



Solving the Nursing Shortage

by Gordon Lafer, Ph.D.



The Cost of Failure

The failure to recruit and retain sufficient numbers of RN's has led to high-stress conditions for working RN's and poorer quality of care for patients. It also creates significant costs for the hospitals. While hospital administrators may have cut RN staffs as a means of improving their bottom line, they may have inadvertently committed themselves to new, and often unseen, expenses.

The costs of RN vacancies and turnover are found in the expense of recruiting new nurses, hiring agency or traveling nurses to fill vacancies, engaging in excessive overtime, or suffering the operational costs created by a shortage of qualified nurses. The American Organization of Nurse Executives reports that measures of the direct costs incurred by RN turnover vary widely. It concludes that "a conservative estimate" is that it costs hospitals \$10,000 in direct recruitment costs each time an RN position turns over. On average, a facility with 400 RN's must be prepared to recruit and train up to 80 new RN's per year, representing direct costs of \$800,000 per year.

However, direct recruitment costs are only the tip of the iceberg. For many hospitals, the failure to recruit and retain RN's has resulted in ballooning expenses for agency and traveling nurses. A study commissioned by the American Hospital Association, the Association of American Medical Colleges, the Federation of American Hospitals and the National Association of Public Hospitals and Health Systems found that the share of all hospitals paying sign-on bonuses as part of recruitment efforts more than doubled, from 19 percent in 1999 to 41 percent just two years later. The total value of bonuses paid in 2001 is estimated at just over \$80 million. The report notes that the use of agency or traveling nurses has increased as well, with 56 percent of hospitals using these measures in 2001 and most hospitals paying more than 20 percent above the normal wage and benefit package for temporary nurses. The expense of using agency nurses is not limited to higher compensation costs but includes a range of costs associated with lower productivity and lower quality of care. One survey of hospital CEO's found that "agency nurses are often not familiar with hospital policies, protocols, and standards, and staff nurses then find that they have the additional burden of trying to educate these nurses on the unit."

The Nursing Executive Center has compared the visible costs of RN turnover with the hidden costs that may not be accounted for on hospital books. "Visible costs" are those of separation, having a position unfilled, recruitment, hiring and orientation. "Hidden costs" include the lost productivity of the incumbent and of other

employees in the period leading up to departure, lost productivity of the vacant position and of other employees who are hampered during the time a position is unfilled, and, finally, the lost productivity of new hires during their learning period, along with the costs of other nurses teaching or mentoring the new employee until they are up to speed or other nurses simply being slowed down by having someone new as part of the staff.

All told, the Nursing Executive Center estimates that out-of-pocket costs of turnover account for only 21 percent of total costs, with 79 percent being hidden costs. In dollar amounts, the typical accounting of turnover estimates \$10,800 in turnover costs for each medical/surgical nurse and \$11,520 for each specialty nurse. The American Organization of Nurse Executives estimates that visible costs represent 24 percent of total costs for medical/surgical nurses and only 18 percent for specialty nurses. Thus, the true total costs of turnover are \$42,000 per medical/surgical RN and \$64,000 per specialty nurse. (Kaiser Permanente has cited even higher turnover costs, averaging \$47,403 per medical/surgical RN and \$85,197 for specialty RN's.) Thus, if a 400-nurse hospital with a 20 percent turnover rate is replacing 80 nurses per year, the direct costs might average \$800,000 per year, but the true total costs are closer to \$4 million. Nationally, if an estimated 1.3 million RN's are employed in hospitals, and the average turnover rate is approximately 15 percent, 195,000 RN positions turn over every year. Based on this volume of turnover, the AONE analysis implies that the nation's hospitals are spending nearly \$50,000 per RN in visible or invisible turnover costs: a national total of \$9.75 billion per year. This is the staggering cost of the hospital industry's failure to recruit and retain nurses. It seems likely that in many organizations cutbacks in nursing staffs and nursing job conditions have been shortsighted, even by the most narrow financial definitions. If the funds now spent fighting a losing battle to replace disheartened nurses were instead devoted to improving job conditions, it is possible that the nursing "shortage" could be largely solved and the nation's hospitals might still end up with significant savings.

AMERICAN HEALTHCARE SOLUTIONS. LLC

One Oxford Centre, Suite 4300

301 Grant Street

Pittsburgh, Pennsylvania 15219

Telephone: 724-337-3011 - Fax: 724-337-3118

SDorwart@americanhs.com