Total Compensation: A Call for Action for Retaining Nurses

Maryland Statewide Commission on the Crisis in Nursing

Retention Subcommittee Working Paper

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Prepared for: Maryland Statewide Commission on the Crisis in Nursing

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Rockville, Maryland
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1. EXECUTIVE SUMMARY

Nursing shortages are not new. However, the shortage Maryland and the Nation is currently experiencing is projected to be more acute and longer lasting. A combination of factors contribute to the unprecedented size and duration of the problem:

- Aging baby boomers are generating tremendous demand for direct patient care and their needs will increase over the next 2 to 3 decades.
- Nurses themselves are nearing retirement.
- Alternative career choices for women have burgeoned in the past few decades, contributing, in part, to lower nursing school enrollments.

A nurse compensation paper is essential at this time for the following reasons:

- Compensation is critical to attracting and retaining competent individuals to the profession.
- The many elements of compensation can be puzzling and are not sufficiently valued.
- Compensation elements and their explanation to nurses is often shrouded in mystery, contributing to the confusion.
- Employers are not maximizing the retention potential of the compensation dollars being spent.

Nurses are keenly interested in compensation because many of their other “satisfiers” associated with their chosen profession have been woefully deficient. While other subcommittees formed by the Maryland Statewide Commission on the Crisis in Nursing are addressing these “satisfiers,” the Retention Subcommittee saw the need to focus on compensation issues. The objective of this paper is to educate all stakeholders in the health care industry as to how nurse pay can and should be used to maximize nurse commitment and employer returns.

Compensation can be a powerful tool for short-term nurse retention, however, it needs to be delivered equitably, for the right reasons, and with the right messages and guidance if it is to be an effective long-term strategy. Employers need to communicate more openly and effectively about compensation matters as the market for professional nurses continues to grow acutely competitive.
Rewards such as career advancement, educational opportunities, and recognition programs are just as critical as base pay and periodic salary increases.

Compensation must be flexible and designed with a “holistic” approach to meet the varying needs of the diverse professional workforce. As the nursing profession seeks to draw from relatively untapped potential employment sources, employers will have to develop flexible pay and benefit arrangements that can be tailored to fit the individual needs of individual staff. A “one-size-fits-all” compensation design will not enable health care organizations to maximize the return on their human capital investment.
2. BACKGROUND

2.1 The Perfect Storm

The nursing shortage requires action! In 2000 the demand for nurses was 2 million, but the supply fell 6 percent short. By 2010 the shortage is predicted to reach 12 percent. If not addressed and current trends continue, the shortage is projected to grow to 29 percent by 2020 (HRSA, 2002).

The Health Resources and Service Administration HRSA, Bureau of Health Professions, National Center for Health Workforce Analysis (the National Center) is the primary Federal agency responsible for providing information and analysis relating to the supply and demand for health professionals. Using data on supply trends drawn from the 2000 National Sample Survey of Registered Nurses, the nursing shortage was originally projected to begin around 2007, however, it was already evident in 2000.

Factors driving the growth in professional nursing demand include an 18 percent increase in population, a larger proportion of elderly persons, and medical advances that heighten the need for nurses. Also, the number of nurses leaving the profession is expected to exceed the number entering the profession. There is a shift from associate degree to baccalaureate-prepared registered nurses (RNs). This restrains the growth of the nurse supply, as baccalaureate-prepared RNs need longer to complete their education and enter the workforce than those graduating from associate degree programs.

The nurse workforce is aging. There has been a significant decline in the proportion of RNs under the age of 30. Also, the rate of older nurses retiring is accelerating. The number of newly licensed RNs in projected to be 17 percent lower in 2020 than in 2002. The loss of RNs due to death and/or retirement is projected to be 128 percent higher.

Salaries contribute to the declining supply of RNs. Actual earnings for RNs increased consistently from 1983 through 2000, “real” earnings—the amount available after adjusting for inflation—have been relatively flat since 1991. Therefore, RNs have seen no increase in purchasing power in the last 9 years.
As Table 2-1 shows, the average salary for elementary school teachers has always been greater than that of RNs and is growing at a faster pace. In 1983, the average elementary school teacher earned about $4,400 more than the average RN; by 2000 this had grown to the point where elementary school teachers earned about $13,600 more (HRSA Report). This is important information as elementary education teacher is an alternative career choice available to baccalaureate-prepared RNs.

Table 2-1.  Actual annual earnings for RNs and elementary school teachers and “real” earnings for RNs: 1983-2001

<table>
<thead>
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<th>Year</th>
<th>RN Annual Earnings</th>
<th>Elementary Teachers Annual Earnings (12 Mo.)</th>
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<tbody>
<tr>
<td>1983</td>
<td>$20,592</td>
<td>$20,592</td>
</tr>
<tr>
<td>1984</td>
<td>$21,622</td>
<td>$20,592</td>
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<tr>
<td>1986</td>
<td>$23,419</td>
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</tr>
<tr>
<td>1987</td>
<td>$24,206</td>
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</tr>
<tr>
<td>1988</td>
<td>$25,095</td>
<td>$24,206</td>
</tr>
<tr>
<td>1989</td>
<td>$25,988</td>
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</tr>
<tr>
<td>1990</td>
<td>$26,881</td>
<td>$25,988</td>
</tr>
<tr>
<td>1991</td>
<td>$27,774</td>
<td>$26,881</td>
</tr>
<tr>
<td>1992</td>
<td>$28,668</td>
<td>$27,774</td>
</tr>
<tr>
<td>1993</td>
<td>$29,566</td>
<td>$28,668</td>
</tr>
<tr>
<td>1994</td>
<td>$30,462</td>
<td>$29,566</td>
</tr>
<tr>
<td>1995</td>
<td>$31,359</td>
<td>$30,462</td>
</tr>
<tr>
<td>1996</td>
<td>$32,257</td>
<td>$31,359</td>
</tr>
<tr>
<td>1997</td>
<td>$33,156</td>
<td>$32,257</td>
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<tr>
<td>1998</td>
<td>$34,054</td>
<td>$33,156</td>
</tr>
<tr>
<td>1999</td>
<td>$34,952</td>
<td>$34,054</td>
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<tr>
<td>2000</td>
<td>$35,851</td>
<td>$34,952</td>
</tr>
<tr>
<td>2001</td>
<td>$36,750</td>
<td>$35,851</td>
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A good portion of salary growth for nurses occurs early in their careers, then tapers off with time. In 2000, staff RNs employed full time in nursing who graduated 5 years earlier typically earned salaries 15 to 17 percent higher than those just entering the field, depending on basic nursing preparation, but only 1 to 3 percent less than nurses who graduated 15 to 20 years earlier. As their potential for increased earnings diminishes over time, staff nurses may be motivated to leave patient care for additional education/other careers in nursing or outside the profession.

The changing demographics of the population is a critical factor affecting the demand for nurses. Recent projections show the Nation’s population will grow 18 percent between 2000 and 2020, resulting in an additional 50 million people who will require health care. The subgroup of 65 years old and older is projected to grow 54 percent between 2000 and 2020. Individuals 65 and over have a high incidence of chronic conditions such as arthritis (50%), hypertension (36%), and heart disease (32%).
Many have multiple conditions requiring more regular care. The result is a population that currently has twice as many contacts with a physician as those under 65, 38 percent of hospital discharges. The greatest per capita demand for health care, and thus nursing care, will come from the very old, those 85 years and older. This is the fastest growing segment of the population and a major user of long-term care facilities, home health care, and other employers of RNs (HRSA Report, p. 9).

Demand for health care services, and thus nurses, is also driven by the ability to pay for these services either with insurance or through out-of-pocket expenditures. Since 1995, about 85 percent of the population has been covered by insurance, thus making health care available to most of the population. At the same time, real per capita disposable income grew 16 percent, making it easier to pay for noncovered health care with out-of-pocket resources, thereby increasing the demand for such care (HRSA Report, p. 10).

See Appendix Exhibit 1 for illustrations of the nursing shortage in Maryland as found on the Maryland BON web site.

2.2 A National Crisis

The health care industry in general and many organizations devoted to nursing are attempting to address the growing nursing crisis. Three 2002 research publications are discussed here. Elements or those reports pertaining to total compensation are touched upon.

