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QUICK LOOK

- ⇒ The combination of direct and indirect costs associated with unscheduled time off can easily add up to 25 percent of payroll.
- ⇒ A successful absence management program empowers employees to better manage their time off, keeps them engaged so they don't want to take so much unscheduled time and provides the right accommodations when employees do need time off.
- ⇒ Regardless of the number of elements an employer implements in a time off program, many factors contribute to success.

Absence (Management)

Makes the Heart Grow Fonder

A successfully executed time-off program can save employers many direct and indirect costs associated with unscheduled absences.

By Steven Cyboran and Barry Miller, The Segal Co.

Pop quiz: What's your most expensive employee benefit?

For many employers, the answer is one they haven't even considered: paying people when they're not at work

No, this isn't just vacations and holidays. Rather, it's the combination of vacation and holidays, *plus* sick days, personal days, disability leave (both occupational and nonoccupational) and unscheduled absences. That's because the combination of direct and indirect costs associated with those days off can easily add up to 25 percent of payroll, according to the Integrated Benefits Institute (IBI). Indeed, indirect costs — which tend to lurk below the surface and include lack of productivity and supplemental staffing — are almost as great as direct costs. (See Figure 1 on page 38.)

And, when the true cost of all paid time off (PTO) is understood, employers tend to stand up and take notice ... then look for ways to better manage that cost.

This process, known as absence (or time off) management, can be done without eliminating vacations. (See "What Is Absence Management?" on page 39.) The idea is to empower employees to better manage their *time off*, keep them engaged so they do not want to take so much unscheduled time and provide the appropriate accommodations when necessary to allow them the ability to fulfill personal responsibilities without missing work time.

Caution should be noted, as many state laws govern an employee's entitlement to time off, regardless of the cause,

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including state versions of family and pregnancy disability leave laws. Also consider collective bargaining agreements that may include the treatment of sick time, leave and vacation entitlements. Legal counsel always should be included in any deliberation on plan changes.

Another often surprising statistic that illustrates why meaningful savings are achievable highlights the concentration of costs around a minority of employees. Specifically, according to an IBI study of a large Midwestern manufacturer, 10 percent of employees who are on short-term disability are responsible for 53 percent of employee medical costs. A targeted absence management strategy can have a major impact on these costs.

But it isn't enough simply to target those employees incurring large medical claims. Addressing the issue at its root requires a methodical self-examination, as outlined here. Don't be intimidated; it may not be possible to gather all of the data listed here, but a useful self-assessment requires that as much data as possible be collected.

Review Existing Offerings

To determine current and projected costs — both hard and soft dollar — of

all forms of PTO, employers need to ask a few questions:

- Are there overlaps in coverage (e.g., among extended illness banks, workers' compensation, disability benefits and a disability pension)?
- Are there coverage gaps (i.e., no coverage after accumulated sick leave is used and before long-term disability coverage begins)?
- What are the existing procedures associated with absenteeism, including reporting requirements for managers?
- Are special PTO arrangements being negotiated for a significant percentage of new hires?
- How much time is spent on overtime and temporary help to cover for absent employees?
- How do attendance, absence and disability leave statistics compare to industry norms?
- How do current disability leave policies affect benefits utilization?
- Are there patterns of absenteeism that suggest a need to address systemic problems, such as poor management in a department or facility? What about behavioral issues, such as poor performance? Are there environmental problems, such as unpleasant odors or noise in the workplace?

If this self-assessment reveals

problems, employers should know that absenteeism, turnover and underperforming employees often have the same root causes. Health conditions can be a contributing factor, but disengagement and disinterest also play a role. A poor relationship with a supervisor, extremely stressful

work, family situations or an unpleasant or unsafe work environment can all lead to disengaged employees.

"Research" based on impressions rather than facts can lead to the wrong conclusions. For example, employers may assume that many employees are "abusers." In fact, abusers typically represent only about 5 percent of a workforce, and the remaining 95 percent are absent for good reasons — but those reasons may not be related to illness. (See Figure 2 on page 39.)

The most common reasons are child care, eldercare (expect that to become an even larger factor), disabled dependents, chronic medical conditions that aren't being properly controlled, legal events (e.g., selling a home), and poor relationships between employees and supervisors.

