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INSIGHTS | October 2016

Managing the Costs of Occupational and Non-Occupational Absence and Disability

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CONTENTS

INTRODUCTION

How much do unplanned employee absences cost US companies a day? $100 million? $500 million? The real number is actually much higher: $1.7 billion per day.

Including both direct and indirect costs, such as replacement labor and lost productivity, the total cost of health-related absences is 8% to 9% of payroll, according to Mercer, one of the Marsh & McLennan Companies. That adds up to more than $400 billion each year. Thus it's no surprise that employers are looking for ways to better manage employee absences.

Employers can take steps to reduce the impact of employee absences, whether they result from temporary illnesses and family care issues to short- and long-term disability or workplace injuries. Return-to-work programs, integrated health and disability management programs, wellness initiatives, and careful selection and management of third-party administrators all present opportunities to reduce workers' compensation, health care, and other costs.

RETURN-TO-WORK STRATEGIES

Employees recovering from injuries usually do not progress overnight from being unable to work to being fully functional. Recovery is a process, and there's often a transitional phase during which a person gradually regains functionality over time. Employers can benefit from that process by allowing the employee to get back to work — even if in a limited or modified capacity — sooner rather than later.

For many years, return-to-work (RTW) programs have been a key tool to manage workers' compensation costs. The rationale is simple: Reducing the time that an employee spends away from work following a workplace injury can reduce costs and improve morale and productivity.

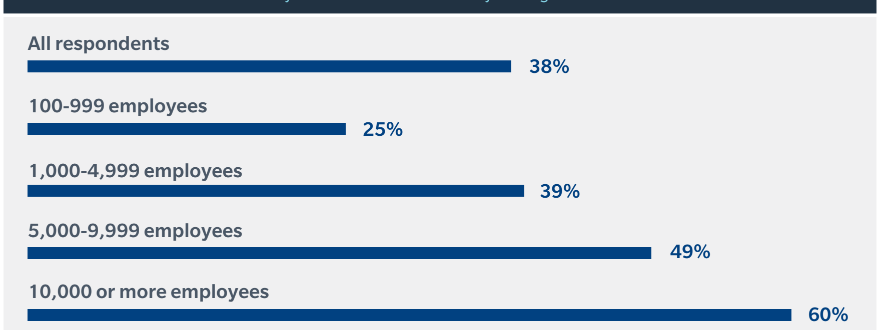
That same line of thinking applies to non-occupational injuries that are covered by group disability programs instead of workers' compensation. Yet less than 40% of employers have developed formal, documented RTW programs for non-occupational disabilities, according to Mercer's *Survey on Absence and Disability Management 2015* (see Figure 1).

One reason employers have not fully embraced RTW strategies for non-occupational injuries is a lack of resources. Like many other corporate divisions, human resources departments are often asked to do more with less; quickly returning employees to work is not their only priority. In recent years, HR professionals have had to contend with corporate and regulatory directives, including new requirements under the Affordable Care Act and Fair Labor Standards Act. HR teams often struggle to demonstrate to leadership that formal RTW programs can generate positive returns on investment.

Some employers worry that if an employee on short-term disability is injured while on modified or transitional duty, it could lead to a costly workers' compensation claim. But for employers that can build effective RTW programs, returns are theirs for the taking, including:

- **Lower wage replacement costs.** If an injury is covered by workers' compensation, getting an employee back to work in any capacity means that wage replacement or indemnity payments will be reduced. If an employee returns to full-time work, even on modified duty, those payments could be eliminated because the employee will receive full wages. The same concept applies for employees on short-term disability.
- **Lower medical costs.** Getting an employee off the proverbial couch generally helps to encourage a speedier recovery, which will typically reduce the amount of time and money spent to treat the injury or disability. This includes the growing cost of prescription drugs, such as opioids and other pain medications.
- **Improved morale.** Being away from work for an extended period of time can cause anxiety and make it more difficult for an individual to commit to recovery. Returning to the work environment — even in a modified or part-time capacity — can promote healing and well-being, accelerate the rehabilitation process, and help employees stay productive.

