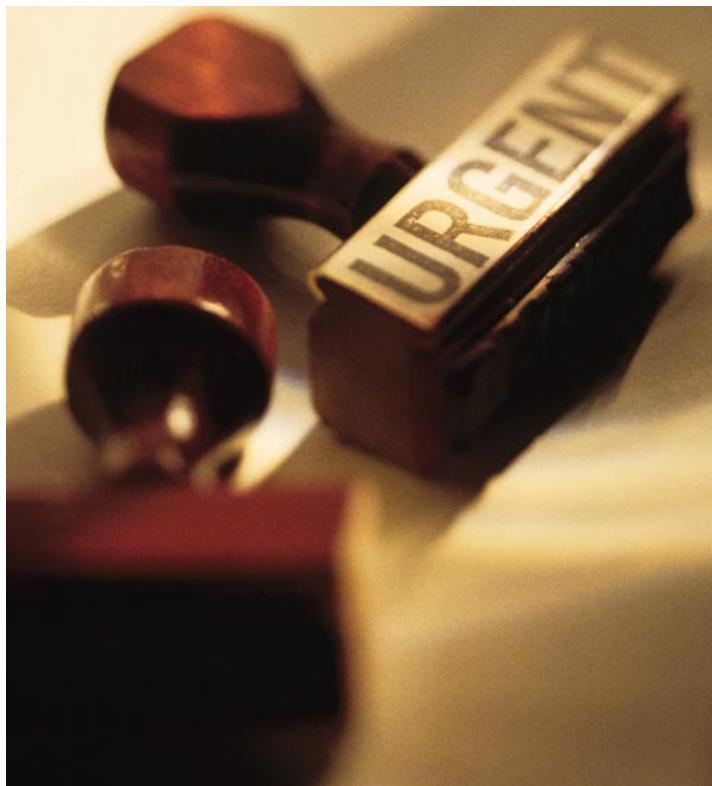


# **The Business Value of Health**

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**Linking CFOs to Health and Productivity**



**Research by the  
Integrated Benefits Institute**

**May 2006**



## Executive Summary

Chief financial officers know, in nearly equal measure, that ill health has an important effect on workers' absence, on their ability to focus on the job and on the corporate bottom line. In fact, the management of *all* health-related costs (e.g., medical, absence, disability) is the second-ranked healthcare management objective for CFOs over the next two years, trailing only the need to control health plan costs.

This survey of 343 senior finance executives also found, however, that CFOs seldom get information on the financial impact of absence or presenteeism (the effect of health conditions on performance at work). Such information, put in the business context that CFOs respect, would affect CFOs' willingness to approve interventions in health-related productivity. Armed with the right information, two-thirds or more of the CFOs would consider absenteeism and presenteeism costs against the cost of healthcare programs and would take steps to reduce absence and presenteeism and more closely manage all health-related costs.

Survey results encourage employers to track and monetize absence and presenteeism effects, make the CFO a strategic business partner in health-related productivity interventions, and find and align the right internal and supplier partners who believe in health as a productivity investment and in making relevant data part of that focus.

The Integrated Benefits Institute (IBI) and CFO Research Services, a unit of CFO Publishing Corp., collaborated to design the survey. CFO Research Services administered the survey via the Web, and IBI performed the analysis. Participation by CFO Research Services was funded by Novartis, a worldwide research-based healthcare company and a member of IBI's Board of Directors, through Novartis' Employer Business Unit.

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The **Integrated Benefits Institute** is a national, nonprofit organization directed and supported by its members, including employers, consultants, insurers, healthcare providers, disease management firms, third-party administrators, pharmaceutical companies, behavioral health providers and others having an interest in integrating health and productivity. To best serve the needs of employers and employees, IBI identifies and analyzes health and productivity issues as they cut across traditional health-related benefits programs. IBI provides research, an integrated health and productivity educational forum, and benefits-measurement and benchmarking tools to monitor benefits down and across programs and up to business impacts.

**Novartis** is a worldwide, research-based healthcare company and, through its Employer Business Unit, is a member of IBI's Board of Directors.

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# The Business Value of Health

## Linking CFOs to Health and Productivity

### Principal Findings

- **Nearly all CFOs will focus on controlling health plan costs over the next two years. A majority, however, will also seek to manage all health-related costs, including absence, presenteeism<sup>1</sup> and bottom-line effects as key impacts of employee ill health.** A solid majority also agrees that the costs of ill health cannot be shifted away to employees or third parties.
- **Finance executives believe that work time lost to employee illness is reaching critical levels and is affecting business performance.** Nearly half the CFOs in this survey estimate that their companies are *at or above* this critical point in lost work time from absence and presenteeism; that is, it is having a meaningful impact on their companies' business performance.
- **CFOs are ill-informed about health-related lost work time.** Nearly half of survey respondents, however, never receive reports about the incidence of absence, and less than a quarter receive reports on its financial impact. Far fewer know about presenteeism: nine in 10 never receive reports on the incidence or impact of presenteeism in the organization.
- **“Flexible human-capital” responses are preferred to losing revenue as a strategy for managing lost work time.** Almost nine in 10 CFOs prefer using overtime, and six in 10 view temporary help as a way to manage potential productivity losses when employees are ill or injured. Still, almost four in 10 allow work to go undone and deadlines to be missed when employees lose work time—two strategies that may result in diminished revenue and loss of customer goodwill.
- **The financial effects of health-related lost productivity can be quantified based on the company’s response to lost work time.** Eight in 10 CFOs would use overtime pay and the costs of temporary help to quantify the financial impact of absence, while seven in 10 would use wage-replacement costs. Six in 10 CFOs identify lost revenue and general “opportunity costs” as useful business measures.

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<sup>1</sup> Health-related *absenteeism* occurs when employees miss work due to injury or illness. Health-related *presenteeism* occurs when employees have health conditions that prevent them from functioning at full capacity while at work.

## Background

In the news almost daily, we hear how businesses are struggling with rising healthcare costs. Perceived solutions typically focus on shifting costs to employees or reducing healthcare coverage. The healthcare cost burden is evident: Typically, employers track, analyze and scrutinize payments for coverage. As this expense rises, alarms go off and senior management tasks financial teams and benefits managers to develop ways to rein in the payout.

But what if, instead, employers assessed the *value* of healthcare to the business?

Employers likely would look at the problem and accordant solutions very differently and would recognize the effects that cost-shifting and reduced coverage have on bottom-line business results. In short, they would recognize the *business value of health*.

In our new survey of chief financial officers, IBI finds their recognition of the value of health for productive work but also identifies a serious gap in the availability of information upon which to act and an unclear sense of ways to manage and reduce health-related lost productivity.

In 2005, IBI and *CFO* magazine's research group surveyed 343 senior finance executives<sup>2</sup> about their perspectives on investing in the health and productivity of their workforces.

This new survey addresses several questions:

- How broadly do CFOs define the impact of employee ill health on their businesses?
- How would CFOs measure that impact, and how do those metrics relate to quantifying health-related lost productivity?
- Do CFOs currently have the information available to them to understand and manage the full impact of ill health?
- If they had such information, how would they change their decision-making about benefits programs?

What if employers assessed the value of healthcare outcomes to the business instead of focusing almost exclusively on its cost burden?

<sup>2</sup> Survey participants: 343 senior finance executives participated in this research. See **Appendix 1** for detailed demographics. About a quarter of their companies have fewer than 500 employees, while 46% are mid-sized (500 to 4,999 employees) and almost 30% are large employers (more than 4,999 employees). Nearly one-third are in the service sector (32%), a quarter in manufacturing (25%) followed by wholesale/retail trade (18%) and information/telecommunications (11%). For three-quarters of the participants, less than 10% of their workforce is unionized, and for almost half the employers, 50% or more of their employees are white-collar workers.

