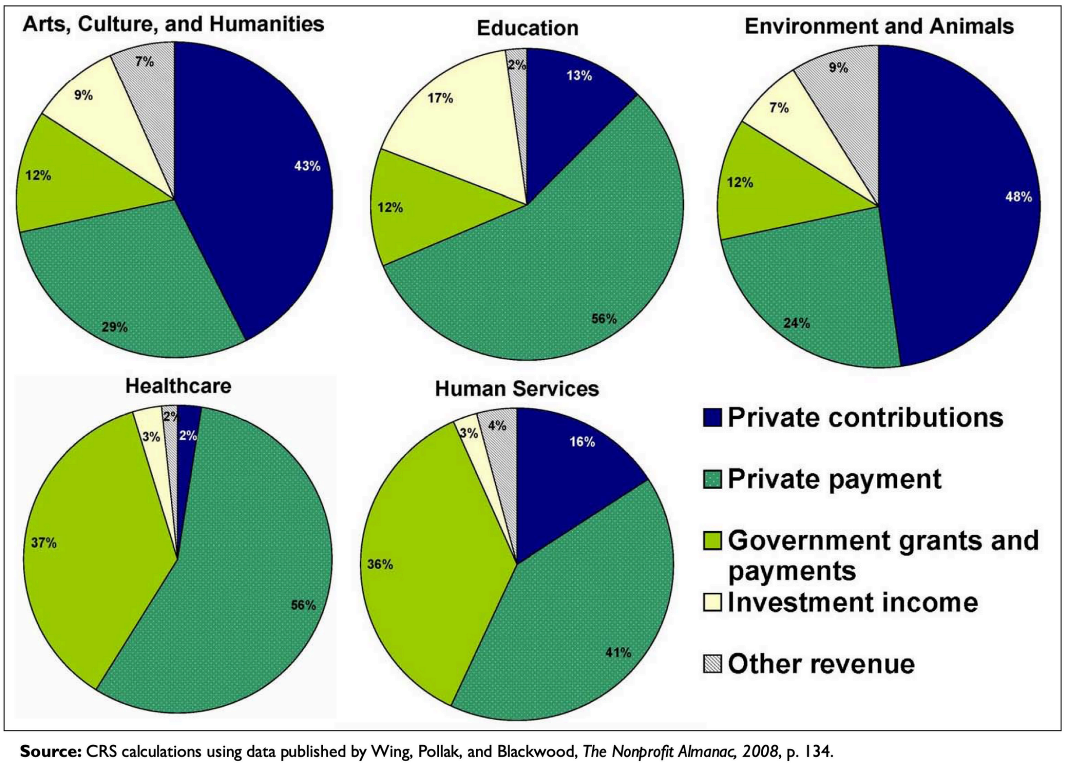
Lee and Mitchell unfolding model of turnover(1994)

The Unfolding Model of Turnover, developed by Lee and Mitchell in 1994, presents different paths employee take when quitting their job as a result of some *shock* or *script*, a pre-existing plan of action, that caused them to evaluate their job. In paths 1, 2, and 3, the quit begins with a shock; a single, jarring event prompting thoughts of quitting. In paths 4a and 4b, leavers do not have a shock, but experience image violation more gradually. This can result in quitting without search/evaluation or an offer (path 4a). Alternatively, dissatisfaction can lead to quitting after search/evaluation and an offer (path 4b). (Morrell, Wilklinson, 2001)



Lee and Mitchell unfolding model of turnover (1994)
Source: Bennett, T. M. (2010)

Comparing Revenue Sources Across Charitable Sectors (2005 share of total revenue)

