WHITE PAPER

CONNECTING THE DOTS:

Using integrated data to control absence and improve productivity

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EXECUTIVE SUMMARY

By now, the message to executives is clear: employee absence is enormously expensive. Expensive on the order of **$300 billion per year,** by some estimates.

And the costs of absence transcend the payment of overtime or the cost of hiring replacement workers. They go to the heart of the business: the company's ability to produce quality goods and services and satisfy its customers.

Case Study:

"The cost impact of absence on productivity - $285 million per year. And the value of the company's temporary return to work programs? Nearly $170 million per year in productivity savings."

There is no shortage of aggregate data to describe the scope of the problem. For an employer with 10,000 employees, the annual direct costs of absence – lost productivity, high-cost replacement workers, and inefficient overstaffing – are estimated at more than $35 million. Coupled with indirect costs – increased turnover, reduced quality, administrative inefficiency, and poorer overall employee health – **the direct costs are estimated to easily double or triple.**

Even with that information, though, many firms are still not clear about their own total costs of absence, its impact on their productivity and morale, and how they can effectively manage those costs.

Clearly, some mix of scheduled and unscheduled employee absence is both expected and acceptable. But the number and variation of absence types and programs make it difficult to discern the expected and acceptable from the unscheduled and wasteful.

And to make matters worse, employers largely lack the integrated absence data they need to understand their unique absence experience, to calculate actual costs, and to measure whether their absence management programs are working.

This white paper offers insight into two components of a strategic solution to managing employee absence: **an approach built on solid software tools and deep integrated analysis.**

Using an integrated model, employers can access absence data of any type, in real time, to manage absence at the supervisor level, where solutions are most likely to take hold. They can ensure consistent application of policies and best practices across a distributed organization. And they can mine their data to identify trends, to understand the relationships between absence types, and to evaluate program performance.

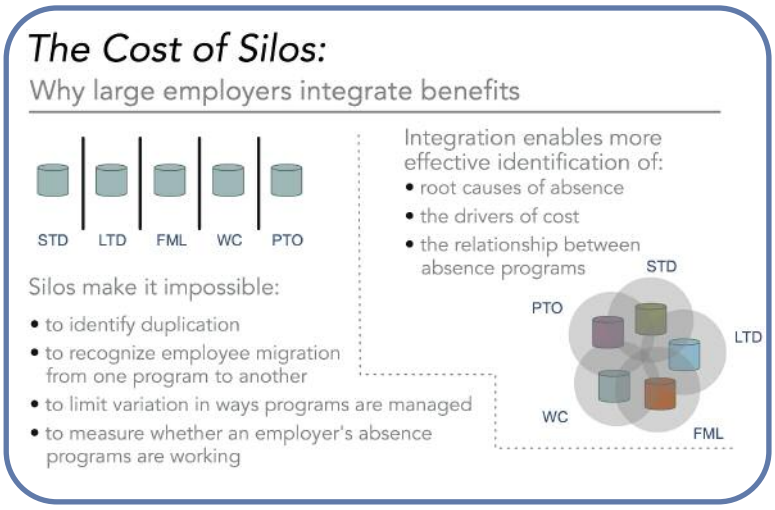
UNDERSTANDING EMPLOYEE ABSENCE

For a multitude of reasons, employees miss work. Employers know it, and managers plan for it. Indeed, corporate benefits packages are designed to ensure that employees can take time away from work without significant financial impacts to the employee.

However, the costs of employee absence continue to rise, in part, because employers are trying to do more with less. The workforce is aging and shrinking, productivity pressures are increasing, and absence rates are rising. These factors, and others, create an environment that leads to increased absence. And each of these factors must be managed in the context of a broad array of complex programs that fall under the absence umbrella. A short list of absence categories includes:

- ✔ Short-term Disability
- ✔ Long-term Disability
- ✔ FMLA
- ✔ Workers' Compensation
- ✔ PTO/Sick Leave
- ✔ Vacation
- ✔ Jury Duty
- ✔ Bereavement Leave
- ✔ Military Leave
- ✔ Education Leave

Making matters even more complex, of course, is the reality that different employee populations – salaried, hourly, union, non-union – have different levels of eligibility and access to these programs. And the costs for each population vary by program as well.



