



Workplace PossibilitiesSM

PRODUCTIVITY INSIGHT #1

Health-Related Lost Productivity: Causes And Solutions

Workplace Possibilities, by The Standard

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Standard Insurance Company

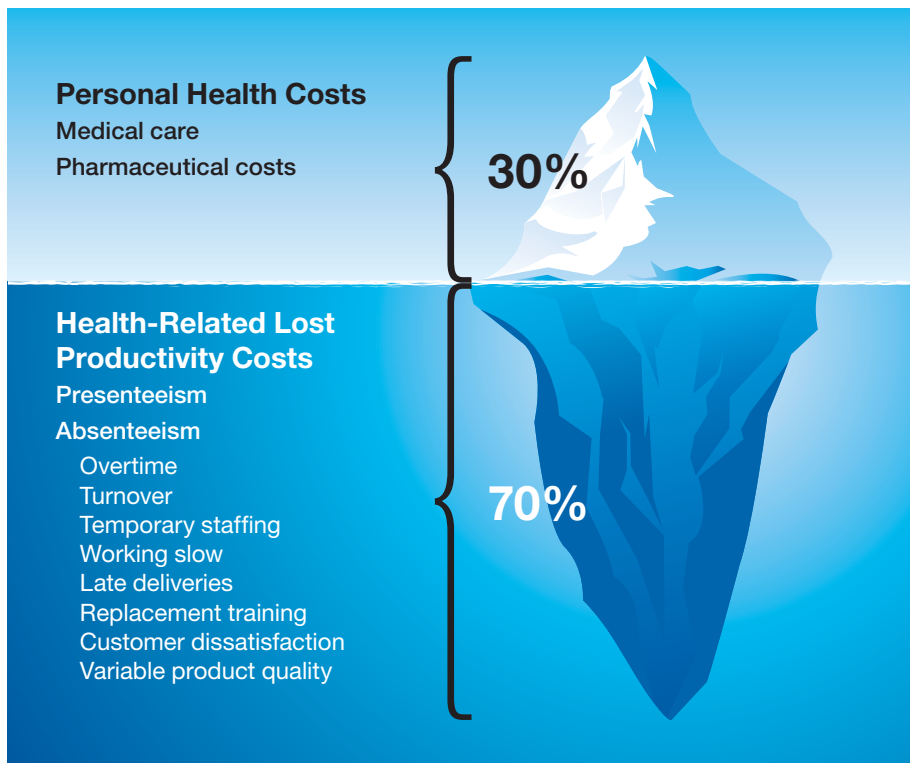


It is no secret that health care is on everyone’s mind these days. Many – including employers, HR managers, brokers and consultants – are concerned about the uncertain direction health care will take in the United States. Furthermore, the rising cost of employer-provided health insurance is resulting in employers focusing intensely on how employee health affects organizational profitability. Surveys have estimated that the cost of health care averages 13.6 percent of an employer’s payroll.¹

Given the 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 percent** of the total cost of poor employee health. What about the other **70 percent**? Those costs can be attributed to **health-related lost productivity (HRLP)**. HRLP represents the decline in employee productivity due to employee absenteeism and presenteeism. The research cited suggests that, on average, for every \$1 employers spend on worker medical or pharmacy costs, they absorb at least \$2.30 of HRLP costs.²

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Full Cost Of Poor Health To Employers



Source: Loeppke R, Taitel M, Haufle V, Parry T, Kessler RC, Jinnett K, "Health and Productivity as a Business Strategy: A Multi-Employer Study," *Journal of Occupational Environmental Medicine*, 2009, 51(4):411-428, pp. 140-152.

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 Multi-Employer Study," *Journal of Occupational Environmental Medicine*, 2009 51(4): pp. 411-428.
 3 Loeppke R, et al., pp. 411-428.

Indirect costs of incidental and extended absence averaged 6.1 percent of payroll, compared with 2.6 percent for direct costs.⁶

Based on the “iceberg concept,” this paper recommends that employers, brokers and consultants carefully consider the total cost of poor employee health, not just medical and pharmaceutical costs.

This is the first in a series of five brief *Productivity Insights* that will examine the various facets of HRLP and serve as an overview of the themes to be explored in future installments. Subtopics include:

- An examination of the total cost of employee absence and disability
- A review of presenteeism, which is the productivity loss that occurs with employees at work with medical conditions
- A focus on the relationship between behavioral health and presenteeism
- A look at how short term disability (STD) can provide the “teachable moment” to connect disabled or struggling employees with the employer’s specific health management programs

Looking At The Total Cost Of Absence

In 2008, Kronos and Mercer conducted the first survey on the *Total Financial Impact of Employee Absences*, published in October of that year. A follow-up survey report, which confirmed the findings of the first report, was issued in June 2010. The findings provided significant evidence that the direct and indirect costs of absence are much higher than previously thought.

