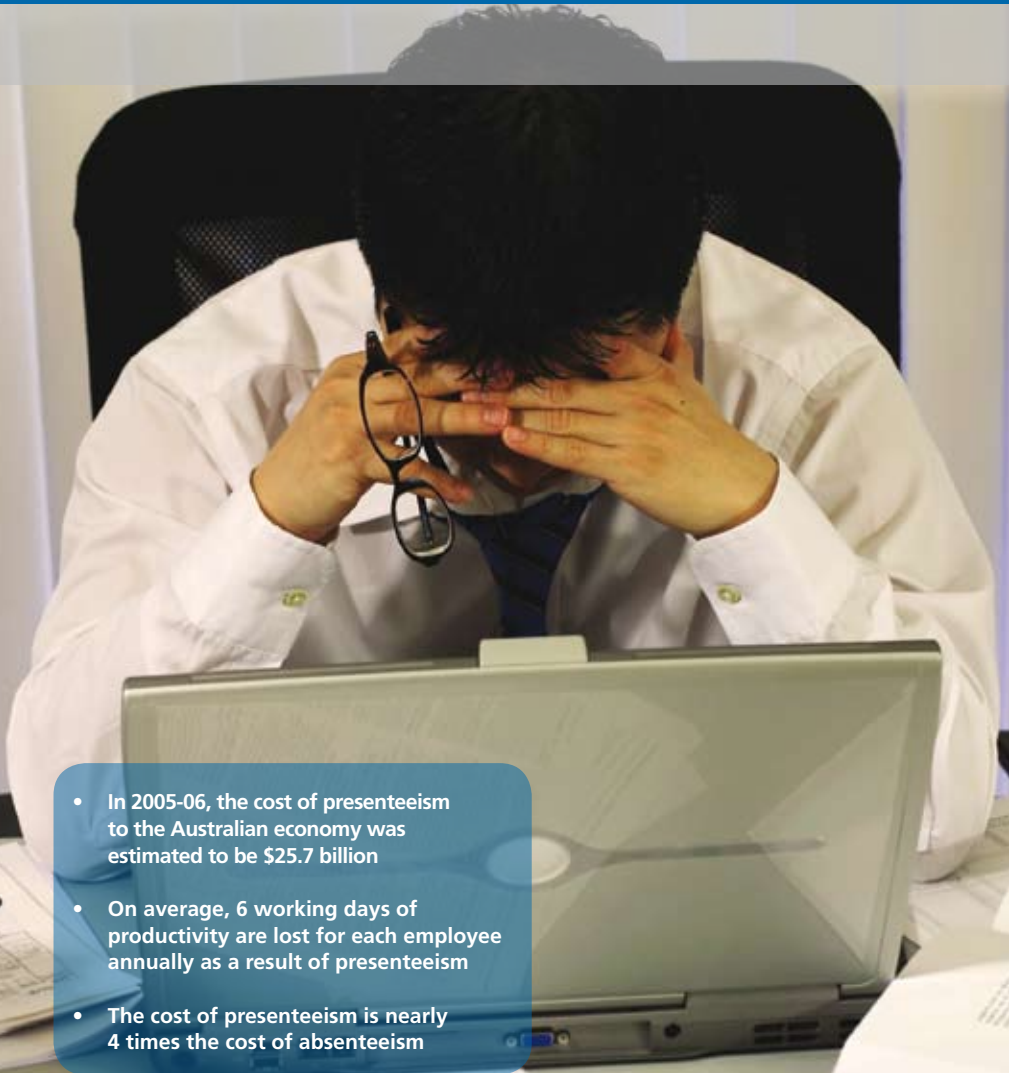


Sick at work

The cost of presenteeism to your business, employees and the economy.

May 2007



- In 2005-06, the cost of presenteeism to the Australian economy was estimated to be \$25.7 billion
- On average, 6 working days of productivity are lost for each employee annually as a result of presenteeism
- The cost of presenteeism is nearly 4 times the cost of absenteeism

Reducing the impact of presenteeism can create healthier employees and improve your business' bottom line.

A study commissioned by Medibank Private has found that presenteeism costs Australian businesses and the economy over \$25 billion each year – much more than absenteeism.

What is presenteeism?

Presenteeism is the loss of productivity that occurs when employees come to work, but aren't fully functioning because of an illness or injury. When compared to absenteeism, presenteeism is considerably less visible in the workplace and harder to quantify.

