Total Impact of Absence on Your Total Cost of Risk

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How Employee Absence Can Increase Risk and Reduce Profitability

Absence – regardless of the source – is a significant risk exposure that needs to be managed. Risk managers should have a voice in discussions about quantifying and managing absence so that sound risk management principals and strategies can be applied.

Employees can be out of work for any number of reasons:

- Disability stemming from workers compensation claims,
- Short-term disability due to non-occupational injuries or illnesses,
- Leave granted under the Family Medical Leave Act (FMLA), or
- Leave entitlement under the Americans with Disabilities Act (ADA) or ADA Administrative Act (ADAAA).

Over the years, these leave and leave regulations have significantly increased the number of days employees can take off from work. Managing many of these absences isn't typically the job of the risk manager. Yet all these absences affect a company's productivity, safety and bottom line. Those concerns are very much the responsibility of risk management.

That's why risk managers should have a voice in discussions about absence management.

The Direct and Indirect Costs of Absence

As a risk manager, you understand that workers compensation lost time claims can have a significant impact on your organization. Workplace injuries that result in lost time days affect a company's bottom line directly. Medical and disability costs associated with such claims are easy to track. The same holds true for employee lost wages and the cost of hiring temporary or replacement workers.

It's harder to measure the indirect costs spawned by lost time days. For example, there is a loss of productivity as temporary replacement employees are hired and trained, and as they get fully up to speed. Managers need to spend extra time managing both new/replacement employees and the whole team to ensure that things continue to run as smoothly as possible. That diverts managers from their normal tasks and carries a hidden, hard-to-measure, cost in both effectiveness and the ability to juggle all their duties.

How the Costs of Absence Add Up

82%	Employers that use overtime to cover employee absence
47%	Amount of employee absences covered with overtime
29.5%	Perceived employee productivity loss due to employee absence
15.7%	Perceived supervisor productivity loss due to employee absence
50%	Percent increase in voluntary turnover due to stress
15.4%	Direct cost of paid time off as a percent of payroll
22.1%	Total cost of direct and indirect absence as a percent of payroll
4.2	Average hours per week supervisors spend dealing with issues related to absence

Employee absence affects a company's productivity, safety, and bottom line.

Companies often use overtime to ensure that absent workers' responsibilities are covered. As remaining team members assume additional responsibilities or work extra hours, stress levels may increase, morale can decline and turnover rates may jump.

Companies that have disruptions in routines or declines in productivity due to absence can experience quality issues as employees struggle to get the work done with what may feel like too few resources. Workplace safety can be affected, too. New employees need time to learn processes and safety protocols and may not feel the need to invest fully in safety for a temporary assignment. Current employees feel pressure to produce results and may be tempted to take a few shortcuts or skip safety measures in the interests of saving time or hitting production goals.

Now multiply that by all employee absence across your entire organization and it's easy to see that absence – regardless of the source – is a significant risk exposure that needs to be managed.

Managing the Compliance Risk

Compliance adds a layer of complexity to risk management efforts. If leave programs are not administered consistently across locations, it can give rise to EEOC lawsuits. Managing the employer's employment practices liability exposure should fall under the risk manager's purview.

Failure to comply with Americans with Disabilities Act (ADA) and (Americans with Disabilities Amendments Act (ADAAA) regulations when making accommodations is another significant exposure. Requirements under ADA interact with disability, workers compensation, and other leaves, and can overlap and differ from the various regulations (e.g., FMLA), Uniformed Services Employment and Reemployment Rights Act (USERRA)) that guide them. It's also worth noting that failing to offer a return to work option for employees who are out with nonoccupational injuries is considered a form of discrimination by the EEOC. The exposure for an organization is significant: a single mismanaged case involving ADA noncompliance costs an average of $500,000.

Not offering a return-to-work option for employees who are out with nonoccupational injuries is considered a form of discrimination by the EEOC.

A single mismanaged case involving ADA noncompliance costs an average of $500,000.