# Investing in Health

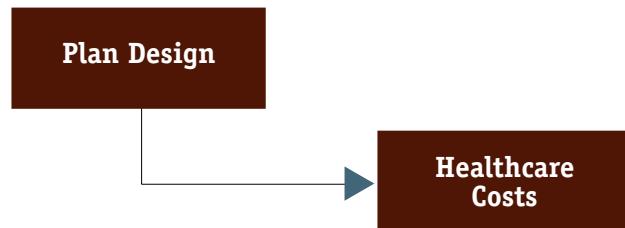
Across the country, cost control has always been the focus of employers' health benefits management strategy. National statistics, however, lead us to conclude that it has yielded little success: Healthcare costs now equal about \$1.7 trillion, or 15.3% of gross domestic product. Federal projections indicate a continued rise, although perhaps at a slower rate than over the past four years.

Because of the cost-control focus, when healthcare is the subject of discussion at national conferences or in boardrooms, it is accompanied by much handwringing. But perhaps we should pose a different question and look at healthcare through a different lens. What CEO would look at steadily rising *investments* in the business and judge them, without question, to be a disaster? Or, what CFO would evaluate a return on investment solely in the framework of reduced operating expense?

Yet that's exactly what we do with healthcare. We know how much we pay but don't know what outcomes we get. How differently would we view our healthcare costs if the result were the healthiest and most productive workforce in the world?

Plan design, focused on driving down costs and utilization, has been the singular lever of change for 20 years. We have seen changes from indemnity plans to managed care; full employer premium payments to employee cost-sharing; increasing co-pays

## The Traditional Model of Controlling Healthcare Costs



and deductibles; single-tier pharmacy to multiple tiers; and the more recent introduction of consumer-directed health plans including health savings accounts and high-deductible health plans. The goal has been to reduce expenditures, often by making the consumer more price sensitive, with little or no attention paid to quantifying health status and its relationship to lost productivity and bottom-line business results. This report outlines a broader framework for assessing the business value of health, guided by attitudes of CFOs.

Plan design, focused on driving down healthcare costs and utilization, has been the singular lever of change for 20 years. CFO attitudes suggest a broader framework for assessing the business value of health.

## Concerns About Healthcare Costs

We first asked CFOs about their level of concern over rising healthcare costs. More than six in 10 respondents report that rising health-care costs are one of their top issues or are very important to the company. Certainly, given the current climate of concern over rising healthcare costs, this is not surprising. We investigated whether various employer characteristics might explain levels

of concern about healthcare costs: employer size, industry, workforce demographics and recent profitability growth.

Employers with an older workforce, higher levels of unionization and lower profitability tend to be more concerned about rising healthcare costs. It is likely that employers with older workforces experience the cost burden more acutely as the health status of their employees declines. The incidence of

chronic conditions such as high blood pressure, arthritis and high cholesterol increases with age, directly influencing the higher medical costs that older employees incur compared with younger employees.<sup>3</sup> Employers with a larger share of unionized employees may offer more-generous healthcare coverage and thus feel the financial pinch more than companies with lower levels of unionization. Finally, it is not surprising that companies with poorer financial performance are more concerned about rising costs. This financial-performance finding persists regardless of employer size, industry or workforce demographics.

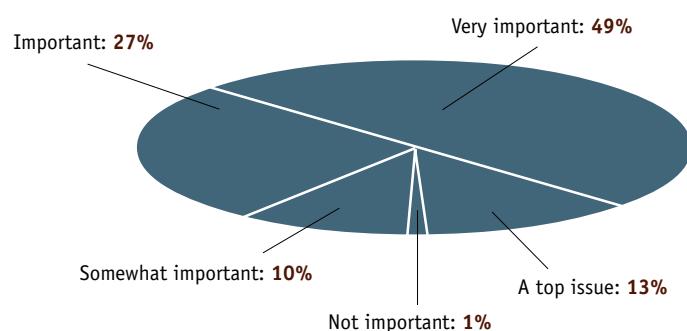
## Healthcare Management Priorities

We also asked CFOs to rank their top three healthcare management priorities for the next two years among the following seven objectives:

- Control cost of health plans for your company
- Manage all health-related costs (medical, absence, disability, etc.)
- Expand health plan benefits to more employees
- Improve benefits for employees already covered
- Quantify the impact of healthcare (e.g., prevention, treatment and management) on health-related productivity improvement
- Shift more healthcare costs to the employees
- Improve health of workforce

Not surprisingly, and consistent with CFO concern about rising healthcare costs, controlling health plan cost has a priority score

## CFOs' Level of Concern About Rising Healthcare Costs



of 2.75, the highest assigned and representing a top-three priority for more than eight in 10 CFOs. (We created a weighted score where 3 represents the highest priority level.) But second—and statistically distinguishable from the rest—is the goal of managing *all* health-related costs, including absence and disability. More than six in 10 CFOs prioritized this goal, with an average score of 2.03.

It is perhaps surprising that we see no statistical difference among the rankings of the five other objectives. Perhaps CFOs don't see the direct tie to their primary interest: managing health-related costs.

We also tested whether employer factors explain the ranking of these two top healthcare management goals—controlling health plan costs and managing all health-related costs—by examining the following characteristics: employer size, industry, workforce demographics, recent profitability growth and opinions about health-related investments.

Larger employers are more likely to rank controlling health plan costs and managing *all* health-related costs much higher compared

<sup>3</sup> S. R. Collins, K. Davis, C. Schoen, M. M. Doty and J. L. Kriss, *Health Coverage for Aging Baby Boomers: Findings from the Commonwealth Fund Survey of Older Adults*, The Commonwealth Fund, January 2006. <[www.cmwf.org/usr\\_doc/884\\_Collins\\_hlt\\_coverage\\_aging\\_baby\\_boomers.pdf](http://www.cmwf.org/usr_doc/884_Collins_hlt_coverage_aging_baby_boomers.pdf)>

with smaller employers. Perhaps large employers are more inclined to control or manage overall health-related costs based on the sheer volume of the expense. Additionally, prior IBI research shows that larger employers are also more sophisticated, have greater market leverage and use consultation to a greater extent than smaller employers.

Employers in the utility sector are less likely to prioritize controlling health plan costs compared with other industries. Many utilities are regulated publicly and may be less sensitive to price competition and more able to pass on costs to consumers.

In addition, CFOs who agree that shifting healthcare costs to employees will ultimately have a negative effect on employee health, absences, productivity and overall medical costs are less likely to list controlling health plan costs as a top priority. Similarly, CFOs who consider the impact of health-related programs on health-related absences when evaluating the business impact of those programs are more likely to list manage *all* health-related costs as a top priority. These CFOs understand that the full costs of health-related investments and the associated impacts must be considered to assess the true value to the business of employee health.

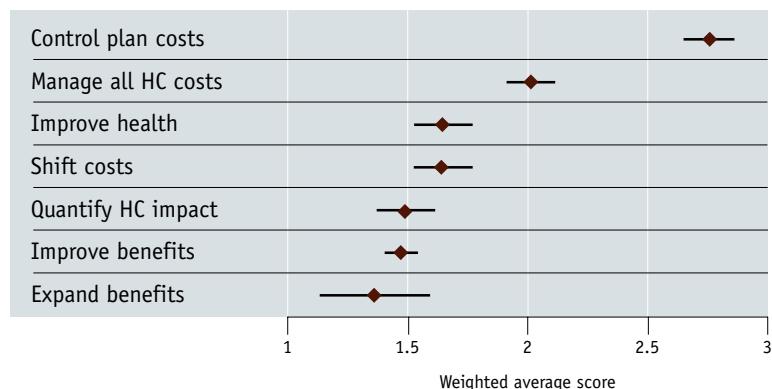
## Perspectives on Health Investment

On the whole, the CFOs surveyed recognize the importance of employee health for business results. We asked respondents to rate the extent to which they agreed with the following three perspectives on investments in employee health:

- The costs of ill health can be shifted away from your company to insurance carriers or employees.

