



PRESENTEEISM, a Proactive Solution for Organizations

By Jacqueline Nowak, B.Ed., B.A.

Presenteeism is the first part of a continuum of issues involving employees not functioning to full capacity while on the job. This leads to absenteeism from work either periodically or perpetually. Long term disability is at the far end of this continuum with the middle sections consisting of absence, workers compensation issues, short-term disability and weekly indemnity. When combined, the costs are significant to organizations and need to be managed more effectively.

Presenteeism is defined as the cost to the organization of lost productivity that occurs when physical and mental health issues inhibit the workers' ability to perform to their full potential. In their 2005 report, "Making the Connection to a Healthy Organization", Watson Wyatt, a leading human resource consulting group, stated; "Without preventative health and workplace measures, the impact of presenteeism will likely continue to grow, especially as the workforce ages."

What is interesting about the resulting costs of presenteeism is that there is a linear relationship in the progression of presenteeism through to long term absence. The results of presenteeism precede the employee being absent, then workers compensation, and short and long-

term disability follow over time. The effects of presenteeism exist for months prior to people becoming absent, thus costing the organization long before any measurable absence from work is recorded. This article evaluates the interrelationship of the hidden costs of presenteeism and the measured costs of the remaining continuum of health related issues. We will do this by using the average macro cost ranges provided by Statistics Canada and insurance companies and then apply it to a hypothetical individual to calculate the costs to an organization.

The costs are significant and seldom addressed because in the past they were not recognized nor measured. Marybeth Stevens' article, Present Dangers, in the March 2004 *Risk & Insurance* magazine, referenced Dr. Wayne Burton, Senior VP and Corporate Medical Director of BankOne; "When you look at total costs, meaning direct and indirect costs ... of medical costs, absenteeism, short-term disability, long term disability and presenteeism, our estimate is that presenteeism accounts for about three quarters of the total." Susan Lang's April 20, 2004 article on presenteeism in Cornell University's Cornell *NEWS* reported that "Medstat estimate that companies' on-the-job productivity losses from

presenteeism are possibly as high as 60 percent of the total cost of worker illness --- exceeding the costs of absenteeism and medical disability benefits."

Presenteeism is the result of chronic physical and mental health issues that manifest themselves into low productivity and then to prolonged absences from work. Many treatable and modifiable medical problems and symptoms such as exhaustion, burnout, allergies, and chronic pain disorders (such as back and neck pain) lead to presenteeism. Migraines, a common episodic condition, are a valuable target for intervention to curb presenteeism. Mental health conditions such as depression also increase those costs, as loss of concentration and low energy are commonly associated with those illnesses and reduce employees' capacity to work. Kelley M. Blassingame, in the December 2002 issues of *Employee Benefit News*, reported that in 2001, researchers at Yale University found that employees with chronic depressive symptoms were seven times more likely to show decreased workplace effectiveness than those without the symptoms.

Now, let's look at the macro costs of the continuum of presenteeism to long-term disability to organizations. *Harvard Business Review* estimates that presenteeism costs American organizations \$150 to \$250 Billion per year in lost productivity. If we assume Canada is one tenth the size of the US, then it is costing Canadian organizations \$15 to \$25 Billion per year. Researchers at Harvard and Cornell Universities have estimated the cost of presenteeism is 7.5 to 10 times greater than that of absenteeism. The costs are significant and are even greater if we evaluate the additional costs that result from prolonged absences from work.

Statistics Canada national averages are:

- Absenteeism = Average days absent per employee per year is 7.5 days or 3% of salary
- WCB = Average range of WCB costs per employee is 2% to 3% of salary
- Short-Term-Disability = Average Range of 3.4% to 5.0% of salary
- Long-Term-Disability = Average range of 0.85% to 1.5% of salary

