

Cost Savings Impact & ROI of *LeaveXpert*TM

An OCI Analytic Study

October 20, 2011



THE CHALLENGE

Companies of all sizes have been attempting to effectively manage employee absence for years. The notion of implementing an organized method to ensure that employees are healthy, at work, and productive, is not new. Clearly, however, using a methodology to understand the intricate relationships between benefit types, and ways to control lost time, is not easy. As the economy shifted in 2007 and 2008, the need for an organized approach to absence management became even more important. Faced with the specter of unemployment, employee stress was on the rise, and incentives to utilize benefit programs for job protection rose as well. But capturing the necessary data to understand these trends requires a sophisticated total absence management approach. In short, the methodology, measurement and management that a company chooses to manage employee absence can have a large effect on the cost savings and ROI of its absence management program.

Numerous studies have measured claim duration trends over time, and their findings illustrate a steady increase in claim duration. According to the Institute for Work and Health¹, even though the study group in its research experienced fewer lost-time injuries from 2000 to 2005, total lost days increased steadily from 1998 through 2005. In a separate study conducted by the National Council on Compensation Insurance, temporary total indemnity benefit duration increased by 18 days for a large, national real-estate mortgage company² between 2006 and 2009. Iowa Workforce Development³ found a duration increase from 11.6 to 15.6 weeks in 2009. Finally, the Minnesota Department of Labor & Industry⁴ reported that disability duration increased each year from 1999 through 2001, likely due to the economic recession of that period.

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To prevent this increase in lost days from becoming a significant financial and performance liability, companies must not only track lost days – they must also move toward a uniform system for managing the lost time. Piecemeal, pencil-and-paper approaches are no longer sufficient. The current employment and benefits environment is too complex. Employers must begin to consider absence management systems that enable HR managers to track, monitor, and consistently manage absences of all types.

The key question for organizations who are considering a move to an automated absence management system is whether the move to such a system is worth the investment.

¹ Hogg-Johnson, S. (2009). The problem of long duration claims. Institute for Work & Health Plenary.

² Lipton, B. (2010). Workers Compensation Temporary Total Indemnity Benefit Duration 2010 Update. NCCI Holdings, Inc. Annual Issues Symposium, 2010.

³ Iowa Workforce Development. (2009). The 2009 Status Report. The Iowa Unemployment Compensation Trust Fund.

⁴ Berry, D. (2003). Update on the effects of the 104-week limit on temporary total disability duration. Minnesota Department of Labor & Industry.



THE STUDY

OCI has developed and implemented an absence management system, LeaveXpert™, which chronicles the events associated with managing and monitoring employees who are out on leaves of all types. This web-based system guides human resource managers through every aspect of the leave, including follow-up and return to work.

In order to measure the financial impact that an automated, integrated absence management system has on the overall absence experience, OCI studied one employer's absence management evolution over three discrete timeframes:

- When the employer used no absence management program at all
- After the employer had implemented a basic absence management program
- After the employer had implemented an automated, integrated absence management system