## CFOs' Healthcare Management Objectives for the Next Two Years

◆ = Weighted average score  
 — = Confidence interval<sup>4</sup>



While companies are highly focused on controlling health plan or all health-related costs as a top business priority, we also wanted to know their perspectives on *investments* in employee health. If CFOs recognize that healthcare spending has consequences for both employee health and business results, they will focus on maximizing the outcomes and the return on their health-related investments and not simply minimizing health plan costs.

<sup>4</sup> The diamonds indicate the weighted average score. The lines represent the confidence interval—a measure of the variation in the response—around the score. When these lines overlap from one score to another, there is no statistical difference in the mean or the average.

- Shifting healthcare costs to employees will ultimately have a negative effect on employee health, absence, productivity and overall medical costs.
- Further investments in medical and prescription benefits programs will improve workers' health, reduce absence and boost productivity.

Nearly six in 10 CFOs disagree that the costs of ill health can be shifted away to insurers or employees. Almost four in 10 believe that

shifting healthcare costs will harm employee health, absence, productivity and overall medical costs.

Just over three in 10 CFOs believe that more investment in medical and prescription benefits will improve employee health, absence and productivity, and almost 40% aren't sure. This represents a challenge to benefits and human resource managers to demonstrate the effectiveness of medical interventions in achieving improved productivity.

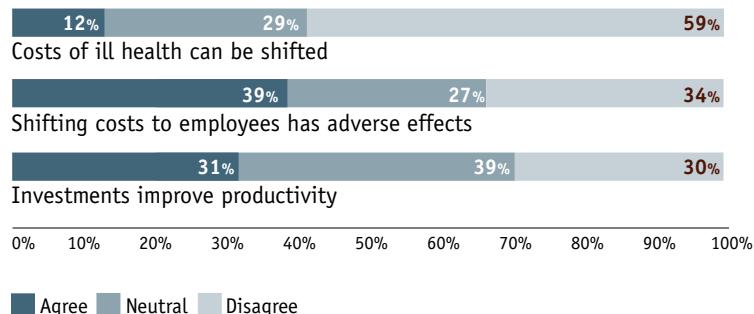
CFOs demonstrate a gap between the belief that costs cannot be shifted (59%) and understanding the negative health-related business implications that may result when costs are shifted (39%). This 20% gap may come because some CFOs think of offering competitive health-related benefits solely as a means of employee attraction and retention—and as demonstrated above, less so to improve their health and productivity. In fact, IBI's 2002 CFO study identified attraction and retention as CFOs' top workforce challenges.<sup>5</sup>

## Impact of Ill Health

A primary purpose of this research is to identify pragmatic ways to link health to business-relevant outcomes for CFOs and thus to develop a financial measure of lost productivity in an "opportunity cost" framework (i.e., the economic opportunity lost to the business from not better managing health-related lost productivity).

To create the first link of this chain, we asked CFOs about the effect of employee ill health on their business. Nearly all (96%) CFOs understand that employees in ill health drive higher medical costs, but they also understand that ill health has significant business effects beyond medical expenditures. In statistically equivalent numbers,

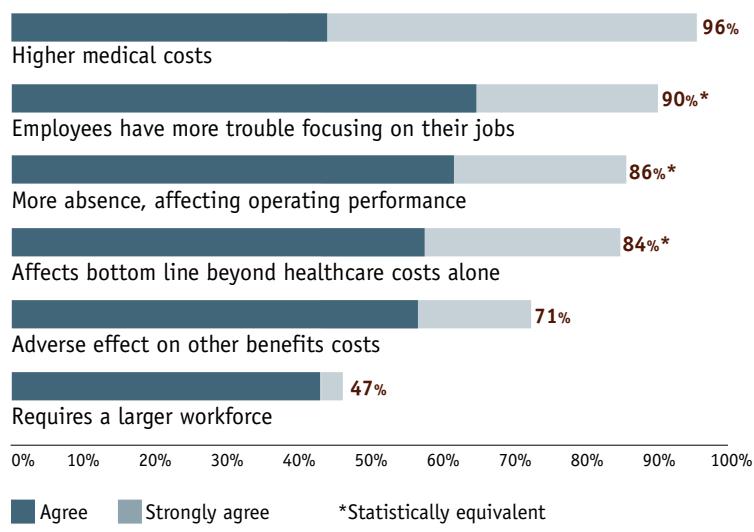
## CFOs' Perspectives on Health Investments



This suggests another educational opportunity for employers. A strong investment in employee health may well serve the dual goals of attracting and retaining employees *as well as* improving productivity through better health. CFOs who do understand the potential negative health and productivity consequences of shifting costs are much less likely to prioritize controlling health plan costs as a top objective.

<sup>5</sup> *On the Brink of Change: How CFOs View Investments in Health and Productivity*, Integrated Benefits Institute, December 2002. <[www.ibiweb.org/publications/research/33](http://www.ibiweb.org/publications/research/33)>

## CFOs' Understanding of the Impacts of Ill Health



they know that employees in ill health don't effectively focus on their jobs (the impact of presenteeism), are absent from work more often and influence the bottom line *beyond* their impact on healthcare costs alone. (Note that responses marked with an asterisk are statistically equivalent.)

They also see impacts across benefits programs—71% see an impact of ill health on other benefits programs, and about half report that they need larger workforces as

a result of ill health. Several employer factors are important in defining differences: Smaller employers are less likely to indicate that employees in ill health have an adverse effect on other benefits costs like workers' compensation and disability. Compared with the manufacturing sector, two industry groups—services and utilities—are less likely to report that employees in ill health require them to have a larger workforce to get the job done.

## CFO Roles

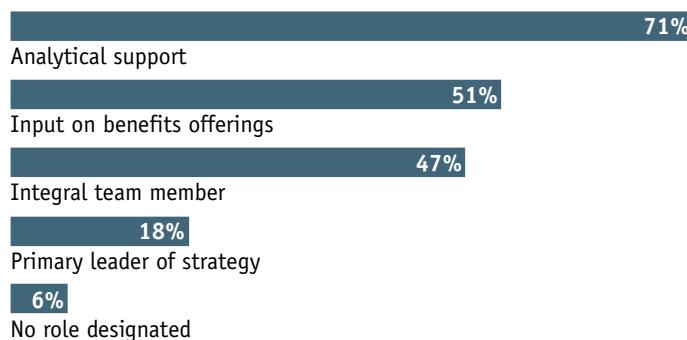
These perspectives are key because CFOs fulfill a variety of important roles in making decisions about benefits investments—their beliefs will mold the approaches they take to their benefits roles. CFOs have an enterprise-wide focus on investment decisions rather than a program-by-program focus, which can be typical of benefits managers.