The Harris Interactive on behalf of Nurseweek and AONE conducted the 2002 Nurseweek/AONE Survey of Registered Nurses. The survey gathered responses from 7,600 randomly selected RNs. The following are six major findings:

- Unanimous belief among RNs that a shortage exists.
- The shortage and ensuing staffing problems have a negative impact on quality of care.
- The shortage is expected to get worse.
- Most RNs are still satisfied with their profession and would recommend it to others.
Opportunities exist to attract and retain more RNs as working nurses.
Reducing stress in the work environment is critical.

With regard to attracting and retaining more RNs, those surveyed who plan to leave their present nursing position within 3 years had the following to say about their profession:

- Fifty-eight percent said that higher salary/benefits would “very likely” cause them to reconsider plans to leave.
- Fifty percent indicated they would stay for better staffing.
- Forty-eight percent might remain in their position if they received more respect from management.

This past April, the American Hospital Association’s Commission on Workforce for Hospitals and Health Systems issued a report, *In Our Hands: How Hospital Leaders Can Build a Thriving Workforce*, that contained specific recommendations to help employers deal with the health care worker shortage. Recommendations were presented in five chapters:

- Foster meaningful work
- Improve the workplace partnership
- Broaden the base
- Collaborate with others
- Build societal support

The chapter on fostering meaningful work offered numerous tactical recommendations for dealing with the challenges facing the health care industry. Recommendations included recognizing and communicating the differences between the generations of workers so work teams would respect and understand their different perspectives, and becoming more flexible in how to recruit, structure jobs, and design benefit offerings.
The chapter on improving the workplace partnership also had many tactical recommendations:

- Include a competitive edge in compensation in hospitals’ reward strategies.
- Ensure that compensation strategies reflect educational, experience, and competencies differences.
- Ensure that compensation strategies remain competitive from entrance salary through mid-late career.
- Recognize appropriately the value of the long-term employees who remain in a caregiving and support role.
- Incorporate flexible benefits in hospitals’ comprehensive reward strategies.
- Include an employee recognition component in hospitals’ reward strategies.
- Recognize, celebrate, and accommodate generation differences.
- Assure that all staff, regardless of work schedule, have access to similar administrative support, educational opportunities, mentoring services, and family assistance.
- Work with other hospitals to retain workers in health care when they move to another community or seek a new job. This could involve broadening the concept of upward mobility to develop career paths that cross institutions but remain within health care. It could include exploring the advantages/disadvantages of benefit portability and seniority portability to retain employees within the health care delivery field. Hospital associations could also develop benchmark retention data and government policies could be changed to encourage workers to stay within health care.

Also released this past April is the strategic plan developed with the input of 60-plus national nursing organizations, Nursing’s Agenda for the Future. The plan is structured around 10 key domains:

1. Leadership and planning
2. Economic value
3. Delivery systems/nursing models
4. Work environment
5. Legislation/regulation/policy
6. Professional/nursing culture
7. Recruitment/retention
8. Public relations/communications
9. Education
10. Diversity

The economic value segment discusses such actions as widely implementing innovated compensation strategies, devising/evaluating varying models of innovative compensation packages designed to recruit and retain RNs, and advocating for passage of state tax relief for RNs.

Consistent themes appear in each research publication. National efforts as well as state initiatives have identified very similar strategies and tactics for addressing the nursing shortage. The Retention Committee’s recommendations reflect many of these findings. The key is implementing the strategies.

2.3 Maryland Statewide Commission

The Maryland Statewide Commission on the Crisis in Nursing was created by SB 311/HB 363 and signed into law by Governor Glendening on May 11, 2000. Legislation created a 46-member commission with the intent to meet four to six times annually.

The Commission’s purpose is twofold:

- Determine the current extent and long-term effect of the growing nursing shortage, and
- Develop and implement strategies and tactics to shrink the shortage.

Maryland, like other states, is experiencing changing demographics among nurses and the population requiring care, which will lead to a critical shortage of nurses. In June 2000, a summit was held at the University of Maryland School of Nursing, where nurses came to express their concerns about the current state of nursing. Critical topics were identified that the Commission felt were focal to its charge. As a result, four subcommittees were established: recruitment, education, workplace issues, and retention.
The commission and its subcommittees are confronting a problem that could reach epidemic proportions. There is a national shortage of nurses as demonstrated by the volume of vacant positions and the extended length of time it takes employers to fill these positions. As shown in Table 2-2, in Maryland the vacancy rate increased for the third year in a row, to 15.6 percent in 2001 (MHA, 2002). The staff nurse vacancy rate as of June 30, 2001, was as high as 23.1 percent in Maryland long-term care facilities (AHCA, 2002).

Table 2-2. RN turnover and vacancy rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover</th>
<th>Vacancy</th>
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<tbody>
<tr>
<td>1989</td>
<td>15</td>
<td>12.5</td>
</tr>
<tr>
<td>1990</td>
<td>14.2</td>
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<td>1994</td>
<td>10.1</td>
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<td>2001</td>
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Note: Adapted from data from the Maryland Hospital Association.

A benchmark for turnover and vacancy can be found in magnet hospital data. The ANA Magnet Nursing Services Recognition Program designates hospitals exhibiting sustained excellence in nursing care. Among magnet hospitals, the average turnover is 11.57 percent (36% better than Maryland in 2000) and the average vacancy rate is 8.19 percent (ANCC, 2002), which is 41 percent better than Maryland in 2000. From 1998 to 2000, nursing turnover rates in Maryland have more than doubled to 26 percent.

Lower staffing levels and positions filled with less experienced persons affects the quality of patient care (i.e., the amount of time a professional nurse spends with a patient, assessing his or her needs, planning and implementing interventions, and evaluating their effect). Patient safety can be compromised as well. Linda Aiken and others conducted a study of 168 hospitals and clarified the impact of nurse staffing levels on patient outcomes as factors that influence nurse retention. After adjusting for patient and hospital characteristics (size, teaching status, and technology), each additional patient surgical patient...
per nurse was associated with a 7 percent increase in the likelihood of dying within 30 days of admission and a 7 percent increase in the failure-to-rescue odds. After adjusting for nurse and hospital characteristics, each additional surgical patient per nurse was associated with a 23 percent increase in the odds of burnout and a 15 percent increase in the odds of job dissatisfaction (Aiken, 2002).

2.4 Other Subcommittee Work

Each subcommittee’s work has a goal to explain and clarify the issues that are leading to decreasing numbers of young people entering nursing and the “premature” (early and elective) exodus of experienced nurses from direct patient care in pursuit of other health careers or to leave health care altogether. The Recruitment Subcommittee identified industry collaboration, web dissemination, and a recruitment tool kit as targets to pursue. The Education Subcommittee chose to concentrate on the nursing education process, scholarships and financial aid issues, finance and marketing, and mentoring programs. The Workplace Issues Subcommittee decided to focus its efforts on stress drivers, delivery models and quality of care, regulatory issues, participative decisionmaking, and scheduling and lifestyle issues.

2.5 Areas Retention Subcommittee to Address

Led by Chair Jeff Jeffries and Vice Chair Nancy Dianis, with support from volunteers (see Appendix Exhibit 2), the three areas identified by the Retention Subcommittee that contribute to a nurse staying within her/his current work environment are as follows:

- Adequate and flexible staffing protocols,
- Improved communications leading to greater respect and recognition, and
- Competitive compensation and flexible benefits.

The issues the four subcommittees are addressing may overlap as factors influencing nurse attraction and retention are intertwined. However, there is collaboration among the subcommittees to assure overlap is kept to a minimum.
3. RATIONALE FOR THIS PAPER

The Retention Subcommittee recognizes it is essential to produce a working paper on nurse compensation for the following reasons:

- Compensation is important, especially in a 24/7 profession such as nursing;
- Elements of compensation can be puzzling and not sufficiently valued;
- Compensation delivery is still often shrouded in mystery, contributing to further confusion; and
- Employers are not maximizing the retention potential of the compensation dollars being spent.

The Retention Subcommittee believes that keeping nurses in Maryland, in direct patient care, can be achieved through contemporary total compensation plans without fanning inflationary competition.

