



The Missing Piece of Absence Management— Turning Data into Dollars



EXECUTIVE SUMMARY

Liberty Mutual conducted a survey of more than 300 employers to better understand how employers address absence in the workplace. Answers to the survey uncover an organizational appreciation for the need to track employee absence. At the same time, results provide additional insights into the methods used to track absences, how the work of absent employees is handled, and the impact of absence on their organizations.

Overall results suggest an organizational disconnect between collecting data to remain compliant with state and federal regulations and using that data to better understand the costs of absence.

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INTRODUCTION

A survey of human resources and benefits managers, directors, and C-level executives by Liberty Mutual provides insights about managing absence in the workplace and steps employers can take to better use absence management to improve the bottom line.

There is no universal definition of absenteeism, but generally speaking, absence encompasses a broad spectrum of events including job-protected federal and state leaves, sick time, paid time off, workers compensation, short- and long-term disability, and many other reasons.

Another reason for employers to come to grips with absence in the workplace is a growing body of state and federal regulations that statutorily protect employees when they need to take time off for their own illnesses, those of family members, and circumstances surrounding qualified service members. The Wage and Hour Division of the U.S. Department of Labor determined that 53 percent of complaints filed by employees for violation of the federal Family and Medical Leave Act (FMLA) were valid in 2008, the most recent year for which statistics are available.¹ It is not only the employer organization that is at risk for FMLA violations; individual supervisors and managers can be held personally responsible for actions taken in response to FMLA issues.

In light of these workplace realities, Liberty Mutual undertook the survey to better understand how employers address absence in the workplace.

TRACKING ABSENCE—THE SURVEY

The Liberty Mutual survey, conducted in April 2011, received more than 300 responses from across the country. Respondents were human resources and benefits executives and managers of organizations with more than 500 employees, representing a broad cross section of industries.

The survey uncover real organizational appreciation for the need to track employee absence. At the same time, results provide additional insight into the methods employers use to track absences, how the work of absent employees is handled, and most important, the financial impact of absence on the organization.

Overall results suggest an organizational disconnect between collecting data to remain compliant with state and federal regulations and using that data to both better understand the organizational costs of absence and identify opportunities to save money and function more effectively.

¹ <http://www.dol.gov/whd/statistics/2008FiscalYear.htm>.

Survey Overview

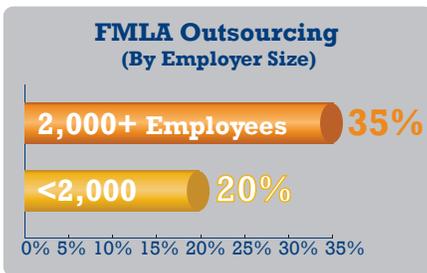
- Conducted in April 2011
- 300+ respondents
- Companies with 500+ employees

JOB-PROTECTED LEAVES—HOW ARE THEY ADMINISTERED?

27% of respondents outsource administration of FMLA.

Family and Medical Leave Act (FMLA) and other job-protected leaves were one focus of the survey. One of the key objectives of the study was to determine if management of these types of leaves is outsourced or handled in-house and how management of these leaves varied.

More than a quarter of all respondents outsource management of FMLA. This finding is consistent with studies conducted by others.² The number has grown over time because of resource demands for management and tracking of complex and changing regulations. However, when respondents were broken out by company size, those with 2,000-plus employees outsource FMLA management significantly more often than respondents with fewer than 2,000 employees.



One possible reason for the difference between those who outsource FMLA administration and those who manage it in-house might be that larger employers are more broadly distributed geographically, making centralized management a cost-effective way to remain consistent across a wide geography and compliant with disparate state regulations.