FIGURE 1 Employers with Formal, Documented Return-to-Work Programs for Non-Occupational Disabilities
Source: Mercer's Survey on Absence and Disability Management 2015



BUILDING EFFECTIVE NON-OCCUPATIONAL RETURN-TO-WORK PROGRAMS

Employers can use workers' compensation RTW programs as models for similar programs that address non-occupational injuries. Among other items, non-occupational RTW program

criteria and guidelines should address the following:

- **Managing employees and transitional duty assignments:** Under workers' compensation RTW programs, employers and treating physicians use nationally recognized disability duration guidelines to facilitate a timely return to work. These guidelines are often provided by claims administrators. After an employer identifies work that takes into account specific restrictions for the employee, a formal agreement establishes transitional work parameters. The employee is managed throughout the process to ensure that as restrictions are lifted, gradual increases in work capacity are added. Alternatively, if the employee experiences any difficulty while engaged in transitional duty, he or she immediately returns to the medical provider for further evaluation.

- **Roles and responsibilities:** During the recovery process, employees and their claims administrators are responsible for providing status reports to supervisors after each medical office visit. They must respect agreed-upon restrictions, neither slacking off nor being overzealous. Employees must also continue to adhere to regular employment policies while performing transitional and modified duty. Employers must regularly review an employee's work status, share clear guidelines for the transitional duty program, and manage expectations of the recovering employee's coworkers. Medical providers must keep employers informed about an employee's progress to enable updates and modifications to the transitional duty program.

- **Timeframes:** RTW programs often allow for approximately 90 days of transitional duty, with an option for an additional 30 days if the employee's recovery is progressing. But some employers have designed programs with different timeframes — for example, providing for temporary transitional duty for up to six months, with the possibility of adjoining sessions pre- or post-surgery.

The rationale for return-to-work programs is simple: Reducing the time that an employee spends away from work following an injury can reduce costs and improve morale and productivity.

- **Eligibility:** Some employers choose to make RTW options available only to fulltime employees, while others allow part-time workers to participate.
- **Compensation**: In workers' compensation, participating employees typically receive their regular rate of pay, regardless of the actual tasks they perform, unless a bargained agreement stipulates otherwise. Overtime is usually not recommended while employees are on temporary transitional duty. For non-occupational programs, compensation will depend on the benefit plan; not all short-term disability plans will pay 100% of an employee's pre-disability earnings.
- **Monitoring of results:** Regular reviews of program results and necessary adjustments are critical to success. Employers should conduct regular status reviews of employees performing transitional duty, and talk to HR managers and other involved staff to ensure that the employee is progressing. Employers should also challenge their third-party administrators (TPAs) and other vendors to provide detailed analytics and identify potential program improvements.

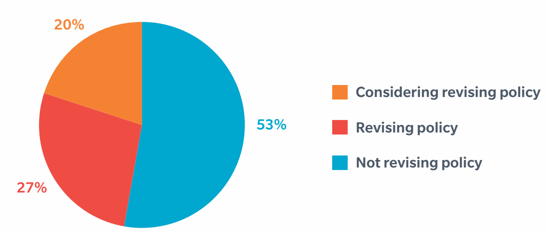
Despite the track record of RTW strategies in workers' compensation, senior business leaders and others may be skeptical of applying them to non-occupational programs. Risk professionals can address this skepticism by piloting such programs in a few locations. Demonstrating a program's value through trials may facilitate senior leadership's approval for a more extensive rollout.

MANAGING NEW ADAAA REQUIREMENTS

In 2008, Congress passed the ADA Amendments Act (ADAAA), which amended the Americans with Disabilities Act of 1990 (ADA). The law requires that employers make more accommodations to employees with disabilities. For example, historically, many employers terminated their employment of disabled employees after a fixed period of time; under the ADAAA, an employer's ability to enforce such rules is limited. If employment terminates after six months and the employee is ready to return at six months and a day, the employer may need to allow the employee to return unless it can prove that doing so would be an unreasonable accommodation under the law.

Many employers have struggled to adjust to the ADAAA's requirements. Nearly half of all employers are revising or considering revising their policies on the termination of disabled employees as a result of the ADAAA (see Figure 2).