3.1 Understand the Importance of All Compensation

Many compensation consultants will profess that pay is rarely a “satisfier” in the spectrum of an employee’s overall work experience. Employment satisfaction usually stems from feelings of compatibility, trust, predictability, dependability, sensitivity to individual needs, and a willingness to compromise. Conversely, while more money is a regularly cited reason for employee defection, the real reasons often have to do with neglect, distrust, burnout, lack of respect, and other nonmonetary factors.¹

Compensation is important because unfair pay (perceived internally/externally) can topple an employment relationship already strained by nonmonetary pressures. Pay can be yet another “dissatisfier” in addition to the nonmonetary factors cited earlier.

Finding the “right” compensation formula can garner employers’ time to address other factors that influence nurse turnover. Unfortunately organizations usually fail when they attempt to “buy” longer-term employee satisfaction. Eventually, even the best-paid nurses will change employers, if not

industries, when the negative work experiences outweigh the positives. This paper seeks to help nurses and their employers understand the role of compensation in creating and maintaining the overall, longstanding employment relationship.

3.2 Clarify Compensation Elements

The Retention Subcommittee believes nurses must become more knowledgeable about elements of compensation. Base salary/hourly rates are just one aspect of nurse compensation. Salaries/hourly rates and numerous forms of inducement to work premium shifts are only the beginning of what nurses need to understand and appreciate about compensation. Other important considerations are meaningful benefit programs and work/life balance offerings.

Direct compensation can take the form of base pay, merit pay, incentive compensation, as well as deferred income. Indirect compensation can include protection programs (e.g., pay for time not worked and services and perquisites). It is not uncommon for the total pay packages, excluding salary, to be worth 120 percent to 140 percent or more of a nurse’s base salary compensation.

*It is important for nurses to understand compensation elements and their relative value because knowledge generates power.* A grasp of the total pay package enables nurses to make rational, educated decisions when they are tempted to change employers or join a per diem agency. Knowledge about compensation enables nurses to better prioritize what they want/expect from their work experience and employer. A total compensation perspective enables nurses to represent themselves better in negotiations with their employer, and in personal discussions with their working spouses (partners) when choices about career and family, work hours, and benefits selection are being reviewed.

This working paper will not provide enough compensation knowledge to empower nurses to accomplish the above. Rather, the working paper is the first item in a “nurse compensation tool kit” designed by the Retention Committee. The tool kit is planned to be web-based and to contain the following:

- Presentations with speaking points
- Glossary of compensation terms
3.3  **Define Compensation Delivery**

Compensation is a dynamic progression that is designed to keep pace with a nurse’s contribution to the organization and his or her professional development. If there were enough dollars in the U.S. health care industry to fairly compensate all professionals, the dynamic pay progression would be less shrouded in mystery. Instead, nurses, like most health care professionals, do not see a link between pay and performance, academic accomplishment and career advancement, starting pays/sign-on bonuses and rate increases for tenured nurses. Instead, they speculate how the progression may unfold over time, how their pay ranks internally and externally, whether showing up for work each day or working harder and faster without compromising safety makes a difference in their periodic rate increases or promotions.

*It is important to provide insight into pay progression because mystique breeds distrust that can ultimately lead to nurse turnover.* Even if turnover is not the eventual outcome, a distrusting nurse will not be as productive as someone who feels a loyalty not only to his or her patients but also to the entire organization.

Compensation progression generally involves two categories: market driven components and variable pay components. The market driven items include base salary, benefits, and periodic decisions on how much to increase both. The variable pay elements include recognition/reward programs and incentive compensation arrangements.

<table>
<thead>
<tr>
<th>Total Compensation</th>
<th>Value</th>
<th>Process</th>
<th>Security</th>
<th>Efforts &amp; Activities</th>
<th>Results</th>
</tr>
</thead>
</table>

3-3
Nurses are (or should be):

- Paid for the value they bring to the organization;
- Mentored through an ongoing career development process that yields a clear line of sight between performance/growth expectations and compensation advancement;
- Provided with the security of benefits more efficiently acquired by the employer rather than left to the nurses to obtain on their own;
- Recognized promptly for targeted efforts or demonstrated activities that exemplify the goals of the unit/organization; and
- Compensated through results-oriented incentives that encourage nurses to stay focused on the organizational goals.

This working paper attempts to bring clarity as to how the various elements of compensation combined with the process for rewarding nurses for their contribution to the organization and the results it produces leads to increased nurse retention.

### 3.4 Maximize Retention Dollars

The Retention Committee recognizes opportunity for Maryland health care employers to redesign their compensation packages and delivery mechanisms to better meet the diverse needs and expectations of the nurse population. Redesign can appear in several forms:

- Eliminating the one-size-fits-all benefit offerings that still exist in many organizations;
- Introducing additional work/life enhancing benefits that can increase nurse loyalty and work performance;
- Addressing pay compression concerns through innovative solutions for both newly hired nurses as well as tenured nurses;
- Incorporating variable pay programs into the compensation package to reward nurse/team/unit performance that helps achieve organizational goals; and
- Integrating career development support services into the compensation delivery model.

It is critical for employers to get the most from their compensation programs. A “win-win” employment relationship with nurses requires smart spending. Cash-strapped health care employers
cannot afford to squander pay and benefit dollars on inefficient programs. It is no surprise to see that many of their mission statements include a community commitment to manage resources prudently.

The Retention Subcommittee believes employers can stretch their payroll dollars further/generate more return on those dollars by looking for answers beyond the traditional approaches and by involving nurses in the design of total compensation packages. Health care employers have started to introduce performance enhancing work/life programs, but they can do even more. Generational differences need to be better understood, respected, and addressed. Superior work performance must be spotlighted and rewarded. Nurses need to be appropriately mentored, supported, and recognized throughout their career.
4. CLOSER EXAMINATION

4.1 Compensation Is Important

Compensation fairness is important to all employees as has been demonstrated by health care employee attitude surveys or reading the viewpoints of motivational experts from the past few decades. Compensation is not a “satisfier” but rather a potential “dissatisfier.” A true satisfier, unlike quick-fix hourly rate adjustments, has long-lasting affects. Compensation is one variable in the employment relationship equation. The following discussion provides several professional viewpoints of the role served by compensation.

The Figure 4-1 from Mercer HR Consulting suggests nurse retention success or failure is driven by three interactive and dynamic factors: external influences, organizational practices, and individual attributes. There are 16 drivers in total. More specifically, external influences can include labor market conditions, competition, location, and patients. Individual attributes can include a nurse’s past work patterns, his or her demographic information, and personal needs and preferences. Organizational practices can include nine categories: employer’s business strategy, internal communications, culture and work environment, socialization opportunities, leadership and management performance, job characteristics, career development and growth, recruitment approach, and rewards.

Figure 4-1. Factors that drive nurse retention
Nurse retention efforts do not occur in a static environment. The economy is always changing, health care competitors are always trying something different to gain advantage, and current and potential employees have diverse and evolving personalized interests that may or may not fit with organizational goals and needs.

In the late 1960s, the late Frederick Herzberg first theorized that employee satisfaction stems from two issues: hygiene and motivation. Herzberg defined **hygiene** as including working conditions, salary, job security, and company policies. Get these wrong and motivation will decline (become dissatisfiers), but enhance them above normative levels and they will be neutralized. Herzberg believed that **motivation** was derived from people having a sense of achievement, recognition, responsibility, and opportunities for personal growth. Get these correct and employee commitment to the organization will grow.

An author of many books and research papers, Herzberg was known for criticizing companies who ignored motivational factors and tried instead to stimulate employees through pay and benefits. Figure 4-2 shows how Frederick Herzberg envisioned employee retention.

![Figure 4-2. Elements affecting employee retention](image-url)
Another perspective comes from Dr. Michael N. O’Malley who in 2000 wrote *Creating Commitment*. His first book was entitled *Are You Paid What You’re Worth?* Dr. O’Malley advocates that unyielding employee commitment requires five conditions:

- **Fit and belonging**—feeling of compatibility (values and fit) with the employer
- **Status and identity**—pride in being part of a special organization
- **Trust and reciprocity**—sense of mutual obligation/indebtedness
- **Emotional reward**—satisfaction with work and contribution
- **Economic interdependence**—impression of fair economic exchange

According to Dr. O’Malley, employees do not dwell inordinately on compensation unless one or more of the following non-optimal conditions exist:

- **Career advancement is slow, unlikely, or nonexistent.** In this situation, employees will soon focus on the short-term deal and make sure they get what they feel they are due.
- **Relationships have nothing else going for them.** With no “satisfiers” to exert a positive influence, the entire relationship soon centers on compensation alone.
- **Organizations communicate only through money.** Not unlike a parent giving money to an unruly child to behave, companies that cannot express feelings and value through any means other than pay are destined to have employees who care about nothing else.
- **Funding is scarce.** Employers overly occupied with cost-cutting, budgets, and margins foster an environment where employees concentrate on the same—money.
- **Employees feel unfairly treated.** Distrust in the employer because of real/perceived internal or external inequity hardens the relationship and turns it into nothing more than a business transaction.

