Everywhere you turn today, healthcare is making headlines. Whether it’s the recent Supreme Court decision upholding the Affordable Care Act or the ongoing skyrocketing costs associated with providing healthcare insurance to America’s employees, healthcare is center stage.

Employers, as well as benefit brokers and consultants, continue to be concerned about the financial impact of healthcare on U.S. businesses and workers. For example, a Mercer survey entitled “Report on Employer Sponsored Health Plans, 2010” estimated the cost of healthcare averaged 13.6 percent of an employer’s payroll. In response, employers have little choice but to better understand the various ways employee health affects productivity and, as a result, profitability.

But as they strive to get their arms around employee health and its associated costs, some employers may be surprised to learn that medical care and drug costs aren’t the bulk of healthcare costs. In fact, a 2009 study in the Journal of Occupational Environmental Medicine entitled “Health and Productivity as a Business Strategy” revealed that the two make up only 30 percent of the total cost of poor employee health.

And what about the remaining 70 percent? Michael Klachefsky, national practice leader for Workplace Possibilities at Standard Insurance Co. (The Standard), an insurance subsidiary of StanCorp Financial Group Inc., notes that it can be attributed to a concept known as health-related lost productivity.

“Health-related lost productivity represents a decline in employee productivity due to both employee absenteeism and presenteeism,” Klachefsky says. “Research suggests that, on average, for every dollar employers spend on worker medical or pharmacy costs, they absorb at least $2.30 of lost productivity costs."

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“In many cases, decision-makers have not focused on where those larger costs reside,” he adds. “They fall into two buckets: Absences resulting from medical or related reasons; and [employees] who are less productive for medical or related reasons but remain in the workplace. Taken together, those two areas drive that other 70 percent of healthcare costs.”

Klachefsky believes employers and their advisors should not confine their efforts to focus on the 30 percent, especially considering most cost reductions on those fronts have already taken place. Though initiatives such as employee cost-sharing have made some inroads, the cost of medical care continues to rise. But by using innovative programs specifically designed to reduce lost productivity due to health-related issues, he says, employers can experience significant cost savings.

“It’s an ancient phenomenon, but a relatively new field of study,” Klachefsky says of health-related lost productivity.

In 2008, Kronos and Mercer launched a survey on the total financial impact of employee absences, following it up in 2010 with a second report revealing significant evidence that the direct and indirect costs of absence are much higher than previously thought. Based on the latest 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 benefits provided to an employee for time not worked).

The Kronos-Mercer research 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. Many of these indirect costs are included in health-related lost productivity. Overall, the report revealed that the total cost of incidental and extended absences for surveyed organizations amounted to 8.7 percent of base payroll.

In addition to absenteeism, presenteeism—a term coined in 2004 that describes productivity loss caused by employees at work with medical conditions, either physical or mental—has been identified as a major contributor to lost productivity due to health-related issues. Major causes of presenteeism include, but are not limited to, behavioral health conditions, musculoskeletal conditions, arthritis, obesity and allergies.

Klachefsky believes that it’s likely employees who were off the job with medical conditions were probably at work with those same conditions for a period of time before they became disabled, given the nature of the aforementioned causes. Consequently, some of these employees must have suffered a productivity decline during that period.

To date, Klachefsky says, there have been a limited number of major studies of presenteeism, but the known data is still quite compelling. For example, presenteeism costs American businesses $150 billion in decreased productivity in 2004, according to research featured in an article in the Harvard Business Review. Meanwhile, a paper from Cornell University Press reports that on-the-job losses from presenteeism represent 60 percent of the total cost of worker illnesses, exceeding what companies are spending on medical, disability and absenteeism combined.

To help employers regain lost productivity, in late 2010 The Standard created its Workplace Possibilities program, which places a skilled professional disability consultant onsite. This consultant is either a nurse or vocational specialist, whose duties include closely monitoring health-related lost productivity and identifying meaningful solutions.

Often, Klachefsky says, the remedies aren’t expensive. They can be as simple as procuring an ergonomic chair or some other type of equipment for an employee that can help to alleviate his or her pain and thereby be more productive.

Klachefsky says there’s been a lot of thought and talk pertaining to presenteeism, but very little action by employers, brokers and consultants.

Employers have not made a lot of headway when it comes to presenteeism, since it is much more difficult to measure than absence, Klachefsky says. “We have a solution to manage both absenteeism and presenteeism—that 70 percent—and it’s foundation is onsite intervention,” he adds.

**The Bigger Picture**

Laura Horn, director of benefits at Apria Healthcare, a Lake Forest, Calif.-based national home healthcare provider with 14,000 employees, has experienced first-hand how the combination of an onsite specialist and a structured program aimed at reducing lost productivity due to health-related issues can make a difference in both cost savings and employee well-being. Apria began using Workplace Possibilities in January 2011. In less than 12 months, Horn says, the company saved more than $209,000 through the program. But just as importantly, she adds, the effort benefited those employees who were experiencing presenteeism.

“Prior to Workplace Possibilities, our carrier managed claims, but did nothing to reduce the number of claims going into disability,” she says.

Often, the remedies aren’t expensive. They can be as simple as procuring an ergonomic chair or some other type of equipment for an employee that can help alleviate his or her pain ...

