

# Controlling the Cost and Impact of Absenteeism: Why Businesses Should Take a Closer Look at Outsourcing Absence Management

People call off from work for a variety of reasons. According to the CCH 2007 Unscheduled Absence Survey, only one-third of the workforce happens to be sick when they take an unplanned absence. The other two-thirds of the time, they are dealing with personal needs (18 percent), family issues (22 percent), entitlement mentality (13 percent) and stress (13 percent).

American businesses lose an average of 2.8 million work days each year due to unplanned absences (U.S. Bureau of Labor Statistics). These unscheduled absences cost upwards of \$74 billion<sup>1</sup>, making it even more critical for employers to understand:

- > How much absenteeism is costing their business both financially and in lost productivity
- > What factors are driving absenteeism
- > How to proactively manage their absent workforce

A 2008 study by Mercer shows that absenteeism impacts businesses in three areas: direct costs, indirect costs and administrative expenses.

Direct costs are those dollars paid out to the employee through wages and benefits. On average, a company will spend up to 15 percent of its payroll dollars on absenteeism, with two-thirds paid out for scheduled or planned time off, such as vacation and holiday pay. The other third is attributed to unplanned absences, which include sick time, disability and workers' compensation benefits. Absences due to illness cost employers an estimated \$55 billion annually, assuming the cost of an absence is equal to the wage of the absent worker.<sup>2</sup>

Businesses take a two-part hit on the indirect costs of absenteeism. First, there is the cost that an employer may incur by hiring temporary labor, or offering overtime to cover the gap in operations. Second, the disruption in the labor supply will affect productivity, even with replacement staff. This could lead to lost sales, late delivery of goods/services, customer dissatisfaction and loss of revenue. Respondents to a Mercer/Marsh survey on health, productivity and absence management programs reported that unplanned absences caused a 54 percent decrease in productivity/output and a 39 percent drop in sales/customer service. Additionally, employers may not account for the 36 percent in administrative expenses

that it takes to manage absence benefits.<sup>3</sup> This includes tracking, reviewing and processing the absence by company staff. Plus, there are the costs involved with recruiting, hiring, training and supervising replacement workers.

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## A Word on Presenteeism

It's no secret that many people still show up for work when they are not 100 percent on-task. They could be suffering from mental and physical health illnesses, personal problems, need to be with their families or job-related stress. This impact of at-work lost productivity is known as presenteeism.

Off-task workers cost businesses an average of \$250 billion a year, or approximately \$2,000 per worker.<sup>4</sup> The best defense businesses have against this silent productivity killer is getting to the bottom of their employees' underlying health conditions. Identifying those who call in absences intermittently because of their symptoms is a valuable opportunity to provide instant access to health management support. This promotes intervention before a condition becomes chronic and helps keep employees on the job at maximum health.

## Economic Status Affecting Health Status

As unemployment rates continue to rise, one ongoing poll shows that nearly a third of the people surveyed fear losing both their jobs and health insurance coverage. Such economic turmoil and fear of loss prompts employees and their dependents to try to get the most out of their benefit offerings. Worry about having to go without coverage drives them to increase usage of health care benefits, which in turn ramps up health care costs. This has been prevalent in previous times of economic woes, igniting an increase in medical, dental, vision and disability claims.<sup>5</sup> This additional stress could lead to more mental health claims and related medical conditions, along with an increase in disability and workers' compensation claims.<sup>6</sup>

## Other Side Effects

From the employer's perspective, more economic troubles mean close attention will be paid to the annual budget. Employers look to reduce costs and the labor force takes a hit through reduced payroll hours and eliminated jobs.

Benefits take the next hit. Larger companies tend to cut back on benefits, while smaller firms have been known to eliminate benefits altogether, including health care. This puts additional financial burden on employees, as these cuts will lead to higher premiums, increased co-payments and more out-of-pocket expenses — or even result in the task of finding and entirely funding their family coverage.