*Examining these three holistic perspectives on employee commitment and where compensation fits provides insight as to why Maryland nurses are intensely focused on hourly rates, bonuses, wage compression, etc. Compensation has its rightful place in the employment relationship. It is not a satisfier, and therefore should be a lower priority for the nurse. However, it moves to the forefront and increases in priority when other employment satisfiers are deficient or absent. Given the financial pressures affecting the U.S. health care system, it is not surprising many of the employment satisfiers*
described are lacking, resulting in employer/employee relationships focused excessively on compensation.

4.2 Compensation-Related Actions to Retain Nurses

Despite the rationale for not focusing on salary to solve the other problems in the organization, health care employers continue to take such action because it is simpler, albeit, expensive and everyone else in the industry is trying it. Even though increased pay is not the long-term solution, as mentioned earlier, it can buy time for employers to address other shortcomings in their work environment.

The following tables are from the 2000 Mercer HR Consulting survey on attraction and retention of nurses. Table 4-1 shows what nurses thought were the top causes of nurse turnover. Table 4-2 reports which measures employers took to retain nurses and the employers’ assessment of their effectiveness.

Table 4-1. Nurses’ view of top causes for turnover

<table>
<thead>
<tr>
<th>Causes of turnover</th>
<th>Percentage replying*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary reason</td>
</tr>
<tr>
<td>Increased market demand</td>
<td>64</td>
</tr>
<tr>
<td>Workload/staffing</td>
<td>43</td>
</tr>
<tr>
<td>Better pay elsewhere</td>
<td>39</td>
</tr>
<tr>
<td>More flexible scheduling elsewhere</td>
<td>24</td>
</tr>
<tr>
<td>Better career/developmental opportunities elsewhere</td>
<td>17</td>
</tr>
<tr>
<td>Employment out of direct care nursing</td>
<td>17</td>
</tr>
<tr>
<td>Inadequate managerial skills</td>
<td>9</td>
</tr>
<tr>
<td>Better benefits elsewhere</td>
<td>8</td>
</tr>
<tr>
<td>More desirable work culture elsewhere</td>
<td>7</td>
</tr>
<tr>
<td>Physician relationships</td>
<td>2</td>
</tr>
<tr>
<td>Better employer reputation elsewhere</td>
<td>2</td>
</tr>
</tbody>
</table>


Note in Table 4-1 that only 2 of the 11 listed causes of turnover are rewards related. “Better pay elsewhere” ranks third and “Better benefits elsewhere” falls near the middle of the list. Table 4-2 lists retention tactics in descending order of perceived effectiveness. The pay-related tactics included
enhancing supplemental pay plans, flexible scheduling/shifts, base pay increases, variable pay/incentives, retention bonuses, and work enabling benefits.

It is interesting and unfortunate to note in Table 4-2 that no retention tactic scored higher than 29 percent in the “Very effective” column. The “Percent considering” column displays the percentage of participating organizations that were thinking of implementing the particular retention tactic listed in that row.

Table 4-2. Retention tactics used by employers

<table>
<thead>
<tr>
<th>Retention tactics</th>
<th>Percent rating as</th>
<th>Percent considering</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very effective</td>
<td>Somewhat effective</td>
</tr>
<tr>
<td>Enhancing supplemental pay plans</td>
<td>29%</td>
<td>66%</td>
</tr>
<tr>
<td>Flexible scheduling/shifts</td>
<td>29%</td>
<td>64%</td>
</tr>
<tr>
<td>Enhanced continuing education</td>
<td>25%</td>
<td>65%</td>
</tr>
<tr>
<td>Base pay increases</td>
<td>23%</td>
<td>73%</td>
</tr>
<tr>
<td>Addressing staffing by using rotations/float pools</td>
<td>23%</td>
<td>70%</td>
</tr>
<tr>
<td>New clinical advancement programs</td>
<td>22%</td>
<td>55%</td>
</tr>
<tr>
<td>Regular staff sensing/involvement initiatives</td>
<td>21%</td>
<td>67%</td>
</tr>
<tr>
<td>Variable pay/incentives</td>
<td>21%</td>
<td>70%</td>
</tr>
<tr>
<td>Leadership training</td>
<td>16%</td>
<td>76%</td>
</tr>
<tr>
<td>Increasing staff understanding of organizational mission, goals and initiatives</td>
<td>16%</td>
<td>54%</td>
</tr>
<tr>
<td>New processes to assist in care delivery</td>
<td>15%</td>
<td>71%</td>
</tr>
<tr>
<td>Changing the patient care delivery model</td>
<td>15%</td>
<td>60%</td>
</tr>
<tr>
<td>Retention bonuses</td>
<td>15%</td>
<td>67%</td>
</tr>
<tr>
<td>Enhancing collaboration with support departments</td>
<td>15%</td>
<td>72%</td>
</tr>
<tr>
<td>Work enabling benefits</td>
<td>13%</td>
<td>79%</td>
</tr>
<tr>
<td>Management training/skill building</td>
<td>13%</td>
<td>81%</td>
</tr>
<tr>
<td>New work environment/culture initiatives</td>
<td>11%</td>
<td>60%</td>
</tr>
<tr>
<td>Addressing staffing by using unlicensed personnel</td>
<td>6%</td>
<td>68%</td>
</tr>
<tr>
<td>Physicians relations programs</td>
<td>5%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Also note that while only 2 of 11 causes of turnover were compensation related, 5 of the first 13 listed retention tactics were related to compensation. This imbalance suggests health care employers are for the moment trying to buy their nurses’ loyalty until they can address others employment satisfiers.
Collectively, the 19 retention measures shown cover many of the factors that are suppose to account for employee commitment. It is important to understand that employers should be considering all the factors influencing nurse satisfaction. Compensation can be a powerful tool for short-term nurse retention, but it needs to be delivered equitably, for the right reasons, and with the right messages, and counseling should be included if it is to be as effective.

4.3 Elements Are Puzzling and Undervalued

Compensation takes many forms, beginning with elements of direct income that can include base and merit pay, incentive pay, and deferred compensation (see Figure 4-3). Adding to direct pay is what is often called “the hidden paycheck” or indirect compensation. This category of income includes protection programs, pay for time not worked, and incidental services and perquisites. Indirect compensation is not nearly as well understood by nurses or by most employees. Indirect compensation is consequently overlooked undervalued when nurses make key employment and career planning decisions.

![Figure 4-3. Direct and indirect pay](image)

A varying viewpoint on total compensation in the health care industry is illustrated in Exhibit 4-1. This exhibit takes the various forms of pay/rewards and clusters them into “market-driven” and “variable pay” categories. The exhibit also adds an element of changing pay by incorporating a “process” component and to a lesser degree, a category labeled “efforts and activities.”
The market-driven items include base salary, benefits, and periodic decisions on how much to increase both. The variable pay elements include recognition/reward programs and incentive compensation arrangements. At the executive level, both within and outside of health care, variable pay is also market driven—that is, it is often the combination of base and variable pay that determines the competitive position of executives’ cash compensation packages.

4.3.1 Value

Salary is defined as the base income a nurse receives in exchange for the value he or she brings to the organization. Base salary has become market sensitive. In this time of labor shortages and alternative career paths, the “market” has become highly attuned to competitors, job responsibilities, nursing experience, and type of facility. The competition for nurses has broadened to include nontraditional employers. Certain work shifts and departments command premium pay. Specialty training and credentials influence hourly rates as does the type of facility where the nurse works.

Nurses usually refer to their base income as an hourly wage. That perspective stems from the fact that nursing is a 24/7 industry with numerous and imaginative shift differential arrangements often
tied to the base hourly rate, and nursing is a profession in which approximately 40 percent of its members work part time.

