

Reducing absence costs

A Crawford & Company (Canada) Inc. Insurance Industry Update

Winter 2007

Absenteeism costs Canadian businesses billions of dollars a year. According to Watson Wyatt Worldwide's 2002/2003 *Staying @ Work* report, \$16 billion was a conservative estimate of the annual direct and indirect costs for worker absences—and the price tag has escalated during the intervening five years.

Income assistance for absent workers falls into three main categories:

- Workers' compensation (WC) is funded through mandatory premiums and can include future loss of income awards, permanent disability awards, pensions, etc., depending on the province. WC pays for medical treatment and a percentage of lost income resulting from on-the-job injury or illness caused by work-related factors.
- Short-term disability (STD) benefits, paid by the employer, cover up to 100 per cent of wages during brief periods of illness or injury, ranging from two weeks to two years.
- Long-term disability (LTD) benefits, paid by an insurer through a premium factor that depends on historical claims, partially replace income for long periods of illness or injury



Keith Brofsky/Photodisc/Getty Images

and are often co-ordinated with Canada Pension Plan or Quebec Pension Plan disability coverage.

Direct costs for these programs include premiums or benefit amounts and administrative costs. According to Watson Wyatt Worldwide's 2005 *Staying @ Work* report, direct disability and absence costs represented 5.6 per cent of payroll in 1997, 4.9 per cent in 2000, 4.3 per cent in 2003, and 4.5 per cent in 2005.

In addition, businesses incur many indirect expenses related to employee absences, whether short- or long-term, no matter what their cause:

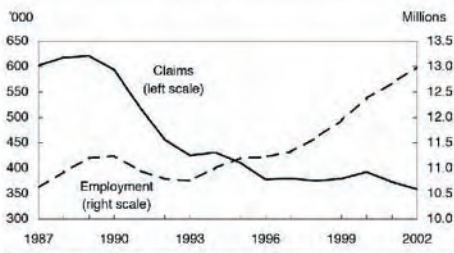
- Overtime
- Replacement workers
- Lost productivity
- Lower morale
- Fines for legislative non-compliance
- Diminished customer satisfaction.

Watson Wyatt Worldwide estimated these costs to represent an additional 10 per cent of payroll in 2000. Several other sources, both Canadian and American, peg the combined direct and indirect costs for worker absence at between 15 and 17 per cent of payroll.

Workers' compensation claims declining

According to *On Sick Leave*, an article in Statistics Canada's April 2006 *Perspectives*, the number of accepted workers' compensation claims has been steadily dropping since the late '80s, despite a growing work force.

Chart B Time-loss injury claims have fallen despite employment gains.



Sources: Association of Workers' Compensation Boards of Canada, 1987-2002; Labour Force Survey, 1987-2002

"Heightened awareness of occupational health and safety issues, including the federal government's creation of the Canadian Centre for Occupational Health and Safety in 1978, is credited for some of the reduction in the work injury rate," writes the report's author, Katherine Marshall. "The centre interprets much of the reduction to factors including changing technologies, better educated workers and industry initiatives, together with occupational health and safety poli-

cies and programs. Furthermore, employment during this period shifted from the goods-producing sector—which generally has higher overall injury rates—toward the service sector."

According to Watson Wyatt's 2005 *Staying @ Work* report, workers' compensation boards' diligent management of claims and offers of financial incentives for employers to do likewise have also contributed to the decline in the reported number of workplace accidents.

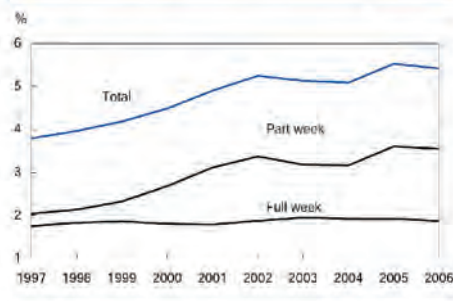
STD leaves on the rise

On the other hand, short-term absence rates in Canada have consistently increased over the past decade. According to Statistics Canada, the weekly incidence of work absence rose from 3.8 per cent in 1997 to 5.4 per cent in 2006, with short absences predominating.