“So when we issued a Request for Proposal (RFP) to identify a new carrier, the idea of having an onsite consultant intrigued us.”

Within that first year, Apria successfully and repeatedly recaptured lost productivity due to both absenteeism and presenteeism. In one case, an employee’s job required him to travel to multiple locations to see patients. The therapist suffered from a joint disease in his knee, making him unable to lift and carry heavy respiratory equipment up multiple flights of stairs.

“Not only was the employee struggling with his daily duties, but his manager also was concerned about losing a productive team member,” Horn says.

The Standard’s onsite Workplace Possibilities consultant at Apria, Emma Ortiz, analyzed the employee’s working conditions and determined that job modifications were necessary for the employee to be able to return to work. By stationing the employee at a central branch office where patients might be seen on-site, he no longer needed to drive from patient to patient. In order to expedite the accommodation process, the consultant met with the physician to clarify limitations and restrictions, and obtained medical approval on her recommendations for a modified position.

“The modified job duties enabled the employee to return to work 30 days earlier than expected, and remain productive while his condition improved,” Horn says. “We were thrilled to have retained a valuable, experienced employee while reducing absence and disability-related costs.”
In a second example, an Apria employee developed carpal tunnel syndrome. In response, a treating physician designated a 20-minute typing break every hour as a work restriction. But after having completed an ergonomic assessment, the Workplace Possibilities consultant determined that the employee needed a keyboard platform and a foot rest in order to be at a neutral typing position. (The consultant stayed in close contact with the employee, HR and risk management until the ergonomic items were properly installed.)

As a result of the intervention, all work restrictions were lifted and the employee is now successfully working without the 20-minute breaks.

“Of course, we were pleased to retain a valuable employee and also prevent claim costs,” Horn says.

Horn says that the idea of having an onsite consultant to help sort through these types of scenarios was a new concept for Apria, but one the company immediately recognized as a way to reduce costs and boost employee health and well-being.

“We actually selected the person we wanted to work with,” she says. “And it’s great that the consultant also works with our workers’ compensation colleagues as well, because disability and workers’ compensation share many similar challenges, from a claims perspective.

“Connecting All the Dots”
San Francisco-based Terri Rhodes, a principal in Mercer’s Total Health Management practice who specializes in absence management, says the concept of an onsite consultant is one that should take hold, because employers and vendors have had a hard time “connecting all the dots” with disability and absence within health management and wellness programs.

“The most important thing is to manage the medical and disability event it at the time it occurs,” Rhodes says. “I call it ‘just-in-time’ case management”—it is the concept of having someone available onsite to connect an employee who is not working to full capacity due to a medical or health condition to the health management options offered by the employer.

“I’d hope to see more of this” she adds. “We’ve been expecting to make the connection for a long time; looking for ways to connect employees to the health programs, disease management and wellness programs offered by the employer. I do think by providing a case-management piece at the time of absence is an exciting step whose time has come.”

Rhodes explains that, apart from health issues, there also may be people at work who are distracted because family issues, such as a sick child or parent. This distraction means employees may not be as productive as they would be otherwise.

Workplace Possibilities consultants, however, can serve as a valuable resource for those individuals by providing them with the right tools for addressing such issues.

Rhodes adds that some employers have health coaches in place, too. “It’s a similar concept—the idea of engaging an employee to take some kind of action. The power of having someone onsite theoretically reduces time away from work in many ways.”

Brian Kost, manager of The Standard’s Workplace Possibilities program, says it all boils down to a very simple idea: interacting with an affected employee to help them be productive.
“Whether it’s in person or by phone, or both, it is amazing how well people respond,” Kost says. “When you help an employee with a bad back by doing something simple like getting them a new chair, it makes them more productive.”

But, he adds, it’s not just about the chair.

“We may give them a chair or a pill, but what we really have to do is drive that employee to utilize their benefits to get better, and that will drive down health-related costs related to both absenteeism and presenteeism,” he says.

Kost, a 25-year veteran in the health-management business, says he’s seen the power of how interacting with a person to create some sort of change. The problem has been that no one could quite understand how to plug employees into a way to get help. Offering them online resources is fine, but you can’t rely on a computer portal or tool to effect change.

“If you have a consultant who can talk to the employee, see what’s going on, the employee will know that his or her employer cares [and, in turn, will] feel more empowered,” Kost says. “The key is you have to have the right consultant who can not just make a phone call, but can spend some quality time with that employee.”

So far, says The Standard’s Klachefsky, the Workplace Possibilities program is delivering on both the cost-savings and human-touch sides. Workplace Possibilities, he says, addresses both absenteeism and presenteeism, reducing absences, on average, by 39 days and helping employees still at work through ergonomic interventions.

Apria’s Horn needs no convincing that a program like Workplace Possibilities is having an impact.

“It’s given us another set of ears, hands and eyes,” she says.

Horn says length of absence had begun to spiral out of control, as the sluggish economy has elevated stress levels and resulted in more people asking for leave. So having another person in the department as part of the HR team has proven extremely valuable, especially in serving as a go-between with medical providers.

Employees have been extremely receptive to Emma, Horn says. “Out of the many people she has contacted, most have taken advantage of the help. When you have a special person to assist you, it sends a powerful message to the workforce. It’s been invaluable for us.”

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3Standard Insurance Company internal data, 2011.