Some health care employers would argue that the hourly-worker image associated with the profession lessens the respect and reputation it deserves and receives.

### 4.4 Salary Trend

Historically, nurses’ salaries have lagged behind those for other professions. Looking back as far as 1960, nurses earned $25 to $30 per week less than office, clerical, and maintenance personnel in the 15 cities surveyed by Bureau of Labor Statistics (Wolfe, 1997). Though salaries improved in the late 1960s and early 1970s, they continued to lag behind other occupations.

According to the *National Sample Survey of Registered Nurses – March 2000: Preliminary Findings* published by the U.S. Department of Health and Human Services, the actual average earnings of RNs employed full time in 2000 was $46,782. However, factoring in inflation, the “real” average earnings in 1980 dollars was $23,369. Most noteworthy is the flattening out of nurses “real” wages. The inflation-adjusted income level has hovered at just over $23,000 from 1992 to 2000. See Figure 4-4.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>“Real”</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$17,398</td>
<td>$17,398</td>
</tr>
<tr>
<td>1984</td>
<td>$19,079</td>
<td>$23,595</td>
</tr>
<tr>
<td>1988</td>
<td>$28,383</td>
<td>$20,839</td>
</tr>
<tr>
<td>1992</td>
<td>$37,738</td>
<td>$23,166</td>
</tr>
<tr>
<td>1996</td>
<td>$42,071</td>
<td>$23,103</td>
</tr>
<tr>
<td>2000</td>
<td>$46,782</td>
<td>$23,369</td>
</tr>
</tbody>
</table>

![Figure 4-4. Actual average salary vs. real average salary](image-url)
4.4.1 Security

Beyond Federal- or state-mandated benefits, employers voluntarily offer a host of additional benefits to full-time and some part-time nurses. They are called “employer-provided” benefits as the institutions subsidize the cost of the benefits, if not pays for them entirely. The volume and value of benefits provided to nurses varies widely from employer to employer. Generally, the larger employers offer the greatest number of benefits and also provide the largest subsidies. It is not clear that urban employers provide more valuable benefits than do rural institutions. Some employers in large urban settings feel compelled to position themselves below market on benefits to afford paying above-average hourly wages.

In essence, these employers are taking advantage of the fact that nurses are not equipped to make job-change decisions based on total compensation package. With insufficient understanding of the value of benefits and how widespread the differences can be between organizations, nurses are left to simply compare take-home pay (after benefit deductions) and assess whether the prospective employer’s list of benefits is longer than their current employer’s.

Employers are starting to introduce flexibility into their benefits packages. In some cases, nurses can opt out of benefits partially, or entirely, for a higher hourly rate. In other situations, nurses are given a set amount of dollars from their employer to apply toward the cost of the benefits package that can be tailored to better meet their own unique needs.

“Employee-pay-all” benefits are beginning to catch hold in the health care sector. These benefits are usually endorsed by the employer but paid for in their entirety by the employees who choose to purchase the benefits. They are appealing to nurses because larger employers can often negotiate service/product cost discounts that individual nurses could not obtain.

4.5 Work/Life Programs

Health care organizations have begun to appreciate the home-life demands that compete for their employees’ attention. Employers, however, are not offering work/life programs for altruistic reasons alone. According to the Work/Life Initiatives 2000 survey conducted jointly by Bright Horizons Family Solutions and Mercer HR Consulting, the top reasons cited for sponsoring such programs reveal that
employers expect a return on their investment. More specifically, employer objectives for offering such programs include improvements in retention, morale, recruitment, productivity, commitment, performance, and attendance (see Figure 4-5). These arrangements may be subsidized by employers or paid entirely by nurses.

![Figure 4-5. Employee objectives for offering work/life programs](image)

The 16 most common categories of initiatives identified by the Work/Life Initiatives 2000 survey include the following:

- Flexible work arrangements
- Time off and leaves
- Child care initiatives
- Elder care initiatives
- Retiree support
- Health and wellness
- Information and counseling services
- Financial support
- Convenience services
- Internet use
- Family participation
- Community involvement
- Strategic alignment
- Training
- Career development
- Planning, implementation/evaluation

See Appendix Exhibit 3 for an extensive list of work/life benefit offerings.

4.6 How to Interpret Employee Benefit Package

Some organizations distribute annual total compensation statements, which provide employees with information about the total value of their major benefits programs. Total compensation statements usually sum up the employer’s cost the employee’s annual pay plus the cost for the retirement, health, life, disability, dental, prescriptions, vision, and paid time off programs. These statements are helpful, but they seldom add in the value of the lesser employer-subsidized benefit offerings and, at most, simply list the various voluntary and/or work/life benefits made available through the organization. However, they provide valuable information for nurses to study.

The majority of an employer’s benefits’ cost come from three core programs: paid time off, health plans, and retirement programs. The Mercer/Marsh 2001 Survey of Employers’ Time Off and Disability Programs found that employers on average spent 13.5 percent of pay that year on time off plans. With health plan costs escalating at double-digit inflation rates, employers are getting close to spending the same amount on those programs and will soon surpass that level. According to the latest Mercer/A. Foster Higgins Survey of Employer-Sponsored Health Plans, health care employers across the nation spent an average of $5,446 in 2001 for each covered employee. The average 2001 health plan cost of $5,554 was even higher for Maryland health care employers.

Retirement plan funding comes in at a close third place, though health care employers vary with their retirement contribution levels. A recent Mercer/Marsh survey revealed that some of the smallest health care employers in Maryland have no employer-funded retirement program at all. Midsized health care employers in the state (500 to 1,500 employees) spend between 3 percent and 6 percent of pay on their retirement programs. A few of the larger health care employers in Maryland spend even more.
About two-thirds of Maryland’s mid- to large-sized health care employers sponsor defined benefit pension plans in addition to retirement savings plans. The cost of their defined benefit plans can vary tremendously regardless of the benefit design. This is because the current plan cost has as much or more to do with historical contribution patterns and past investment performance than it does with the generosity of the plan design. Take care when comparing retirement programs. Look at design features rather than cost. Employer A could be spending twice as much as employer B on its retirement offerings, and yet employer B could have the more generous plan design.

In comparing benefit offerings between a current employer and a prospective employer, first concentrate on the three big programs: paid time off, health plans, and retirement programs. Then, construct a side-by-side checklist of the employers’ other benefit offerings. Note any features that seem especially positive, negative, or confusing about any of the benefit programs. Plan to ask questions about these features at some point in advance of making an employment decision. Be alert for flexible benefit designs. An employer’s overall benefits package may meet today’s needs but are not be as compatible if marital/family status changes.

In 2003, the Retention Subcommittee plans to release elements of an online total compensation tool kit to make a nurse’s compensation planning efforts easier.

4.7 Mysterious/Flawed Delivery Process

Health care organizations’ Human Resource departments usually invoke pay secrecy policies. Some well-known organizations practice such policies because they believe the following:

- The compensation employees receive is privileged information;
- Pay secrecy diminishes an opportunity for comparison among employees and reduces an organization’s exposure to perceived inequality;
- Pay differences are complicated and often difficult to explain, though justifiable;
- Pay secrecy can prevent embarrassing situations by shielding underpaid/under-performing employees; and
- Managers enjoy more freedom in administering pay in a pay-secrecy organization.
However, open pay policies are advisable for the following reasons:

- Such pay policies open communication and build trust. Employees may feel that if their company can be open on such a sensitive issue, then it can be trusted on other matters too.
- Open pay policies help keep management alert and sensitive to compensation issues.
- Favoritism is less likely to win out over performance in an open pay environment.
- Secrecy risks breaking down what should be clear linkage between pay and performance.

4.8 Pay Inequity

Knowledge of current salary surveys, market analysis of prevailing wages, and equity within the work setting (internal equity) and outside of the work setting (equal pay for equal work and comparable worth issues) are all factors that must be understood by all parties involved in the compensation continuum.

Equity is the perceived balance between an individual’s rewards and his or her contribution, compared to the rewards of others relative to other’s contributions. Internal equity exists when “fairness” is perceived among the compensation levels of jobs within an organization. External equity compares similar jobs from different companies. Individual equity refers to balance among persons in the same job within the same organization. There is usually no single basis for compensation decisions that will always be perceived as fair by everyone affected.