We asked CFOs to identify their roles in making employee benefits decisions from among four options:

- Analytical support for decisions
- Input on benefits structure and offerings
- Integral team member when developing policies and plans
- Primary leader of benefits strategy and policy

Fewer than two in 10 are primary leaders of benefits strategy. This is consistent with our past CFO survey<sup>6</sup> in which only 29% reported the belief that benefits were key to bottom-line success. Nearly half report being an "integral" team member, and half report that they are involved in determining the structure of benefits offerings. These three roles

### CFOs' Roles in Employee Benefits Decisions



represent substantial involvement in crafting approaches, not just approving recommendations that are developed by others. About seven in 10 selected at least one of these three substantial roles. About seven in 10 also provide analytical support for decisions. Analytic support, in particular, is important as we show later in this report. CFOs' access to information necessary for strategic analysis is sorely lacking. About three-quarters of the CFOs fulfill more than one role, suggesting the importance of the senior finance executive in benefits decision-making.

<sup>6</sup> *On the Brink of Change: How CFOs View Investments in Health and Productivity*, Integrated Benefits Institute, December 2002. <[www.ibiweb.org/publications/research/33](http://www.ibiweb.org/publications/research/33)>

## Information Is Key to CFO Roles

CFOs are already inclined to believe that employee ill health has an impact on business results, and senior finance teams play key roles in making decisions about health-related benefits. When more than 70% of CFOs report that they provide analytical support for key decisions about benefits investments, benefits and risk managers would be well advised to provide them with solid data on which to make those important

analytical judgments. For CFOs to fulfill a strategic or analytic role, they must have the right information.

In the remainder of this report, we provide more detail about CFOs' knowledge of absence and presenteeism, ways their companies manage these results of ill health, the metrics they think would be best to quantify health-related lost productivity, the information they currently have and how they might behave differently with better information.

## CFOs Recognize Health-related Absence and Presenteeism

A recent Commonwealth Fund study on health and productivity among U.S. workers emphasizes that those workers in ill health are often too sick to work or to function effectively while on the job.<sup>7</sup> Two-thirds of the U.S. working-age population reported missing at least one day of work in the past year due to their own or a family member's health. About one in five missed six or more days; and among those who indicated that they had health problems, almost one-third reported missing six or more workdays. Additionally, many workers show up for work when they aren't feeling well, resulting in reduced-productivity days through presenteeism impacts.

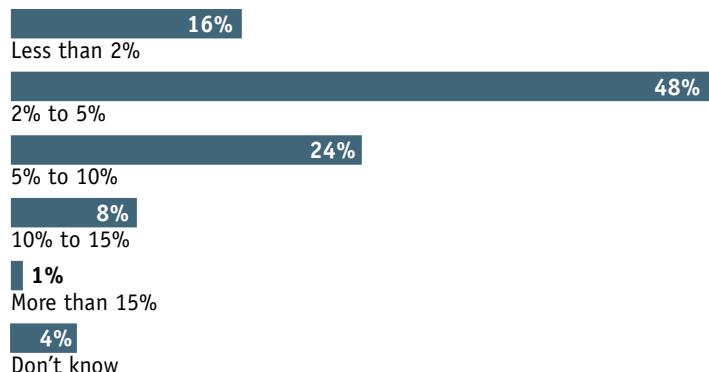
Do CFOs have access to such information on absence and presenteeism in their organizations? How do CFOs get a handle on these phenomena? We started by asking them how much health-related absence and presenteeism they believe exists at their companies.

### How Much Absence and Presenteeism?

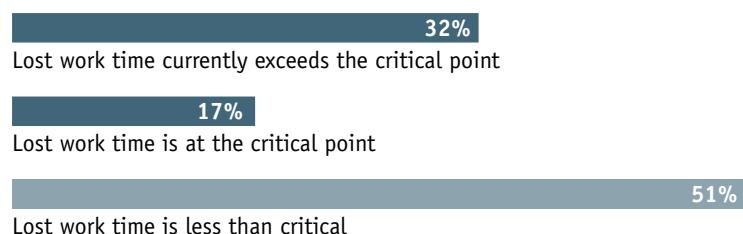
We asked CFOs to identify the percentage of person hours lost at their companies due to health-related absence and presenteeism. Few—only about one in six—think that absences account for less than 2% of all available work time. Nearly half (48%) believe that 2% to 5% of all work hours are lost due to workplace absence, while another quarter report that the figure is between 5% and 10% in their companies. Assessments of presenteeism levels are statistically equivalent to absence levels, implying that CFOs believe that reduced work time by people in ill health at work is no more important than those out of work.

We also inquired about the amount of lost work time, both from absence and presenteeism, that CFOs believe would have a *meaningful effect* on their company's business performance. Their responses are categorized as follows: the percentage of respondents whose lost work time currently exceeds this critical

### Percentage of Work Hours Lost Due to Health-related Absence



### When Lost Time Affects Business Performance



tipping point in their organizations; those whose organizations are *at* this critical point; and those whose lost work time is below that point. Nearly half of the CFOs report already being at or above their critical point in lost-work time from absence and presenteeism based on their own lost-time estimates.

<sup>7</sup> K. Davis, S. R. Collins, M. M. Doty, A. Ho and A. L. Holmgren, *Health and Productivity Among U.S. Workers*, The Commonwealth Fund, August 2005. <[www.cmwf.org/publications/publications\\_show.htm?doc\\_id=294176](http://www.cmwf.org/publications/publications_show.htm?doc_id=294176)>

We analyzed the usual battery of employer characteristics (employer size, industry, workforce demographics and recent profitability growth). The only significant factor is that less profitable companies are more likely to have lost time beyond the level they felt would have a meaningful impact on their businesses.

These less profitable companies should be especially concerned about managing their lost time to levels that are below this critical point.

It is impossible to ascribe a cause and effect to this finding. It may be that employers that are less profitable are more concerned about managing lost time so that they may become more profitable. It also may be that higher levels of lost time substantially account for their loss of profitability.

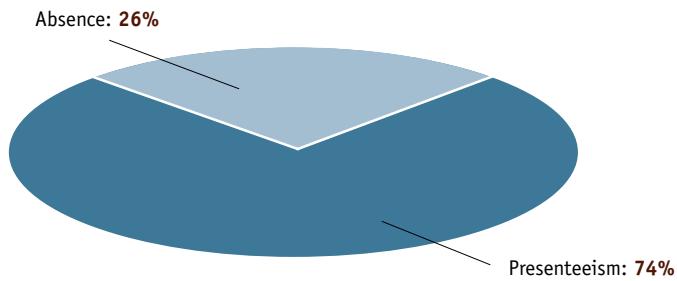
CFOs generally assessed the average level of hours lost due to absence and presenteeism as roughly the same. Other research, however, suggests that the amount of time lost due to presenteeism is significantly greater

than the CFO estimates would suggest. Presenteeism is responsible for *three times more* lost work time than absence, per the pie chart below.<sup>8</sup>

Significantly, if estimates of a far greater impact from presenteeism are correct, a much larger share of employers has already reached a critical point in their businesses. How can CFOs know whether they are at this critical point? We turn to this question next.

**Research shows that lost time from presenteeism far exceeds that from absence. This means that many more employers already are likely to have reached their critical lost-time point.**

### Health-related Lost Time: What's the Primary Source? Relative Contribution of Presenteeism and Absence<sup>8</sup>



<sup>8</sup> This exhibit shows the relative contribution of presenteeism and absence lost time from thousands of employee self-reports contained in Dr. Ronald Kessler's Health and Work Performance Questionnaire (HPQ) database. Dr. Kessler of Harvard Medical School has been working for several years with the World Health Organization to develop and implement a self-reporting tool for employees—the HPQ—dealing with health status, absence and presenteeism. Similar self-reporting tools have been validated as reliable by such researchers as Dr. Wayne Burton and Dr. Bill Bunn.

# Availability of Actionable Information

Are CFOs well-enough prepared with information on lost work time to know its impact and be prepared to take action? We find that few have the measures they need.