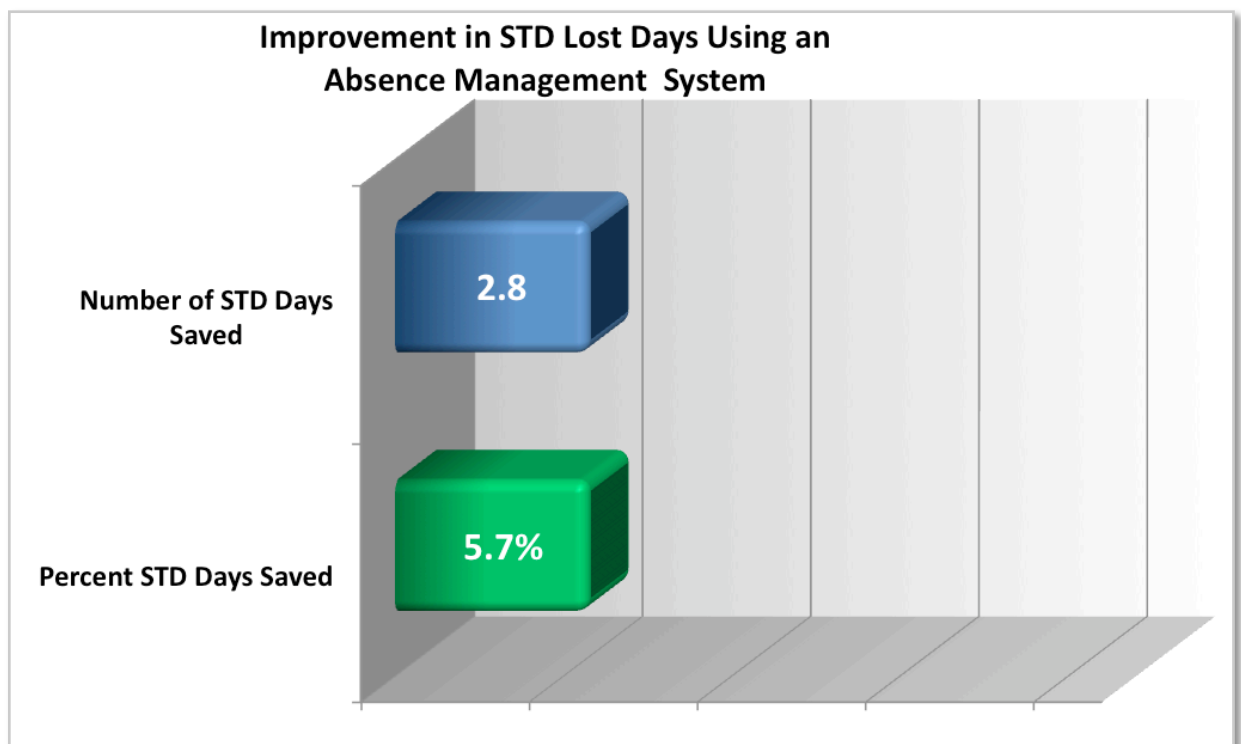
The study took a long-term view of the employer's approaches and results and used total lost days per leave as its key variable. OCI then compared the employer's experience to a comparable population in OCI's Reference Database (RefDb) to ensure that the results were meaningful. That is, employers in the RefDb may have seen improvements in their lost time outcomes even without an absence management system, and a comparison to the RefDb allowed OCI to control for that possibility.

Finally, OCI took the analysis a step further to determine whether effective management of family medical leaves (FMLA) through an integrated absence management system would reduce the likelihood of subsequent short-term or long-term disability claims (STD/LTD) and workers' compensation (WC) claims being filed.

THE ANALYSIS

Figure 1 illustrates the improvement in STD lost days from using an absence management system as compared to simply managing lost time without a system. OCI analyzed the increase in lost time between the study group (a single employer) and the control group (a population from OCI's Reference Database). The study group utilized an absence management system while the control group represents employers that did not utilize an absence management system.