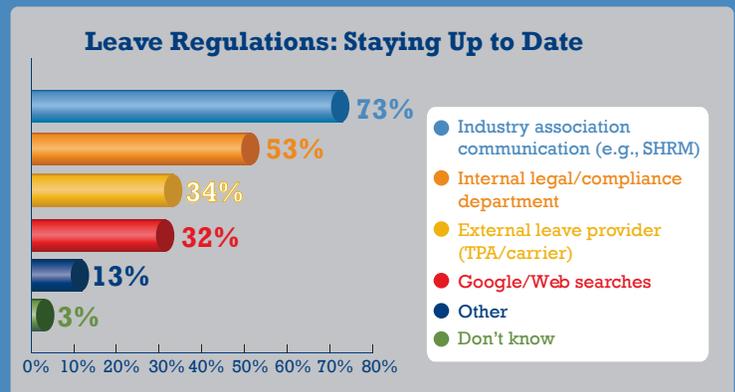
The most important point to make concerning these responses is that regardless of the method by which employers track job-protected leaves or the industries in which they function—leave data is available. This availability of data becomes more significant in light of our respondents' answers to questions about the cost of absence in the workplace and how coverage for absent employees is obtained.

² National Business Group on Health/Towers Watson. The Health and Productivity Advantage. Staying@Work Report. Washington, DC: NBGH/Towers Watson. 2009. p25.

Getting the News about Regulatory Change

When asked “How does your organization stay abreast of federal and state leave regulations?” respondents indicated they use a variety of methods to stay informed. Seventy-three percent of respondents cited “Industry association communication.” Almost one-third of survey participants selected “Google and Web searches” to get their information.

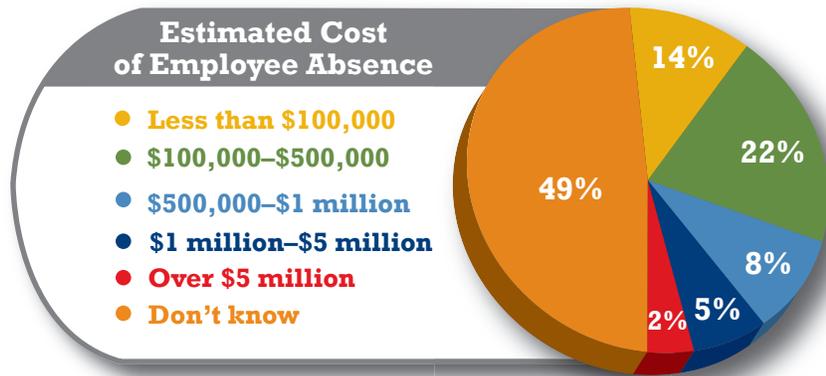
Given that individual supervisors and managers are accountable for workplace responses to FMLA issues, the importance of expert advice for guidance cannot be overemphasized. Employers that outsource absence management should ask their carriers or vendors how compliance is managed and communicated to both the organization and individual employees. In-house managers of absence need to be especially vigilant about changes as they arise.



THE COST OF ABSENCE—WHO KNOWS?

Survey participants were asked to assess the cost of absence to their organizations.

Surprisingly, almost 50 percent said that they do not know the cost of absence in their organizations.



Similar results were seen when comparing responses by employer size and industry. Given that the majority of respondents administer FMLA in-house, perhaps personnel or systems resources are strained. As a result, many organizations may have to make the decision to focus on remaining compliant rather than on following the money.



46% of respondents with outsourced FMLA administration do not know the cost of employee absence.

However, further analysis showed that even among employers that outsourced FMLA administration, 46 percent do not know the cost of absence. While absence information is readily available from a carrier or third-party administrator, these organizations are still not converting this data into dollars.

The alignment in participant responses demonstrates that the inability to quantify absence costs is not due to a lack of information. Many employers likely reference the absence data they collect for staffing or planning purposes.

While employers are capturing absence data, they are not applying it in a useful way to estimate its financial impact on their organizations.

Covering Employee Absence

When survey participants were asked “How do you most often cover for an employee’s absence?” nearly 80 percent selected “share the pain.” Temporary workers and overtime represented the bulk of the other ways absent employees’ responsibilities were accommodated.