## Occurrence of Absence and Presenteeism

Only half of the CFOs in this survey ever receive reports on the incidence of workplace absence, and only one in 10 ever receives them on presenteeism. A much larger share of CFOs gets absence reports, either by request or on a routine basis, than they do for presenteeism. But what is most striking is that fewer than two in 10 CFOs *routinely* get reports on the occurrence of absence in their organizations, and just two in 100 get them for presenteeism.

For the occurrence of absence, there are no significant differences in receipt of such reports by employer characteristics (i.e., employer size, industry, workforce demographics and recent profitability growth). As employer size increases, however, CFOs are less likely to receive reports on presenteeism, presumably because the smaller employers may have a better opportunity to get a handle on staff-related health issues. Those companies with greater unionization are also more likely to receive reports on presenteeism. It could be that rules and regulations regarding the management of employees in ill health are better defined in more-unionized companies, thus prompting greater attention to careful reporting and handling of employees who are ill or injured whether at or away from work.

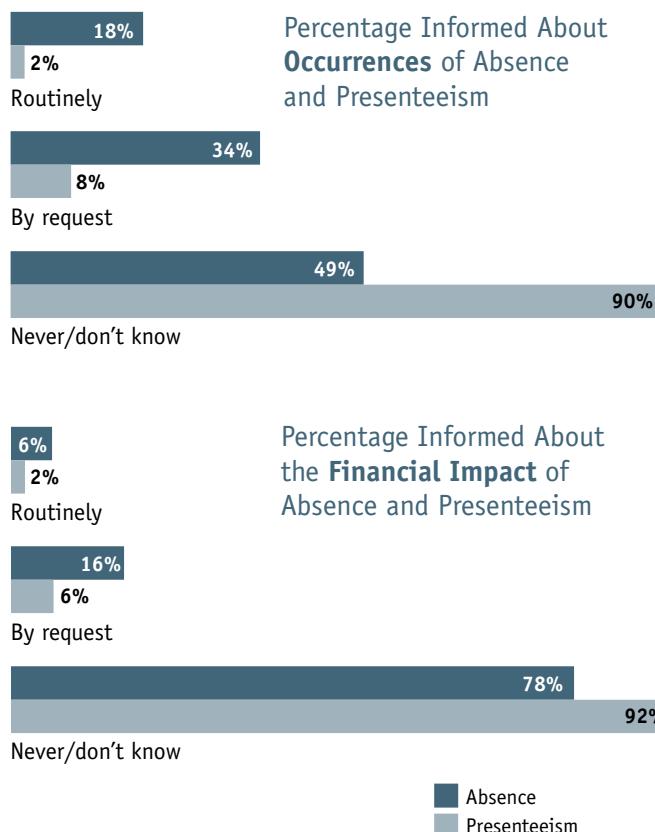
## Impact of Absence and Presenteeism

As to the financial impact of these sources of health-related lost time, it is even rarer for CFOs to get reports. Only 22% ever receive financial impact reports on absence,

and 8% ever receive such reports about presenteeism. For the two most tangible business effects of ill health—absence and presenteeism—CFOs are left pretty much in the dark. Yet you can be sure they receive reports on the cost of medical care.

CFOs generally don't know about the tangible effects of ill health beyond healthcare costs. When CFOs do not have information on the financial impact of ill health, they are hard-pressed to link employee health to business impacts. This is a key step in quantifying the

## Are CFOs Being Informed?



opportunity costs of ill health and developing estimates of lost productivity in a financial model.

Not surprisingly, when testing the employer characteristics, companies with more white-collar workers are less likely to receive reports on the impact of absence and presenteeism, perhaps because white-collar

workers are exempt from eight-hour-day and overtime requirements, so that information simply isn't relevant to their compensation. Those with greater levels of unionization are more likely to receive reports on the impact of presenteeism. Other factors are not statistically significant.

**CFOs generally don't know about the tangible effects of ill health beyond health-care costs. When CFOs don't have information on the financial impact of ill health, they are hard-pressed to link employee health to business impacts.**

# Responses to Absence and Presenteeism

CFOs unmistakably believe that ill health has a meaningful impact on business results through lost time. However, they are ill informed about the degree or impact of absence and presenteeism in their organizations. Despite this lack of information, companies still must contend with health-related absence and presenteeism in their workforces. When we know how companies respond to lost work time, we can begin to monetize the impact of ill health in pragmatic ways.

We asked CFOs how likely their companies are to manage the impact of absence (or presenteeism) with five practices:

- Increase use of overtime
- Hire temporary workers
- Hire a larger permanent staff in anticipation of absenteeism (or presenteeism)
- Allow work to go undone
- Allow deadlines to be missed

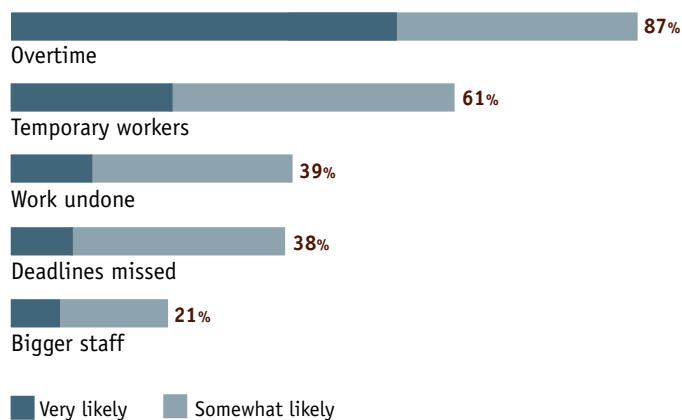
Almost nine in 10 companies are very or somewhat likely to respond to absence by increasing their use of overtime, while six in 10 rely on temporary workers to maintain workflow. Almost four in 10 allow work to go undone or miss deadlines when absence occurs. These findings suggest that employers are more likely to find ways to maintain their productive process through flexible human-capital responses (such as overtime and temporary help) than they are to suffer the higher costs of losing revenue through more-passive management strategies of work left undone or missed deadlines.

For managing the impact of presenteeism, we find the same order of responses but different and lower proportions for each: overtime (73%), temporary workers (38%), missed deadlines (33%), work undone (32%) and bigger staff (17%). It may be that the impacts of presenteeism are harder for employers to discern. In fact, as we saw earlier in this report, most employers do not have instruments in place to measure

presenteeism. Because presenteeism so often goes unmeasured, and therefore undetected, the passive management strategies of missing deadlines and allowing work to go undone could actually be more prevalent and result in larger business impacts than realized.

We also tested the degree to which employer factors explained the use of different strategies to manage absence and presenteeism by examining the following: employer size, industry, workforce demographics and recent profitability growth. We were particularly interested in whether there were differences in those employers that used flexible human-capital responses compared with those that allowed work to go undone or deadlines to be missed, two strategies that could result in lost revenue and poor-quality products and services.

## How Do Companies Respond to Absence?



## Flexible Human-capital Responses

Several employer factors are related to the use of flexible human-capital responses:

- Employer size is not a significant factor for any of the management strategies with one exception: Small employers are more likely to hire temporary workers to deal with both absence and presenteeism than are large employers. This is a rational approach for small employers that don't have enough workers to rely on their putting in much overtime or to bear the financial burden of overstaffing. Small employers also may not have enough health-related lost time to justify hiring additional full-time workers.
- In managing absence, companies with a larger share of males tend to use overtime more often and temporary workers less often than companies with a smaller share. The ability to adjust schedules and work more overtime hours may be more feasible for male workers than female. Less time flexibility on the part of female workers could account for a greater use of temporary workers as well.
- Those with greater levels of unionization also use temporary workers to a greater extent when absence occurs.
- Companies with more white-collar workers tend not to use overtime to manage absence.
- Across industry groups, only four sectors—sales/distribution, services, information/communications and “other”<sup>9</sup>—are statistically different in how they manage absence and/or presenteeism:
  - > Employers from the sales/distribution sector tend not to use overtime to handle the impact of absence and are

less likely to use temporary workers to deal with lost time due to absence and presenteeism.