FIGURE 1

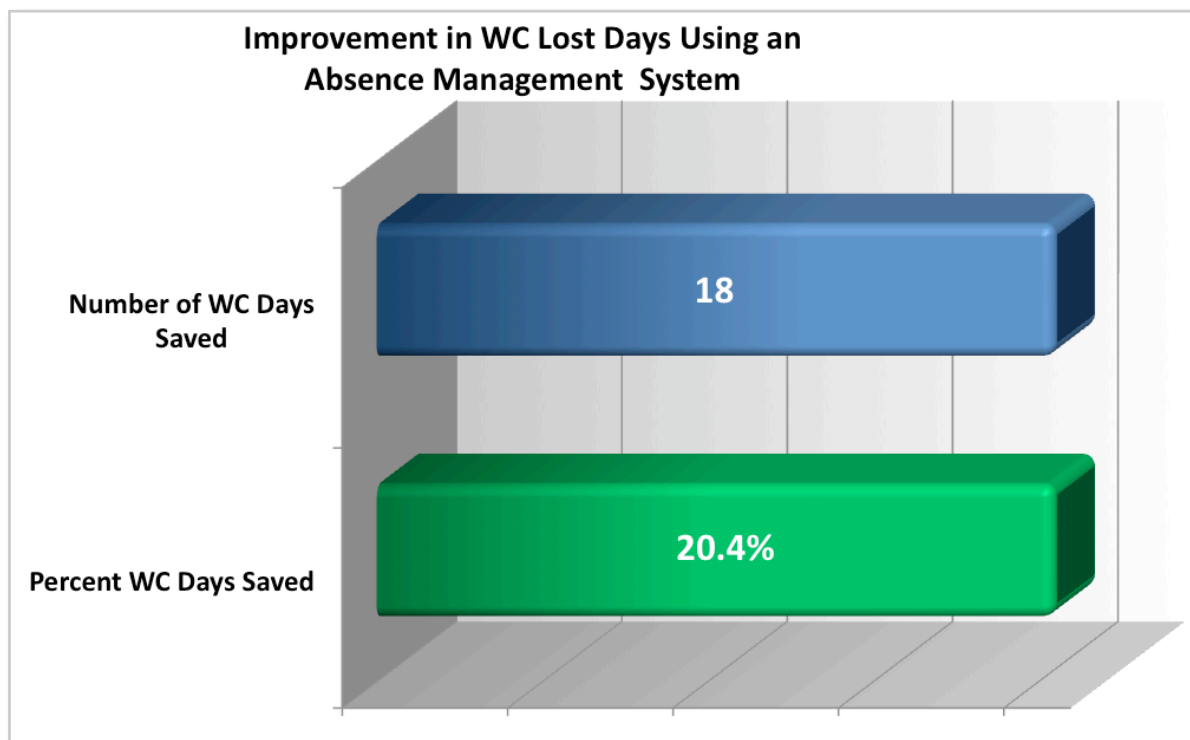


The control increased from 61.5 to 70.1 days from the managed time period to the managed time period with an absence management system. If the study group had experienced the same percent increase it would have gone from 49.2 up to 56.1 over the same time period. Since the study group only experienced an average of 53.3 lost days per STD leave, it saved 2.8 days per STD claim or 5.7%.

A savings of 2.8 days per STD leave for the study group during this time period equates to a total of 11,500 lost days saved. Accounting for the cost of a lost STD day, these 11,500 days equal \$1.3 million. These savings are directly attributable to the use of an absence management system.

The study revealed increased savings for lost time due to workers' compensation. Figure 2 shows the improvement in WC lost days from using an absence management system as compared to simply managing lost time without a system.