FIGURE 2 Employers Considering Revisions to Policy on Terminating Disabled Employees as a Result of ADAAA
Source: Mercer's Survey on Absence and Disability Management 2015



To meet the requirements of the ADAAA, employers — in conjunction with their claims administrators — should actively manage the process to help workers resume full-duty status. Without an active process, employees could linger on restricted duty for excessive lengths of time, which could create ADA exposures.

Among other steps, employers should:

- Use nationally recognized disability duration guidelines to help gauge appropriate timing for both modified and full-duty work.
- Consider alternative RTW options — for example, allowing for temporary transitional work in a supervised environment at a nonprofit organization when onsite work is unavailable.

INTEGRATED HEALTH AND DISABILITY MANAGEMENT

As with RTW strategies for non-occupational injuries, integrated health and disability management remains underutilized (see Figure 3). Seventy percent of companies surveyed by Mercer have not established any formal links among specific elements of their health and disability management programs, although 56% say they are planning to do so.

Employers that have integrated elements have realized significant value. When an employee is on disability, an employer has the opportunity to help him or her return to work and better navigate the health care system, taking advantage of resources to manage their health and well-being. Often, disabled employees are more prone to chronic conditions that can contribute to poor health, higher medical costs, more frequent absences from work, and lower productivity. Using the disabling event as a "teachable moment" can help these employees better manage chronic conditions.

For employees, integration can have a significant impact on well-being. For example, it may help employees manage physical health through a weight or diabetes management program, or refer them to an employee assistance program (EAP) or behavioral health resources to manage family issues, anxiety, drug abuse, or depression. Integrated health management programs can also help employers:

- Reduce preventable disabilities, chronic illnesses, and injuries.
- Reduce absence and "presenteeism," in which employees come to work despite illness, injury, or anxiety (resulting in reduced productivity).
- Improve employee engagement and productivity.
- Lower group health and disability costs.

Integrated health and safety management programs can also help employers control workers' compensation costs, especially those that can be attributed to high-risk employee populations. According to the National Council on Compensation Insurance (NCCI), workers' compensation claims that are accompanied by a diagnosis of a comorbidity — such as obesity, diabetes, or hypertension — are more likely to be lost-time claims (see Figure 4). For example, whereas 81% of all claims are medical-only, 81% of claims involving obesity diagnoses involve lost time.

FIGURE 3 **Organizations That Have Integrated Health and Disability Management Programs**
Source: Mercer's Survey on Absence and Disability Management 2015

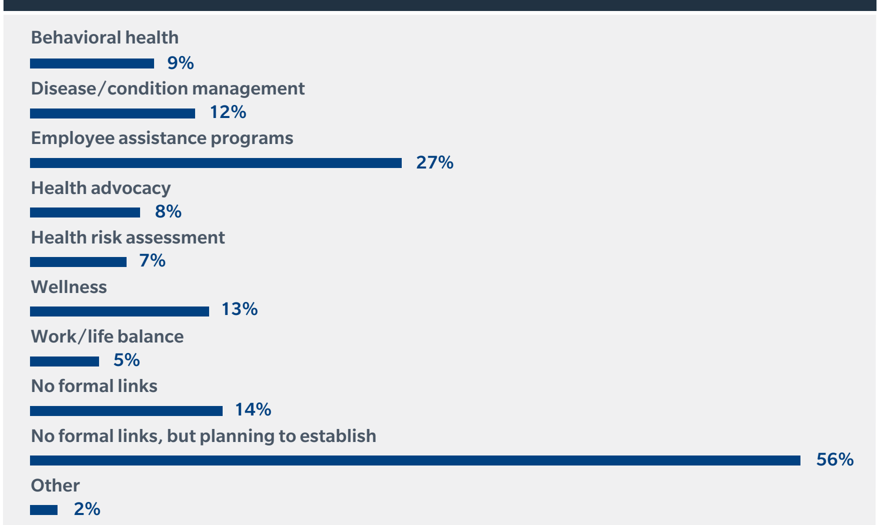
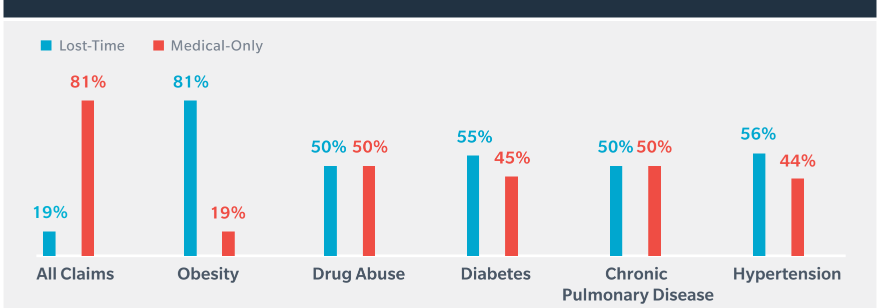