None of these programs is new, and there are controls built into each of them. However, various combinations of these programs are managed by different departments in many large organizations. And the data relating to each program is often stored in its own database.

This silo approach – organizational and technological – makes it impossible to see the full picture: to identify duplication, to recognize employee migration from one program to another, to limit variation in the ways the programs are managed, to effectively coordinate return to work programs, and to measure whether an employer's absence programs are working.

Consider this example. A Fortune 100 freight delivery company was concerned about the impact of absence on its overall productivity. Additionally, management wanted to know whether their temporary return to work programs were having any positive effect on absence and productivity. Following a 28-month study[1] of 507 workgroups that included disability data, sick leave data, workers' compensation data, temporary return to work results, and productivity data, the firm was able to quantify the cost impact of absence on productivity - $285 million per year. And the value of its temporary return to work programs? Nearly $170 million per year in productivity savings.

Neither of these findings – the cost of absence nor the effectiveness of absence programs – would have been possible without an integrated approach to absence management.

1. OCI Study of Absence and Productivity. 2002.

QUANTIFYING THE COSTS OF ABSENCE

There is no shortage of data to describe the scope of the absence problem. One widely reported study suggests that absence costs account for as much as 15% of every payroll dollar, or more than half of a typical employer's benefits spending.[2]

Those costs are driven by absences that fall into two general categories: scheduled and unscheduled.

Vacation and personal holidays comprise the largest components of the scheduled absence category. Scheduled absences are usually tracked through any number of sophisticated payroll or exception time reporting systems. But they can still lead to excess costs when leaves are not reported, if leave is taken that has not been earned, or if it is taken by an ineligible employee.

Beyond more effective tracking and compliance controls, little can be done to squeeze savings from scheduled absences, particularly since managers have the opportunity to plan for coverage. However, the unscheduled absences, which account for nearly all of the other leave types, are much more difficult to plan for. Because of this, they are often the most costly, and they offer managers the clearest opportunity for control and savings.

Whether employee absence is scheduled or unscheduled, its impact surfaces in a number of different ways. Typical organizational impacts include:

- LOST PRODUCTIVITY – Lean organizations may not be able to deliver on service and productivity commitments. What's more, the employees who do come to work are often pushed to make up for those who are absent. Ultimately, these employees become dissatisfied with covering for absent employees, and thus become candidates for absenteeism themselves.
- HIGH-COST REPLACEMENT WORKERS – In order to hit service and productivity commitments, employers often replace missing employees with replacement workers or contractors, as well as paying overtime and higher rates. Overtime levels of 28% have been reported in facilities with high absenteeism rates.[3]
- OVERSTAFFING – Some employers maintain higher than necessary headcounts in order to compensate for unplanned absences. As an example, one employer routinely increased scheduled staff by 13% on weekends to cover for increased absenteeism on Saturdays and Sundays.[4]

Both direct and indirect costs associated with employee absence can be extrapolated from these operational impacts.

With respect to direct costs, variations exist for hourly and salaried employees. For example, hourly workers typically generate higher hourly costs since they and their replacement are both being paid during the absence. Salaried workers, on the other hand, tend not to be replaced when absent, but they do tend to have a greater impact on customer demands and the ability to generate revenue.

2. Mercer, "Survey of Time-Off and Disability Programs". 2003.
3. Circadian, "Absenteeism The Bottom Line Killer". 2005.
4. Circadian, "Absenteeism The Bottom Line Killer". 2005.