In a survey done by the Maryland Statewide Commission on the Crisis in Nursing in 2001 of RNs and licensed practical nurses (LPNs) at the point of care, 35 percent reported that there is internal equity in compensation at their place of employment. Twenty-nine percent said there was no equity, and 35 percent said they were not sure, a testament to the secrecy surrounding salary prevalent in many businesses. In the same survey (MSCCN, 2001), respondents reported their institution’s inadequate approach to compensation for attained education (19%) and experience (20%) would cause them to want to leave their job.
4.9 Pay Compression

Solutions to the new hire/incumbent pay compression issue should be based on two assumptions:

- A need exists to align internal pay for average to high performers with the external market rates for those positions.
- A need exists to have a pay system that enables managers to move employees through their salary range or band in a way that keeps their income in line with the market and their performance.

The following are four possible options for addressing pay progression:

- Standardize pay progression through the pay grade or band.
  - This approach usually involves preset step increases for the first 2 years or so of employment. Once the employee reaches the market rate 2 or more years out, then future increases are tied to performance/some combination of market and performance.

- Make equity adjustments afterward.
  - Employers adjust incumbents’ pay periodically as the market dictates. Often, the elevated rate of newly hired employees will trigger a rate adjustment. Compensation managers must be sure only incumbents who are performing satisfactorily receive the market adjustments.

- Define critical success factors for the position.
  - This approach focuses less on the market for incumbents and instead spells out how they can keep advancing along their career track and earn the appropriate income that comes with each milestone.

- Align salary structure movement and pay increases consistently with the market.
  - This option requires organizations to move their salary structures and actual employee pay levels in tandem with the market. This practice can be difficult to sustain for cost reasons.
4.10 Benefits Cost Transparency

Nurses may soon know more about their total benefits value/cost as many employers move to change the cost-sharing paradigm. Historically, employees covered by their company’s health plan focused mainly, if not exclusively, on their out-of-pocket costs. Rarely did employees dwell on the cost borne by the employer – whether it was for an expensive prescription or a lengthy hospital stay. After many decades, that operating model, which does not encourage employees to care about let alone manage, their total health care cost, is starting to be challenged and changed by employers. The reason is cost control.

According to the 2002 Survey of Employee Benefits Specialists released in June 2002 by the International Society of Certified Employee Benefit Specialists (ISCEBS), controlling rising health care costs has abruptly displaced attraction and retention considerations as the top concern of the Nation's benefit professionals. Attraction and retention had been the top factor in benefits design for the previous 2 years. However, in 2002, the key driver of benefits policy and design is cost control/reduction, according to 62.7 percent of respondents. In stark contrast, only 15 percent of participants continue to identify employee attraction and retention as their top priority. The remaining three drivers identified by respondents as their top focus are increased use of technology (10.6%), compliance/fiduciary issues (7.6%) and plan administration (2.7%)

Pressured to bring health plans’ costs in check, some employers are starting to provide the consumers of health care benefits—their employees and family members—more information on, and involved in, the total cost of their benefit programs. Consumer Directed Health Plans (CDHP) is the tool employers are relying on to bring the change about. Hospitals and health care systems may find CDHPs particularly attractive. The health reimbursement accounts (HRAs) typically employed by these plans may mitigate medical trend and the demand for discretionary care. These plans offer employees greater benefit choice, education, and decision support, potentially leading to greater employee satisfaction.

The Washington Post, Wall Street Journal, and several trade journals have recently reported that “dozens” of U.S. employers, including at least one in Baltimore, will offer consumer-directed health plans to their employees next year, “more than doubling the number of U.S. workers who are covered this year.”
4.11 Variable Pay

In a cash-strapped health care industry, employers are trying other approaches for recognizing nurse performance that do not directly affect base pay. As a result, the concept of “variable” pay is starting to take hold in the industry. Gain sharing and profit sharing are by far the most common designs followed by team/small group incentives and individual incentives. According to a Mercer 2000 survey of 145 health care organizations, 82 percent of the companies with variable pay programs used a gain-sharing or profit-sharing design.

Why utilize variable pay? See the seven leading objectives in Table 4-3.

Table 4-3. Leading objectives for variable pay

<table>
<thead>
<tr>
<th>Prevalence</th>
<th>Objectives</th>
<th>Low</th>
<th>Neutral</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>89%</td>
<td>Focus employees on improving performance</td>
<td>10%</td>
<td>20%</td>
<td>70%</td>
</tr>
<tr>
<td>89%</td>
<td>Align employees’ interests with organizational goals</td>
<td>12%</td>
<td>28%</td>
<td>60%</td>
</tr>
<tr>
<td>64%</td>
<td>Focus employees on cost containment</td>
<td>11%</td>
<td>44%</td>
<td>45%</td>
</tr>
<tr>
<td>54%</td>
<td>Increase pay opportunity without touching base pay</td>
<td>40%</td>
<td>33%</td>
<td>27%</td>
</tr>
<tr>
<td>50%</td>
<td>Contain the rate of base pay increases</td>
<td>57%</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>43%</td>
<td>Increase employees’ business literacy</td>
<td>25%</td>
<td>58%</td>
<td>16%</td>
</tr>
<tr>
<td>18%</td>
<td>Improve customer satisfaction</td>
<td>20%</td>
<td>20%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Variable pay has some value. Variable pay programs decrease the secrecy often associated with compensation. Because of their visibility, such arrangements must be carefully designed or run the risk of having covered employees observing them collapse under the weight of poor planning.

Keys to variable pay success include the following:

- Doing it for the right reasons,
- Identifying the right performance drivers,
- Designing the right type of plan,
- Creating a line of sight and communicate, and
- Staying the course but prepared to revise and redesign.

Factors in designing a variable pay plan include the degree of integration of operations and finances across the organization, the level of employees’ financial/business knowledge, the culture of
common destiny or shared purpose, and the communications and informational infrastructure to support the plan.

In health care, the most prevalent measures of performance for these programs include the following:

- Net revenue
- Margin
- Budgeted expenses
- Gross revenue
- Market share
- Aggregate controllable costs
- Patient/customer satisfaction
- Quality of care index

4.12 Employers Are Not Maximizing Their Returns

Zero percent staff turnover in a complex, fast-paced health care company is not only impossible, practically speaking, but also bad for the organization. Every company has its own unique level of optimum turnover and the level changes over time. It is not set by some convoluted mathematical formula but rather by an inward-looking assessment of the performance of the workforce. Such a self-evaluation would show most organizations that their performance scores take on the shape of a bell curve, where the majority of employees perform as expected and the balance are divided between above-average and below-average contributors.

Suppose that a 1,000 employee institution might have 100 superstars, 800 satisfactory workers, and 100 poor performers. If that were the case, then should not the employer be
targeting a 10 percent turnover rate? There are several reasons that quickly come to mind as to why the employer might not be pleased with that rate:

- If the wrong 10 percent are quitting, losing solid performers would not be advantageous to the organization, and it would be worse if some of the superstars are included in the 10 percent leaving the organization (not uncommon in health care).

- The company may prefer an even higher turnover rate if fresh ideas and skills are valued and it is deemed to make more sense to import them rather than grow them from within.

- Regardless of which 10 percent leaves, the employer may be so busy that it cannot afford the direct and indirect expense (productivity loss) of having to replace 100 workers annually (also not uncommon in health care).

Performance reviews take on a perfect bell curve shape only in theory. In reality, most supervisors dislike confrontation and end up inflating performance scores for their subordinates. One very large, well-known U.S. organization (non-health care) had been rating its 20,000 employees for years on a scale of 1 to 10. To the company’s dismay each year, the performance scores would come in with nearly all 20,000 rated an 8, 9, or 10. Yet, anyone walking the halls of that company could spot good, bad, and acceptable performance. The employer finally wised up in the late 1990s and unveiled a new evaluation system that called for performance scores from 1 to 100. As one would suspect, nearly all 20,000 employees received scores from 80 to 100 in the first year of use.

Supervisors might skew performance review scores if they see very little correlation between the performance ratings they give their staff and the resulting wage adjustment that follows. There are many employers who believe that an above-average performing nurse is not worth much more in pay, if any, than a nurse of average ability. In many of those situations, the high-performing nurse is “rewarded” with more responsibility without proportionate financial treatment.