## A Graying Workforce

Economic instability leads to more people staying on the job longer than they anticipated. As Wall Street continues to take a beating, so do tens of millions of retirement accounts. This is coupled with the fact that the largest living generation in America, the Baby Boomers, is at retirement age, some of which are "partially" retiring but many that are now planning to work longer. A Gallup poll shows that more than 60 percent of American workers plan to work during retirement, with more than 10 percent saying that they will continue to work full time.

Healthier lifestyles and improvements in the treatments of acute illnesses have extended life expectancy. But for all the good these changes have made, aging does drive the likelihood of the onset of chronic illness, deteriorating vision and hearing, neurological disorders, as well as other morbidities. More than 60 percent of working adults between the ages of 50 to 64 report having at least one chronic disease and report that their

health care costs are twice those of younger working adults.<sup>7</sup>

While older workers tend to call off less frequently than their younger colleagues, productivity still can be impaired. As bodies continue to age, the ability to handle the demands of various tasks in the workforce may not come as easily. Those working in industrial and manufacturing environments are especially at risk, because they have a higher likelihood of bodily injury due to the physical nature of their jobs. This will force employers to make necessary adjustments to the work environment and to look more closely at evolving production with more automated, or robotic, functions.

## A Chronically Ill Workforce

Nearly one-third of working Americans ages 19 to 64 suffer from at least one chronic disease, increasing the likelihood of random, or even prolonged, absenteeism. Within this population, 21 percent take anywhere from one to five sick days or work when they are unable to give 100 percent on the job (presenteeism), and another 27 percent have missed six or more days of work.<sup>7</sup> In 2003, approximately 69 million employees were absent on 407 million work days, costing employers \$48 billion in paid absences due to illness.<sup>7</sup>

A study by The Milken Institute evaluated the financial impact of seven chronic illnesses — cancer, diabetes, hypertension, stroke, heart disease, pulmonary conditions and mental illness — on business, the government and our economy. The report uncovered that 109 million Americans suffered from one or more of the 162 million cases of chronic disease in 2003. This cost the U.S. economy \$1 trillion in lost productivity and \$277 billion in treatment costs.

## A Caregiving Workforce

Not only are employees taking sick time to take care of their own health conditions, more than 20 percent of Americans are absent from work to take care of their family. A high number of working adults, both married and single, are not only raising kids, but many of them also may be caring for an elderly family member. These caregivers are commonly known as the "Sandwich Generation," as they are wedged between raising their own kids at home and taking care of aging loved ones.

Across the U.S., more than 44 million people are caring for an elderly relative, with 60 percent of them holding a full- or part-time job.<sup>8</sup> A MetLife study of full-time working caregivers reported that these family helpers performed at least two Instrumental Activities of Daily

Living (IADL), such as shopping, cooking or driving, up to 10 hours a week. More intensive care involved four or more IADLs and at least two Activities of Daily Living (ADL), like bathing, dressing or feeding, for an average of 12 to 87 hours a week. In total, all full-time working caregivers cost employers \$5 billion in lost productivity for absences and another \$1.9 billion for partial absences, such as arriving late to work or leaving early and being unable to make up the time.<sup>8</sup>

### Keeping Tabs on Workplace Absenteeism

Today's employers provide paid time-off benefits to employees for a variety of purposes: vacation, sick, personal, holiday, bereavement, jury duty and professional development. In addition, there are leave benefits that are mandated by state and federal laws: workers' compensation, short- and long-term disability, Family and Medical Leave Act (FMLA), Military Family Leave Provisions and Americans with Disabilities Act (ADA). It's not uncommon for state and federal laws to overlap, providing employees with protection and the right to every benefit allowed under both sets of laws.

In California, for example, two specific state laws that overlap with FMLA include Paid Family Leave (PFL) and "Kin Care" Leave. PFL allows any worker in California who is eligible for state disability to take up to six weeks of benefits to care for a severely ill, immediate family member or domestic partner or to nurture a new minor child. "Kin Care" allows California workers to use accrued employer sick time to care for an ill immediate member of the family, including domestic partners.

