

## Sick at Work

**The cost of presenteeism to your business and the economy.  
July 2011**

Part of the Medibank  
research series

- In 2009/10, the total cost of presenteeism to the Australian economy was estimated to be \$34.1 billion
- On average, 6.5 working days of productivity are lost per employee annually as a result of presenteeism
- Presenteeism equated to a 2.7% decrease in 2010 GDP



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Presenteeism is a workplace health issue that is not going away.

Employers need to act now to reduce its impact and create a healthier, happier and more productive workplace.

Medibank's *Sick at Work: The cost of presenteeism to your business and the economy. July 2011* research paper draws on the results from *Economic Modelling of the Cost of Presenteeism in Australia: 2011 Update* (Medibank, KPMG Econtech) published in July 2011. To obtain a full copy of the report from Medibank, please contact [victoria\\_hanlon@medibank.com.au](mailto:victoria_hanlon@medibank.com.au) or 03 8622 6388.

# What is presenteeism?

Presenteeism is defined as the productivity that is lost when employees come to work but, as a consequence of illness or other medical conditions, are not fully productive. Employees who work when ill are more prone to injury and, if contagious, increase the risk of passing on an illness to other employees.

Presenteeism is harder to identify and quantify than absenteeism. However, the cost of presenteeism to businesses and the economy is estimated to be greater.

## Background

In 2007, Medibank Private commissioned Econtech to identify the costs and impacts of presenteeism on the Australian workforce and economy<sup>1</sup>. This landmark report and study revealed that in 2005/6 the cost of presenteeism to the economy was estimated at \$25.7 billion, nearly four times the cost of absenteeism.

Four years on, Medibank has revisited this research to assess the current state of presenteeism. Furthermore, this updated report includes an estimation of the impact of the ageing working population on presenteeism and considers the cost of presenteeism in the context of the recent Global Financial Crisis (GFC).

It is clear that presenteeism is a persistent problem, one which is costing our economy billions. Employers can no longer ignore the impacts of presenteeism and Medibank is committed to raising greater awareness of the issue and promoting the benefits of a healthy work environment.

By investing in strategies and programs that support the health and wellbeing of employees, businesses can work towards minimising the impact of presenteeism and improving productivity in the workplace.

## About the presenteeism study

A specialist methodology was used to calculate the cost to the Australian economy of productivity losses due to presenteeism in the workplace<sup>2</sup>. The presenteeism costs identified in the study are made up of:

- the direct costs faced by employers due to the on-the-job productivity losses caused by presenteeism;
- the indirect costs to the Australian economy due to lower labour productivity levels caused by presenteeism; and
- the indirect costs to the Australian economy arising from changes in terms of capital intensity 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 costs of presenteeism.

The study estimated resulting productivity loss from 12 common medical conditions (see page 7). This involved applying data on the prevalence of each condition in the Australian working population to international estimates of the on-the-job productivity losses from each condition.

<sup>1</sup> Medibank Private, Econtech (2007). *Economic Modelling of the Cost of Presenteeism in Australia*

<sup>2</sup> A full methodology and report, *Economic Modelling of the Cost of Presenteeism in Australia: 2011 Update* (Medibank, KPMG Econtech) can be obtained from Medibank.

# The cost of presenteeism

Presenteeism is an ongoing problem for the Australian economy. The impact of presenteeism far outweighs the cost of absenteeism.

## The economic cost of presenteeism

The overall cost of presenteeism to the Australian economy in 2009/10 was \$34.1 billion (Figure 1). This equates to a decrease in gross domestic product (GDP) of 2.7% compared to the 'no presenteeism' scenario. Private consumption – household spending on all goods and services – which accounts for 76% of total consumption in Australia – decreased by 3.3% (\$22.6 billion) due to presenteeism.

The negative impact of labour productivity losses due to presenteeism flows throughout the economy, leading to a general reduction in levels of exports, imports and investments. Indeed, compared to the 'no presenteeism' scenario, exports are lower by 2.7% (\$8.2 billion) whilst imports are reduced by 2.1% (\$6.0 billion). Investment is lower by 2.6% (\$5.0 billion).