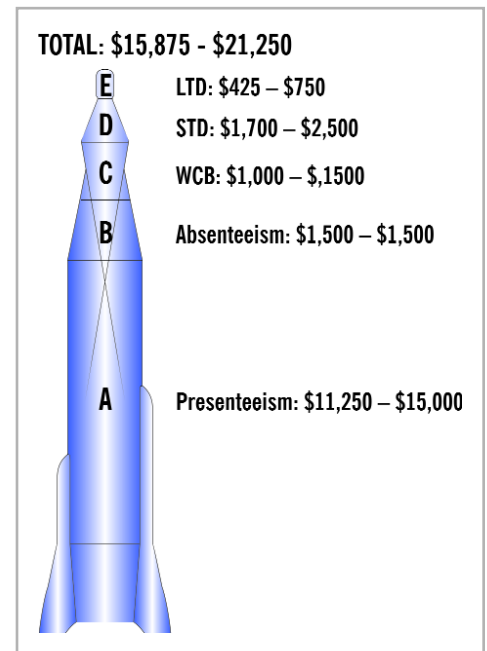
Since Harvard and Cornell Universities have tied the cost of presenteeism to absenteeism, we can now make a table that combines the costs from presenteeism to long-term disability of a hypothetical employee that makes an annual salary of \$50,000. Table 1 summarizes this information.

Table 1:

		Range of Cost	
		From	To
A	Presenteeism (7.5 to 10 X Absenteeism)	\$11,250	\$15,000
B	Absenteeism (7.5 days, 3%)	1,500	1,500
C	WCB (2% to 3%)	1,000	1,500
D	Short Term (3.4% to 5%)	1,700	2,500
E	Long Term (.85% to 1.5%)	425	750
Total Cost		\$15,875	\$21,250

The calculated cost of presenteeism relative to total cost is 71%.

Continuum of Costs of Health Related Issues



The results show that for every \$50,000 in salary, it costs the organization approximately \$15,875 to \$21,250 in lost productivity due to physical and mental health issues. That means that on average the organization attains approximately \$28,750 to \$34,125 of productivity or 57% to 64% of salary cost.

In addition, there is an extremely high cost to organizations to replace employees that leave for any reason including due to long-term disability. Bliss and Associates, a leading US executive and organizational performance organization, estimates that the average cost of turnover to organizations is 150% to 250% of an employee's annual compensation. This means that it will cost \$75,000 to \$125,000 to replace an employee that has an annual salary of \$50,000. Additionally, in a competitive skills market, employees often consider health and wellness benefit programs a defining factor in choosing an employer, or indeed whether to change employment, regardless of their tenure with an organization.

Therefore, it costs the organization \$15,875 to \$21,250 annually per \$50,000 salaried employee plus \$75,000 to \$125,000 to replace him or her if they leave. What can the organization do to manage these costs? There is a lot they can do!

All of these costs can be dramatically reduced without costing the organization any more money than they are already spending on various programs. Existing money can be reallocated towards an efficient corporate and employee health and wellness program. Forward thinking organizations have reallocated 20% to 50% of benefit

**"In this day and age where employers are hesitant to hire because of skyrocketing medical care costs, it's important to broaden the view of health costs beyond the cost of patient care."
- Researcher Ron Goetzel, PhD, Cornell University Institute for Health and Productivity Studies**

dollars into proactive programs and compounded this reallocation by reducing the future costs of presenteeism to provide a further 300% to 500% return on those funds. This is a real opportunity to improve the organization's bottom line.

It is well documented that the longer someone is off from work the less likely they will return. This also holds true with medical treatment. The longer it takes to receive treatment for an injury the less likely a full recovery will happen. Many organizations and employees have been critical of WCB and insurance company disability management processes because of the perceived slowness of their interventions. Some insurance companies have developed early intervention programs with limited success.

One large insurer, for example, has an "Early Intervention Program" that operates under the following guidelines. After the 21st day that the employee is absent from work, the corporation notifies the insurance group and the insurance group assigns a person to contact the employee within five days. Simple addition tells us that the employee has missed work for almost a month before any type of intervention. It is difficult to rationalize that

this is "early intervention". Considering that the probability of returning to work decreases with each day of absence, one month does not appear to be a very sound management practice of early intervention.

Various studies have been completed by a number of organizations to measure the success of their fitness and wellness programs. We are using information from: *Primary Statistics: Public Health Agency of Canada - The Business Case For Active Living At Work - Trends and Impact, The Basis for Investment Decisions*, to analyze reductions in costs and increases in productivity. The sub-bullet conclusions are that of the author of this article.

Results are summarized:

- Municipal employees in Toronto missed 3.35 fewer days in the first six months of their "Metro Fit" fitness and wellness programs than employees not enrolled in the program.
 - This is an annualized reduction in absenteeism to 0.8 days. Compared to the national average of absenteeism of 7.5 days, this is nearly a 90% reduction.
- Toronto Life Assurance found that employee turnover for those enrolled in the company's fitness and wellness program was 1.5% versus 15% for non-participants.
 - The reduction in turnover and absenteeism is approximately 90%.
- BC Hydro employees enrolled in a work-sponsored fitness and wellness program had a turnover rate of 3.5% compared with the company average of 10.3%.
 - The reduction in turnover was nearly 66%.

