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### EMPLOYERS AND ORGANIZATIONS

# The Cost of Replacing an Employee and the Role of Financial Wellness



Last Update: January 14, 2016

[The Society for Human Resource Management \(SHRM\)](#)

reported that on average it costs a company 6 to 9 months of an employee's salary to replace him or her. For an employee making \$60,000 per year, that comes out to \$30,000 - \$45,000 in recruiting and training costs.

Employees leave organizations for a multitude of reasons.

Some employees find better paying jobs while others go back to school. Sometimes it's their choice and other times they follow a spouse who's been transferred to

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another state.

Whatever the reason, it has been well documented that employee turnover is costly and disruptive.

According to Robert Half, an American human resource consulting firm, 38% of employees leave their jobs as a result of "inadequate salary and benefits."<sup>1</sup>

"The stronger hiring climate today means employees who don't feel well compensated may be more willing to look for a new, better-paying job," said Robert Half senior executive director Paul McDonald. "Managers should regularly benchmark salaries against those of other companies in their region and industry to ensure they are at or above market standards. While many factors contribute to turnover, competitive pay and benefits can be the difference when it comes to retaining skilled talent."

With the mounting pressures of everyday personal finances, it's no surprise why better paying jobs can seem more attractive. In fact, a study conducted by the American Psychological Association (APA) cites money as the biggest cause of stress.<sup>2</sup>

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According to a survey conducted by Bankrate.com, roughly three-quarters of Americans are living paycheck-to-paycheck regardless of income.<sup>3</sup>

In another survey published by Suntrust, one-third of respondents cited insufficient financial discipline as the reason they don't meet with financial goals.<sup>4</sup>

If roughly 75% employees are living paycheck-to-paycheck regardless of income and 33% cite insufficient financial discipline as the reason for not meeting their goals, is it safe to assume that money is not the problem? And if money is not the problem, then how can employers keep employees from leaving for money purposes?

Many companies have turned to [financial wellness](#) as an employee benefit. Not only does a financial wellness program enhance a company's benefits package, it also educates employees on how to manage their money wisely.

Financial wellness is a great option for [lowering employee financial stress](#).

Lowering financial stress is a key factor in achieving a happier and more engaged workforce.

Additionally, studies have shown that financial wellness can influence many [positive behavior changes](#).

By helping employees manage their finances and meet their goals, employers can help lower stress and improve their chances at retaining employees who leave for better pay.

However, since financial wellness is a fairly new concept, many employers balk at the idea of adding another expense to their company's overhead.

It's a fair concern but one that can be refuted through simple math.

## The Cost of Attrition

High turnover rates impact company culture, productivity, engagement, and overhead. The attrition rate is the term used for the amount of money employers lose due to employees leaving.

Because no two employees make the same amount, the cost of attrition has to be calculated on an individual basis, but using averages can still give you a ballpark estimate of the true cost of employee turnover.

Yearly turnover rates can be calculated by taking the number of separations during any given year divided by the average number of employees during that year.

Example:  $100 [(10 \text{ employee separations}) / (50 \text{ average employees})] = 20\% \text{ turnover rate}$

Research by SHRM suggests that replacement costs can be as high as 50%-60% with overall costs ranging anywhere from 90%-200%.

Example: If an employee makes \$60,000 per year then it costs an average of \$30,000 - \$45,000 just to replace that employee and roughly \$54,000 - \$120,000 in overall losses to the company.

## Financial Wellness Programs

The cost of financial wellness programs varies depending on scope and size.

Even if an employer spends \$50,000 per year to implement a financial wellness program, they are still spending less than what it takes to replace a single employee.

In this case, a successful program would need to retain just two employees to be considered a success.

There's no question that even the most rudimentary financial wellness program can yield a [significant return on investment](#).

In a world where employee turnover is becoming more and more common, financial wellness programs are a no-brainer.

[Download Enrich's complete guide to Calculating the ROI for Employee Financial Wellness](#)

1 - <https://www.prnewswire.com/news-releases/why-good-employees-quit-327434002.html>

2

- <http://www.apa.org/news/press/releases/2015/02/money-stress.aspx>

3 - <https://www.bankrate.com/>

4 - <https://www.suntrust.com/personal-banking>

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