This further illustrates the effects on the Australian trade balance, which decreases due to the fact that the decrease in exports is relatively higher than the decrease in imports.

**Figure 1: Macroeconomic Impacts from Presenteeism (\$billions)**



Source: MM2, KPMG Econtech

# Presenteeism: the ongoing problem

Medibank’s groundbreaking 2007 study assessed the cost of presenteeism on the Australian economy and estimated both the direct and indirect costs of presenteeism for business and the economy. Prior to this, in 2005, Medibank commissioned research into absenteeism, which revealed that employees with multiple health risk factors (including smoking, sedentary lifestyles, high stress and poor sleep), were found to have nine times the annual sickness absence of their healthy colleagues<sup>3</sup>.

The results of our 2011 research show that presenteeism is a persistent and ongoing problem. Importantly, the study examined the projected effects of presenteeism in 2050 after accounting for age specific prevalence rates and demographic change. It was revealed that presenteeism is a long-term issue and will continue to have a negative effect on the economy. Indeed, in 2050, the total cost of presenteeism is estimated to rise to \$35.8 billion worth of Australia’s 2009/10 GDP – equating to a decrease in GDP of 2.8%.

**Table 1: The effects of presenteeism**

	2010	2050
<b>Total cost of presenteeism to the Australian economy</b>	\$34.1 billion	\$35.8 billion
<b>Decrease in GDP</b>	2.7%	2.8%
<b>Overall productivity loss</b>	2.6%	2.7%

It is clear that presenteeism is a perennial problem which urgently needs to be addressed if we are to minimise further negative effects to businesses and the economy. By investing in the health of staff, employers can reduce presenteeism rates, thereby improving productivity and, in the long-term, generating a positive impact on business bottom line.

3 Medibank Private, vielife (2005), *The Health of Australia’s Workforce*

# The causes of presenteeism

This study investigated the four main causes of presenteeism:

- Unhealthy lifestyles - A person's health status can influence the occurrence of a health condition that can cause presenteeism. A healthy diet, regular exercise, not smoking and a moderate alcohol intake can decrease the probability of a chronic health condition.
- Workers with illnesses going to work - Sick workers suffer from lower productivity and can spread infection to colleagues. A contagion spread by a single ill worker can impose health costs on a company, which can be several times higher than the direct cost of absenteeism of the specific worker.
- Allergies and asthma - Workers suffering from allergies or asthma can be seriously impaired in their workplace performance by these diseases.
- Poor work-life balance and high levels of 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, like burnout syndrome or depression.

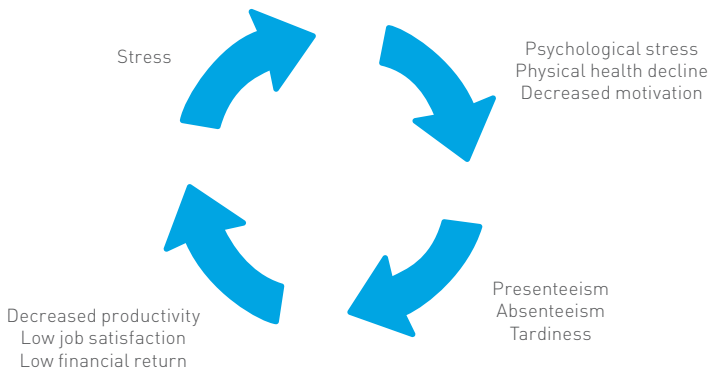
Illness has a direct effect on both the quality and quantity of work undertaken by employees. For example, staff may work more slowly than usual, make more mistakes or need to repeat tasks. This lower labour productivity translates to increased costs for employers.

## The stress cycle

Stress in the workplace is a growing concern for both employers and employees. Whilst a manageable level of stress is seen as a motivating force, further stress can cause performance to rapidly deteriorate.

A 2008 study by Medibank Private<sup>4</sup> revealed that workplace stress is responsible for a loss of 2.14 working days per employee annually as a result of presenteeism, which equates to a cost of \$533 per employee annually.

