Total Absence Management

Two Decades After the Passage of FMLA
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Executive Summary

Nearly twenty years after passage of the Family and Medical Leave Act of 1993 (FMLA), what steps are employers taking to manage employee absence and stay compliant with federal and state leave laws? To answer that question, the ADP Research Institute℠ surveyed 503 HR and benefits decision makers to better understand their business priorities and practices regarding FMLA administration and Total Absence Management (TAM).

Survey results suggest that employer views on Total Absence Management are mixed. Lost productivity due to unplanned absence is a primary business concern for employers; however, few employers reported that they had undertaken studies to measure the impact of absenteeism on productivity or develop strategies to mitigate the incidence of unplanned absence. In addition, 59% and 60% of midsized and large employers, respectively, reported that they track absences, ensure compliance and apply internal plans and policy provisions using only internal procedures and workflows. While some employers utilize sophisticated automation and third-party vendors to measure, mitigate, and administer employee absence, most continue to use manual and/or improvised procedures. The widespread use of manual and improvised procedures suggests that many employers are taking substantial compliance risks with FMLA. Total Absence Management remains a virtually untapped opportunity to enhance workforce productivity.
Introduction

As we approach the 20th Anniversary of the passage of the Family and Medical Leave Act of 1993 (FMLA), employers and employees alike continue to grapple with the issue of unplanned and extended employee absence. Prior to 1993, an employee’s unplanned absence to seek medical care or provide care for a child or parent could result in immediate dismissal. Moreover, most aspects of an employer leave policy were discretionary.¹

In today’s labor environment, the same unplanned absence that could have resulted in dismissal now triggers a workflow of mandatory administrative activities:

- determination of eligibility for protected leave
- calculation of leave benefits
- mandatory communications between Human Resources and the employee
- validation of the leave event, and
- confidential documentation of the entire process.

FMLA

- Employers are generally subject to FMLA if they have 50 or more employees within a 75-mile radius, or are a public agency.
- Employees are generally eligible for FMLA leave if they worked for at least 12 months (not necessarily consecutive), and 1,250 hours within the last 12 months.
- Employees can receive up to 12 weeks of unpaid, job-protected leave per year for the birth or adoption of a child, qualifying personal or family health conditions, and qualifying military exigencies and injured service member health conditions (up to 26 weeks).

STATE/LOCAL LEAVE

- U.S. states and territories may impose additional leave requirements that are more generous than FMLA:
  - Shorter time durations or total hours worked to qualify for leave benefits
  - Expanded definitions of leave types (e.g., routine family medical visits, non-serious illness of a child, victims of domestic violence)
  - Expanded definitions of “family” (e.g., domestic partners, domestic partner’s child, parent-in-law, grandparent, grandchild)
- State-mandated or territory-mandated leave benefits vary significantly by jurisdiction.
- Employers operating in multiple states or territories must comply with the leave rules of each state.
- State and local leave benefits may run concurrently with FMLA, or may be additive. Some states such as California have both concurrent and additive leave benefits.

COMPANY LEAVE PROGRAMS

- May complement or exceed existing federal and state requirements for protected leave.
- May include paid or unpaid leave for specific instances (e.g., bereavement, sabbatical, additional time off for child care).
Under FMLA, the employee remains eligible for key benefits programs and will be able to return to the same, or an equivalent, job upon return.

FMLA has institutionalized the compact between employer and employee. It balances the employer’s right to deploy a productive workforce and terminate poor performers with the right of individual employees to take unplanned time off for personal and family health issues without loss of job security. FMLA also launched the emerging field of Total Absence Management (TAM) – the HR administrative framework for measuring and mitigating employee absence, and coordinating leave administration with disability and other benefit programs.

However, there are two critical challenges to the effective implementation of TAM within the workplace.

1. TAM cuts across a wide range of human capital issues: productivity, employee relations, health and wellness, performance management, diversity, and work/life balance. Implementing an effective TAM strategy requires integration of leave administration through coordinated interfaces with payroll, time and labor, health and welfare, and HR analytics systems. Many companies lack the integrated human capital management infrastructure to do this.

2. The compliance requirements and calculations required for leave administration are highly complex, particularly for large, multistate employers. As of September 2012, more than 54 U.S. states and territories have passed legislation expanding upon FMLA definitions for qualified protected leave. FMLA regulations are also frequently revised to accommodate evolving labor practices and new legislation, such as the Affordable Care Act. Without the focus of a specialist and continuous compliance updates, it can be difficult to administer leave accurately.

