

Helping Employers Manage the

Hidden Costs of Absence and Disability

by Michael Klachefsky
National Practice Leader, Workplace Possibilities
The Standard
Michael.Klachefsky@standard.com

With the future of healthcare in the United States in flux, many employers are unsure of the direction their healthcare programs will take in coming months. It is no secret that the cost of employer-provided healthcare plans is on the rise, and many companies are turning the focus inward to see how their employees' health will affect their overall profitability. On average, healthcare costs can make up 13.6% of an employer's payroll,¹ and employers can spend time and resources on implementing strategies to reduce this number.

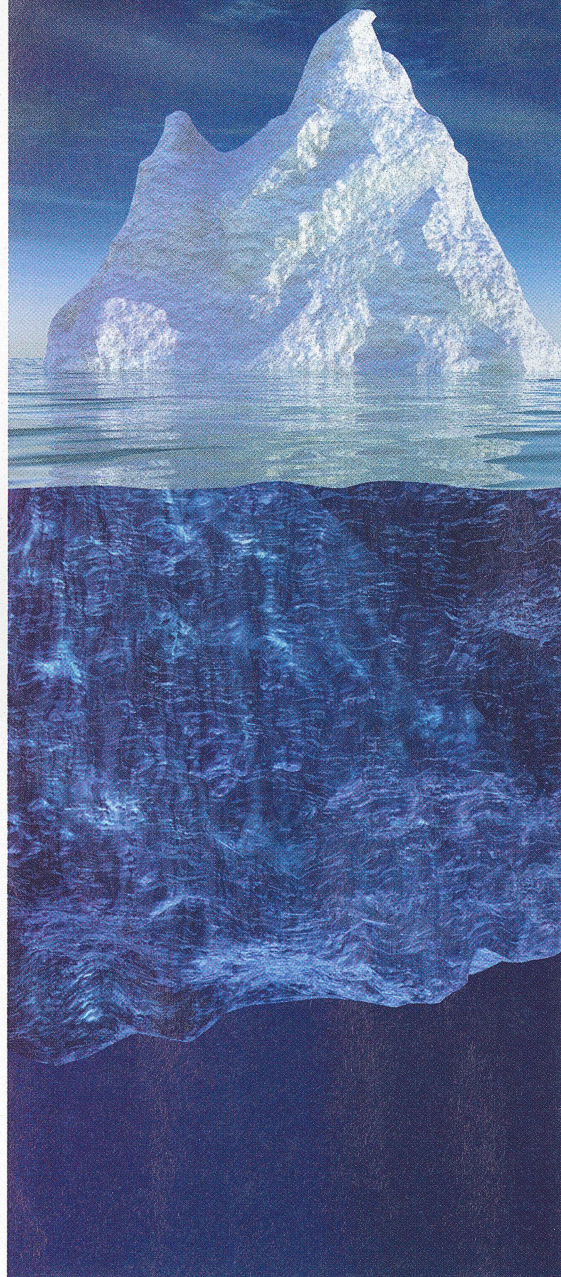
Given this intense focus on employee health, it might come as a surprise that recent research has estimated medical care and pharmaceutical costs to make up only 30% of the total cost of poor employee health. The other 70% of those costs can be attributed to health-related lost productivity—the decline of productivity due to absenteeism and presenteeism.²

Brokers and consultants can help employers focus on the total cost of employee health, not just the medical and pharmaceutical costs, to identify and implement the right solutions to prevent and/or lessen the impact of health-related lost productivity.

To help employers visualize the cost and impact of health-related lost productivity, you can present this concept as an iceberg. The costs from presenteeism and absenteeism—the 70%—are hidden below the surface, while healthcare and pharmaceutical costs—the 30%—rise above the surface. It is easy, then, to see the impact and where attention should be paid.



Research suggests that, on average, for every dollar employers spend on worker medical or pharmacy costs, they absorb at least \$2.30 of health-related lost productivity costs due to absenteeism and presenteeism.



As most employers just focus on the top level of the iceberg, you can help employers see the full cost of poor employee health. To help alleviate these costs, introduce employers to a program that aims to identify and eliminate instances of health-related lost productivity and, over time, potentially decrease a company's direct healthcare costs. An effective model includes an on-site consultant to help manage absence and disability.

For example, an on-site consultant can help introduce ergonomic interventions that keep people on the job and productive or bring them back to work more quickly after an illness or injury. Both of these activities reduce health-related lost productivity. Ergonomic interventions can reduce presenteeism, and early return to work when managed effectively can reduce the duration of work absence and the associated production loss.

Just the Tip of the Iceberg

Research suggests that, on average, for every dollar employers spend on worker medical or pharmacy costs, they absorb at least \$2.30 of health-related lost productivity costs due to absenteeism and presenteeism.² These two workplace issues are very problematic and costly to employers because they can be difficult to control.