FIGURE 4 **Share of Workers' Compensation Claims with Comorbidity Diagnoses**
Source: National Council on Compensation Insurance



Meanwhile, a Duke University Medical Center analysis found that:

- ► Obese workers are twice as likely to file workers' compensation claims.
- ► The medical costs for obese workers' compensation claimants are seven times higher than the medical costs for non-obese claimants.
- ► Obese workers lose 13 times more work days from occupational injuries and illness than non-obese workers.

Conversely, healthy workers generally are less likely to be injured, and recover from injuries more quickly. So employers have an incentive to help employees improve and maintain their health and well-being, and to better coordinate occupational or non-occupational efforts in this area.

INTEGRATED HEALTH AND DISABILITY PROGRAM ELEMENTS

For employers seeking to develop integrated health and disability management programs, the first step is to make the business case for healthier workers. Risk professionals can use industry research and data from their health, disability, and workers' compensation programs to show senior leaders the connection between workforce health and bottom-line success.

After securing executive sponsorship, risk professionals should develop clear plans with adequate resources and processes to monitor performance and make adjustments. Among other elements, consideration should be given to the following:

- ► **Specific programs and offerings.** Employers may wish to start small and introduce pilot programs — for example, stretching, yoga, and weight management programs — that can positively affect health, disability, safety, and productivity.
- ► **Vendor cross-referrals.** Health, disability, and workers' compensation vendors should establish cross-referral processes to refer employees to complementary services. Such services could include help in managing chronic conditions, finances, stress, and weight.

Healthy workers generally are less likely to be injured, and recover from injuries more quickly. So employers have an incentive to help employees improve and maintain their health and well-being.

- **Culture and communications.** Employers can leverage their existing safety culture to promote employee health and well-being. For example, a joint safety and wellness committee can identify areas of overlap or opportunities for greater collaboration, including employee training, education, and communications. Local health and safety ambassadors can also promote worksite events and share best practices.
- **Shared metrics.** Safety metrics could be added to any existing well-being dashboards and vice versa. Those metrics should be communicated up through senior management.

WELLNESS INCENTIVES

Health and wellness plans should establish incentives to help employees adopt and maintain healthy behaviors. Such incentives generally fall into two categories:

- **Financial incentives.** While varied, common incentives include medical plan premium credits, cash and gift cards, and contributions to health savings accounts. Employers are increasingly offering incentives to employees not enrolled in their health plan, as well as employees' enrolled spouses and domestic partners.
- **Intrinsic incentives.** Although financial incentives can promote employee engagement, research shows that they alone are not sufficient to sustain long-term healthy behaviors. Research has also demonstrated that social connections among coworkers, family, and friends can have a strong impact on lifestyle risk factors, such as weight gain. Employers may thus offer non-financial motivators to supplement financial incentives. These often leverage the power of social dynamics and include contests among employee teams or business units, with support from local wellness champions and recognition from business leaders.

In addition to incentives, many employers are incorporating wearable devices, including smartwatches and fitness wrist bands, into their wellness programs. According to research firm Forrester, approximately half of all fitness band sales in the US are to businesses, which share the devices with their employees. Employees can use these devices to track their nutrition, sleep, and fitness activity — for example, how many steps they take each day. Wearable devices can also serve as the foundation for employer-sponsored rewards and group activities and challenges, and can provide employers with aggregate data that can help inform decisions about wellness program investments.