So how effectively are employers addressing Total Absence Management today? In May 2012, the ADP Research Institute conducted a survey of HR and benefits decision makers from 254 midsized companies (50 – 999 employees) and 249 large companies (1,000 or more employees) to better understand their business priorities and Total Absence Management practices. The survey explored all aspects of Total Absence Management, including the causes of employee absenteeism, the business impacts associated with absenteeism, and other key concerns. It also looked at processes and tools used by employers to administer leave administration, as well as tactics to measure and mitigate the impacts of employee absence.

The survey showed that, while employers broadly agree on the causes and impacts associated with employee absenteeism, there are wide variations among employers in how they measure, administer, and mitigate absence within the workplace. Here is a review of the major findings.
Overall, large companies report a higher average annual rate of absenteeism compared to midsized companies. This is consistent with other studies of absenteeism conducted by The Society for Human Resource Management (SHRM) and Mercer, and the National Business Group on Health studies, which generally peg the absence rate between 2.9 – 4.0%.

Why would midsized employers report an overall lower rate of absence? While the study does not provide a definitive answer, we suspect that midsized employers are more likely to have less rigorous tools to measure absenteeism, and may be more informal regarding policy enforcement.

Although a 3.5% annual absenteeism rate may seem small, the indirect costs associated with planned and unplanned leave can be quite substantial. Quality, service, production delivery targets, and risk mitigation can become critical issues – especially for unplanned absence. Indirect costs, while variable by industry, are real and substantial. One study suggests that indirect costs are roughly 2 to 4 times absence-related direct payroll costs.

Absence rates can also vary significantly among industries and geographic regions. For an industry with large part-time workforces and high natural turnover, such as the hospitality industry, it is helpful to compare absence rates against an industry benchmark. The same holds true when comparing absence benchmarks across different regions of the country.
Survey participants were asked to report on the frequency and extent of absence studies and benchmarks currently in use. Results show that HR/benefits decision makers in large companies (1,000+ EEs) appear to have a greater concern and are more focused on absenteeism and its impact on their organization than those in midsized companies (50-999 EEs).

Large companies are far more likely than midsized companies to have ever evaluated their organization’s percentage of employee absences versus the industry average or other employers in their geographic area.

Two-thirds (66%) of decision makers in large companies are extremely, very or somewhat concerned with absenteeism, compared with two out of five decision makers (43%) in midsized companies.

Three out of five midsized companies have not evaluated the impact of absenteeism on productivity and have no plans to, as compared to slightly more than one-third of large companies (62% vs. 37%).

While most companies have not used predictive modeling to evaluate the future impact of absenteeism on productivity, large companies are more than twice as likely to have done so (19% vs. 8%).

In general, if a company has not quantified the impact of absences, it may be more difficult to obtain funding and resources to administer absences efficiently and improve overall human capital productivity.

Why have so few companies conducted an analysis of absenteeism? One key reason may be the lack of human capital infrastructure required to support ongoing health and productivity analytics. The need to assemble data from multiple, unlinked sources and perform a “one-off” custom analysis would be a huge undertaking for any HR department.
Causes of Absenteeism

According to HR/benefits decision makers surveyed, employee healthcare-related issues are the top reason for absences and account for about half of all employee absences in both midsized and large companies.

This finding is consistent with multiple studies. What constitutes healthcare related issues? While employees may seek treatment for a diverse array of health conditions, a large portion of absences are typically driven by a small number of conditions. Planned absences commonly include maternity leaves, scheduled medical procedures associated with cancer and/or cardiovascular conditions, and musculoskeletal pain. Mental health also plays a significant role as a causal factor for FMLA and disability events, including time off for treatment of depression, anxiety, stress, and/or addiction. Unfortunately, medical studies have shown a consistent link between physical health conditions and co-morbid mental health, potentially complicating an employee’s ability to return to work or to carry out their responsibilities effectively.

From an employer’s perspective, a significant driver of unplanned and episodic absence in the workplace is the presence of chronic personal health conditions in the workforce. Migraines, flu, allergies, asthma, diabetes, inflammatory bowel disease, and chronic pain are just a few examples of chronic conditions associated with episodic absence.