Absenteeism results from unplanned absences and the habitual nonpresence of employees. The direct costs are usually measurable, but it is the indirect cost of absence that is the major impact to employers. Indirect costs include turnover, temporary staffing, working slowly, variable product quality, late deliveries and replacement training.

Presenteeism is the productivity loss caused by employees at work with physical or mental health conditions. Major causes of presenteeism can include behavioral health conditions, musculoskeletal conditions, arthritis, obesity and allergies.

Given the causes of presenteeism listed above, it makes sense that some employees, especially those with medical conditions, will likely experience a productivity decline at work. Employees who have gone on leave for medical conditions at some point also may have been at work for a period of time while experiencing the same conditions that ultimately led to the disability leave or absence.

Depression 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.³

The Costs of Absence

These types of at-work performance costs add up over time and directly affect company payroll and expenses. A 2010 survey conducted by Kronos and Mercer concluded that the direct costs of incidental and extended absence averaged 2.6% of a company's payroll. These costs include the pay provided to an employee for time not worked, including short- and long-term disability, salary continuation and sick leave.⁴

In addition, indirect costs of incidental and extended absence (those mentioned above) averaged an additional 6.1% of payroll due to causes of absenteeism.⁵

The total cost of incidental and extended absence for the organizations surveyed amounted to 8.7 percent of a company's base payroll.⁵ This number makes it crucial for organizations to take steps to reduce employee absence and disability.

Implementing Health-Management Programs

Direct and indirect costs of employee absence and disability can be costly to an organization. It's also an opportunity for you to recommend programs that can reduce the frequency and length of disability-related absences. In return, these programs will look to boost workplace productivity, which should improve their bottom line.

Employers can curb these costs through joining together programs that manage absence and disability. Several services and programs enable employers to increase productivity and keep employees on the job. The result is a powerful combination that can improve productivity and also reduce the duration, cost and impact of employee absence and disability.

Many employers have implemented health-management programs aimed at improving employee health. These programs are beneficial for employers to connect at-risk or disabled employees with:

- Employee assistance programs (EAPs), which give employees access to a personal counseling service for themselves and their family members.
- Disease management, which targets specific medical conditions prevalent in a workforce and offers screening, case management and treatment solutions.
- Wellness and health promotion, which 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, and those who are already on a leave or disability absence, 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 way, employers can help reduce the cost and impact of employee absence and disability, improve productivity, and retain and motivate top talent.

Introducing Employers to Innovative Solutions

As I mentioned earlier, one option you can help employers consider is a program with an on-site consultant to make these workplace initiatives work together. You have so many options when it comes to disability-management programs, but introducing employers to a program with an on-site consultant can help curb workplace management issues, reduce health-related lost productivity and increase an employer's bottom line.

For example, The Standard's program for managing absence and disability, Workplace Possibilities, leverages an on-site consultant to help reduce the duration of short-term disability,⁵ thus saving the employer hard dollar costs in its self-insured or insured short-term disability program.²

It offers an integrated approach to managing health, absence and disability by connecting employees to the employer's specific health-management programs when the employees need it the most—just before or just after a disabling medical condition causes them to leave the workplace. Helping employers embrace a stay-at-work and return-to-work philosophy also can be a big step toward that end.

Stay-at-work and return-to-work programs can be used by employers to help reduce the productivity loss caused by presenteeism. A stay-at-work program puts in place accommodations, such as ergonomic intervention or a modified work schedule, to address an employee's issue and enable him or her to do the job with greater productivity. This approach can reduce the instances of employee absence and disability throughout an organization.

Reducing the Bottom Line

Health-related lost productivity has been shown to be a major cost and productivity drain on employers, resulting in missed opportunities to reduce costs and improve the health of their workforces. Consider adding solutions to address health-related lost productivity to your client offerings.

You can work together with employers to join wellness and disability management to ensure a stronger, healthier and more productive workforce that will result in a very rewarding experience for the organization, as well as current and future employees. **HIO**

1 Mercer Survey Report on Employer Sponsored Health Plans. 2010.

2 Loeppke R, Taitel M, Haufle V, Parry T, Kessler RC, Jinnett K. Health and Productivity as a Business Strategy: A Multiemployer Study. *J Occup Environ Med.* 2009;51(4):441-428.

3 Greenberg PE, Kessler RC, Birnbaum HG, et al. The Economic Burden of Depression in the United States: How Did It Change Between 1990 and 2000? *J Clin Psychiatry.* 2003;64(12):1465-1475.

4 Survey on the Total Financial Impact of Employee Absence. Kronos Mercer. 2010.

5 The Workplace Possibilities Program is available through The Standard's Group Disability Insurance. An on-site consultant is available for groups with 1,000 or more employees. This policy has exclusions, limitations, reduction of benefits and terms under which the policy may be continued in force or terminated.