Employers should, however, be mindful of privacy considerations related to wearables. The Occupational Safety and Health Administration and other regulators have expressed concern about how employee data collected through wearables is shared and used by employers. Employers should ensure that all data is de-identified and analyzed only in the aggregate. The use of wearables by employees and any related data collection methods should also be voluntary and opt-in.

CHOOSING YOUR WELLNESS PROGRAM OPTIONS

Wellness programs can empower workers to take charge of their health and well-being. And integrated programs that break down silos between safety, health, and wellness can benefit both workers and employers.

There is no one-size-fits-all approach to health and wellness initiatives. But successful programs provide easy access at the worksite, or remotely via phone, web, or mobile apps, to a range of resources (see Figure 5). These could include flu shots, preventive care, fitness centers, nutritional guidance, and stress management programs.

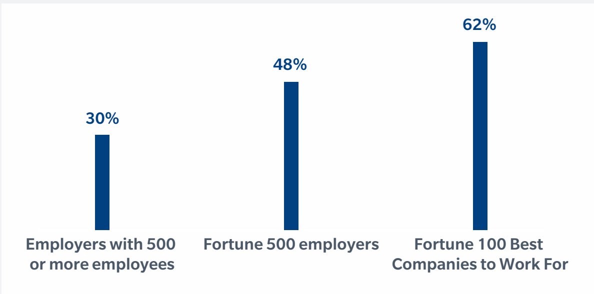
Employers investing in health and wellness often take a holistic view of what drives a healthy and productive workforce. These employers understand the broader impact that physical and emotional health can have on employee medical costs, absence, safety, productivity, and business performance. In addition to controlling medical costs, effective employee benefits programs can also help employees attract and retain talent.

FIGURE 5 **Most Common Health and Wellness Program Offerings**
Source: Mercer's 2015 National Survey of Employer-Sponsored Health Plans

TELEMEDICINE GOING MAINSTREAM

Among the many tools that employers can now use to help employees manage their health is telemedicine, through which medical providers can diagnose and treat patients remotely. Nearly one-third of employers with 500 or more employees offers telemedicine, according to Mercer's *2015 National Survey of Employer-Sponsored Health Plans* (see Figure 6). A higher percentage of Fortune 500 employers and those on the Fortune 100 Best Companies to Work For offer telemedicine to their employees.

FIGURE 6 **Percentage of Employers Offering Telemedicine**
Source: Mercer's 2015 National Survey of Employer-Sponsored Health Plans

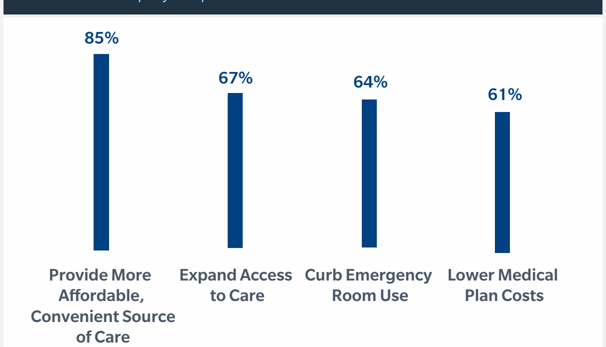


The most common reason cited by employers for offering telemedicine is to provide employees with a more accessible, affordable, and convenient source of care (see Figure 7). Telemedicine can be particularly useful to companies with large employee populations in rural areas, where access to primary and behavioral health care may be limited. Employers are also experimenting with telemedicine kiosks at worksites and beginning to integrate telemedicine with onsite clinics.

Telemedicine and Non-Occupational Treatments

Telemedicine allows employers to offer convenient, high-quality medical care to employees. But telemedicine may not be right

FIGURE 7 **Most Frequently Cited Reasons for Offering Telemedicine**
Source: Mercer's 2015 National Survey of Employer-Sponsored Health Plans



for every employer, and should be viewed as an extension or enhancement of primary care services, rather than as a substitute.