Several factors account for this trend:

- An aging workforce
- A growing proportion of women in the workforce, especially mothers of young children

Chart A Part-week absences increased by about half; full-week, virtually flat



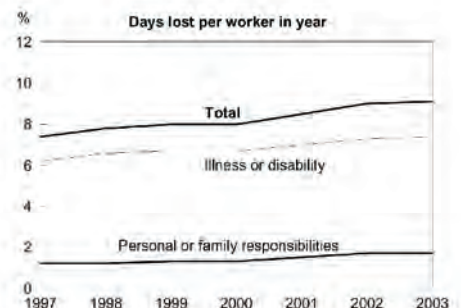
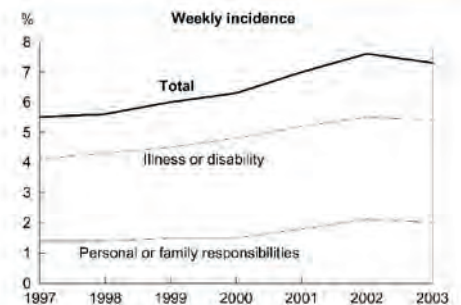
Source: Statistics Canada, Labour Force Survey

- High stress among workers
- The increasing prevalence of generous leave policies.

People are off work for a variety of reasons not directly related to the workplace: accidents; personal illness, including stress-related conditions such as depression and anxiety; caring for children who are sick or off school; dealing with elderly relatives who are ill or must be escorted to appointments; and other personal or family demands.

According to Statistics Canada, absences due to illness or disability and time off to deal with personal or family responsibilities have both been on the rise since the late '90s.

Chart: Work absence rates, 1997 to 2003



Source: Labour Force Survey

LTD leaves increasing as well

Long-term absences (longer than two weeks, according to Statistics Canada) not related to the workplace remained relatively stable from 1993 to 2003, with an average duration of about 10 weeks. However, most other organizations deem an absence to be long-term if it lasts more than six months, and 2005 figures from Watson Wyatt Worldwide indicate a rise in LTD leaves since 2003.

In *On Sick Leave*, Katherine Marshall identified several factors that increase the likelihood of long-term leaves:

- Age—among employees aged 45 and over, 4.6 per cent had a long-term illness leave, making them 1.5 times more likely to be on leave than those under age 35, even after controlling for personal health or disability.
- Pre-existing poor health or physical or mental disability—almost nine per cent of such workers ended up on long-term sick leave, meaning they were 1.7 times more likely to be on leave than those in good health.
- Belonging to a union and having medical or disability insurance coverage—these two job-related factors made employees 1.7 times more likely to be on leave from work for personal illness when compared with workers who had neither benefit.

Costs going up

Whether the incidence of a particular type of worker absence is dropping, rising, or remaining rela-

Actual average assessment rate for assessable employers

Language

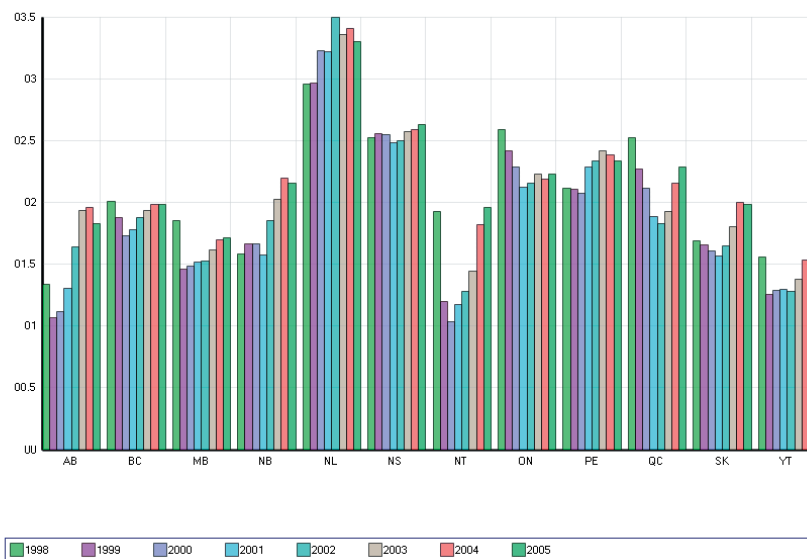
Available Years

1998 1999 2000 2001 2002 2003 2004 2005

Available Provinces

AB BC MB NB NL NS NT ON PE QC SK YT CA

13.1...Actual Average Assessment Rate for Assessable employers



Source: Association of Workers' Compensation Boards of Canada

tively stable, the costs are not going down.

