American Staffing Association
277 South Washington Street, Suite 200 ▪ Alexandria, VA 22314-3675

703.253.2020
703.253.2053 fax
asa@americanstaffing.net
americanstaffing.net

January 2022

What's Really Driving the Cost of Temporary Nurses?

Nurse staffing agencies play a major role in ensuring that vital patient care is available in every geographical region of the country when and where it is most needed. At no time in history has the need for those services been more vividly demonstrated than during the Covid-19 pandemic.

Unique factors affecting the supply of nurses during the pandemic

The pandemic created unprecedented demand for nurses which has caused the cost of nurse staffing to rise. The economic reasons are apparent, but some have questioned whether the increases are justified. Some have even called for caps on agency bill rates, which are unnecessary and counterproductive. Hence, it is critical that policy makers fully understand the factors that are driving the cost of nurse staffing services—keeping in mind that agency nurses make up a small fraction (less than 2%) of the total population of nurses employed in the U.S. and thus have a negligible impact on overall nursing costs.

The cost of nurse staffing services has risen not only because of the unprecedented demand but because the supply of nurses has suffered due to the unusually harsh working conditions caused by Covid. Stress and overwork, stark physical danger and, in the case of travel nurses, extended periods away from home, all have led to burnout, long leaves of absence, and retirements which have significantly reduced the number of nurses available to work. This supply-demand imbalance required nurse staffing agencies to offer significantly higher wages to attract and retain nurses—which necessarily drove up the cost of the agencies' services.

Nurse staffing services are a supplement to users' existing workforce and costs have not increased uniformly, or in every market, or at all times, as the demand for their services ebbed and flowed dramatically with the course of the pandemic. Costs also varied based on the indigenous supply of nurses in particular geographic regions, with higher concentrations of nurses in urban versus rural locations. Areas of lower concentration required more supplemental help, travel nurses in particular, often at higher costs, especially in remote locations.

Nurse staffing agency profit margins were stable during the pandemic

While the dramatic increase in demand for nurses during the pandemic drove up staffing agency revenues, their bottom-line profits were relatively stable. According to a recent survey of travel nurse agencies by an independent research firm, agency net profit margins—after deducting the direct costs of providing services, including wages and labor-related costs like payroll taxes, unemployment insurance, and employee screening, plus all general overhead expenses like marketing, rent, and office administration—averaged only 12.4% in 2020. Despite the dramatic increase in revenue, 2020's net profit margin was only slightly higher than the 11.1% in 2019 because major overhead expenses, like rent, are fixed thus amplifying any dollar increases in revenue.[*]

[*] Travel Nurse Benchmarking Survey, Staffing Industry Analysts; National Association of Travel Healthcare Organizations (2021 Update)

Remarkably, the survey showed that aggregate agency *gross profits* (revenue minus only the direct costs of providing the services) *actually declined* as a percentage of revenue, from 25.0% in 2019 to 24.6% in 2020, because increases in bill rates were offset by higher nurse wages, which rose from 39% to 42% of revenue.

Another factor moderating profits was that over 70% of travel nurse revenue, according to the survey, was generated through third-party buying arrangements, which health care facilities use to lower their staffing costs.

Rate caps are unnecessary and will reduce the availability of nurses

The unprecedented demands on nurses during the pandemic has led to staff shortages and a crisis in patient care. Rate caps would make things worse. History shows that price controls always distort markets and caps on staffing agency bill rates would mean that agencies could not economically afford to pay market wages—forcing nurses to work in other states or leave the profession entirely, to the detriment of patients. Faced with those prospects, Massachusetts—one of only two states with nurse rate caps—was forced to increase its cap in 2020 and 2021. The other state, Minnesota, was forced to waive its caps during Covid.

Conclusion

Nurse staffing agency costs have increased during the pandemic due to major increases in nurses' wages—but the costs varied due to Covid's erratic and unpredictable patterns and wide geographical disparities in the supply of nurses. Staffing agency profits during the critical first year of the pandemic were stable and by one metric actually declined, belying assertions of overpricing. Thus, Nurse staffing rate caps, which are costly and burdensome for states to administer, are not only unnecessary, but are counterproductive because they will distort the nursing market and reduce the availability of nurses in the control states. Accordingly, rate caps should be categorically rejected.

The American Staffing Association is the voice of the U.S. staffing industry. Health care staffing agencies serve small and large health care organizations throughout the country by quickly and efficiently providing high quality nurses, physicians, and other health care professionals in a wide range of skill categories on an as-needed basis.