Managing attendance becomes even more cumbersome when you factor in a unionized workforce, labor contracts or multiple business locations across state lines. Not only will state leave laws vary around the country, but some states may enact leave-specific benefits and others may not. For example, only a handful of states require employers to offer victims of domestic violence leave to receive health care and attend to legal matters. Most recently, the city of Philadelphia passed an ordinance requiring businesses to allow victims of domestic and sexual abuse up to eight weeks of unpaid leave annually; however, the state of Pennsylvania currently does not offer any such type of leave.

Frequently, employers do not document why the employee is absent and whether or not the occurrence is incidental. Employers can walk a fine line when internally managing employee attendance. When dealing with growing health care costs and income

lost through reduced productivity and unworked paid wages, more businesses are outsourcing the management of their company's time-off policies to experts to gain better control, create better data analysis and reduce associated costs.

### The Absence Management Solution

Absence management offers a single-source method of intake and concurrent tracking (first day, incidental and unscheduled) of time-off requests that are customized to follow a company's attendance policy, while navigating the complex and ever-changing web of compliance with state and federal leaves. It offers an accurate, comprehensive and compliant means of tracking employee absences and gives a consistent approach to managing absences across a large population, or even multiple physical locations. The ultimate goal is to cut costs associated with absenteeism and increase productivity by shortening an employee's time away from work and getting them back on the job at 100 percent capacity.

Internally tracking attendance is an administrative burden for employers and can become subjective, leading to human error, with potentially large legal implications. It's not uncommon for larger companies to delegate the tracking and management of these various absences among different departments. This can lead to inconsistent application of attendance policies among the varying departments. The laws surrounding both state and federal leaves are varied and complex. Workers' compensation benefits cover employee absences due to on-the-job injury. Short- and long-term disability claims involve non-occupational illnesses. Both workers' compensation and disability follow laws mandated under individual states. This is why having an external absence management resource is especially beneficial for organizations with workers across state borders that are governed under varying legislative authorities.

### Administering FMLA

The U.S. Department of Labor's Employment Standards Administration, Wage and Hour Division, administers and enforces the Family and Medical Leave Act (FMLA) for all private, state and local government employees, and some federal employees.

The FMLA also applies to all public agencies, including state, local and federal employers, local education agencies (schools), and private-sector employers who employed 50 or more employees in 20 or more workweeks during the current or preceding calendar

year, including joint employers and successors of covered employers.


It allows eligible workers to take up to 12 weeks of unpaid time off within a 12-month time frame for birth, adoption, foster placement or handling a severe medical condition for themselves or an immediate family member. FMLA can run concurrently with an employee's paid time-off bank, workers' compensation and disability. The law also allows for intermittent FMLA leave, permitting individuals to take episodic time such as in increments of hours or partial days.

WorldatWork learned that 51 percent of its surveyed members suspected that employees abused the FMLA intermittent leave policy, and more than 64 percent of those absences are unscheduled, with employers receiving notification within 24 hours or less of the occurrence.

In 2008, lawmakers approved extensive amendments to FMLA, the first of its kind since the law's original enactment in 1993. The Final Rule incorporated changes and adjustments to the current rules regarding employee and employer obligations and notifications. Employer notification requirements were expanded to require eligibility notices and approval and denial information. It also required all employers to update current forms to include specific information to put the employee on notice of their responsibilities while on an FMLA-approved leave.

FMLA remained unchanged from 1993 to 2008, but since the 2008 amendments, there have been a number of changes. In December 2009, President Obama signed the Department of Defense Authorization Conference Report into law which amended FMLA's family military leave provisions. The amended legislation provides that an eligible employee may take up to 12 weeks FMLA leave for any qualifying exigency arising out of the fact that the employee's spouse, son, daughter, or parent is on (or has been notified of an impending call to) "covered active duty" in the Armed Forces. "Covered active duty" for members of a regular component of the Armed Forces means duty during deployment of the member with the Armed Forces to a foreign country.

FMLA also grants up to 26 weeks of unpaid leave in a single 12-month period for eligible employees to care for a covered family member (spouse, parent, child, or next of kin) recovering from a serious injury or illness incurred or aggravated while on active duty in the armed forces including veterans.