**Figure 2: The stress cycle**

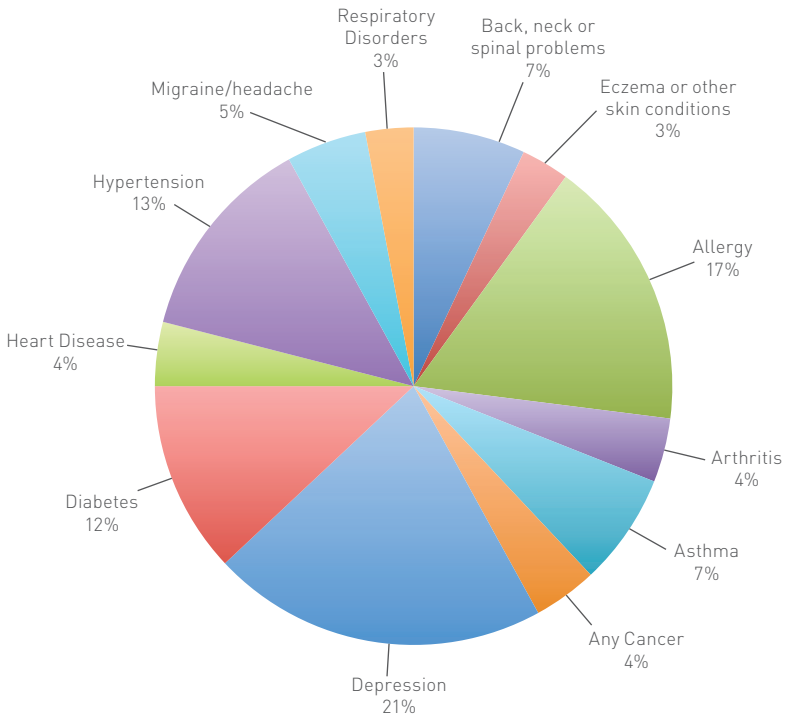


<sup>4</sup> Medibank Private, Econtech (2008). *Economic impact of workplace stress in Australia*

### Medical conditions associated with presenteeism

The study considered the impact of 12 medical conditions (see Figure 3) and found that the biggest contributors to the overall productivity loss caused by presenteeism are depression (21%), allergies (17%), hypertension (13%) and diabetes (12%).

**Figure 3: Contribution of medical conditions to overall productivity loss**



Source: KPMG Econtech

Note: Percentages refer to the contribution that each medical condition makes to the overall productivity loss of 2.6% in 2009-10.

Whilst many employers tackle the “physical” symptoms of illnesses, mental health is still something that is not as widely addressed. Employees can feel afraid to speak up due to the fear of being stigmatised, whilst employers are often not able to recognise symptoms and are therefore unable to step in and offer support. It is important that employees suffering from mental health problems are able to speak freely about their illness, whilst feeling supported and helped by their employer.

### **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 recognises these conditions may also impact employee productivity and contribute to the impact of presenteeism.

Medibank 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.

## **The ageing workforce**

Like most western economies, Australia's population is ageing and is expected to continue over the next half a century. By 2050, the 45+ age range is projected to make up 40.2% of the workforce compared to the current proportion of 36.7%.

As previously discussed, the rate of presenteeism is expected to increase slightly to 2.7% by 2050. The results reflect that, while the prevalence rates of some diseases increase with age, there are others that remain flat and the remainder decline. As such, the impact of Australia's ageing population on productivity losses from presenteeism increases over time but is muted. This highlights the fact that presenteeism is expected to persist and remain a substantial issue into the future.

### **The changing problems of Australia's workforce**

This new demographic of workforce brings with it a number of considerations, including a change in the types of conditions affecting workers. By 2050, the most common types of illnesses are projected to be:

- Arthritis
- Heart disease
- Hypertension
- Back, neck or spinal problems

It is important that employers consider these changes when developing plans to tackle employee sickness.



# The impact of the economic downturn

The global economy recently went through one of the worst and most widely spread recessions in history, the Global Financial Crisis (GFC).

## Absenteeism and the GFC

Data from the UK Office of National Statistics revealed that incidences of sickness absence in the UK dropped to a record low point during the GFC, then returned to pre-GFC levels once the worst of the crisis was over.

