TWO-TIER WAGE SYSTEMS:

A COSTLY AND EXTREME WAGE SCHEME WITH DANGEROUS IMPACTS ON PATIENT SAFETY

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OCTOBER 2021

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Financially strapped companies have proposed two-tier wage scales in an attempt to bolster profits while not requiring current employees to make sacrifices to their own wages and benefits. Generally, under a two-tier wage system, employees hired after a certain date are placed on a separate wage grid or schedule with lower pay from start to finish. Therefore, a "second class" of employees who perform the same or substantially similar work is created. This concessionary scheme does not force existing employees to concede any cuts to current wage rates established in the collective bargaining agreement. Although misleading and flawed, management will argue that a two-tier wage proposal is not harmful to existing members and therefore should be accepted. Such is the case made by Kaiser Permanente corporate executives in the current round of national bargaining.[1]

BACKGROUND: TWO-TIER SYSTEMS

Two-tier wage systems are a controversial method to cut labor costs for industries that are labor intensive and where the largest component of costs are employee pay/salaries.[2] Introduced in the 1970s, the concessionary tactic has been a favorite of corporate executives in the airline, retail, and automotive sectors. This was particularly true during the 1980s when employers threatened to close down, file for bankruptcy, or relocate work.

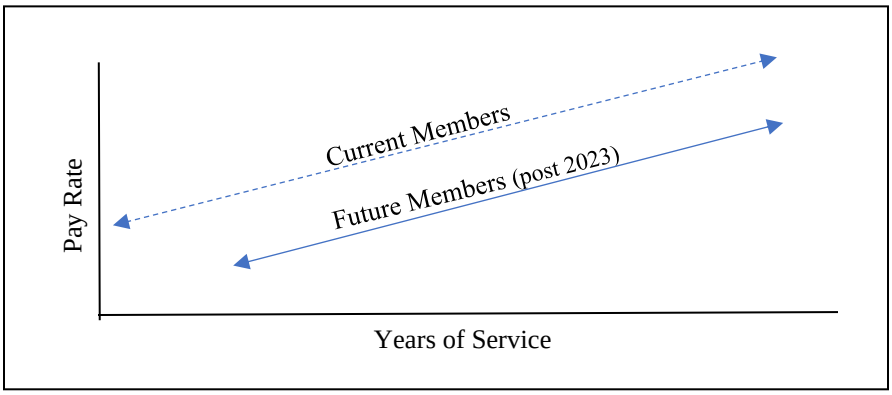
Two-tier wage systems are typically negotiated with unions to lower employer labor costs and preserve jobs at a company that is confronted with financial peril. In hindsight, however, the implementation of these wage systems didn't always increase profits. Although lower paid workers eventually replaced most of the higher-paid tenured staff, reduced morale and high turnover directly undermined intended savings. Clearly, the single most pervasive and enduring outcome of most two-tier plans: a divided workforce with strained morale and weakened unions.

The two-tier system differs from a simple wage scale or wage schedule. A wage scale or wage schedule in a unionized setting sets forth progressively higher wages based on seniority achieved through years of service. As employees gain seniority, they progressively advance through the wage scale and earn higher wages. In a two-tiered system, there are essentially two wage scales created. Existing workers are placed on one scale, and at a future date oncoming workers are placed on a separate and lower scale. Figure 1.1, below, illustrates the framework representing compensation levels of all bargaining unit employees in a classification progressing higher with

[1] See Appendix A.
[2] Martin, James and Melanie Peterson. "Two-Tier Wage Structures: Implications for Equity Theory." Academy of Management Journal, 1987. Vol. 30. No. 2, 297-315.

advancing years of service compared to the progression of employees hired after the implementation of a two-tier system.

Figure 1.1
Permanent Tiers Under Kaiser Proposal



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LOWER WAGES AND REDUCED PROFESSIONAL STANDARDS

Bottom line: a two-tier system exploits future employees and creates a new class of lower paid health care professionals (HCPs). Under the system proposed by Kaiser Permanente's corporate executives, new hires will start at rates up to twenty-six percent (26%) less than current HCPs doing the same job. Additionally, Kaiser's proposal reduces the performance sharing plan by one percent and eliminates the one percent performance-based defined contribution plan for all employees hired after 2023.[3] This effectively negates the gains that the union was able to achieve over decades of collective bargaining by setting the future of the union members on a dramatically lower scale. With lower wage offers, recruitment will center on new, less experienced staff, consequently reducing professional standards across the board.

