common wealth

ADVISOR INSIGHTS

Reducing the cost of employee turnover with retirement benefits

Helping employers calculate the dollars-and-cents ROI of introducing a group plan

Workplace retirement plans can **increase employee tenure up to 5+ years**

Center for Retirement Research

Using turnover cost savings to win group retirement deals

Turnover cost savings can be a powerful motivator for introducing a group retirement plan. Advisors can quantify these cost savings for their employer clients using a three-step analysis that we walk through in this document.

We'll discuss each of the steps, the research and assumptions you can use, and examples of what this looks like for two employer archetypes.

Doing this analysis can result in a considerable net financial benefit and an ROI of over 100% on the cost of a retirement plan.

Helping your clients with this analysis is a great way to show value, since many employers will not have analyzed the cost of turnover on their business, and it can also lay the groundwork for other opportunities for you to grow your client relationships.

The perception of cost

Perceived cost is one of the most common reasons why small and mid-sized employers don't introduce retirement plans. It's also one of the most common objections advisors encounter when discussing group retirement with their clients. Savings on employee turnover costs can be an effective response to this concern.

This document discusses ways advisors can help their clients quantify [the business case for group retirement plans](), showing them how a plan may actually result in cost savings for their business.

The idea is to compare the likely cost of a retirement plan with the potential savings in reduced turnover cost from introducing a retirement plan.

There are three main parts to this analysis:

- Quantifying cost of turnover
- Quantifying the cost of a new retirement plan
- Estimating the impact of the retirement plan on turnover

The cost of turnover

While business owners intuitively understand the pain of valuable employees walking out the door, their organizations may not have quantified the impact of turnover. [One study]() found that fewer than one in five businesses had done so.

If your client has already calculated the cost of turnover for their business, you can start with that number. If not, helping the client with this calculation can be a good way to deliver value and demonstrate expertise.

You can calculate the annual cost of voluntary turnover for a business using this formula:

Cost per departing employee x number of departing employees / year (i.e., turnover rate x total number employees)

Costs per departing employee

Here are a few key costs of an employee leaving:

Offboarding. This includes knowledge transfer, exit interviews, unpaid vacation, and lost productivity.

Recruitment. The time to define the new position, job posting and advertising fees, external recruiters, resume screening, interviews, reference checks, hiring bonuses, relocation costs, and the cost of any other evaluations (e.g., testing) done through the candidate selection process.

Onboarding and training. The time it takes colleagues to bring the new person up to speed--not only during their first week or two, but during their entire ramp period. This includes formal trainings, additional management and coaching.

Ramp time. The time it takes for the new employee to become a fully productive member of the team. During this time, the new employee is generally receiving their full compensation, but is not contributing as much to the business as the departed employee. Ramp time can vary widely by role and industry. If, for example, it takes a salesperson six months to be able to fully meet their quota, then the cost of ramp time for a new salesperson would be about six months' worth of total compensation.

Other resourcing gaps. A departed employee can leave a resource gap for a long time. Let's say a valued employee leaves, and it takes three months to find a replacement, and then six months for the new employee to become fully productive. That represents a resourcing gap of nine months for the business.

A lot can happen in nine months: customer service can slip, new product development and shipments can be delayed, operational mistakes can increase, employee morale can suffer because of burnout, and so on. The business will need to decide whether to bear these negative effects or to bring in additional temporary resources to bridge the resourcing gap (resulting in an additional cost).

What do all these costs add up to?

While it depends a lot on the business and the employee, there have been a lot of studies that have tried to roll this up into a single number. Here are some examples:

- Between 50% and 200% of an employee's annual salary (according to Gallup)
- 21% of a "typical" employee's salary, but can be over 200% of salary for executives and other very senior positions (Center for American Progress study based on review of the 31 most relevant case studies from 1992 to 2007). Most of these studies looked only at the direct costs of turnover, not indirect costs such as lost productivity.
- 85% of total compensation per departing employee (or about US$110,000 in 2016 dollars) for highly skilled workers (2016 study by Deloitte), based on modelling of direct costs and lost productivity.
- About $22,000 per year on average (2021 survey of Canadian hiring decisionmakers conducted by The Harris Poll), or about 36% of the average wage. This survey found that per-employee costs increased with company size, with 35% of companies with 100+ employees saying that turnover cost them over $50,000 per employee.

As you can see, the results vary quite widely, depending on the kinds of workers studied and the degree to which indirect costs like lost productivity were taken into account.

If you are dealing with a workforce with less specialized skills where recruiting and ramp time is lower (weeks not months), you might use a number between 20% and 50% of a year's salary. If the workforce has more specialized skills and recruiting and onboarding timelines are longer (months not weeks), you might want to use a range of 100% to 200% of a year's salary.