In most provinces, rates for workers' compensation dipped in the late '90s but have been slowly climbing since then, despite the declining numbers of claims.

"Several factors contribute to the escalating costs," says Jackie Roy, vice-president, Healthcare Management, Crawford & Company (Canada) Inc. "Levels of insured earnings have risen significantly over the period, so income replacement expenses are higher. An aging population means that injuries are more likely to become chronic conditions. One workers' compensation board has recently been ordered to pay for claims that go back more than 20 years. Some boards must also recoup income lost through unprofitable investments."

According to Watson Wyatt Worldwide's 2005 *Staying@ Work* report, STD costs have remained relatively unchanged, despite the increasing number of absences reported by Statistics Canada. The discrepancy may be explained by the fact that costs for this type of absence do not typically include "casual" sick leave for white-collar employees with flexible work schedules, who can "make up" the time later. In the case of hourly-paid workers, cost data is more rigorously collected.

LTD costs, on the other hand, rose significantly: "Data reported in our 2002/2003 survey showed that LTD costs declined compared to the 2000 survey," the report said. "In 2002/2003, Watson Wyatt suggested that LTD costs were nevertheless facing upward pressure from an aging workforce,

unrelenting workplace productivity demands and rising mental health claims. That cautionary observation was well warranted. . . . This year's participants reported a 27-per-cent increase in LTD costs compared to the level reported in 2002/2003."

While the rising expense of worker absences may seem intractable, there are measures employers can take to minimize their costs and enhance worker satisfaction at the same time.

Controlling workers' compensation costs

Workers' compensation claims involve only physical injuries or illnesses and are strictly workplace-related, so they are the most transparent and easily quantified type of absence. Provincial workers' compensation boards enforce strict policies regarding allowable conditions, timelines and costs, so measures to reduce expenses have often been introduced first in this area, then adopted in other situations.

Premiums for workers' compensation vary over time and across provinces, depending on the history of claims and the predominant types of industry in the jurisdiction.

Employers fund workers' compensation boards, based on a percentage of payroll. In 2007, the average rates per \$100 of payroll ranged from \$1.43 in Alberta to \$2.75 in Newfoundland. If a firm has a payroll of \$10 million, its workers' compensation premiums in those provinces would be \$143,000 and \$275,000 a year respectively.

"Many companies think that this is just a cost of doing business," says Penney MacPhee, manager, Health-care Management at Crawford's Sydney office. "But there are many things they can do to lower their assessment over time."

She explains that in most provinces, a company's workers' compensation premium is based first on the assessment rating for its industry group, which in some provinces is determined by the prior five years of occupational accident and illness history for that rate group. Then most provinces assign merit or de-

merit ratings based on the company's individual accident and illness history. In British Columbia, these ratings can go from a 50-per-cent discount for an excellent record to a 100-per-cent surcharge for a poor one. Most other provinces' experience ratings programs are in the range of 20 per cent to 40 per cent.

Added to this, in some provinces like Nova Scotia, a claim that reaches a certain threshold can trigger what's called "a poor safety performance surcharge," which will result in surcharges over and above the experience rating and can



Stockbyte/Getty Images

be charged for consecutive years if there is no improvement, MacPhee says. This designation means that a company can be paying up to 20 per cent more—and face further additional increases of up to 20 per cent per year.

“These costs can be so high that there have been reports of companies that have actually closed up and reopened under a new name in order to get back to the base rate,” she explains.

Improving its safety record is beneficial to a firm for many reasons. Injuries not only inflate workers’ compensation costs, but can also cause expensive dislocations in the workplace. Employers must pay other staff overtime or hire and train replacement workers—measures that can affect productivity and morale.