Optimal turnover is achieved when an organization like the one previously mentioned convinces its poor performers to leave and all others to stay. This may occur when the poor performers are scored in the last quartile and superior employees are the only ones scoring in the top quartile. The turnover percentage is based also on the recruitment/screening strength of the organization and the availability of qualified candidates in sufficient numbers.

How a health care organization reaches its optimal turnover level depends on the messages it explicitly and implicitly sends to its staff. The most powerful messages of all are the ones communicating
pay increases, promotions, and incentive pay awards. Even if poor performers are correctly slotted in the bottom quartile, the organization still needs to follow through with appropriate action. The same holds true for managing superstars. The company must respond appropriately to the top-quartile rating it received.

*If health care employers are to maximize the return on their significant human capital investment, they must send the right signals, which inevitably will be conveyed, more than anywhere else, through their compensation/reward practices.*

The wrong reward system can cause the organization to spread resources too evenly throughout the workforce, leaving superior employees inadequately rewarded, escalate fixed costs (because of too little variable/incentive pay), overfund pay-related retention efforts when career development or workload reduction may be more imperative, and offer rewards packages that do not match the diverse workforce needs.

Figure 4-6 shows the expense of greater-than-optimal nursing staff turnover. The primary obstacle keeping health care employers from spending additional funds or from revamping the utilization of current funding is the thought that “hidden costs” are not real. This perception builds over time because hidden costs, by their very nature, cannot be as readily seen. And most health care organizations still take the viewpoint that if they are difficult to measure, then why bother to measure them.

The casual attitude toward hidden costs, primarily nonproductivity, that tends to reduce their perceived impact is starting to erode as health care organizations continue to feel the unrelenting financial realities of the U.S. health care delivery model.
4.13 Age/Gender Differences

Delivering the most compensation value on a given budget requires that employers be alert to what motivates and inspires employees from the age of 18 to 80. Matching the compensation package and process to exactly what the organization and each employee needs puts the company on the path to optimal turnover, performance, and return on investments. To begin, employers must appreciate the differences in the generations, what contributed to their unique characteristics, and what that says about the rewards package that would most efficiently generate their best performance.

Mercer HR Consulting conducted research in December 2000 on the issues working Americans see as important in joining an organization and maintaining a satisfactory employer/employee relationship. Their Employee Value Survey explored workforce needs, concerns, and preferences, while investigating different benefit strategies. A statistically valid sample of working adults across the nation responded, representing eight age/gender groups. Although some findings could be different if the survey were conducted today, the data sheds light on issues employees valued even before recent tragic events of 9/11.
The research suggests only half of working Americans are satisfied with their employer’s benefit programs. Yet benefits can significantly influence decisions to take a job, remain with that employer, switch jobs, or go the extra mile to contribute to the organization’s success. If an employee does not need or use the benefits, do they have any value? The challenge of becoming an employer of choice, is to create a total reward package that anticipates the shifting values of both the organization’s current and future workforce. As the cost of benefits becomes a greater portion of the total compensation, the focus must expand to include not only the amount spent on benefits but also how effectively those dollars are allocated. Survey results indicate the following:

- Pulling some money out of traditional benefits and putting it into more immediate rewards can influence employee satisfaction.
- As workforce demographics change, so does the value of many traditional benefits.
- In addition to salary and health care coverage, employees are seeking career opportunities and more flexibility for balancing work/life responsibilities.

Recognizing these various priorities can lead to human capital strategies geared toward employees most important to the organization’s success. This can ultimately help the company perform the following:

- Evaluate the benefits in view of current business conditions and shifts in worker attitude;
- Align with employees’ priorities by understanding what they want and need;
- Redefine benefits to assist employees with concerns such as caring for dependents, saving time and money, making work more flexible; and
- Repackage and communicate benefit offerings for maximum advantage and perceived value.

**4.14 Employee Value Survey Details**

Mercer took a national sample of 3,200 respondents, evenly distributed across 8 sample cells—gender (2 levels—male/female) by age (4 levels—18-29, 30-39, 40-54, and 55 or older). Survey questions obtained input in 5 major areas:

- Factors important in defining a “workplace of choice”
- Attitudes about their current employer
Life situations and influence of benefits to address them

Factors influencing decision to join/stay with an employer

Demographics

When asked to indicate the qualities that make an organization an “employer of choice,” the most of the 3,200 respondents cited the six shown in Figure 4-7.

Three other more specific qualities made the list:

- Flexibility to manage work and personal responsibilities
- Programs to help with stress in personal lives
- Assistance with dependent children or parents
This figure once again shows that employees do not rank fair pay as their first priority. It is important if the organization happened to be failing in the other qualities that distinguish an employer of choice.

While benefit preferences are evident between generations of workers, the survey also revealed certain issues are important at all points in the life cycle, with some nuances:

- Staying healthy is an issue for all respondents.
- Worrying about saving for retirement is more likely to concern employees ages 40 to 54 than those under 30.
- Saving for a home and a child’s education is more critical to employees in their 20s and 30s.
- Building assets and saving to meet short-term and long-term needs are a priority for employees at any age.

Shifting focus from employer of choice qualities to specific issues occupying the minds of the four age groups yields findings shown in Table 4-4.

Table 4-4. Employee concerns from four age groups

<table>
<thead>
<tr>
<th>Age 18 – 29</th>
<th>Age 30 – 39</th>
<th>Age 40 – 54</th>
<th>Age 55 &amp; above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealing with the stress of balancing work and family/personal life</td>
<td>Dealing with the stress of balancing work and family/personal life</td>
<td>Planning for retirement</td>
<td>Planning for retirement</td>
</tr>
<tr>
<td>Wanting career advancement opportunities</td>
<td>Planning for retirement</td>
<td>Dealing with the stress of balancing work and family/personal life</td>
<td>Dealing with the stress of balancing work and family/personal life</td>
</tr>
<tr>
<td>Furthering education outside of work</td>
<td>Taking care of a child</td>
<td>Saving for a child’s education</td>
<td>Having company-sponsored health care options available during retirement</td>
</tr>
<tr>
<td>Taking care of personal errands or having to be at home for deliveries/repairs</td>
<td>Saving for a child’s education</td>
<td>Having company-sponsored health care options available during retirement</td>
<td>Receiving professional assistance to help manage personal finances</td>
</tr>
<tr>
<td>Saving for a home</td>
<td>Wanting career advancement opportunities</td>
<td>Taking care of an older parent</td>
<td></td>
</tr>
<tr>
<td>Needing more flexible work hours</td>
<td>Taking care of personal errands or having to be at home for deliveries/repairs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.15 Should I Stay or Should I Go Now?

Survey results indicate employees considering whether to join an organization focus on different aspects of the job than those deciding whether to stay; age and gender also play a role. Pay/financial issues and location are employment factors important to all respondents in joining as well as staying. Feeling comfortable in the work environment, a cultural fit, is also rated high. Cultural fit is multifaceted and challenging to address; however, the return on creating a culture that results in committed employees can be significant.

Respondents pointed to three areas that are more important to retention than to attraction:

- Reputation/brand of the organization
- Employee benefits offered
- The challenge of the job

See Appendix Exhibit 4 for age- and gender-specific factors that motivate employees to change jobs or stay with an organization.
5. COMMISSION RECOMMENDATIONS

5.1 Commission’s Role

The Maryland Statewide Commission on the Crisis in Nursing will encourage employers to:

- Develop salary structures that assure appropriate market-based compensation for all nurses.
- Introduce flexible benefit options to allow nurses to have greater control over salary and benefits.
- Provide total compensation statements to all nurses indicating the full value of salary and benefits.
- Incorporate retention incentives into compensation packages that keep nurses with expert clinical skills at the point of care.
- Sponsor internships for new nurses and experienced nurses wanting to change specialties.
- Offer scholarship programs.
- Establish tuition payback programs (with advance funding in some situations).
- Further develop incentives for “hard to fill” shifts/positions.

5.2 Agencies’ Roles

The Commission will encourage funding and rate-setting agencies such as HSCRC to:

- Provide adequate resources for providers to maintain true market-based salaries for nurses.
- Develop and implement mechanisms to manage rapid changes in market-based salaries for nurses, other health care professionals, and related support staff.
Identify and provide alternative sources of funding for recruitment and retention initiatives such as:

- Grant programs,
- Tax credit based on years of service as a nurse, and
- Lifting of the Social Security cap on hours a nurse age 62 to 65 can work without losing benefits.
- Eliminate financial liability of employed nurses for malpractice.