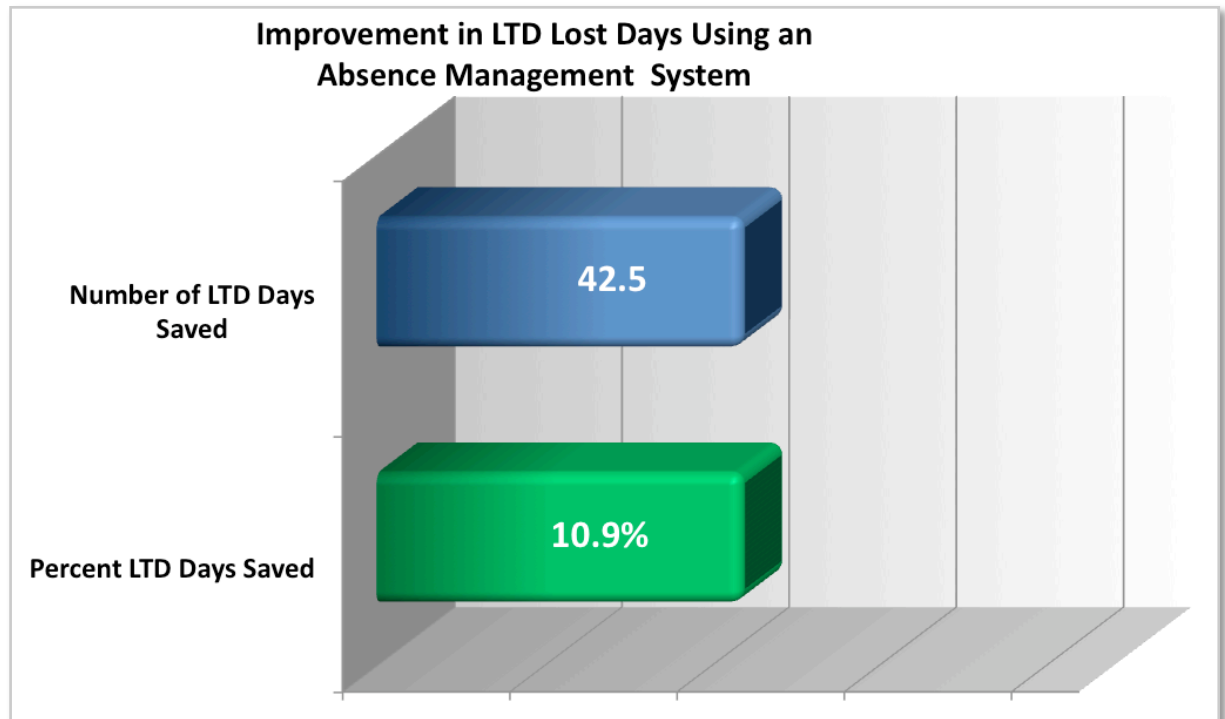
FIGURE 2



If the study group had experienced the same percent increase it would have gone from 89.3 to 106 days per leave over the same time period. Since the study group only experienced an average of 88 lost days per WC leave, they saved 18 days per WC claim or 20.4%.

This savings of 18 days per WC leave for the study group during this time period comes to a total of 48,000 lost days saved. Accounting for the cost of a lost WC day, these 48,000 days equate to \$5.3 million. These savings are directly attributable to the use of an absence management system.

FIGURE 3



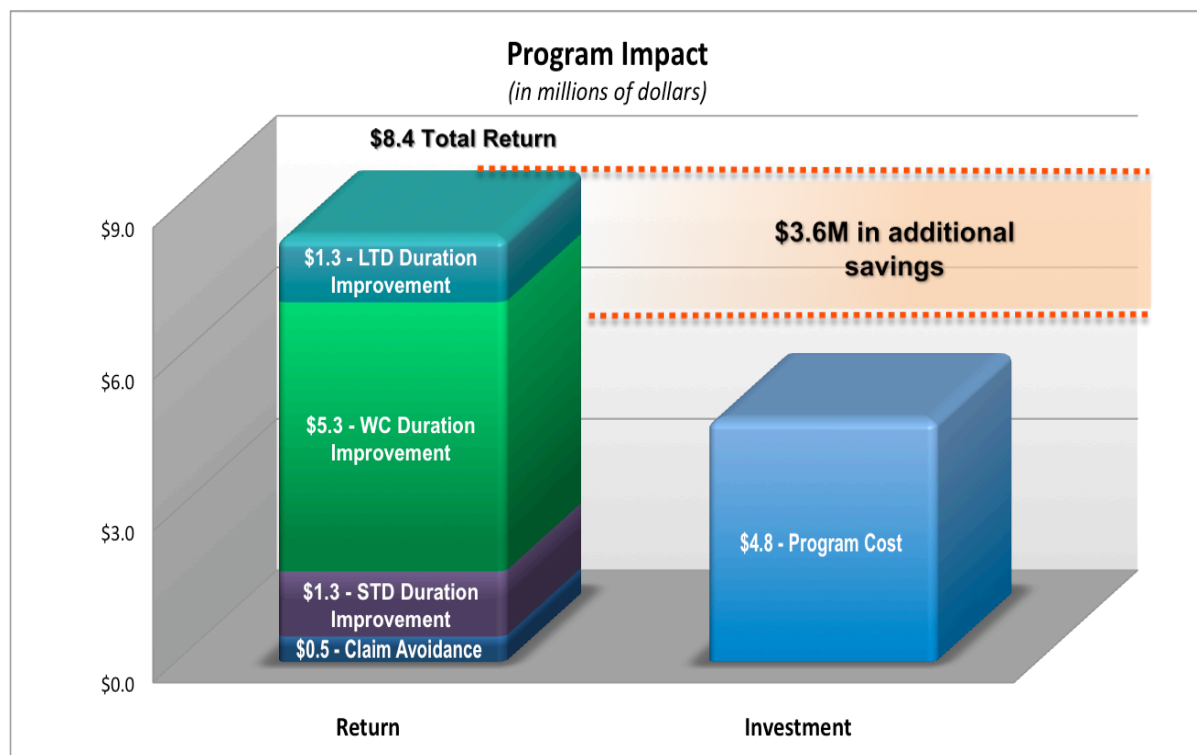
A very similar story emerged through the analysis of long-term disability (LTD) claims as well. If the study group had experienced the same percentage increase in lost time as the control group, it would have averaged 474 days per LTD leave instead of 431.5 days or 10.9%. That would have meant an additional 11,700 lost days due to LTD. As a result of its absence management system, however, the employer realized \$1.3 million in savings through reduced lost time in LTD alone.