Research commissioned by Medibank Private, conducted by Econtech, an independent economic consultancy, has identified the costs and impacts of presenteeism on the Australian workforce and economy. This study and previous international research demonstrates that presenteeism significantly impacts workplace productivity, which in turn affects the economic viability of individual business, and the Australian economy as a whole.

It is clear that this health related issue represents a problem for business and the economy. This is why Medibank Private has been working to increase awareness of the benefits of workplaces that foster a healthy environment for employees.

By investing in strategies and programs that support the health and wellbeing of employees, businesses can work towards minimising the impact of presenteeism, to improve productivity in the workplace, and thereby increase their profit margins.

About the presenteeism study

In the first Australian study of its type, a specialist model was used to calculate the cost to the Australian economy of productivity losses due to presenteeism in the workplace.

The presenteeism costs identified in the study are made up of:

- the direct cost faced by employers due to on-the-job productivity losses caused by presenteeism; and
- the indirect cost to the Australian economy due to lower labour productivity and other second round effects.

Two different scenarios were modelled, one reflecting the current situation where presenteeism is prevalent, and one where presenteeism did not exist. The differences in economic outcomes for these two scenarios were calculated to determine the cost of presenteeism.

The study considered the impacts of presenteeism resulting from 12 medical conditions:

- allergies
- arthritis
- asthma
- back, neck and spinal problems
- cancer
- depression
- diabetes
- heart disease
- hypertension
- migraines/headaches
- respiratory disorders
- skin conditions.

The study estimated the loss in productivity resulting for each of the 12 medical conditions. This involved applying data on the prevalence of each condition in the Australian working population to international estimates of on-the-job productivity losses from each condition¹.

The cost of presenteeism

Presenteeism can have a substantial impact on productivity and cause a significant economic burden to businesses and to the Australian economy.

The economic impact of presenteeism

The study calculated that the overall cost of presenteeism to the Australian economy in 2005/06 was \$25.7 billion (Figure 1). This equates to a long term decrease in the national Gross Domestic Product (GDP) of 2.79% and an ongoing 3.33% reduction in private consumption.

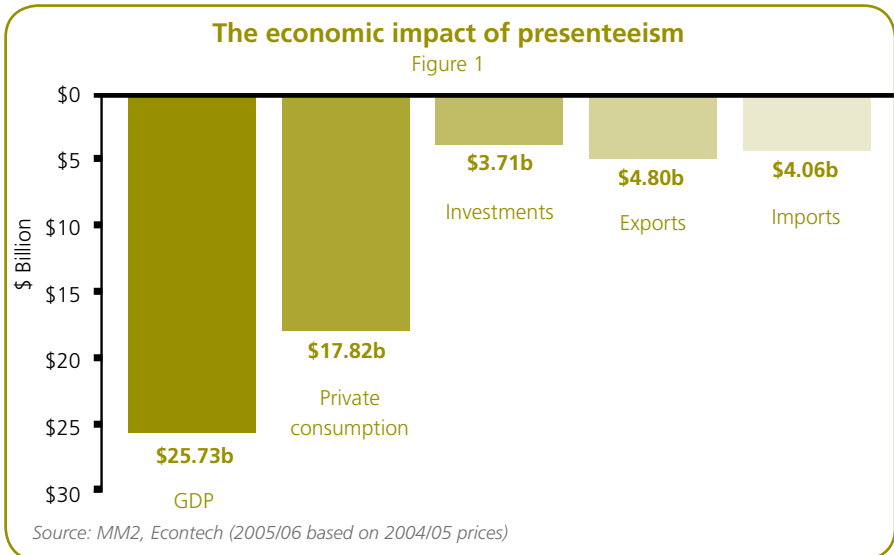
The results of the study also found the on-flow of labour productivity losses lead to a general reduction in exports, imports and investment. In fact, when compared to a no presenteeism scenario, exports are 2.8% lower and imports are 1.99% lower.

These costs take into account both the direct and indirect costs of presenteeism

to business and the Australian economy as a whole.

- 68% of the total cost of presenteeism is the direct cost from on-the-job productivity losses.
- 32% of the total cost of presenteeism is the indirect cost that occurs as productivity losses filter through the economy.