Two-tier pay doesn't just impact new hires, however. Health care providers who leave temporarily to return to school for an advanced degree, to have families, or to fulfill personal obligations may be forced into the lower tier because of the break in service, regardless of experience or competencies.[4]

DETRIMENTAL SOCIETAL IMPACTS

Over the last several decades wage growth for most Americans has been slow or non-existent. It is true, that tightening labor markets and collective bargaining have provided some health care workers with added leverage over this period of time. With that, widening economic and income inequality in the United States is an issue across the board. Kaiser Permanente's proposal to

[3] See Appendix A.
[4] Buccheri, R. and S. Englander. "Two-Tier Wage Systems: Nurses and Nurse Administrators Be Aware of the Consequences." Nursing Forum 23:154-157. 1987.

decrease wages for tens of thousands of its future employees creates greater inequality. It goes without saying that it is very expensive to live in California and Hawaii and the cost of living continues to rise in both states.[5][6] With education costs also on the rise, many employed at Kaiser Permanente bring with them significant student loan debt adding to the high cost of living employees must deal with. In sum, the deflated wage rates for "tier-two employees," if accepted, would lead to added financial pressure over current employees.

Moreover, due to the enormous size and industry influence held by Kaiser Permanente, their proposal, if accepted, would likely have far reaching impacts, effectively resetting the wages of the entire health care industry—at a significantly lower rate. Because higher, union wage rates set a higher prevailing regional wage, decreasing this average severely impacts the market rate. Retaining current employees will become difficult, as discussed below.

IMPENDING SHORTAGE OF HEALTH CARE PROVIDERS

In addition to being the largest profession in the entire U.S. health care workforce,[7] nurses work in virtually all health care and community settings. However, according to the Federal Bureau of Labor Statistics, it was estimated prior to the pandemic that the U.S. health care system will need more than a million new nurses nationwide within the next five years to accommodate rising demand and to make up for retiring nurses—more than fifty-five percent of current RNs are 50 years or older and expect to retire in the next 5 to 10 years.[8]

Unfortunately, California is at the top of the list for the greatest shortage across the country.[9] The Nurse Workforce Report Card gave California's RN supply a "D" grade and studies show that California will need nearly 200,000 new nurse professionals in 2030.[10] Furthermore, California is projected to face a shortfall of about 4,700 primary care clinicians in 2025 and will need more than 4,100 additional specialty providers in less than ten years to meet the expected population demand.[11]

A 2018 report from Moody's Investors Service cautioned that the then-current shortage was forcing healthcare organizations across the country to "pull out all the stops to attract and retain experienced RNs by offering higher salaries and other incentives," which would cut into profits

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[5] "Inflation at 13-year high in Los Angeles and Orange counties." Orange County Register, September 15, 2021.
[6] "Hawaii's Cost of Living Just Keeps Getting Higher." Honolulu Civil Beat, September 24, 2021.
[7] U.S. Bureau of Labor Statistics. [RNs and LPNs are the two largest occupations in this profession].
[8] Mealer M, Moss M, Good V, Gozal D, Kleinpell R, Sessler C. "What is Burnout Syndrome (BOS)?" *American Journal of Respiratory Critical Care Medicine*. 2016;194:P1–P2.
[9] Ring, Edward. "California's Nursing Schools Need to Up Enrollment by 60 percent to Avoid Shortage." California Policy Center. February 2019.
[10] Using Kaiser Family Foundation data, there are 3.4 million active nurses in the U.S., which equates to 1,030 nurses per 100,000 of population. In California, a state with 40 million residents, there are 338,000 nurses – a ratio of only 844 nurses per 100,000 population. To bring California up to the national average would require another 74,000 nurses. [Ring 2019]
[11] "Supply and Demand Projections of the Nursing Workforce: 2014-2030." U.S. Department of Health and Human Services; Health Resources and Services Administration Bureau of Health Workforce, National Center for Health Workforce Analysis. July 2017.

and operating margins.[12] [13] Recently, three years later, Moody's issued a more dire warning that the delta variant and healthcare provider burnout is now intensify staffing challenges for hospitals. The report highlighted the fact that the shortage is actually requiring health systems to offer more lucrative incentives and pay for skilled nursing staff than previously predicted.[14] Moody's further forecasts that even after the pandemic subsides, intense competition for labor is likely to continue.