This shows that the savings are between 66% to 90% in absenteeism and turnover. Previously, we determined that the cost of the continuum to the organization is \$15,875 to \$21,250. If we apply the savings ratios of 66% to 90% reduction in costs, then the potential savings would be in the range of \$10,475 to \$19,125 per employee per year based on a \$50,000 annual salary. Also the potential savings in reducing turnover is \$49,500 to \$112,500 using the Bliss and Associates cost range of \$75,000 to \$125,000.

Now that we know the cost of health issues and potential savings to our organizations, what can be done to attain these savings? How do we attain this return on investment (ROI) in the well being of our employees?

When a corporation wishes to realize these savings, they must reduce duplication of resources and funding and reallocate these funds directly into corporate and

employee health and wellness programs. The human resource function must manage the process as a holistic program that involves departments such as OH&S, employee benefits, disability management, risk management, WCB liaison and employee assistance programs. There is a need for a complete review of the underlying causes of presenteeism, absenteeism and disability costs. They must maintain ongoing communication relative to changes in requirements and performance issues, and facilitate medical interventions prior to, during and after mental and physical health related events. Organizations must have medical alliances to provide access to and manage the process for diagnostics and treatments for their employees. Ultimately and more pointedly, they must allow employees to become proactive with their health and wellness, which will result in measurable decreases in costs over the continuum of presenteeism to long-term disability.

Ron Goetzel, PhD, a researcher at the Cornell University Institute for Health and Productivity Studies, states: "If a company's health plan is poor, for example, disorders may not be well managed. Workers will continue to work and not be as productive. Employers need to weigh the costs of good medical care against the potential for on-the-job productivity losses, which we see are substantial in many areas."

This complete shift of focus cannot be obtained through traditional health plans. It requires a benefits program that is developed through assessment and corporate change management to realize these changes without incurring further costs. Addressing the complete spectrum of these major issues is necessary to providing a true health and wellness program for an organization. To date there is only one health and wellness benefits program in Canada that addresses the complete spectrum of these issues.

Peter Gant, MD, FRCPC, from Foothills Health Consultants Ltd. in Calgary states: "Preventative medicine is critically important. Nowadays in the health care system we have increasing numbers of people piling up in our emergency rooms, filling up our hospital beds with diseases that are both modifiable and preventable. We need to move upstream in order to institute the therapies, the treatments, the lifestyle modifications that prevent those things from occurring in the first place. The ability for patients [and corporate health and wellness program management], through MediDirect, to have choice is important. That allows them to choose specific therapies, vitamins, minerals, supplements that are pro-

moting health, promoting wellness, long before any kind of disease process comes along that requires treatment. This is a step forward to move back upstream in order to begin the preventative process."

"There was a study at Bank One, the U.S. bank, that found that on an annual basis the cost of lost productivity of presenteeism was more than \$300 million a year.

Interestingly this was twice as much as what the company spent on healthcare insurance for its employees, which is an area that companies are currently trying to reign in because of sky-rocketing costs."

**- Paul Hemp, Senior Editor,
*Harvard Business Review***

Using corporate health and wellness benefit dollars wisely and efficiently not only benefit the employee but the organization as well. Starting at the beginning of the continuum to find and treat the causes of presenteeism is beginning the preventative process. The potential in real savings to the organization is a combination of increasing productivity, decreasing presenteeism, and subsequent reductions in costs of absenteeism, workers compensation, short and long-term disabilities and staff turnover. Organizations that develop effective health and wellness programs and efficiently combine them with other resources such as OH&S and employee benefit programs are reaping high ROI's by reallocating existing resources. The results are positive for both the employee and the organization as satisfied employees perform at higher levels. It is a mutually beneficial relationship that makes organizations prosper by increasing employee satisfaction which in turn increases productivity and reduces staff turnover.

Author Jacqueline Nowak holds a Bachelor of Education and a Bachelor of Arts degree in Psychology with a minor in Sociology. She was previously the Research Coordinator at Alberta Children's Hospital. Her focus is now in the research of health and wellness issues. She can be contacted at jmnowak@shaw.ca.