- Late 2008 – 2.5% absenteeism
- **March quarter 2009 – 2.1% absenteeism**
- December quarter 2010 – 2.5% absenteeism<sup>5</sup>

The evidence suggests that employees may be less likely to take a sick day during times of economic uncertainty. The results warrant further research to determine if higher levels of presenteeism replace falling absenteeism levels during uncertain periods.

## Effects on productivity

Whilst the 2009 reduction in absenteeism is likely to affect a gain in labour productivity, studies into the relative costs of presenteeism and absenteeism indicate that the economic cost of presenteeism is greater. As such, it may be the case that the overall impact on productivity is still negative where absenteeism falls but presenteeism increases in its place. This would likely suggest that an economic downturn exacerbates the productivity costs associated with presenteeism.

While the opposite is also true, it is estimated that the impact of presenteeism related productivity losses is a long-term issue and is expected to persist regardless of economic cycles which even out over time.

## Affected industries

All workplaces can be affected by presenteeism. However, the study highlighted a number of industries that are most at risk. They are:

- Electricity, gas and water
- Culture and recreation services
- Manufacturing

Importantly, in operational industries such as manufacturing, it is dangerous for employees to work when sick, therefore it is imperative that this issue is addressed.

<sup>5</sup> Office for National Statistics available: <http://www.statistics.gov.uk>. Note: we do not have corresponding data for Australia during this period.

# What employers can do

Health conditions reduce workplace productivity, creating a substantial economic burden for companies and the economy as a whole.

Traditionally, employers have not addressed presenteeism as focus has been on direct health care costs and absenteeism.

However, presenteeism represents a substantial opportunity for business managers to improve company performance by investing in strategies that create a more positive work environment for individuals with health conditions.

## Time to take action

Companies can take steps to address presenteeism and improve their employees' productivity<sup>6</sup>:

- **Awareness**

The first step in addressing presenteeism is to be aware of the problem and the economic impact of health conditions on business and the Australian economy.

- **Identification**

Get to know particular health issues affecting employees, so a company can design better programs to improve their health.

- **Education**

Educate employees to ensure that illnesses are not going undiagnosed. Also, provide employees with access to information on lifestyle management, to prevent and manage illnesses.

Reducing presenteeism also represents a unique opportunity for businesses to develop strategies to support and improve their employees' health and wellbeing. These include:

- health risk assessments to help employees identify 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 consuming a balanced diet and exercising.

Presenteeism is not going away. Employers need to take action to address the situation now so they can create more positive and productive environments for their employees and, consequently, better performing, more profitable businesses.

<sup>6</sup> Hemp, Paul (2004), Presenteeism: At Work But Out of It. *Harvard Business Review* October 2004

## **About Medibank**

Medibank is Australia's largest integrated provider of private health insurance and health solutions.

Medibank has been researching workplace health for many years, examining the effects of health status on productivity and the economy.

## **Medibank Health Solutions**

Medibank Health Solutions offers innovative and cost-effective health care services to business and government. Drawing on more than 35 years' experience, working in partnership with over 4,000 businesses and government organisations, we help Australians to better manage their health.

Our team of over 1,500 medical and allied health professionals provide more than 3 million health care interactions a year, by telephone, online and from our Australia-wide network of clinics:

- telephone and web-based health advice, coaching and counselling, around the clock, seven days a week
- travel health for consumers and business
- visa medical assessments
- workplace health care.

## ***Innovative workplace health care***

Medibank Health Solutions delivers a comprehensive range of rapid, high quality injury prevention and health management services, from recruitment to retirement.

Our proactive workplace health programs:

- target health issues before they become problems
- are designed to reduce work injuries
- help injured employees return to work as quickly and safely as possible
- promote employee health and wellbeing.

## **About KPMG Econtech:**

This research was conducted by KPMG Econtech on behalf of Medibank. KPMG Econtech – which resides within KPMG's Economics, Infrastructure & Policy group – offers business and government a range of advisory services based on advanced economic modelling and forecasting. KPMG Econtech supports client decision making through the economic analysis of industries, tax and social policies as well as forecasting changes in the macro economy and in particular industries and the labour market.

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