This study is the first to assess the cost of presenteeism on the Australian economy and the first international study that estimates both the direct and indirect costs of presenteeism for business and the economy. Neglecting the indirect cost can seriously underestimate the total cost of presenteeism to the Australian economy.



Presenteeism - the bigger issue

Research commissioned by Medibank Private in 2005 found that absenteeism is costing the Australian economy \$7 billion each year. This is far less than the \$25.7 billion this study has attributed to presenteeism and highlights that the economic cost associated with presenteeism is nearly four times the cost of absenteeism.

This is consistent with research in the United States² that estimated the cost of presenteeism to be three times higher than the cost of absenteeism.

What this means for business

Presenteeism has a direct impact on levels of on-the-job productivity.

The study found this direct impact on productivity costs Australian business \$17.6 billion a year.

Results from the study highlight that the average productivity loss per employee is 2.54%. This corresponds to a loss of six working days per employee per year for an average Australian worker.

This lost productivity has a direct impact on business bottom line. US research reviewed as part of this study¹ found the cost of presenteeism corresponds to approximately 3% of a company's gross wage sum.

If businesses address and improve presenteeism by investing in the health of staff, employers can improve productivity and potentially improve staff retention, which flows through to an improved bottom line.

The causes of presenteeism

The causes of presenteeism are diverse.

The study discusses four main causes of presenteeism:

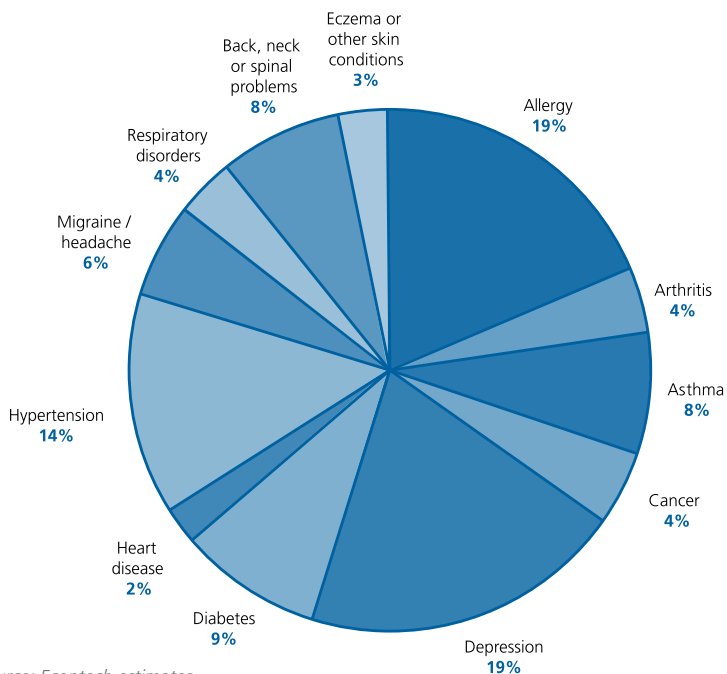
- **Unhealthy lifestyles** - A person's health status can influence the occurrence of a health condition that can cause presenteeism.
- **Workers with illnesses going to work** - Sick workers suffer from lower productivity and can spread infection to colleagues, potentially increasing the prevalence of the presenteeism issue.
- **Allergies and asthma**
- **Missing work-life balance and job related stress** - Job dissatisfaction and stress in the job can cause serious mental problems for individuals and result in higher probabilities of mental health conditions.

Illness has a detrimental effect on both the quality and quantity of work undertaken by employees. For example, the loss of productivity may be apparent in staff working more slowly than usual, needing to repeat tasks or making more mistakes.

The study found that the conditions (Figure 2) that are the biggest contributors to the overall productivity loss caused by presenteeism are depression (19%), and allergies (19%), followed by hypertension (14%) and diabetes (9%).

Contribution of medical conditions to overall productivity loss

Figure 2



Source: Econtech estimates

Note: Percentages refer to the contribution that each medical condition makes to the overall productivity loss of 2.54%.

What about other health conditions?

The conditions considered in the study focus on those that have higher costs to employers. This selection generally includes chronic conditions and does not include illnesses like influenza or the common cold. However, Medibank Private recognises that these conditions may also impact employee productivity and contribute to the impact of presenteeism.

Medibank Private also recognises obesity is a serious concern for the health and wellbeing of the Australian workforce. Although the study does not include a dedicated category for obesity, it captures data concerning health conditions that can be related to obesity, such as heart disease, diabetes and hypertension.