- > The services sector relies less on overtime to deal with absence but tends to hire a bigger staff in anticipation of both absence and presenteeism, and this is true even after controlling for part-time staffing.
- > The information/communications sector is less likely to use overtime to manage absence and less likely to hire temporary workers to cope with presenteeism. Highly skilled labor, typical of the information sector, is difficult to replace on a temporary basis, and jobs are often not interchangeable, thus restricting the ability of other workers to cover lost hours of ill employees through overtime.

## Allowing Delays/Deficiencies

Two employer factors are related to the passive management strategies of allowing work to go undone and deadlines to be missed:

- Companies with older workforces have a tendency to allow work to go undone when absence occurs, a robust finding after controlling for all other workforce demographics (gender, unionization level, white-collar status and part-time percentage), employer size, industry and profitability. Certainly, age and experience are highly correlated, and companies may have difficulty finding replacement workers to cover older, and possibly highly experienced, employees' job responsibilities.
- “Other” industry groups (agriculture, construction, government, mining and nonprofit organizations) allow work to go

<sup>9</sup> Sales/distribution sector includes food/beverages/consumer packaged goods and wholesale/retail distribution. Service sector includes business/professional services, entertainment/travel/leisure and other services. Information/communications sector includes information management products/services and telecommunications. “Other” sector includes agriculture, construction, government, mining and nonprofit organizations.

undone when handling absence and presenteeism and hire a bigger staff in anticipation of presenteeism.

### **Relationship to Profitability**

Companies with profitable growth over the past three years are less likely to use overtime, allow work to go undone or allow deadlines to be missed when dealing with absence. After controlling for employer size,

industry and workforce demographics, we find this strong relationship between profitability and ways of managing lost time. Though companies showing profitability growth are no more likely to use active management strategies than other companies, they are significantly less likely to use passive management strategies. This finding suggests that companies that use passive management strategies to handle the impact of lost time are less profitable.

# Measures That Link Health to Productivity

To assess the impact of health-related absence and presenteeism on business results, CFOs need to be able to measure and monetize lost time in business terms. We asked CFOs how they'd like the costs of absence and presenteeism translated so they can best be understood and used to manage absence and presenteeism at their companies. We were interested in the extent to which CFOs are inclined to use tangible measures of health-related lost time and its impact on lost productivity. By doing so, CFOs will have a fuller view of the impact of health on business results.

Specifically, we asked CFOs to rate how useful<sup>10</sup> the following indicators would be:

- The amount of wage-replacement payments (e.g., sick leave and disability) paid to employees
- The cost of additional permanent employees for replacement purposes
- The cost of additional temporary employees
- The cost of overtime required to make up for lost work time
- The lost revenue resulting from production shortfalls
- The cost of quality lapses due to missing or ill employees
- The cost of additional management effort to find and manage additional workers
- The wages and benefits of absent workers (as a proxy for their economic value to the company)
- The opportunity cost of absent employees in addition to paid benefits

In addition, we asked about the same indicators for presenteeism with the exception of two items specific to absence: wage-replacement payments, and wages and benefits of absent workers.

The most useful indicator for CFOs to quantify and manage absenteeism is "cost of

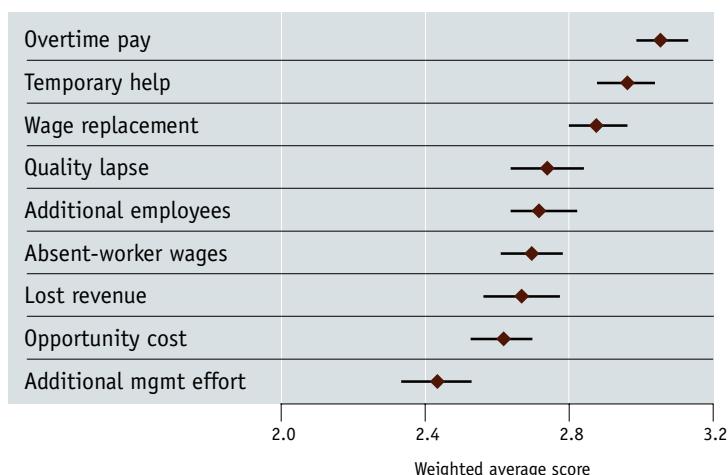
overtime required to make up for lost work time" followed by the cost of temporary help, with an average usefulness rating of 3.05 and 2.96, respectively. About eight in 10 CFOs prefer using these metrics to quantify the impact of absence, while seven in 10 prefer wage-replacement costs with an average rating of 2.88. CFOs preferred the more impact-oriented metrics—lost revenue and opportunity cost—by roughly six in 10 respondents.

CFOs recognize that the "cost" of absence goes beyond how much absent employees are paid in wage replacement or in the traditional metric—lost work days—but includes both human-capital replacement

<sup>10</sup> Usefulness is measured on a 1-to-4 scale where 1 indicates *not useful* and 4 indicates *very useful*. The diamonds in the chart below indicate the average rating, while the lines represent the confidence interval—a measure of the variation in the response—around the average rating. When these lines overlap from one score to another, there is no statistical difference in the mean or the average.

## Usefulness of Indicators in Quantifying Absence Impact

◆ = Weighted average score  
— = Confidence interval



responses and broader impacts on their businesses. CFOs prefer roughly the same metrics for quantifying the impact of presenteeism, in the same order but with slightly lower average ratings. Perhaps this is because CFOs intuitively understand that presenteeism is a real and important

phenomenon in their organizations but find it hard to quantify.

This is encouraging because it suggests that CFOs are highly interested in ways to monetize lost time across a broad range of tangible costs to the company.

## Getting to Lost Productivity

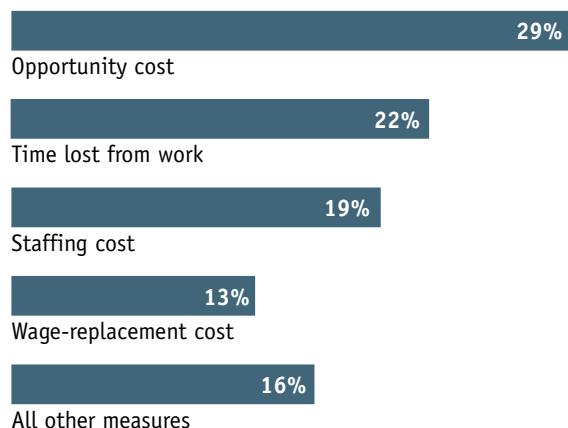
We also wanted to know if there were additional perspectives or measures that CFOs would use to assess lost productivity, so we asked an open-ended question: *In your opinion, what is the best way to quantify lost productivity due to health-related conditions of your workforce?*

The most common response is one of measuring lost productivity as an “opportunity cost” to the business, such as lost revenue or reduced net income. About 20% would use the cost of additional staffing necessary to make up for the lost time involved. This is a “bottom-line” view of opportunity cost, whereas a lost revenue focus is a “top-line” view.