To help minimize the effects of worker absences due to job-related injury or illness, many companies have found it cost-effective to hire third-party administrators such as Crawford Healthcare Management to oversee their workers’ compensation claims.

Analysis can trim expenses

“The first thing we do is examine all claims,” MacPhee says. “If a new claim is actually the recurrence or continuation of an old one, we will try to have the new costs charged back to the original claim.”

This step can be advantageous because the firm’s rating is normally based on its last three years of experience.



Stockbyte/Getty Images

“In Nova Scotia, the board looks at the past three completed years, so the rate for 2008, which is established in 2007, is based on 2004, 2005 and 2006 accident history. If what looks like a new claim in 2007 can legitimately be charged back to an original injury in 2003, the costs will be allocated to 2003. Since 2003 ‘drops off’ the firm’s experience for 2008, it will not negatively affect the experience rating going forward.”

MacPhee says costs can be charged back to open or closed claims, if within the policy time-lines, although it is more difficult with closed cases.

Analysing claims also provides information on when, where and how accidents are occurring. If one type of claim predominates in a specific location, Crawford staff will suggest changes to the workplace conditions or procedures.

“Suppose a lot of slip and fall accidents occur among drivers in a

particular shipping area in the winter,” she says. “We might suggest that they wear different footwear and have salt and a scoop in their vehicle to spread salt around the truck door before they get out.”

If one location has an especially bad record for no apparent reason, a safety audit might be in order.

“These are expensive, so we would focus attention on the specific areas that are causing problems,” MacPhee says. “And we would be sure to apply any relevant recommendations to the company’s other locations.”

Return-to-work programs crucial

The most important initiative in reducing workers’ compensation costs is facilitating an early—and appropriate—return to work after an injury, according to Roy.

Workers receiving temporary loss-of-earnings benefits while off work recovering from an occupational illness or injury are paid only a percentage of their income, up to a cap. This financial hardship can force workers to return to their pre-accident job duties prematurely, risking further injury or the onset of chronic impairment.

“We communicate with the workers’ compensation staff, the doctor and other health care providers to determine whether the worker is ready to return, and if so, what kind of meaningful duties are appropriate,” MacPhee says.

“Even if the worker is unable to perform his essential job duties or has a limited work-day tolerance, it’s worth the employer’s while to pay him his regular salary for the hours worked,” she explains. “If the person can return to work performing transitional duties after six weeks instead of 20, the employer will avoid thousands of dollars in workers’ compensation costs for

that year. But because that year’s rating will also apply to subsequent years, the savings will be multiplied.”

Getting workers back on the job as soon as appropriately possible is also good for the employee. It’s better for his financial situation in the short and long term: studies have shown that if a person is off work for more than six months, there is a greater likelihood that he will not return. Prolonged absences lead to a sense of being removed from the workplace, feelings of being easily replaced and a mood of hopelessness, Roy says.

For these reasons, return-to-work programs are as popular with employees as they are with employers. Workers also appreciate that Crawford staff can help to conduct a physical demands analysis of the job to match their capabilities with the essential job functions and advise modifications such as shorter hours, reduced workload and/or assistive devices.

Minimizing fraud

In those cases where an employee does not co-operate with a return-to-work program or tries to take time off because of a fraudulent injury, well-documented proof of his ability to do the suggested work can shut down the worker’s claim.

“If someone refuses to come back to work in a modified capacity, we’ll have documentation from the worker’s physician and any other healthcare professional, such as an occupational therapist or a physiotherapist, confirming a suitable match of the proposed modified duties and the worker’s capabilities,” MacPhee says. “In situations like this, the documentation is sufficient, according to the workers’ compensation board’s policy, to close the worker’s claim, thereby saving the employer ongoing workers’ compensations costs.”

The key to having this kind of credibility is a reputation for impartiality. A third-party administrator understands the rules and treats everyone the same. Staff with specialized expertise in this area know what information and paperwork are required under various circumstances and what timelines must be followed to avoid hefty fines. This objectivity and expertise can make difficult encounters among employers, employees and the workers’ compensation authorities go more smoothly.