The education pipeline isn't expected to keep up with the demand for health care professionals either. Based on current graduation numbers, assuming an average of 11,500 per year, graduating classes through 2030 will add 138,000 nurses to California's workforce.[15] Clearly, those estimates predict a shortfall of 82,000 graduates. To meet the anticipated demand, the number of nursing graduates in California needs to immediately increase by 60 percent.[16] Seven million Californians, the majority of which are Black American, Latino, and Native American, already live in *Health Professional Shortage Areas*—a federal designation for counties experiencing shortfalls of primary care, dental care, or mental health care providers.[17] These shortages are most severe in some of California's largest and fastest-growing regions, including the Inland Empire, Los Angeles, San Joaquin Valley, and in most rural areas.

HIGH TURNOVER AS A RESULT OF A TWO-TIER SYSTEM

Two-tier systems have an immediate and adverse impact on turnover. A review of recent two-tier plans found that turnover rates for workers on the job for less than a year soared to 52% from 29%. Overall turnover jumped to 32% from 19%.[18] Adding this impact to a workforce that has a higher rate of burnout[19] than any other profession in the U.S. will not only have a serious effect on the well-being and mental health of our health care providers but will undermine our profession and, even worse, threaten patient safety as noted below.

Impacts on Morale and Burnout

According to a report on two-tier wage systems in nursing, employees subjected to a two-tier system experienced a decrease in job satisfaction and morale in both tiers. New employees resent getting paid less for doing the same tasks as the veterans, and veteran workers get irritated at the

[12] "Nurse shortage: Healthcare organizations pull out all the stops to attract and retain experienced RNs." Fierce Healthcare, March 9, 2018.
[13] "Moody's: Nursing shortage hits hospital margins hard." Fierce Healthcare, March 12, 2018.
[14] "Labor shortages will strain hospital budgets through 2022, Moody's says." Fierce Healthcare, October 6, 2021.
[15] Joanne Spetz. "Forecasts of the Registered Nurse Workforce in California." Prepared for the California Bureau of Registered Nursing, June 2017.
[16] Ring, Edward. "California's Nursing Schools Need to Up Enrollment by 60 percent to Avoid Shortage." California Policy Center. February 2019.
[17] "Meeting the Demand for Health: Final Report of the California Future Health Workforce Commission." February 2019.
[18] Hirsch, Jerry. "Grocery union fought for unity." Los Angeles Times, July 24, 2007.
[19] Dyrbye, L. N., T. D. Shanafelt, C. A. Sinsky, P. F. Cipriano, J. Bhatt, A. Ommaya, C. P. West, and D. Meyers. 2017. Burnout among health care professionals: A call to explore and address this underrecognized threat to safe, high-quality care. *NAM Perspectives.* Discussion Paper, National Academy of Medicine, Washington, DC. https://doi.org/10.31478/201707b

constant turnover in the ranks of the new employees and the stress of working with untrained workers.[20] Turnover is the first and most foreseeable outcome of a two-tier system.

A recent study from researchers at Ohio State University College of Nursing appropriately noted that nurses were physically and mentally "fried" far before the country's hospitals and health care system were crippled by the pandemic.[21] In 2016, burnout among critical care nursing was shown to be as high as 70%.[22] The pandemic has exacerbated that burnout and health care workers are experiencing post-traumatic stress disorder, depression, anxiety, substance abuse or thoughts of suicide. Research from the Kaiser Family Foundation specifically notes that more than 60% of frontline health care workers say the pandemic has negatively impacted their mental health.[23] Sixty-nine percent (69%) of respondents in the age group most likely impacted by a two-tier system (those age 30 and younger) reported severe burnout at work. Adding another element that increases turnover to a profession that is already at a breaking point is dangerous.

Costs of Turnover Eliminate Savings

High turnover rates drive up costs. At the height of the two-tier system in the 1980s, a survey by the American Productivity Center found that thirty-six percent (36%) of employers using two-tier systems reported that their payroll costs were not actually significantly reduced.[24] The reason? Turnover.

Today, the average turnover costs result in hospitals losing $4.4 million to $6.9 million each year.[25] According to the 2019 National Healthcare Retention & RN Staffing Report[26], each percent change in nurse turnover will cost (or save) the average hospital an additional $328,400. The report also found that the average time it takes to fill a staff nursing position is 85 days (3 months or more for a specialized nursing position), costing about $82,000 (not counting the costs associated with overtime work by other nurses and time to onboard and train the new nurse).