Decisions related to telemedicine — including the selection of vendors — should consider several factors, including:

- **Quality:** Among other criteria, employers should consider the credentialing of a vendor's physicians, its quality assurance procedures, and its adherence to those procedures. Employers should also look for vendors with strong track records and high user satisfaction rates.
- **Pricing:** Employers should compare the services offered by competing providers in detail, including pricing for primary care and specialty services and performance guarantees.
- **Plan integration:** Incorporating telemedicine into existing health plans and primary care physician networks — including allowing for referrals for follow-up care — can enhance its effectiveness.
- **Access:** Employers should consider whether most employees already have good access to care and if urgent/emergency room care utilization is high. Employers should also take into account how tech-savvy their employees are.
- **Delivery model:** Employers should consider how telemedicine services will be delivered to employees, along with the communications channels — such as video and email — that are available to employees receiving primary and specialty care.

For employers that offer telemedicine options, engagement strategies are crucial. Employers can encourage the use of telemedicine through employee-friendly plans with low copays and registration incentives. Communications — including ongoing promotions, leadership endorsements, and testimonials — can also improve engagement.

Telemedicine and Workers' Compensation

Although an increasing number of employers offer telemedicine through group health programs, few are using or considering its use in workers' compensation. Some workers' compensation vendors are exploring telemedicine as an option to provide triage services for employers with large remote or mobile populations, such as drivers. Ultimately, telemedicine may emerge as a viable option for employers to provide early medical intervention to employees who are injured on the job. Telemedicine, however, is not an appropriate means to treat serious or catastrophic workplace injuries. For now, employers should talk to their insurers and TPAs about available telemedicine tools, and carefully weigh their potential application in workers' compensation programs.

WORKING WITH THIRD-PARTY ADMINISTRATORS

As leave laws grow more complex and employees increasingly request disability-related time off, employers are finding it difficult to manage family medical leave (FML) and short-term disability programs. A significant number of employers are thus outsourcing the administration of such programs to third parties (see Figures 8 and 9).

The number of employers using TPAs to manage these programs has steadily increased over time. When Mercer first surveyed employers on their absence and disability management strategies in 2007, 14% of respondents were outsourcing family medical leave programs.

FIGURE 8 **Administration of Family Medical Leave Programs**
Source: Mercer's Survey on Absence and Disability Management 2015

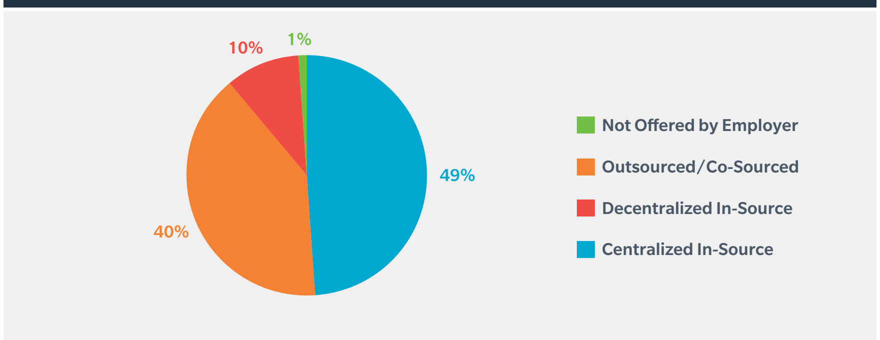
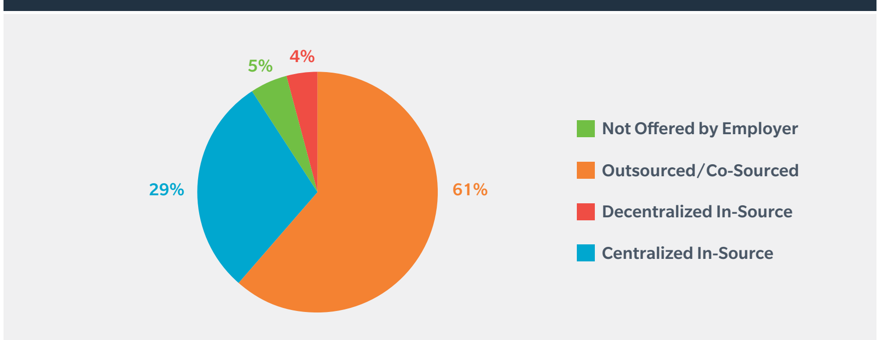