Below are two simple examples with two different kinds of workforces. Note that we have used a higher turnover rate for the example for the less specialized workforce, since that is often the case.

Example 1:

Less specialized skills workforce

Number of employees	100
Turnover rate	30%
Cost per departing employee	$17,500 (35% of average salary of $50k)
Cost of turnover per year	**$525,000**

Example 2:

Highly specialized skills workforce

Number of employees	100
Turnover rate	20%
Cost per departing employee	$110,000 (100% of average salary of $110k)
Cost of turnover per year	**$2,200,000**

The cost of a new retirement plan

This is a calculation you are likely very familiar with. It involves:

Employer match costs

You'll need to make an assumption about participation rates. 70% might be a reasonable starting point, but you might want to show a range of scenarios at different participation rates. If your client is using a Deferred Profit Sharing Plan (DPSP), match costs are likely to be lower because employer contributions are returned to the employer when employees depart within the vesting period.

Setup and administrative costs

Depending on the provider, there may be third-party costs involved (our advisor plans do not typically include separate administrative costs). Your client may also wish to factor in the internal costs associated with the time they will spend administering their group retirement plan, including adding and removing employees and ensuring accurate payroll deductions. Larger employers tend to have higher costs here. These costs can be considerably lower when modern technology and payroll integrations are involved.

Tax / source deduction savings (if using a DPSP)

Employer contributions into a DPSP are not subject to CPP or EI premiums or provincial payroll taxes. You can learn more about how this works here.

The impact of the retirement plan on turnover

The next part of the analysis is to calculate how introducing a retirement plan could affect turnover.

Research indicates that having a workplace retirement plan has a significant positive impact on retention.

A 2022 study by the US HR tech firm Gusto found that having a retirement plan reduced the risk of quitting by 40% during an employee's first year. This translates in a reduction in turnover rates of between 20% (higher earners) and 55% (lower earners).

A 2006 study by the Center for Retirement Research found that offering a retirement plan increased employee tenure by between 2.7 and 5.8 years, depending on the type of plan. This represents a reduction in turnover of between about 34% and about 74%.

Employer feedback supports this view as well. As part of research Common Wealth conducted with the Healthcare of Ontario Pension Plan, Canadian employers ranked retirement benefits as the #2 most powerful tool for retention, behind only pay and ahead of things like health benefits, disability insurance, and work-life balance.

For the purposes of helping your client, you might use a range of 20%-40% reduction in turnover if dealing with a higher-income group, and 50-60% if dealing with a lower-earning group.

A retirement plan can
reduce the risk of quitting by 40%
during an employee's first year.

GUSTO 2022

The bottom line

The two examples on the right show how you might complete this calculation.

The results from these examples are more conservative than a similar analysis conducted by Gusto, which showed a return on investment of between 168% and 240% for similar types of employers. Still, in both cases there is a significant net benefit and a return on investment of over 100%.

Keep in mind that this analysis focuses only on the retention benefits of offering a retirement plan, and does not factor in other potential benefits, including:

- Improved ability to attract top talent
- Improved compensation efficiency compared to salary and other levers
- Improved productivity of employees due to reduced financial stress

You can learn about these benefits, and the research behind them, in the report that Common Wealth wrote with the Healthcare of Ontario Pension Plan on the business case for workplace retirement plans.

Let's connect

Common Wealth is happy to talk to you about how to use turnover costs to grow your business and deepen your client relationships. Book a meeting online for help with preparing some case examples for your clients.

Book a meeting

commonwealthretirement.com.

Example 1:

Less specialized skills workforce

Number of employees	100
Turnover rate before retirement plan	30%
Cost per departing employee	$17,500 (35% of average salary of $50k)
Cost of turnover per year (before introducing plan)	$525,000
Cost of plan (3% match, 70% participation, RRSP/TFSA plan design)	$107,000 ($105,000 for matching, $2,000 for staff time for administration)
Turnover reduction from introducing plan	50% (from 30% to 15%)
Turnover cost savings from introducing plan	$262,500
Net benefit (cost)	**$155,500**
Return on investment	**145%**

Example 2:

Highly specialized skills workforce

Number of employees	100
Turnover rate before retirement plan	20%
Cost per departing employee	$110k ($110k of average salary of $110k)
Cost of turnover per year	$2,200,000
Cost of plan (4% match, 70% participation, RRSP/TFSA plan design)	$310,000 ($308,000 for matching, $2,000 for staff time for administration)
Turnover reduction from introducing plan	30% (from 20% to 14%)
Turnover cost savings from introducing plan	$660,000
Net benefit (cost) from introducing plan	**$350,000**
Return on investment	**113%**

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