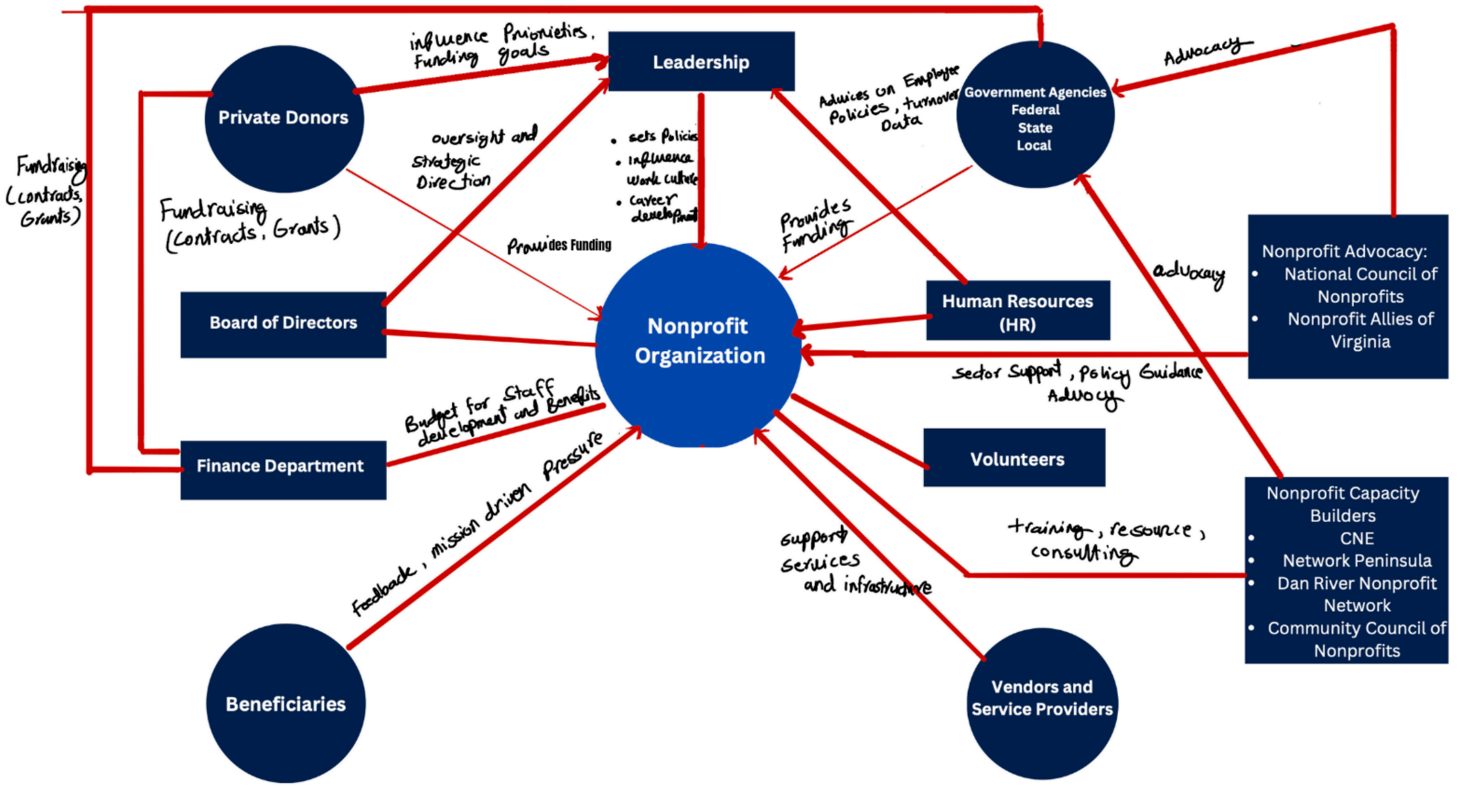


Source: CRS calculations using data published by Wing, Pollak, and Blackwood, *The Nonprofit Almanac, 2008*, p. 134.

Retrieved from An Overview of the Nonprofit and Charitable Sector (Congressional Research Service, 2009)

The charts show that arts, culture, humanities, environment and animals charities rely most heavily on private contributions, making them susceptible to economic fluctuations and changes in the tax code, causing fluctuations in private giving. Furthermore, Educational institutions depend heavily on investment income which make them vulnerable to the financial market downturns. (Congressional Research Service, 2009)

Ecosystem Map



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