

Transition from Contract Registered Nurse to Non-Contract Nurse Manager – Financial Considerations

Executive Summary

Many Registered Nurses (RN) aspire to advance into a management position as part of their career goals. The challenge of being a team leader, the opportunity for further career advancement, and working a regular schedule are among the more commonly cited motives for becoming a Nurse Manager. There are potentially significant financial implications in making the transition from a contract RN into a non-contract management position. This paper summarizes some of the more important financial elements an RN needs to consider when making these types of career decisions.

This paper will focus mainly on the changes a Minnesota Nurses Association (MNA) contract RN can expect from a personal financial perspective when moving to a non-contact Nurse Manager position. Most of the commentary is centered on a hospital work environment. Changes in income, benefits, and insurance needs will be discussed, but the emphasis will be on retirement plan differences. An example is offered to illustrate how personal retirement planning might change when moving from the defined benefit MNA pension to defined contribution style retirement plans often associated with management positions. While a non-contract RN may experience similar financial considerations during a transition to a Nurse Manager role, there are unique aspects of the MNA contract this paper will address in detail.

Income

Compensation is a major consideration for anyone transitioning into a new position. In many professions moving into management would translate to a potentially significant increase in income. This is not necessarily true in nursing. A contract RN with several years of experience may actually see a net pay cut when moving into management. The average full time salary for a contract RN in the Twin Cities was roughly \$86,000 per year in 2009. This number includes shift differentials and overtime compensation. Although the hourly wage of a Nurse Manager is typically higher at about \$42-\$48/hour, many staff nurses are eligible for overtime, shift differentials, longevity bonuses, and on-call pay which can dramatically increase their overall earnings. Nurse Manager salaries generally do not allow for overtime, shift differentials, or on-call pay. One Twin Cities area Nurse Manager noted she incurred what amounted to a \$1/hour pay cut moving into her first management role.

A big change when moving to management is how your compensation package is determined. Income and benefits for contract nurses are set by the union contract. Nurse Managers are not part of the collective bargaining process and have the opportunity to negotiate certain aspects of their compensation package in order to better suit their personal financial needs. For example, a Nurse Manager planning additional schooling may attempt to negotiate a higher tuition reimbursement in lieu of a higher salary.

Another difference from the union contract is the opportunity for performance based compensation. Many employers offer both individual and organizational incentives in the form of salary bonuses. Two Nurse Managers interviewed for this project indicated they have incentive bonuses of between 10-15% of their annual salary based on organizational and individual goals. Reaching these incentive bonuses will

often increase the compensation of Nurse Managers above that of similarly experienced contract RNs. Contract RNs rarely receive performance based incentive bonuses.

Career Advancement

We received several pieces of advice for RNs interested in management positions:

- If you are confident a leadership position is your long term professional goal, transition to a manager position as early as possible in your career. Serving as a charge nurse can provide valuable leadership experience while still under the union contract. Feedback indicates three years experience as an RN is a recommended minimum experience level before making a transition to management. Waiting can make the transition decision much more difficult particularly from a compensation perspective. Senior level contract RNs not only make comparable wages to Nurse Managers, but also gain seniority benefits and flexibility that can be difficult to give up.
- Several interviews indicated five years of experience as a Nurse Manager was a good guideline before becoming a Director of Nursing. The next advancement step is a Chief Nursing Officer (CNO).
- Pursue advanced education in the form of a Master's Degree in Leadership, Nursing, or Business Administration with a focus on Health Care Administration. It is not necessary to complete an advanced degree before becoming a Nurse Manager, but the program should be in progress if possible.
- Consider "well-respected" schools with an excellent reputation for your advanced degree. Feedback indicates the reputation of a school can matter with future career advancement opportunities.
- Participate on group committees – particularly union committees. The experience can often be useful as a Nurse Manager. Nurse Managers with a thorough understanding of the union contract can gain effectiveness and efficiency in their duties.
- Find a mentor – This is one way to gain exposure to nurse leaders. Joining an organization such as the Minnesota Organization of Leaders in Nursing (MOLN) is a good way to network with more experienced peers.