Among choices mentioned in “other,” where respondents could detail how work was covered, answers included:

- Work waits for employee return
- Buddy plan
- Pool/Float employees
- Employees have been trained in other employees’ job responsibilities

All these responses suggest a negative impact on productivity.



THE COST OF ABSENCE—WHO CARES?

Subsequently, survey participants were asked to rank absence-related issues of concern to their companies.

In ranking these issues, 53 percent of respondents feel that ensuring compliance with state and federal leave laws is of greatest concern to their organizations. As respondents were from organizations with 500 or more employees, they are likely required to track FMLA-related absences. Other issues of concern are *Managing unplanned intermittent employee absence* and *Accurate management of employee absence*—both laudable aims from an organizational point of view.

However, only 6 percent of survey participants selected *Tracking total costs of employee absences* as critical. While concerning, this result is not surprising considering the large percentage of respondents that are unable to quantify the cost of employee absence.

The reported failure to track absence costs together with a perception that it is unimportant uncovers a potentially critical missing piece in organizational absence management.



* Americans with Disabilities Act Amendments Act (ADAAA)

THE HIDDEN TREASURE

U.S. Department of Labor studies show that absence is a substantial and growing cost of doing business—perhaps as high as \$100 billion.³ The DOL estimated that 3 to 5 percent of an employer's workforce was absent on any given day in 2010.⁴ And, according to one survey, the full cost of employee absence may amount to as much as 35 percent of an employer's payroll.⁵

Employers are seeking to broaden their understanding of absence because of a growing realization that absence is a great deal more than just an aggravating human resources issue.

Beyond direct and indirect costs, absence is increasingly seen as a risk management and business continuity issue. This perspective was brought home forcefully during the H1N1 flu pandemic in 2009, when the Centers for Disease Control predicted that up to 40 percent of the U.S. workforce could be affected by the "Swine Flu."⁶ While this worst-case scenario did not occur, the risk prompted many employers to reconsider absence management.

The results of this survey show that employers understand the need to track absence to remain compliant with federal and state regulations. What seems to be overlooked is an appreciation that the accumulated data offers a bottom-line benchmark for employers to begin understanding the cost of absence in the workplace.

Across employer size and industry sector, large percentages of respondents do not know the cost of absence in their organizations. Yet across the board, businesses are reliant upon employee presence and productivity to staff assembly lines, call centers, patient-care units, and administrative operations.

Survey results highlight an opportunity for employers to take information they already have and use it to the benefit of their own organizations through better management of absence, improved productivity and employee morale, and reduced costs.

³ Calculated from U.S. Bureau of Labor Statistics tables: Full Time U.S. Private Sector Employee Population (Table 47: <http://www.bls.gov/cps/cpsa2009.pdf>); Employer Costs for Employee Compensation (<http://www.bls.gov/news.release/pdf/ecec.pdf>); Avg. Time Lost Due to Illness/Injury (Table 47: <http://www.bls.gov/cps/cpsa2009.pdf>).

⁴ <http://www.bls.gov/cps/cpsaat47.pdf>.

⁵ Mercer Health & Benefits, LLC. Survey on the Total Financial Impact of Employee Absences. Mercer. Portland, OR. June 2010.

⁶ <http://articles.latimes.com/2009/jul/25/science/sci-swine-flu25>.

\$100 billion
Estimated cost of absence
for businesses³

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IN CONCLUSION—THERE'S VALUE BEYOND COMPLIANCE

It's well known that employee absence costs businesses financially. The statistics mentioned earlier may very well understate the full cost. In fact, compliance with FMLA alone, which accounts for only a portion of absences, cost employers \$21 billion in 2004.⁷

Initiating a process to understand the financial impact of absence does not have to involve a wholesale overhaul of an organization's way of doing business. In fact, beginning at the most basic level is probably the best way to get a handle on the larger absence management picture. Whether absence information is handled internally or outsourced, it's important to begin.

