



## The iceberg effect

*The hidden costs of absenteeism and presenteeism*

By Michael Klachefsky

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**T**he rising cost of employer-provided health insurance has many employers paying close attention to employee health and its effect on their organization's profitability.

Although health care costs are the subject of much discussion, many employers concentrate on only 30 percent of the total cost of poor employee health: the medical and pharmaceutical costs. The other 70 percent of costs can be attributed to health-related lost productivity—the decline of productivity due to absenteeism and presenteeism. If employers are to truly get a handle on reducing overall costs, these productivity costs will need more attention.

Once employers begin to see how the 70 percent can affect their bottom line, they can make an effort to prevent or lessen the impact of health-related lost productivity (HRLP). To help alleviate these costs, employers can introduce a program that aims to identify and eliminate instances of HRLP and, over time, potentially decrease direct health-care costs. An effective model includes an on-site consultant (a nurse or vocational specialist) to help manage absence and disability.

The integration of wellness and disability programs in an organization also can help curb costs and improve employee health. An on-site consultant can help with this, too. For example, an employee with obesity may take a future leave of absence for a weight-related condition. A wellness program alone could help with nutrition and weight loss, but it may not be able to help the employee avoid a disability leave. A program that manages absence and disability could use an on-site consultant to assess this person's workspace and recommend appropriate accommodations to keep the employee at work, more comfortable, and productive.

#### How health-related lost productivity affects profitability

Research suggests that, on average, for every \$1 employers spend on worker medical or pharmacy costs, they absorb at least \$2.30 of HRLP costs due to absenteeism and presenteeism. These two workplace issues are very problematic and costly to employers because they can be difficult to control.

To help visualize the cost and impact of HRLP, this concept can be envisioned as an iceberg. The costs from presenteeism and absenteeism—the 70 percent attributed to the decline in productivity—are hidden below the surface. At the same time, health care and pharmaceutical costs—the 30 percent of an employer's health-related hard costs—are more easily visible above the surface. Visualizing that added cost beneath the surface makes it easier for employers to see the impact that health-related lost productivity has on their company, and where more attention should be paid.

#### The costs of absence

Employees out of work on different types of absence can have an impact on a company's bottom line. Whether an employee is out on a planned leave for a vacation, an unplanned leave for an illness, or an extended leave of absence due to a disability, the resulting direct and indirect costs are clearly meaningful to an organization. Reducing the frequency and length of disability-related absences is a big opportunity to influence company profitability.



A 2010 survey conducted by Kronos and Mercer concluded that the direct costs of incidental and extended absence averaged 2.6 percent of a company's payroll. These costs include the pay provided to an employee for time not worked, including short-term disability, salary continuation, and sick leave.

In addition, the survey showed indirect costs of incidental and extended absence (those mentioned above) averaged an additional 6.1 percent of payroll.

The total cost of incidental and extended absence for the organizations surveyed amounted to 8.7 percent of a company's base payroll. This number makes it crucial for organizations to take steps to reduce employee absence and disability.

### Curbing the costs of presenteeism

Presenteeism, or the productivity loss caused by employees working with physical or mental health conditions, also has a direct effect on the employer's bottom line. Major causes of presenteeism can include musculoskeletal conditions, arthritis, obesity, and allergies.

Depression is another common cause of presenteeism. This condition alone is estimated to cost companies \$83 billion annually in the U.S., and it is the highest-cost health condition in the country, especially in regard to presenteeism.

Employers can curtail the effects of direct and indirect costs of absence and presenteeism by implementing a program that can reduce the frequency and length of disability-related absences, as well as help employees stay at work. These programs aim to boost workplace productivity, curb costs, and keep employees on the job.

Many employers have implemented health management or wellness programs with which it has been beneficial to connect at-risk or disabled employees:

- Employee assistance programs (EAPs) give employees access to a personal counseling service for themselves and their family members.
- Disease management targets specific medical conditions prevalent in a workforce and offers screening, case management, and treatment solutions.
- Wellness and health promotion attempts to improve the health of all employees by targeting such broad health-related goals as smoking cessation, weight loss, and nutrition.

Employees who are struggling at work with a medical condition (presenteeism) and those who are already on a leave or disability absence (absenteeism) are two groups that can greatly benefit from their employers' health management programs.

These types of health management programs perform better for employers when used in conjunction with innovative programs for managing absence and disability. This powerful combination helps employers reduce the cost and impact of employee absence and disability, improve productivity, and retain and motivate top talent.

Offering an integrated approach to managing health, absence, and disability by connecting employees to specific health management programs when the employees need it the most—before or just after a disabling medical condition causes them to leave the workplace—can reduce the instances of employee presenteeism, absence, and disability throughout an organization.



### Reducing the impact on the bottom line

With the changing health care system, now is the time for employers to understand the full costs of poor employee health related to employee absence and presenteeism.

Employers should use their broker partners to find the right tailored program to manage absence and disability to overcome these issues—and not just a program that comes at the lowest price. In the days ahead, employers will benefit from a provider's services and solutions that reduce and

*Now is the time for employers to understand the full cost of employee health.*

prevent workplace issues that have a serious impact on productivity, employee health and well-being, and overall profitability. ■

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