In addition, unhealthy lifestyles, characterized by smoking and obesity, have been closely correlated to higher absence rates. For example, a study conducted within a major energy firm found that obese workers had an additional 3.73 days of absence per employee, as compared to employees who were not considered obese. The tight correlation between personal health and absence suggests the importance of employee health-and-wellness programs.
One way to avoid workplace issues is to establish well-communicated TAM practices and procedures at the outset, with consistent enforcement for all employees. The coordination of Employee Assistance Programs (EAPs), health advocacy services, and wellness programs focused on achieving and sustaining a healthy lifestyle can all contribute to an effective TAM program.

**The Impact of Absenteeism on Business**

Given the potential disruption to business operations caused by absenteeism, it is no surprise that productivity is the most significant concern of survey participants in both midsized and large companies – one-half or more report that absenteeism has had a negative impact on productivity.

To a somewhat lesser extent, HR/benefits decision makers report that profitability and operational costs may also be impacted by absenteeism. Insofar as human capital business objectives are traditionally linked to productivity metrics, this result makes perfect sense. While increased productivity typically drives improved profitability and reduces operational costs, HR departments administering a Total Absence Management program may not have direct line of sight to those metrics.

Survey participants clearly indicated that the frequency of absence occurrence and unplanned, intermittent absence due to unplanned illness and sick leave are the aspects of absence that worry them the most.

- The **frequency** of absences is the primary concern of decision makers (ranked #1: midsized = 64%, large = 55%) – more than the type of absences, the duration of each absence, or the likelihood of absences turning into long-term disability.

- When it comes to specific **types** of absences, unscheduled illness/sick leave elicits the most concern – ranked #1 by nearly half of decision makers in both midsized and large companies.
Intermittent employee absences are harder to anticipate and plan for than extended leaves, and more likely to cause operational disruption. This can be particularly true for specific mission-critical workforces, where the unplanned absence of even one individual can have a substantial cost. In jobs as diverse as airline pilots, public safety employees, workers in high-technology manufacturing, retail salespeople, wait staff, and health/sanitation employees, the impacts on the workplace can be enormous. As noted earlier, the indirect costs associated with employee absence can be substantial. An airplane taking off three hours late, a missed factory shipment, a lost customer sale, and substandard medical care are all examples of indirect costs that can be associated with understaffing and unplanned leave.

Beyond operational disruption, multiple studies have shown that unplanned absences can be highly stressful and demoralizing for other employees within the workplace. Co-workers and supervisors may be concerned about the welfare of a colleague, while simultaneously feeling resentment at having to shoulder the burden of their colleague’s absence. Historically, organizational studies linked employee absence to “lack of engagement” and poor leadership on the part of executives and managers. In fact, co-workers may disagree on the fairness of the company’s treatment of the employee, with some advocating more generous treatment, while others may advocate termination.\textsuperscript{9,10}

### Types of Absences Most Concerned With

<table>
<thead>
<tr>
<th>Type of Absence</th>
<th>Midsized Companies (50-999 Employees)</th>
<th>Large Companies (1,000+ Employees)</th>
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</thead>
<tbody>
<tr>
<td>Unscheduled Illness/Sick Leave</td>
<td>46%</td>
<td>47%</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>29%</td>
<td>17%</td>
</tr>
<tr>
<td>Long-Term Disability (LTD)</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Family &amp; Medical Leave Act (FMLA)</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Paid Time Off</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>Bereavement</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Short-Term Disability (STD)</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Jury Duty</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: ADP HR/Benefits Survey on Total Absence Management
What About the Impact of Compliance Risk?
The calculation of protected leave for an employee requires the simultaneous application of federal laws, state laws, and company leave policies. Coordination with paid-time-off administration and short-term disability are also often required. As a result, FMLA compliance and leave calculations can be time-consuming and complex.

Is compliance a major issue for most employers? The ADP TAM survey indicates that it is. The study findings show that rigorous compliance assistance is a critical consideration for employers when selecting a TAM outsource vendor, and employers who are first-time buyers of third-party TAM solutions are often moved to take action after experiencing an adverse FMLA complaint.

FMLA case literature is rich with examples of adverse employer rulings, including jury awards exceeding several million dollars\textsuperscript{11,12} and specific cases where federal courts have also upheld the right of plaintiffs to sue not only their employer for FMLA violations, but also list their direct supervisor and responsible executives as individual co-defendants.\textsuperscript{13} Most recently, the U.S. Department of Labor (DOL) announced a new referral program with the American Bar Association (ABA), whereby overflow FMLA cases that cannot be investigated on a timely basis by DOL can now be referred directly to private attorneys participating in the ABA program. In short, compliance matters.