Benefits

Nurse Managers typically have a different benefit package than contract nurses. Many hospitals have a money purchase pension plan for non-contract employees with a defined employer contribution ranging from 3%-6% of annual salary. In addition, many hospitals have a voluntary 401(k)/403(b) plan that may receive a discretionary matching contribution from the employer. Retirement benefits and plan design vary by hospital, but a typical employer matching contribution would be 50% of your contribution up to 3% of your income. This means if you are saving 6% or more of your income to the 401(k)/403(b) plan, your employer is contributing an additional 3% of your income on your behalf. If your income is

\$100,000 per year, the added employer contribution equates to an additional \$3,000 per year to your retirement account. It is critically important to take advantage of this “free” matching money from the employer.

There are also differences in health, disability, and life insurance benefits a Nurse Manager receives compared to a contract nurse. These differences are often less significant, but it is important to take the time to understand the insurance offerings and how they might impact your personal situation.

Tuition reimbursement is another benefit that might change when moving to a management position. MNA contract nurses receive \$3,500/year in tuition reimbursement toward the pursuit of higher education while one Twin City hospital we reviewed offers only \$2,000/year in tuition reimbursement for their Nurse Managers. Tuition reimbursement varies by facility and can be subject to negotiation. This can be an important consideration particularly for Nurse Managers with aspirations of advancing into Nurse Director or Chief Nursing Officer roles that may require more advanced degrees. One Nurse Manager interviewed for this project suggested salaries are often more rigid while hospitals might have greater flexibility negotiating benefits like tuition reimbursement. Tuition reimbursement is often subject to budgetary constraints and is more difficult to negotiate during lean times.

Liability Insurance

Contract nurses have professional liability protections through the union. Although Nurse Managers are typically not involved in administering patient care, there are professional liability risks for which some personal insurance should be considered. It is important to address this issue when considering a transition to a management position.

“Other nurses believe that their employer's professional liability insurance provides all of the coverage needed. While this is certainly true in the majority of cases, there may be instances in which the interests of an individual may be in conflict with that of the employer. In fact, if the event leading to a malpractice claim was contrary to the policies and protocols established by the employer and the employer is sued, the employer can file a claim against the practitioner to recover awarded damages and attorney fees.”

You can read more about the purchase of personal liability protection at:
<http://www.nursingworld.org/mods/archive/mod312/cerm301.htm>

Retirement Planning

Planning for retirement is one of the most commonly overlooked aspects of moving from a contract RN position to a Nurse Manager. One of the biggest financial changes a Nurse Manager will undergo is the change to their retirement plan and yet this aspect of an RN's overall financial plan often seems to be a low priority. There is a vast difference between the union pension and a defined contribution style money purchase pension plan combined with a 401(k)/403(b). It is critical to understand these differences and how they impact your personal situation.

An important concept to understand is the difference between a defined benefit plan (i.e. the union pension) and a defined contribution plan (401(k)/403(b) plan), which is common for non-contract employees. A defined *benefit* plan is a plan where the pension plan guarantees to pay the retired

employee a fixed monthly income for life based on a formula factoring in years of service and income earned during your career. A defined *contribution* plan is a retirement savings program under which an employer promises certain contributions to a participant's retirement savings account during employment, but with no guaranteed retirement benefit.

One of the major differences between the two types of plans is the party assuming the different types of risk. In a defined *benefit* plan, the employer has an obligation to pay the retiree a fixed monthly payment for life, regardless of market conditions. The employer is assuming the investment and longevity risk. However, during times of inflation, the retiree is still receiving a fixed payment which has potentially lower purchasing power. The retiree is assuming the inflation risk. The payment from a defined benefit plan ends when the term of the pension payment ends – meaning you have a right to the income stream, but not the principal backing that income stream.