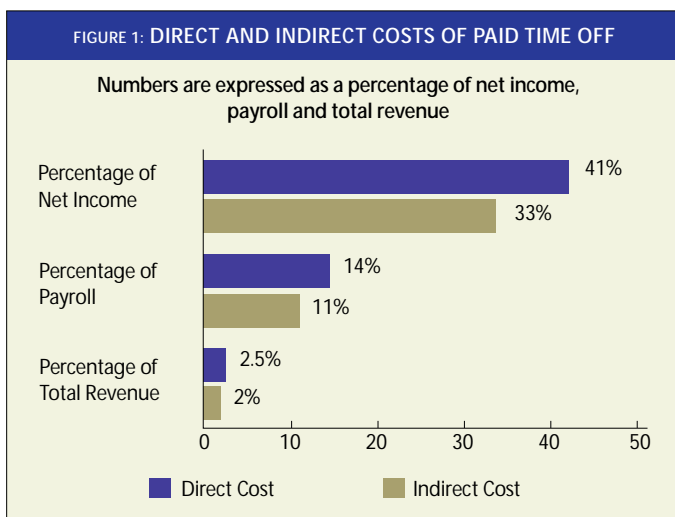
Benchmarking

Along with taking stock of the situation in a general way, employers need to gather benchmark data to gain essential perspective on how their programs stack up on a relative basis. Benchmark data is especially valuable for employers in industries in which competition for skilled employees is tight and/or in areas in which a handful of large employers dominate the employment landscape.

Benchmarking helps ensure that a time off management program is competitive. In areas or industries in which formal PTO programs are common, workers may be aware of these programs and, in some cases, may already be asking for them.

Benchmark data also can be used to ensure that the employer is not at a cost disadvantage. For example, an overly generous PTO program may add too much to the cost of goods and services to be competitive.

If an employer decides to introduce or modify a time off management



Source: Integrated Benefits Institute's preliminary data from the 2003 Full Cost Study presented at the Disability Management Employer Coalition's 2003 annual conference. Reprinted with permission.

What Is Absence Management?

Absence management is an umbrella approach for empowering employees to manage their own time away from work. (See Figure 3 on page 40.) It encompasses two core programs:

- **Paid Time Off Programs (PTO)**
Formal, consolidated programs, such as pooled vacation and sick days, and various other paid time off options (e.g., personal days and floating holidays) into one program using a paid leave “bank.”
- **Integrated Disability Management**
These programs break down the imaginary barrier between occupational and nonoccupational disability coverage and health care delivery by combining wellness/disease management, short-term disability coverage, long-term disability coverage and workers’ compensation coverage into one program.

Under the absence management umbrella, an absence manager — the single point of entry to assistance — captures the necessary information for each type of absence so the employee does not need to fill out multiple forms.

Absence management coordinates and consolidates administrative services. Technology systems can be linked to improve data collection, which can help monitor the program’s success and measure treatment outcomes.

Also, absence management coordinates with other programs and aspects of employment that affect time off, including work-life programs, performance management, intangible factors, such as employee morale and existing programs that help reduce absenteeism (e.g., wellness programs, ergonomic programs to prevent workplace injuries, disease management programs, high-risk patient care management programs and employee assistance programs).

program, benchmark data can provide context for the change when it is introduced to employees. Comparisons to appropriate norms also can provide valuable insights. But be careful: Striving to achieve norms or even best practices for another organization will not necessarily support specific organizational or HR objectives, and sometimes can be detrimental. For example, reacting to a competitor by implementing a similar PTO program can result in significant gaps in coverage if the needs of disabled employees are not appropriately recognized.

Desired State

It’s one thing to simply know where you stand. It’s another matter entirely to make the kind of progress needed to bring costs in line and to effect other benefits of a successful time off management strategy. It is necessary to define the “desired state” through a series of steps that include setting overall goals, obtaining senior management support, connecting absenteeism to operations and developing a broad action plan.

Designing the Plan

Depending on individual circumstances, employers may want to incorporate some innovative features into an absence management program:

- **Bonus Programs.** For example, a lottery with a significant prize (e.g., \$2,000 or an all-expenses paid vacation) could be set up for employees with perfect attendance.
- **Buy/Sell Days.** When staff is short or employees need cash, allowing employees to sell days can effectively improve the size of the workforce.
- **Sick Leave Conversion.** Certain tax-exempt employers may be able to convert unused sick leave into a qualified retirement plan or use it to fund a retiree health account. This can

provide an incentive for employees to not use all of the accrued time in their PTO accounts and help employees fund their retirement.

- **Work-Life Elements.** The PTO component of an absence management program can be integrated with the employer’s work-life strategy to build morale.

Employers should clarify when various programs pay benefits. For example, if an employee must take time off for a surgical procedure, will the employer require that he or she exhaust remaining vacation days before using short-term disability leave? How will that leave coordinate with unpaid leave under the Family and Medical Leave Act (FMLA)? State laws also must be considered.

Employers in certain industries often have experienced significant abuse due to the way they have traditionally structured their programs. For example, health care, education and law firms tend to allow employees to carry over unused sick leave from one year to the next. As significant amounts accumulate, even the best employees use sick leave days for unscheduled vacation and the employer accumulates a significant liability on its books. In some industries, these unscheduled absences can shut down all productivity (manufacturing) or cost lives (health care).