Considering both types of direct costs together, and using conservative assumptions, an employer with 5,000 employees can anticipate direct absenteeism costs of as much as $18 million per year, while an employer with 10,000 employees can expect that figure to climb as high as $36 million per year.[5]

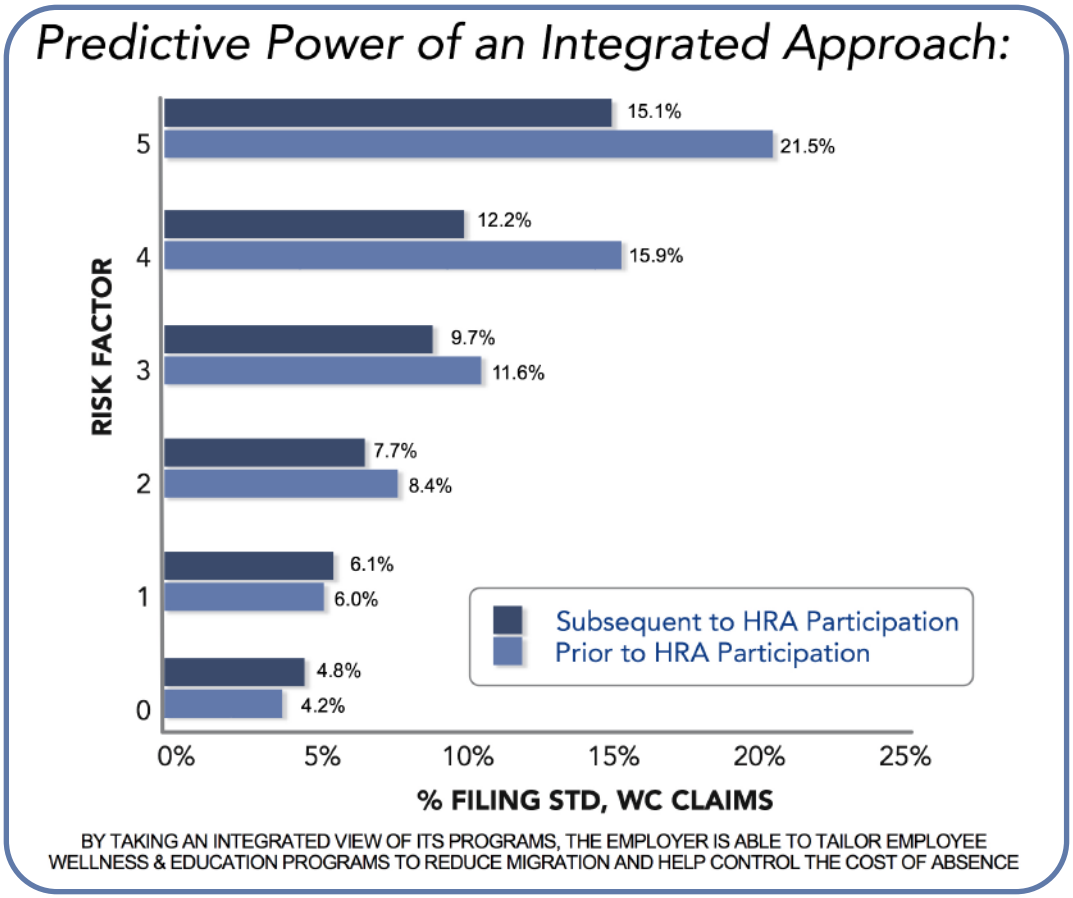
Somewhat more difficult to quantify are the indirect costs of absence. However, as noted earlier, absence can affect morale, which can lead to other significant business issues, including a cycle of increasing absence, and even migration between health benefits and absence programs. A brief list of indirect costs includes:

- INCREASED TURNOVER – Studies suggest that turnover is about 7.8% per year for employers with low to average absenteeism, but it is about 10.6% per year for employers with high absenteeism. Again using conservative estimates, recouping even half of the 2.8% annual difference in turnover could save a company of 5,000 workers about $2 million per year.[6]
- POOR QUALITY – The quality of goods and services has been shown to suffer because of fatigue associated with excess overtime. Further, a 2007 study in the Journal of Occupational and Environmental Medicine found that fatigue costs U.S. employers more than $136 million per year in lost productivity.
- CUSTOMER DISSATISFACTION – Constraints caused by absence on an employer's ability to meet customer demand lead to dissatisfied customers.
- ADMINISTRATIVE INEFFICIENCY – Managers experience significant opportunity costs as a result of employee absence because of the increased time they spend disciplining employees, terminating employees, and finding replacement coverage, among other items.
- REDUCED MORALE – Employee morale is impacted when employees who do come to work are forced to compensate for absent employees. Studies suggest that absenteeism is about 7.5% per year for organizations with good morale and 9.4% for organizations with poor morale. And the process is cyclical: increased absence lowers morale, which results in increased absence.[7]
- POOR HEALTH – Organizations that experience significant overtime as a result of excess absenteeism tend to demonstrate poorer overall employee health than organizations with lower absenteeism levels.

Among the more difficult-to-quantify costs of absenteeism is the cost associated with migration from health benefits to absence programs. In one case of such migration, health issues such as obesity can lead to increased risk of occupational injury, workers' compensation costs, and absenteeism. In fact, extremely obese employees are absent more than 13 times as long and drive more than 7 times the medical costs, on average, as healthy-weight employees.[8] Through an integrated approach, those costs are measurable and their drivers are identifiable.

5. Circadian, "Absenteeism The Bottom Line Killer". 2005.
6. Circadian, "Shiftwork Practices". 2005.
7. Circadian, "Shiftwork Practices". 2005.
8. Duke University Study of Obesity, 2007; in "The Employee Benefit Advisor", May, 2007.

For example, a Fortune 100 pharmaceutical company that was concerned about its overall employee health quotient needed to know whether it was realizing any return on its Health Risk Appraisal (HRA) program. A study[9] of the HRA's usefulness as a predictive tool not only demonstrated the key risk factors that were most useful in predicting increased medical costs, but it also revealed that the HRA is a powerful predictor of future disability and workers' compensation claims. By taking an integrated view of its programs, including health and absence programs, the employer is now able to tailor employee wellness and education programs that not only control medical costs, but that also reduce migration from healthcare to absence programs – and thus help control the cost of absence.



9. OCI Study of HRAs as a Predictor of Disability and Workers' Compensation Claims. 2005.

INTEGRATED ABSENCE MANAGEMENT

The business-school maxim that you can't manage what you don't measure is certainly true in the management of employee absence. But there is a corollary – you can't manage everything. One of the key challenges employers face in effectively managing absence is determining where to focus their limited resources.

So where can employers have the most impact, given that financial and human resources are already constrained? There are two key areas to consider in answering that question: software tools and integrated analytics.

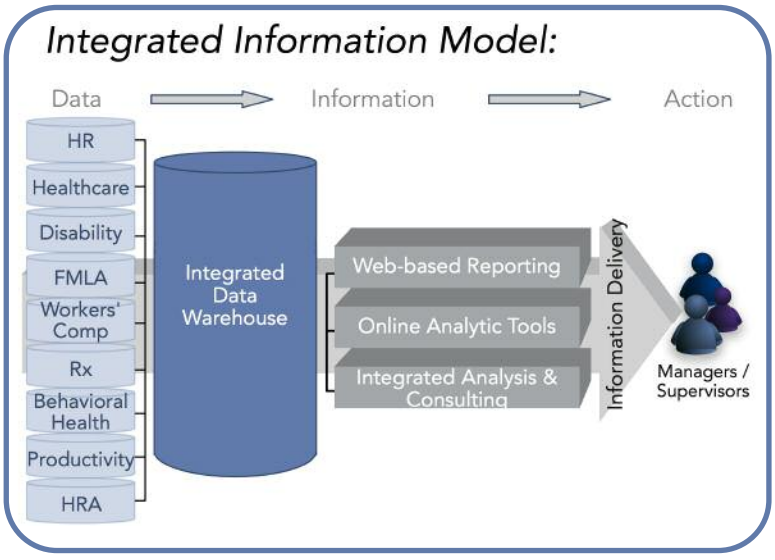
Software Tools

An effective absence management strategy, and the tools that support it, must capture, measure, and illuminate those absences that can be managed. In addition to a more standard approach that addresses scheduled absence, integrated absence management must also address unscheduled absence in a holistic way.