Risk managers are already aware of this exposure with regard to return-to-work programs that can shorten the duration and costs of workers compensation claims. Those same return to work strategies can be applied to employees with non-occupational injuries or illnesses to reduce the direct and indirect costs of absence. But the risk of noncompliance with ADA rules and processes will also apply to accommodations for non-occupational injuries.

The ADA doesn't only apply when employees are returning to work. Medical leave itself can be deemed a "reasonable accommodation" in some situations. If employee requests for medical leave are not evaluated using ADA definitions and requirements, and the employee files a complaint, the company may be fined for discrimination.

Having a total picture of absence and how it is managed across your organizations makes it easier to plan and budget for absence and to manage and reduce the risks that absence creates or increases.

Another compliance exposure arises from lack of understanding about FMLA regulations. It is unlawful for any employer to interfere with, restrain, or deny the exercise of – or the attempt to exercise – any right provided by the FMLA. Managers may inappropriately deny FMLA leave, which can cause an employee to file a complaint with the Wage & Hour division of the DOL. Again, the impact can be significant. The average cost to defend an FMLA lawsuit is $80,000.

Managing the Financial Exposure

Most organizations stipulate in their plans or Employment Guides that the FMLA leave should run concurrent with other disability leaves including workers compensation and/or short term disability. Additionally, various state paid leaves like New York Paid Family Leave (NYPFL) and California Paid Family Leave (CPFL) can also run concurrent with other leaves. Failure to administer FMLA to run concurrently with other leaves may extend the time an employee is away from work and further increase productivity losses and the impact on the organization's bottom line.

Budget and Planning Risks

Some employee absence (such as vacation or scheduled FMLA leave to care for a new baby) can be planned or unplanned; other leave (such as time off due to accidents and illnesses is unplanned). Companies successfully manage planned absences because they have advance notice. Managers have the opportunity to make appropriate arrangements and minimize the impact of the absence. Budgets can include funding needed to cover costs associated with those alternative arrangements, from overtime to temporary workers.

Unplanned absences don't afford managers or risk managers that same opportunity. Or do they?

Having a total picture of absence and how it is managed across your organizations makes it easier to plan and budget for absence and to manage and reduce the risks that absence creates or increases. A total absence management solution should track all absence – whether related to workers compensation, short-term disability, FMLA, or company leave programs. Such a solution gives risk managers an accurate picture of absence and patterns of absence across the organization. It will not be possible to predict exactly which employees will be absent when or for how long. But a total absence management solution does capture aggregate data that can yield information on patterns and trends for employee absence.

That information on patterns and trends helps risk managers and others in the organization budget more accurately for overtime, replacement workers, and extra safety measures or training to reduce the exposures posed by new or temporary employees or overtime demands. The information can also support proactive production planning to help ensure that employee absence does not negatively affect productivity. As a result, budgets and production plans can be more accurate.

Good risk management protects and enhances an organization's bottom line. Managing the impact of absence across an organization is just good risk management.

The big picture view of absence can also help reduce the direct and indirect costs of absence. Data on absence patterns can support a robust return to work program by identifying where transitional or light duty jobs are likely to be needed. The return to work program, of course, can reduce the duration of occupational and non-occupational absence as well as the associated direct and indirect costs.

Managing the Risk Associated with Absence

Risk managers are responsible for identifying, managing, and reducing risks that can affect their organization's operations, reputation, productivity and profitability. As such, they need good data to help them identify, assess and mitigate these exposures. Absence should be viewed as another exposure to be quantified and managed. That doesn't mean that risk managers should have responsibility for managing non-occupational illness or injury or the associated benefits programs. Rather, they should have a voice in discussions about quantifying and managing absence so that sound risk management principals and strategies can be applied. Good risk management protects and even enhances an organization's bottom line while reducing an organizations total cost of risk. Managing the impact of absence across an organization is just good risk management.

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Connect With Us

If you would like to meet with one of ESIS' team of leave management experts to discuss how we can partner with you to build an effective, integrated leave management solution for your organization, please contact:

Sonja Teague
Vice President
Integrated Absence Management
O 678.795.4534
E Sonja.teague@esis.com