 **At Nationwide Better Health<sup>SM</sup>, we specialize in absence management solutions and can track and ensure ongoing compliance, as well as monitor and systematically administer changes in both FMLA and state-regulated leaves. Through methodical tracking and documentation, we can minimize the employer's risk of legal implications, audits and employee complaints.**

Most recently, President Obama also signed the Airline Flight Crew Corrections Act into law establishing a special minimum eligibility requirement for airline flight attendants and flight crew members who otherwise could not qualify for FMLA due to in-flight time work restrictions.

High-damage awards have contributed to an increase in FMLA litigation. Other contributing factors include greater employee awareness of FMLA rights, the increased use of FMLA leave, the relative ease of proving a "serious health condition" compared to a "disability" and a greater awareness of the FMLA as a means of securing big judgments by the professional employment law bar. However, the two largest factors contributing to big payouts in litigated cases are: 1) the lack of communication between employer and employee and 2) employers attempting to retaliate against employees.

On average, an employer should anticipate damages in the high six or low seven figures for an employee's FMLA claim that goes all the way through a jury trial. Class action FMLA claims could multiply that amount considerably. To avoid being on the receiving end of an adverse multi-million dollar jury verdict, employers would be well advised to periodically audit their personnel policies to ensure that they comply with

## Questions You Should Ask Yourself When Managing Your Own FMLA Program and Absences

### **How assured are you that your organization is administering federal, state and local leave laws consistently and accurately for your total employee population?**

A majority of states have some form of family leave laws covering private and public sectors that supplement both FMLA and military family leave entitlements. In addition, some states have ancillary leaves that support organ donation and jury duty — and some employers don't even know these benefits exist. To further complicate the issue, local jurisdictions have also enacted leave laws, increasing the complexity and risk of administering leaves with accuracy. Is your company able to keep up?

### **Can your organization efficiently manage your established attendance policy with a high degree of confidence and transparency?**

If not, you're probably at odds with your operating units about the degree of aggressiveness they would like to apply. At the same time, you likely are missing numerous opportunities to cost-effectively address these personnel challenges.

### **Are you using absence events to drive participation in other benefit programs, such as EAP, disease management and wellness?**

If you're not, then you could be missing out on roughly 25 percent additional program participation in your disease management program and additional participation through EAP and wellness offerings. These missed opportunities could mean leaving millions of dollars on the table in terms of medical claim costs, absenteeism and presenteeism.

### **With the new FMLA regulations now in place, have you adjusted your policies and procedures to become compliant?**

FMLA presents more compliance headaches than nearly any other law affecting the workplace. And, complying just became more complicated. The Department of Labor's revised FMLA regulations that went into effect January 16 now help expand the maze, not clarify it. Pair that with state family and medical leave laws, workers' compensation laws and a company's own leave policy, and employers may feel as though they are stuck in a legal puzzle they can't solve. So, do you — and those in your company — really understand the complexity of the recent regulatory changes? If your company currently handles its own FMLA administration, perhaps it's time to look at alternatives.

the FMLA. Employers also need to provide up-to-date FMLA training to those involved with decisions involving FMLA leave, including discipline. Courts and the Department of Labor interpret FMLA in ways that are not obvious. Simply knowing the regulations is not enough to avoid a costly violation; employers must stay current with FMLA developments.

## Connecting the Dots Among an Employee's Health, Absences and Employer Offerings

According to the Partnership for Prevention, reducing just one health risk can increase productivity by nine percent and reduce absenteeism by two percent. In a survey sponsored by Nationwide Better Health<sup>SM</sup>, 85 percent of respondents reported that unplanned absences are normally due to a health condition, either their own or that of a family member. Half of these absences were due to a recurring health condition. Boosting participation in lifestyle and disease management programs creates a healthier and more productive workforce and a fiscally trim bottom line. One way to do this is through early identification of the underlying causes of absence. Absence management can accomplish this through three different methods:

### 1. Using intake

When the employee self-reports an absence over the telephone or internet, the absence management program can prompt for information related to that time-off request. Once the employee's condition has been qualified, the individual is given referrals into corresponding health coaching, disease management or employee assistance programs (EAP).