CHALLENGES TO ACCURATE LEAVE CALCULATION AND COMPLIANCE

- Federal and state eligibility leaves may use different criteria for eligibility, assign different benefits, and apply to distinctive or overlapping conditions.
- The employer needs to maintain accurate hourly records for prior years, in order to calculate eligibility.
- State leave benefits may run concurrently with, or may be tacked on sequentially, after federally mandated leave benefits run out.
- Criteria for calculating the leave benefit will vary dependent upon whether the absence is taken on consecutive days, or intermittently.
- Failure of the employer to provide timely, accurate FMLA communications to an employee is a common cause of noncompliance.
Strategies Used to Reduce Absenteeism

Given the potential costs associated with employee absenteeism, what strategies are employers using to reduce absences?

Study results show the vast majority of midsized and large companies are taking steps to control absenteeism. The most typical first step is some means of tracking absence events. There are, however, differences between large and midsized employers.

More than two out of five HR/benefits decision makers in midsized companies (43%) and about one-half in large companies (52%) indicate that targeted intervention strategies have helped to reduce employee absenteeism.

Large companies are much more likely to apply punitive discipline (47% vs. 35%) and analyze reasons for absences in order to identify opportunities to offer additional health-and-wellness benefits (27% vs. 13%).

Among companies that offer wellness programs, more than half of decision makers in midsized and large companies indicate that the program has reduced absenteeism slightly to significantly.

About two out of five decision makers in midsized and large companies believe the availability of healthcare benefits plans reduce absenteeism.

Two important issues emerge from the data. While midsized and large employers view wellness interventions as potentially helpful for mitigating absence, large employers are far more likely to report they have some form of comprehensive wellness plan in place. This is not surprising. Midsized employers tend to be underserved within the wellness industry and have fewer cost-effective choices available to them.
Also of significant interest is the surprising percentage of employers who reported that they do not apply punitive discipline for employees violating leave policy. Unexcused absence is a potentially terminable offense for most employers, and incidents of leave abuse can be highly frustrating and demoralizing for co-workers, supervisors, and HR professionals alike. In fact, a SHRM study on absence reported that roughly 40% of HR administrators viewed abuse of leave policy as a common practice. An employer with sloppy, manual, or inconsistent TAM practices and backup documentation could incur significant legal risk if they were to terminate an employee for abuse of leave policy.

When in doubt, an employer may find it more expedient to simply allow additional paid and unpaid time off to accommodate an employee, rather than risk a legal incident. However, this may allow highly visible performance issues to linger. The ability of a company to confidently impose punitive discipline for leave abuse, with little fear of legal repercussions, is an excellent indicator of the consistency and accuracy of an employer’s TAM administration.

Without effective tracking tools in place, employers may consider it too risky to enforce leave policies. Without benchmarking studies in place, employers also may not be able to quantify the costs associated with lax enforcement.

COSTS THAT MAY BE ASSOCIATED WITH UNPLANNED LEAVE:

- Maintaining additional staff and/or overtime
- Paid healthcare coverage during time off
- Administrative tracking of eligibility and incidence
- Short Term Disability (STD) and related costs
- Administrative effort to ensure consistent enforcement of leave policy across all supervisors and employees
- Preventable medical expense
- Abuse of intermittent leave/performance issues
- Performance degradation: lost productivity, lower service standards, lost revenue opportunities, potential safety and operational risks
- Performance risks pertaining to specific industries and workplaces
The TAM survey found that the majority of midsized and large companies track employee absences, help to ensure compliance, and apply plan and policy provisions internally. However, methods differ by company size.

**Methods of Tracking Absence**
- Midsized companies are more likely to use a manual system to track employee absences.
- Large companies are more likely to use specialized software.

**Methods of Helping to Ensure Compliance**
- Midsized companies are most likely to use a manual process.
- Large companies are also more likely to use a manual process but nearly one-third use an automated workflow process.

**Apply Absence and Policy Provisions**
- Midsized companies are most likely to use a manual process.
- Large companies are also more likely to use a manual process but one-third use an automated workflow process.
- Large companies are more than twice as likely as midsized companies to use an automated workflow process.