Some health systems have refused to implement two-tier systems because of the unforeseen costs experienced in other sectors. Northwell Health, located in the high-cost New York market where labor costs have increased in recent years to reach 63% of total operating expenses, implemented a plan to retain nurses focused on providing educational opportunities rather than executing a two-tier wage plan. In a few years, turnover dropped 9% and tenure now averages 9.5 years.[27] The health system is also reporting higher profit margins than previous years.

Turnover Puts Patients and Staff at Risk

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[20] Horsley, Scott. "2-Tiered Wages Under Fire: Workers Challenge Unequal Pay For Equal Work." NPR. May 21, 2019.
[21] Johnson, Steven Ross. "Critical-care nurses were physically and mentally fried before the pandemic struck." Modern Health care, May 1, 2021.
[22] "Burnout Among Health Professionals and Its Effect on Patient Safety." Agency for Health care Research and Quality (US). 2016
[23] "Frontline Health Care Workers Survey." KFF/The Washington Post, April 6, 2021.
[24] Buccheri, R. and S. Englander. "Two-Tier Wage Systems: Nurses and Nurse Administrators Be Aware of the Consequences." Nursing Forum 23:154-157. 1987.
[25] Franklin A. Shaffer, EdD, RN, FAAN, FFNMRCSI, and Leah Curtin, ScD(h), RN, FAAN. "Nurse turnover: Understand it, reduce it." August 10, 2020.
[26] 2019 National Health Care Retention & RN Staffing Report.
[27] "Hospitals innovate to control labor costs." Hospital Financial Management Association, October 1, 2019.

The cost of recruiting and training new staff is expensive but the lack in continuity of service directly impacts the safety of patients. A significant body of research attests to this connection between a dissatisfied or disengaged caregiver and the quality of care. Researchers have reviewed a range of data—from medical errors to falls to patient satisfaction surveys—and consistently found correlations to overworked or disengaged staff. Specifically:

- Data collected from 268 nursing units at over 100 hospitals found that *"instability in the nursing workforce implies adverse impacts on the continuity and quality of patient care."* They found that low levels of turnover were associated with fewer patient falls and fewer medication errors. The authors recommended that nursing unit turnover be managed within appropriate levels as a critical step in delivering high-quality patient care.[28]

- In one of the largest studies on this topic, similar correlations were found. Data included survey results from over 95,000 registered nurses taking the Multi-State Nursing Care and Patient Safety survey, and the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) survey, which is a national, standardized, publicly available database of patients' hospital experiences in short-term, acute care hospitals. High levels of burnout and job dissatisfaction among hospital nurses were associated with lower patient satisfaction, which signals problems with quality of care.[29]

- Not only does staffing directly impact patient safety, education and professional standards are also significant. A study in 2014 found that increasing a nurse's workload by just one patient increases the risk of patient mortality by seven percent.[30] The same study notes that for every ten percent (10%) increase in nurses with bachelor's degrees, the risk of an inpatient death decreased by seven percent.

- A recent survey from the American Association of International Healthcare Recruitment found that nearly 80% of registered nurses said the pandemic strained staffing in their unit to "unsafe levels.[31]

Authors of a 2009 study note that the inability of the system to stem the exodus of nurses "sets a damaging dynamic in motion—as more nurses quit, fewer are available to care for the steady stream of patients who come and go, forcing the remaining nurses to take on a larger number of patients, which inevitably increases their stress and dissatisfaction, causing more nurses to leave, and on and on."[32] Providing adequate, let alone optimal, patient care under these conditions becomes exceptionally difficult.

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[28] Bae, S., Mark, B., & Fried, B. (2010). Impact of Nursing Unit Turnover on Patient Outcomes in Hospitals. *Journal of Nursing Scholarship*, *42*(1), 40–49. https://doi.org/10.1111/j.1547-5069.2009.01319.x

[29] Mchugh, M., Kutney-Lee, A., Cimiotti, J., Sloane, D., & Aiken, L. (2011). Nurses' widespread job dissatisfaction, burnout, and frustration with health benefits signal problems for patient care. Health Affairs (Project Hope), 30(2), 202–210. https://doi.org/10.1377/hlthaff.2010.0100

[30] "Nurse staffing and education and hospital mortality in nine European countries: a retrospective observational study." February 26, 2014. DOI: https://doi.org/10.1016/S0140-6736(13)62631-8

[31] "Nationwide Nurse Survey Points to Mass Exodus From Bedside, Huge Increase in Nurse-to-Patient Ratios." Business Wire, April 2021.