5.3 Employers’ Role

Employers should give serious consideration to the recommendations forthcoming from the Maryland Statewide Commission on the Crisis in Nursing and heed the advice in the previous section of this paper on how to maximize the return on the total compensation expenditures.

5.4 Nurses’ Role

Nurses should become more knowledgeable about their current benefits coverage and weigh carefully whether opting out of some or all benefits is a sound short-term/long-term decision.
6. REFERENCES


In Our Hands: How Hospital Leaders Can Build a Thriving Workforce (April 2002) The American Hospital Association

Nursing’s Agenda for the Future: A Call to the Nation (April 2002) The American Nurses Association


APPENDIX

Exhibit 1. Maryland nursing shortage exhibits – BON web site (continued)

The chart to the left depicts the number of **registered nurses** (Maryland addresses only) with active licenses.

The number did increase significantly to 50,682 in 2001 yet nurse vacancy rates in Maryland hospitals continue to climb.

This exhibit illustrates the number of **licensed practical nurses** (LPNs) (Maryland addresses only) with active licenses.

The number of LPNs also increased materially to 8,821 in year 2001.

The chart to the left displays Maryland **RNs** by age group.

As can be seen, the number of **RNs** in the two middle age brackets rose substantially. For example, the count in the 48 to 57 group increased by approximately 2,000.
Exhibit 1. Maryland nursing shortage exhibits – BON web site (continued)

This exhibit shows Maryland LPNs by age group.

Between 1997 and 2001, the LPN count increased in all but the youngest and oldest age brackets.

The chart to the left depicts the number of inactive licenses by (age group) for both RNs and LPNs.

The LPN count remains fairly constant while the inactive licenses for RNs climb with age.

The graph shows the downward trend in the number of graduates from RN programs.

There were 185 and 178 RN-BSN graduates in 2000 and 2001, respectively.
Exhibit 2. Retention Subcommittee leadership and contributors

<table>
<thead>
<tr>
<th>Chair: Jeff Jeffries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice Chair: Nancy Dianis</td>
</tr>
<tr>
<td>Ruby Anderson</td>
</tr>
<tr>
<td>Lorna Branch</td>
</tr>
<tr>
<td>Amy Chi</td>
</tr>
<tr>
<td>Catherine Crowley</td>
</tr>
<tr>
<td>Donna M. Dorsey</td>
</tr>
<tr>
<td>Rebecca Faughander</td>
</tr>
<tr>
<td>DeLois G. Hamilton</td>
</tr>
<tr>
<td>Bernice Hughes</td>
</tr>
<tr>
<td>Susan Kalaine</td>
</tr>
<tr>
<td>Diane Liebeskind</td>
</tr>
<tr>
<td>Florine Marshel</td>
</tr>
<tr>
<td>Judith McMillan</td>
</tr>
<tr>
<td>Rosemary Mortimer</td>
</tr>
<tr>
<td>Bonnie Neibauer</td>
</tr>
<tr>
<td>Tina Patrico</td>
</tr>
<tr>
<td>Anne E. Rehfeld</td>
</tr>
<tr>
<td>Vicki Ryan</td>
</tr>
<tr>
<td>Lynn Sklar</td>
</tr>
<tr>
<td>Constance Sumpter</td>
</tr>
<tr>
<td>David Uhlfelder</td>
</tr>
<tr>
<td>Carol Wiggins</td>
</tr>
</tbody>
</table>
Exhibit 3. Work/life benefits

Examples of work/life benefits being offered under several of the above categories by employers across all industries follow on the next few pages. While they all haven’t been listed below, the Bright Horizon/Mercer survey documented more than 145 separate work/life initiatives. Some may not be suitable for the health care industry. Nevertheless, the extensive list could spark some ideas for how to make the balance of work and life more sensible in the 24/7 health care environment.

Flexible work arrangements
- Casual dress
- Part time
- Compressed work week
- Flextime
- Job sharing
- Telecommuting
- Phased retirement
- Flexibility guidelines

Paid time off and leaves
- Paid personal days
- Paid sick days for care of others
- Paid maternity beyond disability
- Paid adoption leave
- Paid elder care leave
- Paid sabbaticals
- Paid paternity leave
- Paid release time for volunteering
- Paid release time for child’s school
- Time off bank
- Leave pool shared

Unpaid time off and leaves
- Unpaid leave for non-FMLA
- Unpaid family leave beyond FMLA
- Unpaid personal days
- Unpaid release time for child’s school
- Unpaid release time for volunteering

Child care initiatives
- Flexible spending account
- Adoption subsidies
- Travel reimbursement for child care
- Child care voucher
- Child care resource and referral
- College info/school match
- On- or near-site child care center
- Get well care
- Back-up care
- Holiday/vacation care
- Purchase priority spaces in local programs
- Before/after school care
- Consortium center
- Summer camp
- Seasonal care
- On-site school
Elder care initiatives
- Elder care resource and referral
- Long-term care insurance
- On-site adult day care
- Support to community-based adult day care

Health and wellness
- Health flexible spending account
- Health fairs
- Breast feeding accommodations
- On-site fitness center
- Medical coverage for same-sex partners
- On-site health services
- Fitness/nutritional counseling
- Nurse advice line
- Pet health insurance
- Provide infant car seats
- Stress management support/counseling

Information and counseling
- Employee assistance programs
- Life cycle resource and referral
- Seminars on work/life
- Work/life newsletter or column
- Legal assistance
- Support groups
- Caregiver fair
- Legal assistance
- Premarriage, marriage counseling
- Spouse job placement for relocation

Financial assistance
- Tuition reimbursement for employees
- Payroll savings plan
- College loans or scholarships for employees’ dependents
- Commuting subsidies
- Employer subsidies for tools or equipment to work at home
- Discounts for major purchases
- Discounted interest rate on home mortgages
- Legal insurance

Convenience services
- Entertainment/tickets
- On-site services (banking, store)
- Take home dinners
- On-site grocery delivery
- Subsidized meals at work
- Photo development
- Pet care
- Preferred parking for pregnant employees

Insert your own work/life program ideas for the nursing profession:
Exhibit 4. Impact of age and gender

Often what motivates employees to change jobs or stay with an organization reflects their point in the life cycle and other demographics.

**Ages 18 to 29**

- These employees view cultural fit, health coverage, and company reputation as the most important factors in staying with a current employer. For women in this group, schedule flexibility, pay, and job challenge are more important than are benefits.
- Higher pay, cultural fit, greater health coverage, and schedule flexibility are job attributes that motivate younger employees to join a company. For males, professional growth greatly influences this decision; location and flexibility are critical for women.
- While a personal connection with the supervisor is important for encouraging 18- to 29-year-olds to stay with an employer, it does not factor into the decision to join an organization.

**Ages 30 to 39**

- At these ages, employees have entered a new phase of the life cycle, focused on family, career, and saving for college and retirement. While the same factors are important for staying with an organization, male respondents cite health coverage and pay as most important, while women prefer cultural fit and schedule flexibility.
- In general, respondents pick location, reputation, and pay as the most significant motivators for joining an organization.
- Once again, for female employees of this age group, flexibility is a crucial factor in the decision to join, while males care more about pay. In fact, female respondents rank pay as one of the least important considerations in joining.
- Neither male nor female employees value an acceptable pace and stress level as a reason to stay with or leave – for this group, the focus is on cultural fit and benefits.

**Ages 40 to 54**

- When employees reach these ages, their benefit preferences change subtly. Our survey shows that benefits, while the most important factor in the decision to stay with an organization, are one of the least important reasons to join a new one.
- Less focused on flexibility, female employees value location and cultural fit in the decision to stay, while male employees still prefer pay and health coverage. These
preferences are similar to those for joining a new organization, except that male employees regard health coverage as less important.

- The company’s reputation is no longer as significant in employment decisions, while location assumes a new importance, especially in the decision to join a different firm.

**Ages 55 and over**

- These employees value cultural fit, reputation, and location as the most important factors in choosing to stay or to take a new job.
- Females in this group assign more importance to personal connections when deciding either to join a new employer or stay with a current job.