FIGURE 9 **Administration of Short-Term Disability Programs**
Source: Mercer's Survey on Absence and Disability Management 2015



There are several reasons why more employers are choosing to outsource FML and short-term disability programs:

- **Compliance with leave laws is becoming more difficult.** Employers must now comply with several hundred leave laws in the US, including the federal Family and Medical Leave Act of 1993 (FMLA). In April 2016, New York State passed an expansive FML law that will ultimately afford workers up to 12 weeks of paid leave; the law will begin to take effect, in phases, in January 2018. New York will be the fourth state to offer paid family leave, joining California, New Jersey, and Rhode Island.
- **Employees are increasingly requesting paid and unpaid disability-related time off.** These requests include time off for employees to manage their own conditions or to care for family members.
- **Vendor solutions have improved.** Driven in part by the demands of larger employers (those with 5,000 or more employees), TPAs have refined and expanded their offerings. At the same time, pricing has fallen, making TPA services more attractive to midsize employers (1,000 to 5,000 employees).

Companies that are considering outsourcing FML and short-term disability management to TPAs should weigh this decision carefully, as some vendors are more adept at leave management than others. In selecting a TPA, an employer should look for a vendor with:

- **One common system for all leave and disability administration.** Management reporting could be compromised if separate systems are used.
- **Sufficient resources to manage new cases.** Open caseloads directly correlate to the quality of services provided. Based on Mercer's analysis of high-performing claims teams, a typical case manager can effectively manage no more than 250 leave, 100 short-term disability, and 175 long-term disability cases at any given time. The ratio of case managers to supervisors should also be at or below 12-to-1; anything greater than that can impact the effectiveness of the team.
- **Few strategic partnerships (or none) with other firms to manage leave and disability.** Such partnerships rarely last — and can have consequences for clients when terminated. Employers should look for vendors with strong, proven models that they own or manage.
- **Documented standard operating procedures that govern all aspects of the leave management process.** These procedures should document the claim management process, from intake through closure. The timing of the various steps in the process should be included in this documentation.
- **Internal auditing capabilities.** Such audits are central to the success of a leave administration program and should be shared with employers.
- **Access to legal resources.** Vendors should stay abreast of changes to leave laws at the local, state, and federal levels.
- **Leave and disability claim intake services.** Live intake must be available during normal business hours. Interactive voice response and web intake should also be available.
- **Clinical resources on staff.** These employees can help interpret attending physician notes and certifications.

More broadly, employers should look for vendors that can deliver better claims outcomes, as opposed to those that offer the lowest-cost services. Fees for claims handling, bill review, and other administrative tasks are important to consider, but ultimately represent a fraction (typically less than 10%) of claims costs overall. Thus a vendor that charges more in fees could ultimately help an employer save more in total claims expenses while also streamlining and standardizing the administrative experience for employees and managers.

Employers should look for third-party administrators that can deliver better claims outcomes, as opposed to those that offer the lowest-cost services.

CONCLUSION

Employee absences are a fact of life, costing companies billions of dollars each year. Those costs are not likely to abate as workers continue to suffer injuries on and off the job, employees request more disability- and family-related leave, and leave laws grow more complex.

Occupational and non-occupational return-to-work programs, integrated health and disability programs, wellness programs, and other steps can help keep employees healthy and safe and reduce the time that injured employees stay away from work. Although employers cannot fully eliminate the costs of employee absences, these programs and other actions can help them reduce the cost and impact of absences on their workforce and operations.

About This Report

This report was prepared by Marsh's Workers' Compensation Center of Excellence (WC COE), in conjunction with Marsh Risk Consulting and Mercer, one of the Marsh & McLennan Companies.

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ADDITIONAL RESOURCES

For more on this topic:

- Listen to a replay of our webcast, Workers' Compensation 2016: Best Practices in Absence and Disability Management.
- To purchase a copy of Mercer's *Survey on Absence and Disability Management 2015*, visit imercer.com.

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