In a defined *contribution* plan, the employer's obligation is met once the contribution is made to the employee's account and therefore their risk is greatly minimized. The employee/retiree assumes the market risk but also reaps the potential benefits should the investments perform well. The participant takes on much greater responsibility for managing the account both during the accumulation phase while working and ultimately the income phase during retirement. Furthermore, a defined contribution plan has the potential to leave money to heirs if the funds are not used by the retiree.

Although most nurses do not rely solely on their pension to fund retirement, it is typically a major piece of their retirement income picture. It is important for a new Nurse Manager to understand the different ways to save for retirement in order to compensate for the loss of the pension. It is crucial to have a plan from the beginning as time is a critical element for anyone saving for retirement.

It is common for a new Nurse Manager to miscalculate the amount of saving required to replace their union pension. A contract nurse receives pension credits and increases their pension benefit on an annual basis if they meet the yearly contract service requirements. Once a nurse leaves the contract to become a Nurse Manager, he or she is no longer receiving pension credits. The present value of those future pension payments and the saving required to make up for the loss of those payments is often more than most think. Also, the added personal responsibility of managing a defined contribution retirement plan is challenging when surveys indicate RNs often feel ill-prepared to make the important investment decisions necessary for a successful retirement future.

One way to better understand how these changes will impact your retirement is to look at a hypothetical comparison between someone who spends their entire career as a contract RN and someone who leaves the contract. For the purpose of simplification, we are going to compare two individuals, one a contract RN and one a Nurse Manager, both are make \$90,000/year and are 25 years from retirement.

First, we will look at the RN's pension benefit and how it is currently calculated as of 2009. The annual benefit credit for normal retirement is calculated by taking 1.65% of annual earnings, divided by 12. For our hypothetical RN making \$90,000, this amounts to a benefit credit of \$123.75 (calculation: $\$90,000 \times 0.0165 / 12$). We are going to assume income, and therefore benefit credits, will increase at a rate of 3% annually. After 25 years, the normal retirement benefit for this RN would be \$4511.83/month or about \$54,142/year. This number is a *future* value and does not account for the effects of inflation. If we

assume an average annual 3.5% inflation rate, the *current* value of this payment is roughly \$1,909.17/month or about \$22,910/year. This payment would replace about 25% of the RN assumed salary of \$90,000 per year if taxes are not considered.

Next, we need to consider the Nurse Manager's defined contribution plan and how it might theoretically compare to the MNA defined benefit pension plan. We are assuming he or she is working at a hospital with a 3% employer contribution to a money purchase pension plan and a 401(k) plan with a 50% match on the first 6% of employee contributions. We are also assuming a 3% annual increase in income and an 8% average annual rate of return on the investments inside the account. After 25 years our Nurse Manager's retirement account would have a value of \$930,612. Keep in mind this calculation assumes the Nurse Manager contributed 6% of her own salary to the employer sponsored retirement plan. The prior calculation of the union defined benefit pension was strictly an employer contribution.

Having roughly \$930,612 may sound like a lot of money, but we need to figure out how much income this account can realistically generate for retirement. Keeping in mind there are numerous schools of thought regarding which investment vehicles should be used and how much money can be safely withdrawn from a retirement account, we are going to simply assume a 5% annual withdrawal rate. This assumption would give our retired Nurse Manager an income of roughly \$3,877.55/month or about \$46,530/year (before taxes are considered). While this monthly income is about 14% less than the defined benefit pension plan, it is important to note our hypothetical Nurse Manager retains control over the original \$930,612 she accumulated in her retirement plan. Retirement could look better or worse than illustrated depending on our assumptions and heirs may receive any remaining balance left in the retirement plan upon death of the retiree.