It is also much easier for a neutral third party to follow up on an injured worker, Roy explains.

“Sometimes employees and unions perceive phone calls directly



Keith Brofsky/Stockbyte/Getty Images

from employers as harassment to get back to work, but because we explain procedures and processes to the worker, and help with assessments and ergonomic changes to the home and workplace, our calls are more welcome.”

An ounce of prevention . . .

Dealing quickly and effectively with injuries after they occur is a crucial aspect of improving a firm’s experience rating. Preventing them is just as important, according to Roy.

“Ergonomic changes can help reduce injuries, often at modest expense,” she says. “If you have the same office equipment for everyone, no matter what the person’s size, shape and ability, you’re asking for claims. Something as simple as a different keyboard can reduce the incidence of carpal tunnel syndrome dramatically, and it’s a lot cheaper to invest in a piece of equipment than to deal with a claim, especially for chronic, preventable conditions.”

On the other hand, sometimes it is not possible to modify a work setting—for example, a sophisticated high-tech assembly line.

In situations where a job is physically demanding and the environment can’t be modified beyond a certain reasonable point, employers have the right to screen prospective workers to make sure they are capable of performing the tasks.

“Human rights legislation comes into play here,” Roy says.

“Employers can test only for relevant abilities, such as strength and endurance for jobs where those qualities are required. Human resources staff can ask a prospective employee whether he knows of any pre-existing conditions that would limit his ability to do the job, but aren’t allowed to administer tests to uncover such conditions.”

Minimizing STD and LTD costs

As with workers’ compensation claims, prevention is key to minimizing absences: “The most effective way to control a loss is to prevent it before it happens,” says Roy.

In conjunction with accident prevention measures and sound ergonomic practices, effective physical illness prevention programs can reduce absences dramatically. These include:

- Smoking cessation assistance
- Subsidies to fitness centres or access to on-site facilities
- Nutritional counselling
- Wellness activities

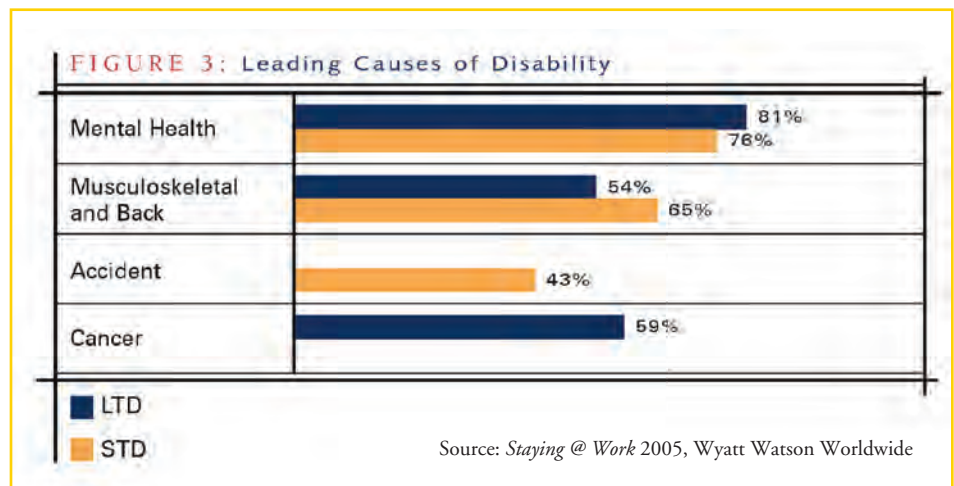
- Substance abuse programs
- Disease management for chronic conditions
- Physical health risk appraisals and screening
- Cancer awareness programs.

Mental illness a growing concern

While preventing physical injuries and illnesses is a crucial component of absence reduction plans, mental health issues are emerging as the most important problem facing the workplace, both for STD and LTD.

Bill Wilkerson is the founder of the Global Business and Economic Roundtable on Addiction and Mental Health, a non-profit think tank with the goal of reducing mental disability in the workplace. In a November 6, 2007 article in *The Toronto Star*, Wilkerson says 20 per cent of Canadians will experience mental illness, but only 20 per cent of them will get proper treatment.