What businesses can do

Until now, the cost of presenteeism has been ‘invisible’ to employers; their focus has been on direct health care costs and absenteeism. The economic burden of presenteeism on employers, and indeed the economy as a whole, provides a compelling reason for this issue to be at the top of the business agenda.

If steps are taken to reduce presenteeism, company performance and profitability can be improved. The level of improvement depends on the cost that presenteeism represents for an individual company.

Therefore, it is important that businesses identify their own presenteeism costs and cost-effective measures that can be taken to recover some, if not all, of the on-the-job productivity lost to employee health conditions.

Strategies to reduce presenteeism can also support and improve the health and wellbeing of employees. These strategies include:

- health risk assessments to gather information from employees on conditions that may cause future health problems;
- employee assistance programs which offer counselling services for employees and their families; and
- wellness programs which foster healthy practices such as a balanced diet and exercising.

The study also highlighted that those companies that are among the first to introduce presenteeism reducing measures are likely to benefit to a larger degree from potential productivity gains than those businesses that wait.

Importantly, investing in employee health can create a win-win situation for employers and employees alike. Employees can enjoy better health and improved quality of life while companies realise more productivity from their employees.

Workplace focus

In conjunction with this research report, Medibank Private surveyed its call centre staff to better understand the health of its own employees. The survey covered 115 call centre staff members based in Brisbane, Melbourne and Perth.

Presenteeism is far more prevalent than absenteeism

- 53% of staff took one or more days off work in the last 4 weeks, however 77% attended work while suffering with a health problem over the same period.
- 88% of staff that attended work while suffering from a health condition felt they were less productive.
- On average, staff who attended work while suffering from a health condition reported their productivity diminished by 45%.

Normal workplace tasks affected

Employees were asked to indicate how their health and wellbeing at work affected their ability to do everyday workplace tasks. The results showed that when employees were suffering from a health related condition:

- 78% found it difficult to think clearly when working.
- 66% found it difficult to do their work without making mistakes.
- 64% did not feel they had done all they are capable of doing.
- 67% found it difficult to work the number of hours required.
- 62% found it difficult to do their work without stopping to take unscheduled breaks or rests.

Medibank Private assisting its employees

Medibank Private uses a number of approaches to assist its own employees to better manage their health and wellbeing. These include:

- Heartbeat website – staff have access to an online health management tool to complete self assessments, set goals, and receive regular email advice on important health and wellbeing topics.
- Employee Assistance Program - counselling service to help employees and their immediate family members manage health and wellbeing issues.
- Good Health Day - an extra day of leave to enhance personal wellbeing.
- Flu vaccinations
- Discounted health insurance.

How can Medibank Private help?

Australia's largest private health insurer, Medibank Private, has recognised the need for a tailor-made health cover option for the corporate market. That's why they developed Medibank Priority, an innovative health cover and wellbeing program. It includes a great range of health cover options and product features, such as productivity tools which benefit both the employee and employer, like Priority Heartbeat, *feelbetter* Rewards and *betterhealth* programs.

**To find out more, please call
Medibank Priority on 131 680.**

About Medibank Private:

Medibank Private is Australia's largest provider of private health insurance covering over 3 million people. Medibank Private offers health insurance to all Australians through retail and corporate products, as well as catering for international students and visitors.

About Econtech:

This research was conducted by Econtech on behalf of Medibank Private. Econtech is one of Australia's leading independent economic consultancies, with an emphasis on economic modelling. Specialising in consulting on taxation, policy and forecasting, as well as forecasting reports and software, Econtech works with government organisations, industry bodies and corporations in Australia and overseas.

¹ Goetzel R. Z., Long S. R., Ozminkowski R. J., Hawkins K., Wang S. and W. Lynch (2004). Health, absence, disability, and presenteeism. *Journal of Occupational and Environmental Medicine*

² Stewart, W., Matousek, D. and C. Verdon (2003a). *The American Productivity Audit and the Campaign for Work and Health*. The Center for Work and Health, AdvancePCS.

³ Hemp, Paul (2004), Presenteeism: At Work But Out of It. *Harvard Business Review* October 2004

This is a summary of research undertaken by Econtech on behalf of Medibank Private. For further information about the survey, please call Public and Industry Affairs, Medibank Private on 03 8622 5181.

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