Returns to Experience and Retention Among Direct Care Workers

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Direct care healthcare employees working in long-term care settings, such as nursing homes, typically receive low wages, averaging $17.27 in 2019. In addition, turnover is high and most nursing homes do not meet clinical standards for staffing most days (Geng et al. 2019). These staffing patterns in turn have implications for the quality of care provided since low staffing levels and high worker turnover have been linked to myriad adverse health and safety outcomes for residents (Centers for Medicare and Medicaid Services 2019). Yet little is known about paying workers with greater levels of industry experience higher wages is an effective strategy to reduce turnover. Moreover, if such experience premium policies are government-mandated and subsidized, it is unclear how much of these subsidies are captured by employers.

We shed light on these questions by examining a reform in the state of Illinois that aimed to increase staffing and reduce turnover in nursing homes through large "experience payments." These payments subsidized wage increases of $1 per year of industry experience, up to $6.50 an hour for direct care staff (CNAs) in some facilities, while other facilities did not receive such wage incentives. Our analyses combine administrative earnings records from the state of Illinois with data on shift-level hours worked from timesheet data. These data allow us to construct an "effective hourly wage" for individual workers and examine how scheduling patterns change after the pass-through program was adopted.

Our preliminary findings suggest this policy increased the experience premium after facilities implemented the policy. These increases were largest in facilities with the lowest returns to experience prior to the reform and resulted in a compression of the experience premium distribution across firms. We document minimal changes in overall employment, but changes in the workforce composition.

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