### 2. Using disability information

When administering disability programs, qualified employees can be referred for enrollment into a disease management program. Helping employees better manage their illness can reduce insurance and absentee costs, shorten disability time and help prevent further prolonged absences down the road. Better management of a condition can also bring the employee back to better health and help reduce the chances of taking disability leave in the future.

### 3. Using absence data

Tracking and analyzing patterns of absences, including one-day incidental time-off requests, can help identify employees with health conditions that could potentially lead to disabilities. With integration in place,

a health coach can contact the employee to make recommendations about relevant health promotion programs. Employers can also leverage the aggregate absence data to identify the gaps in care and help implement additional programs and services that would benefit their population the most.

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## Consolidating Your Integration Efforts

There are many specialized vendors offering an array of services, from absence management to disease management to wellness programs. At times, employers may contract with multiple vendors for various services. In this situation, employers should require coordination of care among their vendors by creating protocols for referrals.

One way to get around the frustration of handling multiple vendors would be to source through a single vendor that can integrate their health and productivity services on behalf of the employer. Employers will maximize use of the services, while reducing their out-of-pocket costs on program fees. A streamlined approach is an effective way to help employees stay healthy and working.

## Delivering Positive Results for Both the Employer and Employee

Absences are a key measure and indicator of a company's health and productivity. Transactional data can provide insight into program usage through enrollment and completion rates and participant satisfaction. Savings correlations can be drawn between the positive change in health behaviors and paid health care and prescription costs.

By identifying employees in need of medical and disease management, recent numbers from one Nationwide Better Health<sup>SM</sup> client show a 21 percent

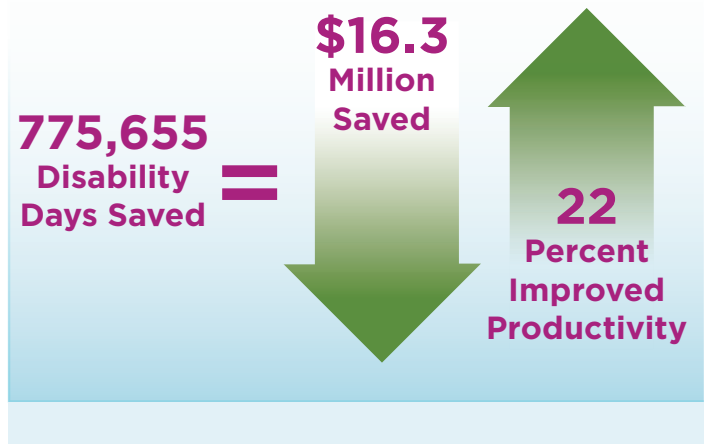
decrease in the length of absences. The client also reported an increase in associate enrollment and participant completion rates in the company's health promotion and disease management programs. In 2007, participation increased by five percent overall and resulted in a total medical spend savings of \$5.3 million. For absence and disability case management, this client saved 75,665 disability days for a cost savings of \$16.3 million and improved health-related work place productivity by 22 percent.

### The Bottom Line

A holistic approach to absence management includes an integrated scorecard that can measure outcomes across a variety of categories. Beyond the benefits of tracking absenteeism to reduce payroll costs, employers can gain analytical knowledge by mining absence data to identify trends and performance across individuals and departments and locations.<sup>9</sup>

When absences are managed holistically and consistently across a company, the data can be applied strategically to measure profitability and map business goals to performance.<sup>9</sup> And when integrated with a strong health management platform, absence management helps reduce presenteeism rates by engaging employees to participate and complete a lifestyle or disease management program at the first warning sign — which means addressing their health issue before it worsens into a chronic condition, or even disability. Absence management leads to a healthier workforce and keeps people on the job at full strength to maximize a company's productivity and profit.

### Example of Absence and Disability Case Management Savings



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