Based on the 2010 survey results, the direct costs of incidental and extended absence averaged 2.6 percent of payroll. These direct costs are based on the pay or benefit provided to an employee for time not worked.⁴

But the survey also found that indirect costs of incidental and extended absence averaged an additional 6.1 percent of payroll and included costs related to overtime, turnover, temporary staffing, working slowly, late deliveries, replacement training, customer dissatisfaction and variable product quality. The total cost of incidental and extended absences for surveyed organizations amounted to **8.7 percent of base payroll**.⁵ Given this eye-opening number and its contribution to health-related lost productivity costs, this author believes it is crucial for organizations to take employee absence and disability seriously.

4 “Survey on the Total Financial Impact of Employee Absence,” Kronos/Mercer, 2010.

5 “Survey on the Total Financial Impact of Employee Absence,” Kronos/Mercer, 2010.

6 “Survey on the Total Financial Impact of Employee Absence,” Kronos/Mercer, 2010.

Understanding Presenteeism

In addition to absenteeism, presenteeism has been identified as a major contributor to HRLP. The term “presenteeism” was coined in 2004, around the time the topic began to be researched.⁷ Presenteeism is commonly referred to as the productivity loss caused by employees at work with medical conditions, either physical or mental. Major causes of presenteeism include, but are not limited to, behavioral health conditions, musculoskeletal conditions, arthritis, obesity and allergies.

Given those causes, it made sense that the employees who went off of work with medical conditions, must have been at work with those same conditions for a period of time before they became disabled. Therefore, some of these employees must have suffered a productivity decline while at work.

While there has been a limited number of major studies of presenteeism to date, the known data is quite compelling:

- Presenteeism costs American businesses \$150 billion in decreased productivity.⁸
- On-the-job losses from presenteeism are 60 percent of the total cost of worker illnesses, which exceeds what companies are spending on medical, disability and absenteeism.⁹

Behavioral Health And The Workplace

Behavioral health conditions are a major cause of presenteeism and directly affect an employee’s productivity. Consider these statistics:

- Approximately one in three adults suffers from a mental disorder in a given year.¹⁰
- According to the World Health Organization, four of the six leading causes of disability are due to neuropsychiatric disorders (depression, alcohol-use disorders, schizophrenia and bipolar disorder).¹¹
- Depression is estimated to cost \$83 billion annually in the U.S. and is the highest-cost health condition in the country, especially in terms of presenteeism.¹²

Presenteeism is commonly referred to as the productivity loss caused by employees at work with medical conditions, either physical or mental.

7 “Economists Coin New Word, ‘Presenteeism’ to Describe Worker Slowdowns That Account for Up to 60% of Employer Health Costs,” Cornell University Press, April 20, 2004.

8 Hemp, Paul, “Presenteeism: At Work – But Out of It,” *Harvard Business Review*, October 2004.

9 “Economists Coin New Word, ‘Presenteeism,’” Cornell University Press, April 20, 2004.