[32] Clark, P. and D. Clark, R.N. "Improving the Quality of Patient Care: A Central Concern for Nurses' Unions." Penn State University, 2009.

IMPACTS ON CURRENT EMPLOYEES

Even though current employees may not immediately be impacted under Kaiser's two-tier proposal, they most certainly will be in the future. The fact is that tenured employees will eventually be outnumbered by the new hires impacted by the lower tier, who could then vote against any contractual gains for the longer-serving staff. Second-tier new hires also face the devastating prospect of never reaching parity with the previous wage grids. Such disparity in wages creates a group of "second-class citizens" who suffer the effects of a lower wage grid but did not have a vote in the contract ratification process which put them on that grid.

Low morale and pay disparity induced by a two-tier system isn't easy to overcome or reverse. Where two-tier systems were abolished or reverted, it took a decade or more to reverse and overcome wage losses after the reversal.[33] The contracts to reverse the two-tiers were also arduous fights that often resulted in freezes for the tenured employees in order to bring the lower tier to the previous levels, reverberating the pains across the grid and bargaining unit. The United Auto Workers in 2015 at last bargained the full elimination of the two-tier plan they first conceded to in the 1980s.[34]

DIVIDE AND CONQUER: THE ANTI-UNION STRATEGY

In the 1980s, unions that agreed to two-tier concessions did so due to credible company claims of dire financial hardship, accompanied by promises that such concessions would not lead to devastating lay-offs or furloughs.[35] Instead, the companies saw labor costs remain stagnant but, more importantly, corporate executives were playing the long game and succeeded in rolling back other negotiated standards, opening the door for many more concessions in years to come.[36] In the case of the UAW, the two-tier system led to an internal fracturing of the membership which remains today, nearly forty years later.

What most corporate executives found at the end of the two-tier experiment was the ultimate weapon capable of dividing the membership and diminishing the power of the union. Such tiered systems "drastically weakened the effectiveness of unions as they divide the ranks and promote jealousy and suspiciousness among members."[37] Discontent within the ranks of a union impedes the collective bargaining process all together, which prevents all workers from receiving fair compensation. By undermining from within and locking in internal division, corporate executives are able to indirectly destabilize a union. According to labor relations expert Tom Adams, two-tiered wage systems do no more than destroy solidarity.[38] Once the precedent for concession exists, it spreads.

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[33] Chaison, Gary. "Two-Tier Wage Settlements and the Legitimacy of American Unions." 2009.
[34] "How Two-Tier Unions Turn Workers Against One Another." Washington Post, August 29, 2019.
[35] Chaison, Gary. "Two-Tier Wage Settlements and the Legitimacy of American Unions." 2009.
[36] "How Two-Tier Unions Turn Workers Against One Another." Washington Post, August 29, 2019.
[37] Buccheri, R. and S. Englander. "Two-Tier Wage Systems: Nurses and Nurse Administrators Be Aware of the Consequences." Nursing Forum 23:154-157. 1987.
[38] "The Negatives of a Two-Tiered Wage System in Businesses." September 2017.

Unions Have a Positive Impact on Patient Care

As first-line care providers and patient advocates, HCPs in the labor movement have been intrinsic to strengthening the nation's health by improving access to affordable care. Of the nearly 4.1 million registered nurses (RNs) and one million licensed practical nurses/licensed vocational nurses (LPN/LVNs) in the United States, 20.4% are members of a union.[39] Numerous studies have found a positive correlation between health care unions and patient outcomes:

- Hospitals with unionized R.N.'s have 5.5% lower heart attack mortality than non-union hospitals.[40]

- According to a 2016 study, unions increase productivity for the employer with better training, less turnover, and longer tenure of the workforce.[41]

- A 2011 study published in the Journal of Nursing Administration found that unionized hospitals had lower turnover and higher nursing retention than non-unionized providers, and the health care professionals reported higher job satisfaction.[42]

A 2018 report from Mercer, a global health care staffing consulting firm, notes that, "When there are fewer nurses available to handle a bigger volume of patients, it adversely affects patient outcomes because of nursing burnout. Patients are more likely to be readmitted after 30 days of first being seen. They can also be at a higher risk of a hospital-acquired infection."[43] **Because turnover rates are lower and job satisfaction is higher at unionized hospitals, attempts to weaken health care unions directly and negatively impact patient care.**

KAISER PERMANENTE'S PROFITABLE PERFORMANCE

Executives at Kaiser claim the sky is falling and attempt to paint a picture for the need to be competitive against a market of low wage comparisons as justification for their two-tier proposal. However, Kaiser is very profitable with a robust financial profile and has no reason to demand such extreme concessions.