He estimates that depression accounts for 40 per cent of disability



claims among the country's largest employers and that lost productivity resulting from depression costs \$11 billion a year in Canada.

Wilkerson is not alone. Watson Wyatt Worldwide's 2005 *Staying @ Work* report says, "Participants in the 2005 study cite rising mental health claims (related to depression, stress and anxiety) as their top area of concern. Second is the aging workforce, followed by employee engagement."

Other issues include work/life balance, medical costs and shortage of new entrants into the labour market.

Changing workplace demographics

Prevention and early intervention programs in situations involving physical illness and mental health issues might not yield as direct and clear a return on investment as with workers' compensation claims, but keeping employees in the workplace

instead of on disability benefits is crucial in today's changing workforce.

The longer a sick or depressed person is off work, the less likely he is to return, and staff retention is especially important given the country's looming labour shortage. In Canada, the baby-boomer cohort is proportionally larger than in most other countries, with an estimated 3.6 million workers within nine years of the median retirement age of 61. Their mass exit from the labour market over a short time will leave a big gap in the Canadian workforce.

The problem is compounded by the fact that there are fewer young people to enter the labour force. While some experts predict worker shortages as soon as the next decade, others already see a sharply more competitive labour market.

This "greying of the workforce" and shortage of replacement staff has already changed the workplace environment in significant ways.

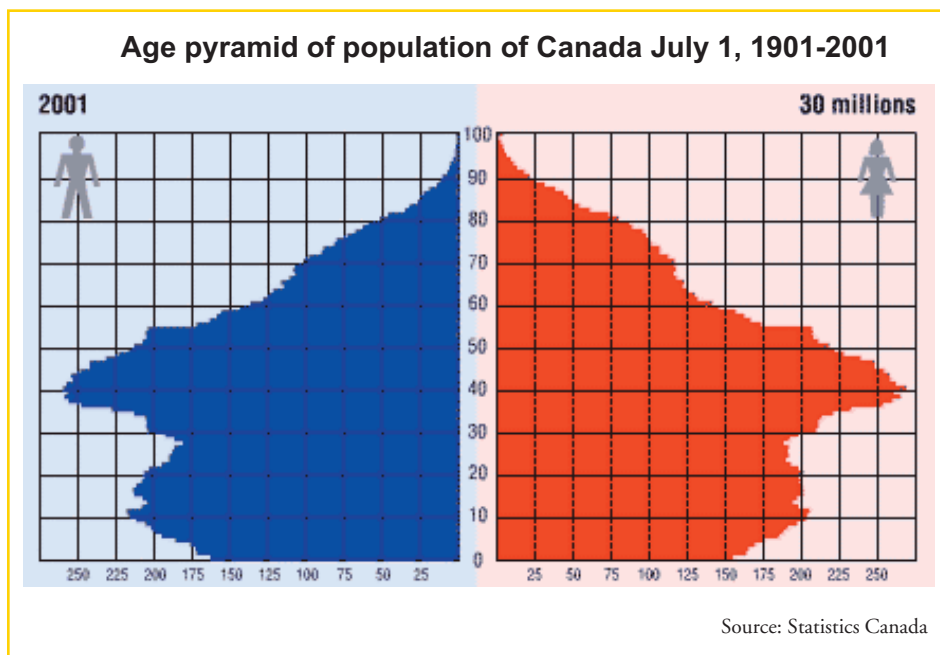
Not only are older workers more liable to have pre-existing physical and mental health conditions that necessitate leaves, but they are also more likely to have complex and difficult family situations that lead to frequent short- or long-term absences.

And talented younger staff—who understand that they are a scarce resource—are less likely to display the kind of loyalty to an employer that previous generations felt, and less willing to put up with long hours, work overload or toxic workplaces.

Demographic experts explain this attitude as part of a massive generational shift in the marketplace: "Members of Generation X and Generation Y—those born between the mid-1960s and mid-1980s—grew up watching parents dedicate themselves to jobs, only to have their loyalty rewarded with the mass corporate layoffs of the 1980s and 1990s," says a November 5, 2007 article in the *Globe and Mail*.