In addition to reducing lost time, absence management systems can help lower costs by reducing the flow-through rate of FMLA claims. That is, the ability to uniformly manage claims of all types in a single location can help prevent FMLA claims from progressing into workers' compensation or STD and LTD claims.

For example, in this study, the employer's FMLA claims 'flowed-through' at a lower rate than the FMLA claims of the control group. Specifically, 23% of the study group's FMLA claims progressed into workers' compensation or STD and LTD claims, compared to 28% of the reference database's claims. These avoided workers' compensation or STD/LTD claims resulted in savings of \$0.5 million.

Figure 4 illustrates the components, as well as the total savings, the employer realized by more effectively managing claims.

FIGURE 4



By combining the savings from reduced claim duration with the savings from claim avoidance, the employer saved about \$8.4 million through the use of an absence management system.

The employer invested 4.8 million for the cost of the absence management system, reporting, data warehousing costs, and staffing costs. A large portion of the program cost is related to staffing costs. The net savings was \$3.6 million. Therefore, the return on investment is 1.8 to 1. In other words, for every dollar spent on program related costs, the employer realized a return of 1.8 dollars.

In addition to demonstrating the clear cost-savings impact of using an absence management system, the study offered another critical insight as well: absence management results are maximized when the system is applied to all benefit types. Figure 4 indicates that with the exception of workers' compensation durations, this employer would have generated modest savings if it had applied its absence management system only to reducing the durations of particular claim types. By utilizing the system across all benefits, however, the employer's savings were more than significant enough to justify its investment in the system.



CONCLUSION

This study is a rare view of lost-time experience compared to absence management results for a single company when it had no absence management program, when it utilized a rudimentary absence program, and when it used an automated absence management system. The breadth of OCI's database, coupled with the depth of its analytic ability, makes such a study possible. And the results are clear. The savings realized through the use of an absence management system can more than justify what is often characterized as a substantial investment.

One employer saved over \$8 million by limiting lost time through the use of an absence management system.

Specifically, OCI's study demonstrated that one employer saved over \$8 million by limiting lost time through the use of an absence management system. But the study went further by illustrating costs that can be avoided by preventing FMLA claims from becoming workers' compensation and STD or LTD claims. In total, the employer realized a return on its investment of 1.8 to 1.0.

As with any major technology implementation there are upfront costs, and time must be allocated for implementation and training. Despite these very real concerns, OCI's study clearly answers the key business question - ***an absence management system is well worth the investment.*** Also, the upfront costs will drop off in subsequent years while similar substantial savings will be achieved each year.



OCI LEAVEXPERT™

OCI's LeaveXpert™ absence management system integrates various types of HR, claims and leave data into a single web-based application to streamline workflows, improve legal compliance, and yield a high return on investment in your HR department.

With an intuitive interface, automated case creation, an employee benefit request module, automated FMLA regulation management, and real time reporting, LeaveXpert™ assists HR departments to achieve the following:

- Consistent enterprise-wide enforcement of leave management policies while reducing administrative burden
- Effective communication of time-sensitive information and FMLA regulation management to improve legal compliance
- Identification of trends and root causes of absence to reduce lost time and return employees to work sooner
- Accurate measurement of the direct and indirect costs of absence for your organization, including costs for disability, FMLA, workers' compensation, sick leave, state leaves, and other absence types to improve ROI

For more information, contact OCI at 800-678-6613 or visit us online at www.oci.com.