FIGURE 2: REASONS FOR UNSCHEDULED ABSENCES REPORTED BY EMPLOYERS

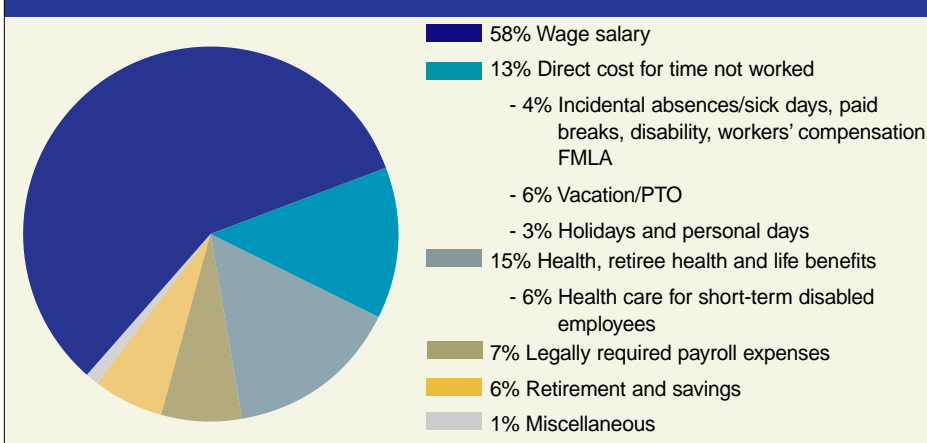
Personal Illness	36%
Family Issues	22%
Personal Needs*	18%
“Entitlement Mentality”**	13%
Stress	11%

* Personal needs include financial commitments.

** This is defined as the perception of employees that they deserve to take the maximum paid time off that is available, even if they are not ill.

Source: © 2003 by CCH Inc. All Rights Reserved. Reprinted with permission from 2003 CCH *Unscheduled Absence Survey*.

FIGURE 3: PROGRAM COSTS AS COMPONENT OF COMPENSATION



Source: The Segal Co., (c) 2004. Chamber of Commerce: 2003 Employee Benefits Study, Table 1: Employee Benefits All Industries: Integrated Benefits Institute, Feb., 2001

Other pitfalls to avoid are designs that discourage employees from taking vacation, which is important for maintaining productivity and avoiding burnout, or that give employees an incentive to come to work when, for example, health conditions indicate they should be absent.

When organizations merge, the benefits department sometimes consolidates disability benefits, potentially failing to recognize the role the sick leave program may have played in providing security for those who are disabled. When the employer addresses the sick leave program, it becomes a much larger challenge because sick leave may have been viewed as an entitlement to be used for any “emergency” situations requiring absence from work.

Important legal considerations include mandatory holidays, FMLA, the military leave requirements under the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), the Americans with Disabilities Act (ADA) and privacy legislation.

Testing a new program with employees and managers before its introduction can highlight adjustments that could help increase acceptance and utilization. Holding focus groups representative of the workforce’s demographics can be especially revealing. A welcome side

benefit of this tends to be powerful word-of-mouth advance promotion.

Success Factors

Regardless of the number of elements an employer implements, many factors contribute to the success of a time off program. Employee communication is at the top of the list. Unless the PTO aspect of the program is explained well — including the reasons for the change, the decision-making process, the purpose of the various programs and how the programs will benefit employees — and promoted enthusiastically, employees may perceive it as a “take away.”

Moreover, because an individual’s attitude on disability leave may be the single most important factor in determining both the reaction of co-workers and the person’s ability to make a successful return to work, communication can make a real difference.

Beyond communication issues, employers need to establish a clear vision of what their service providers must do, and work collaboratively with them to realize the vision. For example, when workers’ compensation and disability case managers communicate and work together, they can send consistent messages to disabled employees about returning to work. Establishing financial incentives, with both upside and downside potential for

good or bad performance, can ensure that providers act as partners.

The employer also should keep close tabs on how the program is progressing by designing systems to gather information on an ongoing basis and creating a schedule for reviewing the data to determine whether the initiative has been cost-neutral, has yielded savings or raised costs. This is important because, occasionally, absence management programs fail to meet their goals, but can be modified to achieve them. Such success is possible in several areas, including:

- Managing expenses associated with employees out for unscheduled absences and disability leave
- Streamlining administration
- Simplifying employee communications
- Improving reporting and management capabilities
- Increasing employee satisfaction and morale
- Raising productivity and, ultimately, service and/or profitability.

Employers that invest time in assessing the current state of their absence management efforts, defining the desired state, implementing an integrated program approach and conducting ongoing monitoring can enjoy that success. 

ABOUT THE AUTHORS

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FOOTNOTES

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