Health and productivity issues are new business priorities

According to Watson Wyatt Worldwide's 2005 *Staying @ Work* report, "presenteeism" is another important issue facing employers: "Presenteeism describes the condition of employees whose chronic health issues, whether physical or mental, do not prevent them from going to work but inhibit their ability to be fully productive. In many cases, low levels of productivity (for example, low energy levels, loss of concentration) can be significant for weeks before an actual STD absence.



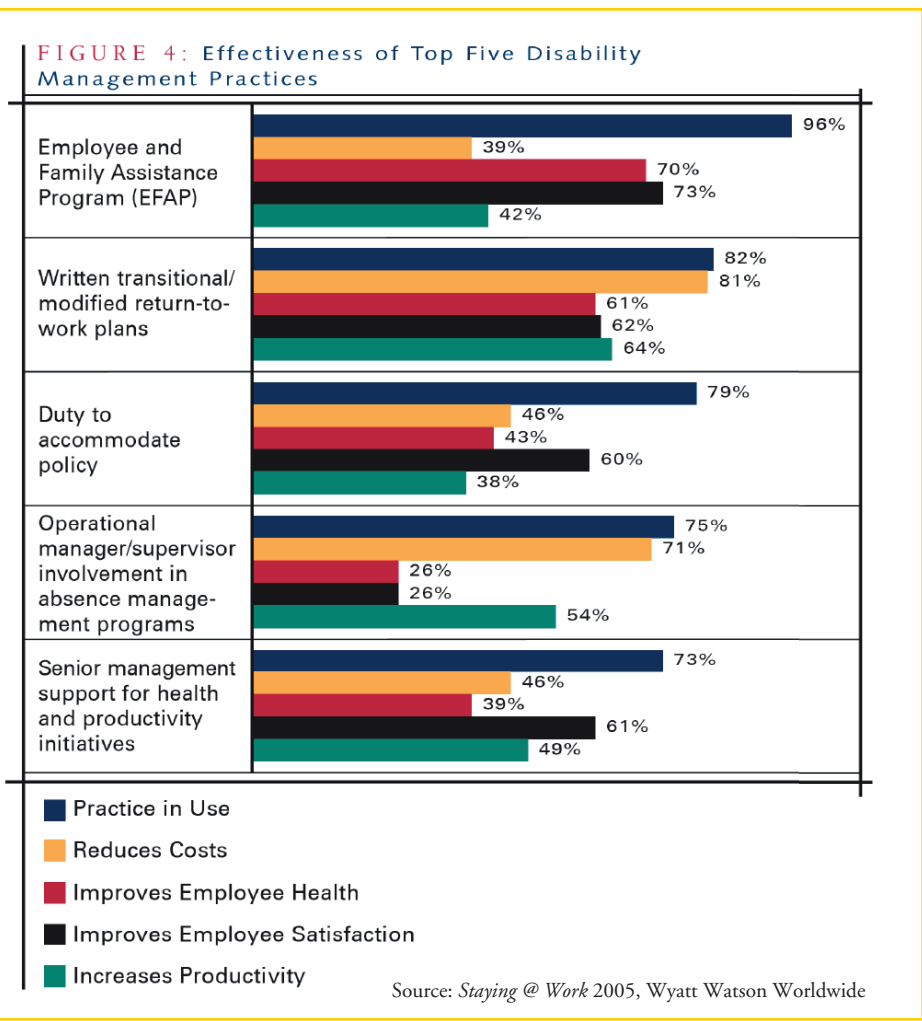
“Costs associated with this issue, while difficult to measure, are also potentially significant. Without preventive health and workplace measures, the impact of presenteeism will likely continue to grow, especially as the workforce ages.”

Companies are beginning to see the need for more comprehensive and integrated approaches to absence management and employee health and productivity, the report says: “There is an emerging realization that such initiatives are not just about managing costs. Companies are also starting to see that organizational health is fundamental to employee health, and that an employee’s capacity to perform is fundamental to the organization’s capacity to perform. In other words, an effective front line impacts the bottom line.”