Based on our hypothetical assumptions, the RN transitioning to a Nurse Manager position would need to account for an 8% annual contribution to the employer sponsored retirement plan to realistically replace the retirement income lost from the MNA defined benefit pension plan. If a Nurse Manager is contributing less than 8% of their salary to their employer sponsored retirement plan, they may be falling behind in their overall retirement goals as a result of their career change. This is another consideration in evaluating overall compensation when transitioning from a contract RN position to a Nurse Manager position.

What happens if our hypothetical new Nurse Manager decides not to make any contributions to the employer sponsored retirement plan and only receives the 3% employer provided money purchase pension contribution? In this case the Nurse Manager would have roughly \$232,653 at retirement. Based on our 5% retirement income assumption, the Nurse Manager could realistically withdraw about \$969.39/month or about \$11,633/year during retirement. This meager amount will not go far in providing the quality of life a Nurse Manager was accustomed to while working. It is critically important a Nurse Manager take full advantage of employer matching retirement funds by actively contributing to the employer sponsored 401(k)/403(b) plan.

Summary Conclusions

The majority of financial changes a Nurse Manager can expect are relatively straightforward, but it is essential to understand how the changes to income and benefits will impact your personal situation and long term financial plan before making such an important career decision. Retirement planning is one financial aspect of the transition that is often overlooked and misunderstood.

The following are some of the primary findings and suggestions of this research and the surveys we completed with Nurse Managers:

- It is likely your compensation will not increase significantly as a result of the career change and may even decline. Most nurses pursue management positions for reasons other than increased compensation.
- Make the transition as early as possible in your career. A senior level union RN may find it difficult moving to a management role both from the perspective of overall compensation, but also potentially giving up hard earned seniority benefits through the union contract.
- It is critically important for a Nurse Manager to participate in an employer sponsored retirement plan. Employee contributions are often eligible for an employer match which is free money to help accumulate savings for retirement. Also, it is essential to help replace lost pension benefits from leaving the union contract.
- Relying entirely on a 3% retirement plan contribution from an employer will potentially leave a Nurse Manager with less than a quarter of the retirement income a similarly compensated union RN would receive through the MNA pension plan. Adding a 6% employee contribution along with a 3% employer match will still likely leave the Nurse Manager behind the MNA pension (by roughly 14%) for generating retirement income (assumes a 25 year career).
- A Nurse Manager would realistically need to contribute about 8% to their defined contribution retirement plan in order to fully replace the lost MNA pension plan. This is an important consideration in evaluating an overall compensation package when transitioning to a management position.

In our hypothetical retirement example we used some very generic assumptions to help us arrive at our conclusions. In the real world, proper asset allocation in your retirement accounts based upon your age and risk tolerance will help to increase the probability of attaining your retirement goals. When you decide to embark on this new career, be proactive with your finances. Do not be afraid to ask questions and get educated about investing and planning for retirement. Seeking the advice of a professional independent financial advisor who can provide a more customized financial plan may be beneficial if you are uncomfortable making these complex decisions on your own.

Above and beyond all the financial considerations of becoming a nurse manager, the primary consideration should be whether or not this is the right occupation for you. An overriding theme from the Nurse Managers we interviewed for this paper is it is important to obtain a better understanding of the job by getting to know experienced Nurse Managers and other senior nursing leaders. Finding someone who is willing to be a mentor can provide tremendous insight and knowledge. Getting involved in an organization specifically for nurse leaders can open several doors and provide invaluable experience.

Bibliography

Minnesota Nurses Association. (2001). Twin Cities Hospitals Pension Plan Summary Plan Description. Minnesota Nurses Association.

Nurse RN Salary in Minneapolis, MN - CBSalary.com. (n.d.). Retrieved March 5, 2010, from CBSalary.com: www.cbsalary.com

U.S. Department of Labor. (n.d.). *Retirement Plans, Benefits & Savings.* Retrieved March 2010, from U.S. Department of Labor: <http://www.dol.gov/dol/topic/retirement/typesofplans.htm>

Financial calculations can be reproduced using various financial calculators found at www.dinkytown.net