Doing so means extracting disability data, workers' compensation data, FMLA data, and incidental absence data from their respective silos and managing it in a centralized way. Absence management software tools can assist with that, capturing data about unscheduled absences in real time, just as data for scheduled absence is captured.

And having captured the data in real time, supervisors – who are best situated to deal with absence problems – can use that information to evaluate program performance, to identify trends, and to ensure that policies are being implemented consistently and best practices are being followed, even across a widely distributed organization.

The formula that underlies a truly effective absence management tool is surprisingly simple: provide supervisors with the information they need, when they need it, to make effective decisions regarding their absence programs every day.



Integrated Analytics

To fully understand the true costs of absence, the drivers of those costs, and the impact of absence on productivity, an integrated absence management strategy should include a more deeply analytical component.

Data capture and reporting systems provide a solid foundation for the daily supervisory management of employee absence. But a deeper analytic view offers senior managers the insight they need to make policy changes and program design decisions. Few approaches are more effective at identifying the root causes of absence, the drivers of cost, and the relationships between absence programs than thorough, integrated analysis.

As an example, a Fortune 100 energy company believed it could improve its STD and LTD performance, but managers were unsure about where to target their efforts. Web-based absence reporting indicated that STD utilization was inordinately high, and that was leading to issues in other programs, including LTD.

A deeper study[10] of the firm's experience, including STD, LTD, FML, workers' compensation, and incidental absence data revealed that, among other things, behavioral health claims were the firm's third most frequent cause of absence, accounting for more than 12% of disability claims. The impact of behavioral health on disability was somewhat higher than expected, relative to the company's industry.

The study also indicated that more consistently delivered job accommodation and return to work programs would likely result in significant cost reductions.

Based in part on the insight provided by that analytic perspective, the firm targeted its STD, LTD, and job accommodation programs for enhancement and aggressive management. The results are clear. The firm has realized savings in all three programs, and productivity has improved due to reduced STD utilization. In total, the firm has reduced absence and saved more than $9 million over a three-year period.

This employer is not alone in terms of the interplay between programs that ultimately leads to absence issues. According to one survey, personal illness accounts for only 35% of unscheduled absences, while the other 65% are related to family issues (21%), personal needs (18%), entitlement mentality (14%), and stress (12%).[11] Without the ability to consider absence in the broader context of these other issues – including stress and mental health issues – supervisors may never know what is actually driving their absence costs.

CONCLUSION

"Some studies suggest that absent employees cost U.S. companies more than $300 billion each year."

Some studies suggest that absent employees cost U.S. companies more than $300 billion each year. Clearly, absenteeism is an enormous and growing problem faced by nearly every business in nearly every sector.

And the costs of absence transcend the payment of overtime or hiring replacement workers. Rather, they go to the heart of the business: the firm's ability to produce quality goods and services and satisfy its customers.

Absence tools provide the power to capture data in real time and report it to supervisors over the Web, and granular, insightful analysis provides the information senior managers need to drive program design and policy changes. By focusing their resources on the absences that can be managed, and by using a centralized, integrated approach to doing so, employers can curb their costs, improve morale, and improve productivity.

10. OCI Study of Integrated Disability and Absence Management Outcomes. 2006.
11. CCH Unscheduled Absence Survey. 2005.

ABOUT OCI

OCI helps the nation's largest employers address one of their most expensive and complex business problems: the spiraling cost of health care. Through its integrated health and productivity model, OCI provides a holistic view of total benefits costs that enables employers to:

- More effectively deliver the health-related programs their employees need
- Identify opportunities for targeted management and improvement of benefits programs
- Improve the overall health and productivity of their employees

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