The report lists the four most effective elements of such an integrated program:

- Employee assistance programs (EAPs) or employee and family assistance programs (EFAPs)—these provide confidential, professional support for issues such as pressures at home and at work, stress, conflicts with co-workers and family, and relationship issues.

“Participants in the 2005 survey rated EAPs/EFAPs as very effective for improving employee health and satisfaction and moderately effective in contributing to lower costs and higher productivity. With the principal causes of STD and LTD being related to mental health, EAPs are becoming



ing an essential resource, as much for prevention as for intervention.”

- Written return-to-work (RTW) plans—these programs for an employee’s reintegration into the workplace, whether for a physical or mental impairment, provide a strong element of process and communication so that managers and employees know what to expect.

“Written RTW plans were the second most prevalent practice in the 2005 survey. Eighty-one percent of respondents see them as a key factor for managing costs. Written RTW plans also received

high marks for improving employee health and satisfaction and for contributing to higher productivity.”

- Duty to accommodate—most provinces mandate job accommodation, but organizations should actively manage accommodations by type (permanent or transitional) and monitor the number, duration and outcomes of accommodations.
- Involving operational supervisors and senior managers—support from upper levels in the organization appears to reduce costs and improve productivity.

Programs require specialized expertise

An effective absence or disability management plan co-ordinates many priorities—sometimes conflicting—related to reducing costs, improving employee health, improving employee satisfaction and increasing productivity.

Such a program also applies a consistent approach to absences as they progress from one type to another. It's common for a casual absence to progress to a short-term disability and eventually become a long-term disability. Without an integrated disability management program, the transition through each of the three benefit sources could result in the transfer of the file to a new case manager and an entirely different philosophy and framework for recovery. This approach is not good for the employee and often prolongs the length and increases the cost of the absence.

However, many organizations lack the internal resources to assess their current situation and develop an effective program.

“Developing, implementing and maintaining a disability management program can be a daunting task, especially when resources such as time and experienced professionals are limited,” says Louis Gomboc, manager of Crawford Healthcare Management’s Calgary office. “Many employers have programs or partial programs in place, but the task of disability management is often added to another job function, such as human resources or health and safety. This may be a factor in whether the program runs efficiently and successfully or not.”

A third-party administrator can assist employers in managing their disabilities and claims, providing help with anything from developing a disability management program to implementing and handling the ongoing claims management.

“Employers may require assistance only in the area of specific, hard-to-manage and long-term claims, or they may need full disability management services from the point of injury to the point of return-to-work,” Gomboc says.

Disability management programs vary from employer to employer and from one industry to another. However, successful programs all typically have the following components:

- Management involvement ensures that the company as a whole is committed to the program and includes it as an aspect of their day-to-day business. It also provides support to the individuals and departments responsible for implementing the program.
- Proper communication and training give employees the necessary knowledge and skills to manage the program, and ensure that all employees are aware of the program and their individual responsibilities.
- Employment suitability includes tests such as physical demand analyses, which enable employers to determine return-to-work times or alternative employment capabilities.
- Reporting and recording procedures must be clear and must outline individual responsibilities, including all relevant legislation.
- Ongoing claims management includes maintaining contact with the injured employee, the WCB or another insurer, medical practitioners and the company’s



CANSTOCKPHOTO

own departments and supervisors. Once the proper recording and reporting procedures are completed, it is important to maintain management of the claim rather than letting it be administered solely by one stakeholder (such as WCB, LTD, etc.).

- Providing modified work programs for employees based on their restrictions and abilities is one of the best ways to manage the costs of work absences. Having the worker back on the job in suitable employment reduces benefits paid by insurers and provides an opportunity to maintain a connection between the employee and the employer.
- Tracking the program's results allows employers to assess its success. Detailed records also outline which aspects of the program are succeeding and which areas need improvement.

“Having a disability management program provides an employer with a system and the guidance to effectively manage expenses and, at the same time, reduce the human and financial costs associated with workplace and non-work-related injuries,” Gomboc says.