Another group of CFOs simply would use time away from work as the proxy. Such an approach doesn’t monetize lost productivity, however, and therefore excludes it from those CFOs’ financial models. Finally, fewer than one in six would quantify lost productivity based only on wage replacement paid to absent workers. These approaches show a shortsighted view of lost productivity from absence and presenteeism that doesn’t appreciate the full costs of lost time from work. IBI has been using opportunity-cost measures to estimate lost productivity from health-related absence for several years as part of our benchmarking program (see details in Appendix 2).

There remains serious work to be done to achieve greater interest in and use of these impact-oriented metrics. As we demonstrate in the next section, however, CFOs show a high level of willingness to use such metrics when provided with solid information.

## CFOs’ Opinion of the Best Method for Quantifying Health-related Lost Productivity



## Taking Action with Information

If CFOs had access to information about the true costs to their business of lost time due to health-related absence and presenteeism, how might they change their actions?

We asked CFOs that if they had the quantitative information they identified as useful for quantifying and managing the costs of absence (and presenteeism), would they:

- Examine the business benefits of their healthcare plan more closely?
- Take steps to reduce absenteeism?
- Take steps to reduce presenteeism?
- Consider the cost of absenteeism and presenteeism against the cost of healthcare programs?
- Manage all health-related costs (medical, absence, disability, etc.) more closely?

Three-quarters would consider the true costs and the impacts of absence and presenteeism as seriously as they do the costs of their health plans; another three-quarters would take steps to reduce absence. Nearly that many would seek to manage *all* health-related costs, including absence and disability; and seven in 10 would examine the business impact of their health plans. Finally, nearly two-thirds would take steps to reduce presenteeism.

CFOs are telling us something very important here: They would consider information on lost time as seriously as healthcare costs when examining the business impact of health plans. With the right information, companies would make decisions about healthcare coverage and delivery very differently than they do today. Companies would be able to fully monetize the costs of health investments in ways that show the value to the business when employees are healthy and at work.

Another encouraging finding from the survey is that when CFOs currently get information

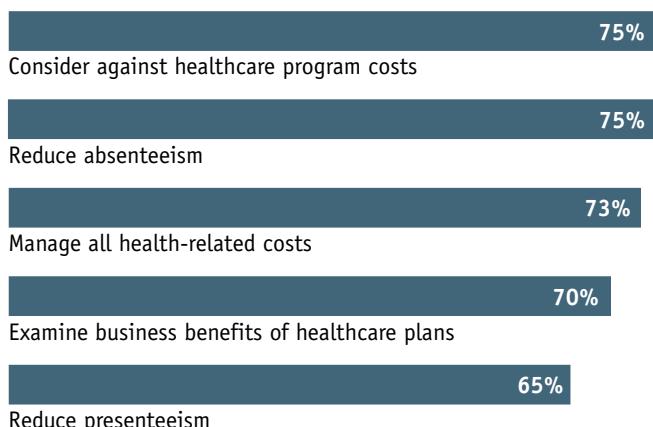
on the financial and operating impact of absence, they behave differently. They are less likely to use passive management strategies such as allowing work to go undone or deadlines to be missed. Such passive management strategies could result in quality defects, poor service and loss of revenue, potentially having serious effects on business results.

Our findings on CFOs' intentions—as well as their actual behaviors—should bolster efforts to provide CFOs with needed information on lost time and its impact, whether for absence or presenteeism. Though little information is provided today to allow companies to effectively identify and manage lost time, CFOs tell us that if provided with key information they intend to, and already do, manage lost time quite differently.

Information matters in very important ways. It is axiomatic that we can't manage what we don't measure. If employers begin to measure absence and presenteeism and their true costs and business impacts, it would be an important starting point for devising a new healthcare strategy.

**With the right information, companies would make decisions about healthcare coverage and delivery very differently than they do today.**

### If Available, How CFOs Would Use the Information



## Know and Manage Lost Time for Maximum Business Impact

We asked CFOs how best to reflect the full costs of worker ill health, absence and lost productivity in measures they would find useful. Specifically, we asked which metrics would make the total effects of health-related benefits (defined to include health promotion and disability/absence management in addition to medical treatment) most meaningful to them and their management team (as benchmarked against peers) as they examine business performance.

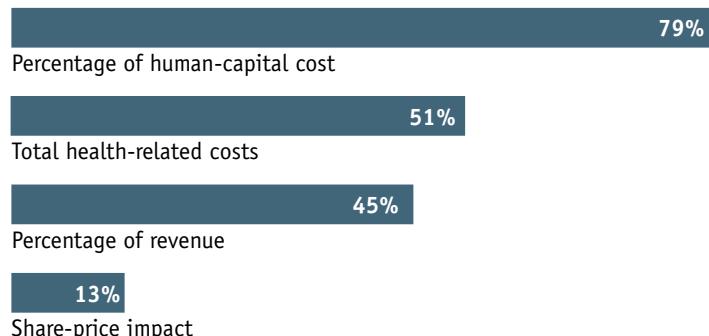
The most common metric CFOs want to compare with their peer companies is total health-related benefits costs relative to human-capital investment in the business. About half are satisfied with comparing total health-related costs, and slightly fewer have a “top-line” view, that is, relative to corporate revenue. A relative few (only 13%) want to examine these costs relative to share price.

This presents an important opportunity for benefits and risk managers to show how the impact of interventions—whether in wellness, safety, return-to-work, disease management or other areas—is relevant to their companies’ business operations. Benefits and risk managers should seize this opportunity to demonstrate how their people and programs add real value to the business—in the comparative terms that CFOs prefer.

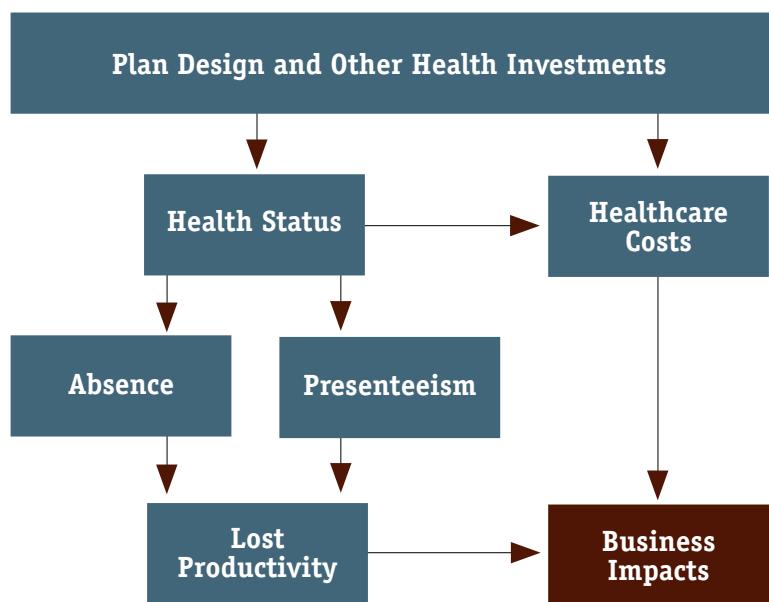
This expanded model that links workforce health investments to business results can be an important road map for companies to define the value of health and analyze health-related investments in business-relevant terms. This model represents a more complete picture of the true costs associated with lost time and the impact that health investments can have on lost productivity and the business.

Clearly, CFOs grasp the business value of health. They seek ways to quantify lost time, its contribution to lost productivity and, ultimately, its impact on the business. This

### Preferred Benchmarks to Compare Total Effects of Health-related Benefits



### The Bottom Line: The Business Impacts of Health Investments



expanded framework advances the field beyond the more limited “health plan design” focus in which healthcare costs predominate as the primary cost measure. Our survey findings suggest that CFOs understand this broader-value framework but are lacking the information and the measures they need to assess the business value of health.