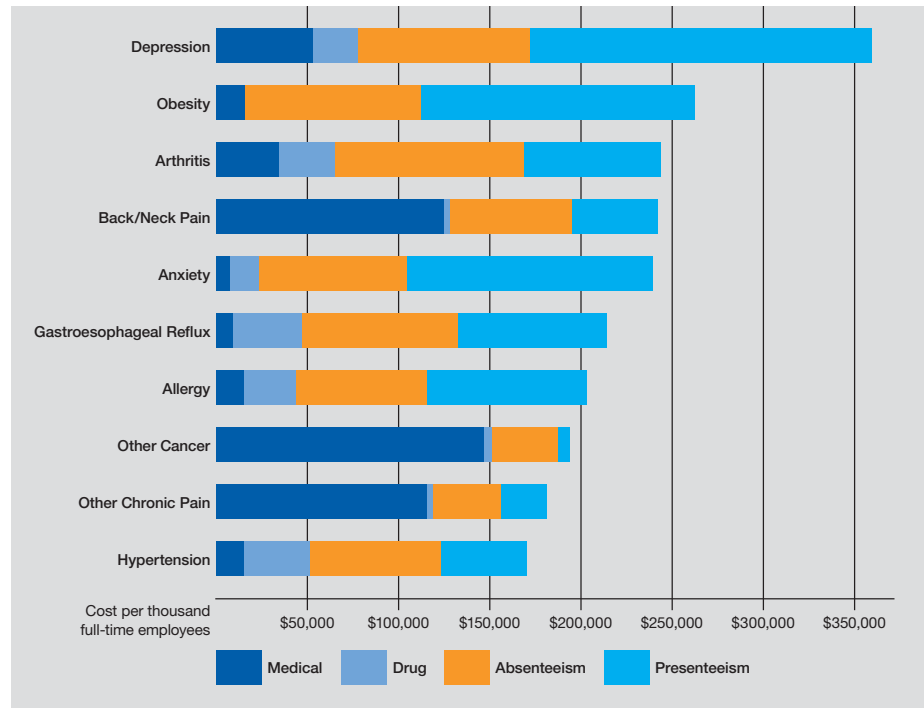
10 National Comorbidity Survey Replication (NCS-R), Department of Health Care Policy, Harvard Medical School, http://www.hcp.med.harvard.edu/ncs/ftpdir/NCS-R_12-month_Prevalence_Estimates.pdf

11 World Health Organization, Investing in Mental Health, 2003, http://www.who.int/mental_health/en/investing_in_mnh_final.pdf

12 “The Economic Burden of Depression in the United States: How Did It Change Between 1990 and 2000?,” Paul E. Greenberg, Ronald C. Kessler, Howard G. Birnbaum, Stephanie A. Leong, Sarah W. Lowe, Patricia A. Berglund, and Patricia K. Corey-Lisle, *Journal Clinical Psychiatry*, December 2003.

When looking at combined medical, pharmacy, absenteeism and presenteeism costs, depression is far more costly than employers have previously realized.¹³

Annual Costs: Top 10 Health Conditions



Source: Loeppke R, et al., pp. 140-152. Results of survey of 10 companies with 144,400 employees from the following business sectors: manufacturing, telecom, hospitality, energy, consulting and insurance.

The upcoming *Productivity Insight* on behavioral health and presenteeism will explore cost-saving solutions associated with effectively managing behavioral health benefits, as well as how to design and implement disability management programs that help these employees stay at work and return to work from a disability absence. We will demonstrate that employers, along with their brokers and consultants, have options to reduce the productivity loss associated with behavioral health conditions.

13 Loeppke R, et al., pp. 411-428.

Short Term Disability: The Window Of Opportunity

Many employers have implemented health management programs aimed at improving employee health. These programs fall into three major categories:

- **Employee Assistance Programs (EAP)** – give employees access to personal counseling services 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/Health Promotion** – attempts to improve the health of all employees by targeting such broad health-related goals as smoking cessation, weight loss and nutrition

Our subsequent *Productivity Insight* will suggest that facilitating the utilization of health management programs just before or just after an employee goes out on short term disability is critically important to reducing health-related lost productivity. Employees who are struggling at work with a medical condition, and those who are already away on a disability absence, are two groups that can greatly benefit from their employers' health management programs. Their situations present the “window of opportunity” for health management.

The Costs And Impact Of Health-Related Lost Productivity: Keeping Them Top Of Mind

HR managers and brokers/consultants have an opportunity to assist employers in viewing disability carrier products and services in a different light. In the past, the focus was primarily on how one could obtain STD, LTD and absence management services at the lowest price. Often, the relationship between these services and HRLP was overlooked. The assumption was that reducing medical and pharmacy costs would produce the most immediate, cost-effective benefit solutions. However, as we have demonstrated, those costs are just the tip of the iceberg.

In the four upcoming *Productivity Insights*, we will demonstrate how a disability carrier-based program that effectively manages absence and disability can also improve employee health and productivity and thus reduce health-related lost productivity.

A disability carrier-based program that effectively manages absence and disability can improve employee health and productivity and thus reduce health-related lost productivity.



About The Workplace Possibilities Program

The Workplace Possibilities program is a unique, proactive approach to helping employers prevent and manage employee absence and disability. A Workplace Possibilities consultant helps to connect employees with their health management programs and identifies opportunities to keep at-risk employees on the job or return to work faster. In doing so, the program delivers rapid and measurable reductions in absence- and disability-related costs. For tips and tools HR professionals can use to help re-imagine the way they manage absence and disability, visit www.workplacepossibilities.com.

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