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An Era of Change

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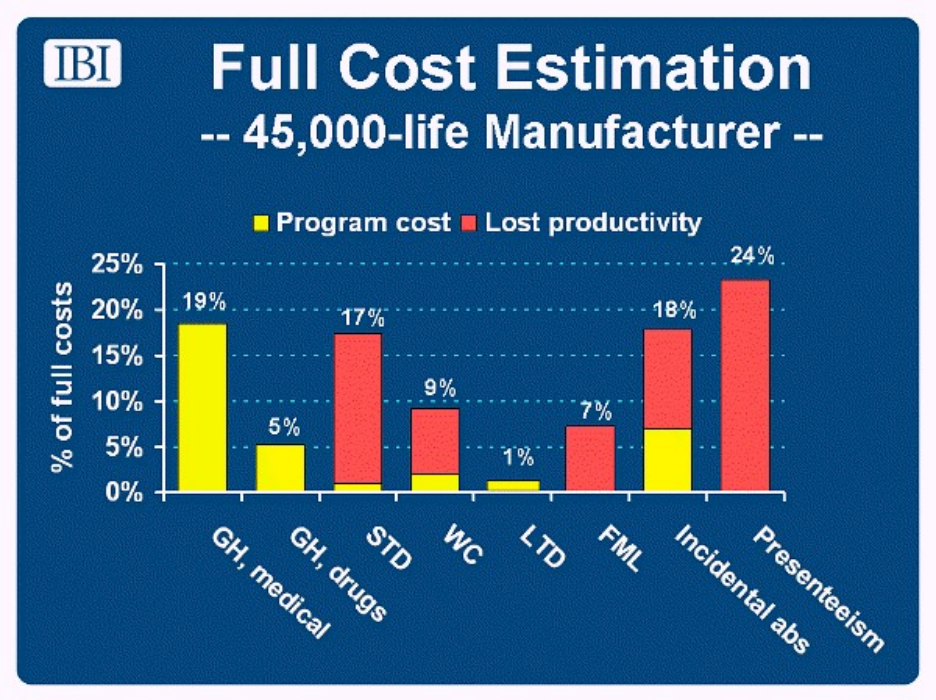
Regardless of your political persuasion, we've just witnessed an historic event in the polity of the United States. Even as an optimistic undergraduate at the University of California at Berkeley in the late 1960s, I doubted such an event would occur in my lifetime. That both candidates argued passionately for fundamental change in the status quo is one of the most striking aspects of the campaign. Both Senators Obama and McCain--not to mention the U.S. electorate--understood that maintaining the status quo simply is not a viable option at this point in our country's history.

The same argument for changing the status quo can easily be made for shifting the way employers have managed their benefits programs. Employers have tended to focus on program-specific cost savings--a strategy that builds in incentives to shift costs and risk to vendors, to employees or across benefits programs within their own organizations. Yet most employers have seen steadily rising program costs, declining workforce health and mounting evidence of the magnitude and importance of health-related lost productivity. They recognize that new strategies are needed that cut across benefits programs and align with the interests of their businesses. But the absence of data--which plagues most employers--makes it difficult to even begin a discussion of charting a new course. In the absence of new information, most employers simply say, "Why change?"

Filling in the blanks. One starting point for filling the blanks in benefits program data is to use industry data as a surrogate in the absence of the employer's own information. For business-case purposes, such a strategy can put the employer in the right ballpark. Let me illustrate by using a 45,000-life specialty manufacturer with a highly-paid workforce for which we have access to information on industry, number of employees, salary and benefits and related information.



In the absence of program costs and lost-time data, we estimate this employer's full health and productivity costs by drawing on the most recent industry-specific data from IBI's benchmarking and measurement programs.[1] By using industry mean values for the individual benefits programs (group health, workers' compensation, short- and long-term disability[2] and family and medical leave), drawing on data from the HPQ-Select database for incidental absence and presenteeism values and using workforce characteristics for this employer to model lost productivity associated with absence and presenteeism,[3] we get an overview of what costs might be for this employer if its experience was "typical" of the industry group.

What does this modeling exercise suggest? First, program payments--the typical focus of benefits-program management for group health, workers' compensation, and short- and long-term disability--represent less than 30% of total full costs (and group health equals about 85% of total payments for these programs). Second, group health payments are about 1/3 of the costs of health-related lost productivity from absence and presenteeism. Third, lost productivity resulting from absence, in this example, is larger than productivity loss from presenteeism. This may be surprising. Much of the work comparing health-related lost productivity from absence and presenteeism, however, has relied on data collected from employee self-reporting tools and has excluded disability-related absence for workers' compensation, short-term disability and family and medical leave. Absence has a much more important impact than such studies would suggest.

Commentary. Why isn't the status quo sustainable? From an asset-management perspective, it's arguable that these costs--particularly health-related lost productivity expense--represent significant erosion in the value of the enterprise. For this manufacturer, the full-cost estimate here represents a 12% decrement in the company's annual human capital investment (salary and benefits expense). And, at least until the recent economic meltdown, a 12% reduction in corporate assets would be a serious issue, both to the Board of Directors and shareholders, and would deserve more detailed attention from the enterprise.

During 2009, IBI will implement new tools for employers and their benefits-program management partners that tap into our data assets. We will work with employers that are data-poor and vision-rich to begin to bring these data together as a starting point for broadening measurement and making the business case. IBI will build a new tool that starts with the data available to the company and then, using industry data and our health and productivity models, provide employers and their partners an integrated view of their full costs, arming them for a new conversation about health, absence and lost productivity management.

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1. Estimates for short- and long-term disability, workers' compensation and family and medical leave program costs and lost time are drawn from IBI's 2007 benchmarking database comprised of 35,000 employer benefits-program units; group health program costs estimates are based on data from Thomson Reuters Marketscan database of 8 million covered lives; and estimates for incidental absence and presenteeism lost time are based on the Health and Work Performance database of 120,000 employees.

2. We include no lost productivity for long-term disability claims, as we assume that in most cases these employees will have left the workforce.

3. Sean Nicholson, Mark Pauly, et al., "Measuring the Effects of Work Loss on Productivity with Team Production," Health Economics 15: 111-123 (2006).

Thomas Parry, Ph.D. is President of the Integrated Benefits Institute and serves as IBI's Chief Executive Officer. Tom is heavily involved in IBI's research program. Most recently, he directed a study analyzing the impact of linking medical care and disability data and directed research on how Chief Financial Officers link workforce health to business outcomes.

Dr. Parry received his Bachelor's, Master's and Ph.D. degrees from the University of California, Berkeley.

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