By seeing the business value of health as a full model that includes health-related absence and presenteeism and their business impacts, we can more clearly understand the way that changes in health status—

and the programs that drive it—can be directly related to the business not only through resulting healthcare expenditures but also through reduced opportunity costs of lost-productivity improvements. In addition, this model can be applied to single programs—such as workers’ compensation or short-term disability—or all benefits programs as they operate together.

**Clearly, CFOs grasp the value of health. They seek ways to quantify lost time, its contribution to lost productivity and, ultimately, its impact on the business.**

## Practical Implications

This research gives several pragmatic “take-aways” for employers to consider:

- **Find the right internal and external supplier partners whose interests are in improving your business results and not limited to risk and cost-shifting.** Make data a key part of your relationship.
- **Link health status to outcomes that matter to the business.** Clinical outcomes are important, but business outcomes are what resonate with CFOs.
- **Track absence and monetize your company's response.** Absence is tangible, is readily observable by employers and has a demonstrable business impact.
- **Quantitatively evaluate presenteeism.** Presenteeism is real and large, so employers would be well advised to take steps to get their arms around it and include its management in strategic corporate responses. There are a number of well-validated self-reporting tools available.
- **Pay attention to all health-related lost time.** Avoid getting trapped into thinking that lost time for white-collar employees somehow doesn't matter because they can “make up the work.” This response ignores the value of timely performance (e.g., missing deadlines, meetings, appointments or engagements) and pretends that presenteeism isn't real, especially for chronic conditions.
- **Benefits and risk managers should make the CFO their strategic partner in improving business success through health interventions and in evaluating their full impact.** In this way, CFOs can analyze health-related investments as a value center and not a cost center. The full savings demonstrated to come from health-related investments will make their approval easier.

Here are some practical ways out of the “healthcare cost box”: Make available the right information and the right strategy, involve CFOs along with benefits and risk managers in health-related investment choices and measure the value or return on investment of those choices.

These are practical ways out of the “healthcare cost box.” Make available the right information and the right strategy, involve CFOs along with benefits and risk managers in health-related investment choices and measure the value or return on investment of those choices.

In doing so, we believe the market can effectively move from a narrow focus on healthcare costs to a more meaningful focus on increased productivity and the value returned to the business in clear, measurable terms.

## Appendix 1

### Research Design and Sample

The Integrated Benefits Institute (IBI) and CFO Research Services (a unit of CFO Publishing Corp.) collaborated to develop and field the survey of senior finance executives in August and September 2005. Novartis, a worldwide research-based pharmaceutical company and a member of IBI's Board of Directors, funded the participation of CFO Research Services through its Employer Business Unit.

The survey was administered via the Web to a representative sample of 1,052 participants in CFO Pulse, an online research panel designed to facilitate Web-based surveys and the sharing of opinions and ideas among

senior finance executives. CFO Research Services built the research panel by reaching out to the 450,000+ readers of *CFO* magazine. Only senior finance executives participate in the research panel. Management consultants, auditors, personal finance practitioners and technology vendors are not included in the research panel. A total of 343 senior finance executives responded, representing a 33% response rate.

These results were presented at the Joint Forum on Health, Productivity and Absence Management, sponsored by IBI and the National Business Group on Health, in San Diego in December 2005.

#### **Respondent Title**

CEO, president or managing director	2%
Chief financial officer	38%
EVP or SVP of finance	5%
VP of finance	13%
Director of finance	14%
Controller	22%
Other	6%

#### **Employer Size**

Less than 500	24%
500 to 999	18%
1,000 to 4,999	28%
5,000 to 9,999	12%
10,000 to 14,999	4%
15,000 to 24,999	4%
More than 25,000	10%

#### **Primary Business**

Manufacturing/chemicals/pharmaceuticals/biotechnology	25%
Business/professional services/entertainment/travel/leisure/healthcare/education	21%
Food/beverages/consumer packaged goods/wholesale or retail distribution	18%
Banking/insurance/asset management	11%
Information management products/services/telecommunications	11%
Other (agriculture/construction/government/mining/nonprofit organizations)	8%
Energy/utilities	3%
Transportation/warehousing	3%

#### **Over Age 55**

Less than 10%	30%
10% to 29%	53%
30% to 49%	14%
50% to 69%	3%
70% or above	0%

#### **Male**

Less than 10%	<1%
10% to 29%	5%
30% to 49%	28%
50% to 69%	48%
70% or above	19%

**Unionized**

Less than 10%	76%
10% to 29%	11%
30% to 49%	5%
50% to 69%	5%
70% or above	3%

**White-collar Workers**

Less than 10%	6%
10% to 29%	31%
30% to 49%	17%
50% to 69%	11%
70% or above	35%

**Part-time Workers**

Less than 10%	61%
10% to 29%	29%
30% to 49%	7%
50% to 69%	2%
70% or above	1%

**Profitability over the Past Three Years**

Profits have grown	71%
Profits have remained the same	15%
Profits have fallen	11%
Don't know	3%

## IBI Methodology for Calculating Lost Productivity from Health-related Absence

As part of IBI's annual benefits benchmarking program, lost productivity from health-related absence is measured as the "opportunity cost" to a company when employees miss work. Here, opportunity costs are the economic opportunities forgone based on how a company responds to absence.

IBI generally does not have information on how companies respond to absence by benefits program. Instead, we model a range of lost-productivity estimates based on typical employer responses to absence. The results for companies are modeled using the following different strategies:

1. **Excess-staffing Model.** If a company perfectly predicts all absences and replaces all absent workers with workers having the same skills, training and abilities, the lost-productivity estimate equals payroll and benefits load (i.e., human-capital costs) for those replacement workers. Conceptually, this is the lowest-cost strategy.

**Calculation:**

Excess staffing = human-capital cost per covered life per day x annual lost workdays

2. **Lost-revenue Model.** If workers aren't replaced and the company doesn't provide the goods and services to the market that those workers would have produced, the lost-productivity cost equals the revenue those workers could have generated for the company. The lost-revenue potential is based on IBI's model of the "leverage" of a company's workforce to generate revenue. Conceptually, this is the highest-cost strategy.

**Calculation:**

Revenue-loss potential = [(revenue/human-capital costs) x excess-staffing costs] x annual lost workdays

3. **Midpoint.** The midpoint estimate represents a company whose strategy is to replace half of the absent workers with employees already on staff and not replace half, thus losing revenue. The midpoint can be useful as a starting point and adjusted for companies new to this methodology.
4. **IBI Estimate.** IBI takes a conservative approach to estimating lost productivity, applying industry-specific multipliers to the excess-staffing model result. [Sean Nicholson, Mark V. Pauly, Daniel Polsky, Claire Sharda, Helena Szrek and Marc L. Berger, "Measuring the Effects of Workloss on Productivity with Team Production," *Health Economics*, 15: 111-123 (2006).] This point-estimate is used in IBI's benchmarking reports.

If a company knows how it responds to absence, it may choose a model described above and adjust the results as appropriate to its own practices.

The **Integrated Benefits Institute** is a national, nonprofit membership organization established in 1995. IBI's programs include research, an integrated benefits educational forum, measurement tools, and benchmarking that monitors benefits down and across individual programs and up to bottom-line business measures. To best serve the needs of employers and employees, IBI identifies and analyzes health, wellness and productivity issues as they cut across traditional workers' compensation and non-occupational lost-time benefits programs, as well as group health.

**For membership information**, please contact us through one of the channels below. IBI can provide you with invaluable information, work with you to benchmark your benefits programs and offer communication opportunities to keep you in tune with the latest changes in this rapidly evolving arena.

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