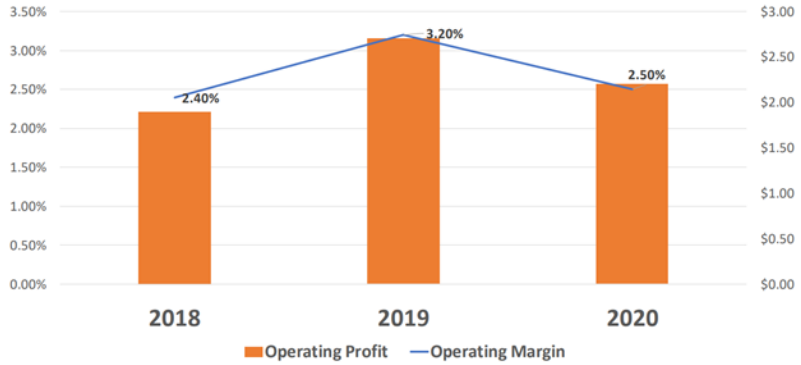
Membership grew by 591,000 in the last three years, and more than 130,000 in the first few months of this year alone. Sixty-five percent (65%) of the nation's Fortune 100 companies contract with Kaiser and no one employer represents more than 5% of total membership.[44]

In fact, Kaiser's financial strength is worth noting. With more than $88 billion in revenues in 2020[45], Kaiser would be #34 on the Fortune 500 list for all companies (ahead of Disney, Nike, Lockheed Martin) and it would be #3 when compared to private companies (only behind Cargill

[39] Bureau of Labor Statistics, "Union Membership". January 2021.
[40] Ash, Michael and Seago, Jean Ann (2004) "The Effect of Registered Nurses' Unions on Heart Attack Mortality," Industrial & Labor Relations Review, Vol. 57, No. 3, article 6.
[41] "Nurses Unionizing: Benefits of Working in a Union Hospital." Nurse.org, 2019.
[42] Ibid.
[43] "The US can't keep up with demand for health aides, nurses and doctors." CNN Money, May 2018.
[44] Fitch Ratings. "Fitch Rates Kaiser Permanente's (CA) Series 2021 Bonds 'AA-', Affirms IDR; Outlook Stable." May 2021.
[45] Ibid.

and Koch Industries).[46] Kaiser's net profits between 2018-2020 totaled $16.3 billion and Kaiser maintains $44.5 billion in reserves which is equal to 194 days of cash on hand.[47] Essentially, Kaiser wouldn't have to bring in a single cent for more than 190 days before they would be operating in the red. In 2020 alone, Kaiser made $2.2 billion in sheer profit—even after returning more than $500 million in federal funds.[48]

Simply put, Kaiser made more than $6 million every single day during the pandemic in 2020.



Kaiser Permanente's Operating Profits and Margins, 2018-2020.[49]

Kaiser Permanente's strong and profitable performance is more evidence that the employer has an ability to pay reasonable wage increases locally and nationally. Unlike "The Big Three" auto companies in the 1980s that had legitimate financial concerns when two-tier wages were introduced, there is no reason for Kaiser's executives to take the extreme economic position that they need a two-tier system now or in the near future.

CONCLUSION

With the additional strain on morale, an accelerated turnover rate, and induced divisive pay practices, a two-tier system could create havoc and disaster for Kaiser Permanente's members and patients, as well as its staff of health care providers who are already trying to accommodate a higher patient acuity and deal with the mental anguish exacerbated by the pandemic.

With close to $45 billion in reserves and record-breaking profits during the pandemic, Kaiser Permanente isn't anywhere close to a financial collapse—unlike the airline and automotive industries in the 1980s. Yet the corporate executives behind Kaiser Permanente's two-tier proposal portray the low wages of competitors as a need to cut labor costs and boost corporate profits for future endurance. What they won't tell you is that their primary strategy to make even more money and line their corporate coffers would also weaken and divide UNAC/UHCP and the Alliance from within—the unions whose presence helps to ensure quality patient care at Kaiser Permanente.

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[46] "Fortune 500 List." [Based on company revenues for 2020.]
[47] Fitch Ratings. "Fitch Rates Kaiser Permanente's (CA) Series 2021 Bonds 'AA-', Affirms IDR; Outlook Stable." May 2021.
[48] Ibid.
[49] Ibid.

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October 2021