For an employer that outsources administration, its disability carrier or other third-party administrator should be an eager partner in helping to develop reports on FMLA and other job-protected leave usage. An employer that manages leaves and/or disability in-house has the data in its payroll, scheduling, or human resources management systems. Third-party or contract suppliers of these services could offer guidance.

An employer might even turn to its medical or workers compensation provider, broker, or consultant for recommendations on ways to analyze data and begin determining the cost of absence.

Employers can use available incidence and duration data to help estimate the direct costs of these absences, including insurance premiums, other benefit contributions, and disability payments for leaves taken concurrently with short-term disability. Reviewing how absences are covered can also help to determine indirect costs resulting from overtime, temporary workers, and additional recruiting and training.

Only after understanding the above costs will an organization be able to tackle the harder-to-quantify, and most likely larger, costs related to lost productivity resulting from employee burnout, missed deadlines, and reduced or delayed response to organizational imperatives.

These efforts will help an employer gain an understanding of the “who, why, when, where, and *how much does it cost*” of employee absence. Armed with this information, employers can identify opportunities to manage absence more effectively.

DIRECT AND INDIRECT COSTS ASSOCIATED WITH EMPLOYEE ABSENCE

Direct Costs:

- Insurance premiums
 - medical
 - workers compensation
 - short- and long-term disability
- Salary continuation/sick leave
- Any other benefit continuation during absence, e.g., pension contribution

Indirect Costs:

- Overtime
- Job accommodations
- Replacement workers and training
- Recruiting costs

Other considerations:

- Employee burnout/stress
- Higher error rates
- Missed deadlines
- Lost business

⁷ National Center for Policy Analysis. Workplace Flexibility Versus Unpaid Leave. NCPA. Dallas, TX. 2009.

SURVEY METHODOLOGY

The survey was sponsored by Liberty Mutual and conducted in April 2011. A total of 331 employers with 500 or more employees responded to the survey. Respondents represented a broad cross section of employers by size and industry.

Survey Results

Distribution of Participants by Company Size

500–999	23%
1,000–1,999	27%
2,000–4,999	25%
5,000–9,999	11%
10,000–25,000	8%
Over 25,000	6%

Job Title of Participants

Benefits VP/Director/Manager	23%
CFO/Financial Officer	27%
HR or Personnel VP/Director/Manager	25%
Senior Executives (CEO/COO/President)	11%
HR Specialist	8%
Other	6%

Distribution of Participants by Industry Group

Communications	2%
Construction/Transportation/Utilities	6%
Consulting/Nonmedical Professional Services	6%
Educational/Institutions/Endowments	9%
Entertainment/Hospitality/Food Service	5%
Finance/Insurance	12%
Healthcare	17%
Information Technology Services	4%
Manufacturing	20%
Natural Resources	2%
Nonprofit Institutions	2%
Public Sector	6%
Retail	3%
TPAs/Real Estate	2%
Wholesale/Distributor	2%

ABOUT LIBERTY MUTUAL GROUP

“Helping people live safer, more secure lives” since 1912, Boston-based Liberty Mutual Group is a diversified global insurer and the third-largest property and casualty insurer in the U.S. based on A.M. Best Company’s report of 2010 net written premium.

The Group also ranks 82nd on the Fortune 100 list of largest corporations in the U.S. based on 2010 revenue. As of December 31, 2010, Liberty Mutual had \$112.4 billion in consolidated assets, \$95.4 billion in consolidated liabilities, and \$33.2 billion in annual consolidated revenue.

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For more information about Liberty Mutual Group Benefits, please visit www.libertymutualgroup.com/GroupDI or contact us at groupbenefits@libertymutual.com.



Liberty Life Assurance Company of Boston
175 Berkeley St., Boston, MA 02116
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