From tracking to compliance and policy administration, survey results suggest wide disparities in TAM administration. Large companies are more likely than midsized to use automated tools to manage all aspects of TAM, but even among large employers manual processes are still widely used. About 53% of all large employers and 72% of midsized employers report using either manual processes or no systematic process to administer absence plan and policy provisions. These findings are particularly notable when you compare them with the number of companies who report applying punitive discipline for unauthorized absence – 47% of large employers and 35% of midsized employers. This suggests that many employers – especially those using manual and nonsystematic methods for managing TAM – have limited ability to enforce absence policy. This also supports the hypothesis that many employers compensate for lack of TAM administration capabilities through lax enforcement or nonenforcement of leave policy.
The survey findings show that less than one-fifth of midsized and large companies outsource any aspect of absence management.

Despite high reported levels of manual process, most employers who do not currently outsource TAM indicate that they are unlikely to outsource any aspect of Total Absence Management at this time.

**Likelihood to Consider Outsourcing Any Aspects of Total Absence Management**

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<thead>
<tr>
<th></th>
<th>Midsized Companies (50-999 Employees)</th>
<th>Large Companies (1,000+ Employees)</th>
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<tbody>
<tr>
<td>Likely*</td>
<td>14%</td>
<td>30%</td>
</tr>
<tr>
<td>Not very/not at all likely</td>
<td>84%</td>
<td>66%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Base:** Do not outsource any Absence Management

* Extremely/very/somewhat likely

**Source:** ADP HR/Benefits Survey on Total Absence Management

**HR/benefits decision makers in large companies that are not outsourcing any aspect of absence management are twice as likely as those in midsized companies to consider outsourcing.**

**Half of HR/benefits decision makers in midsized companies indicate they are not at all likely to consider outsourcing.**
Among the reasons cited not to outsource TAM is overall cost of service. In addition, TAM was not necessarily seen as one of the short-term, high-priority, human capital issues facing an employer. Given the impact of other human capital issues over recent years – Health Care Reform, rising benefits costs, and HR and workforce downsizing – it is not surprising that TAM is not the number one priority of many HR departments.

A key issue for many employers around automating and outsourcing TAM may be the lack of mature, integrated solutions that plug into an employer’s existing human capital infrastructure. A stand-alone TAM solution is arguably far less effective than one that integrates/coordinates with existing payroll, time and labor, benefits, and wellness programs.

Survey participants also ranked the solution characteristics most important to them when purchasing a TAM outsourced solution. Overall cost of service was ranked highest by most respondents (a result that holds true for most surveys that evaluate human capital services). Beyond price, the two most commonly mentioned product traits were:

- Ease of integration with existing payroll and HR solutions; and
- Ensuring compliance with applicable federal, state, and local mandate leave laws.
Conclusion

Businesses require a stable, reliable workforce to remain competitive. Whether you operate an airline, a manufacturing plant, a customer service center, an emergency room, a law firm, or a retail store, the safe delivery of high-quality goods and services depends on the presence of trained, motivated employees. Clearly, employee absences not only have a direct impact on payroll costs through substitute labor and paid time off, but also can spawn substantial indirect costs associated with workforce productivity.

The survey results show that employers have a wide range of business priorities related to Total Absence Management. Lower productivity is identified as the primary business impact of employee absence, and unplanned/intermittent leave is the most significant concern of most respondents.

Personal and family health issues are the primary drivers of employee absence. Employer strategies to reduce the frequency and duration of absenteeism include close tracking of missed work days, coupled with employee wellness programs, access to health benefits, and targeted support programs.

While some employers use state-of-the-art automation to track, monitor, and implement leave administration, most midsized and large employers administer some portion of TAM manually, do not conduct systematic benchmarks, and do not quantify the impact of absence. TAM administration remains an untapped opportunity for a significant percentage of employers who have not yet been able to quantify the impact of absence to their business.

As we reflect on changes in the U.S. workplace since the passage of FMLA in 1993, it is clear it has evolved significantly. Consistent and fair treatment of employees who need unplanned or extended leave has become an expectation of the U.S. workforce – part of the new normal. Leave Administration touches on a broad range of human capital issues: employee health and productivity, work/life balance, performance management, and even workforce diversity. In the 21st century, no company can be a true employer of choice without visible, well-communicated and consistent TAM administration.
About the Survey

The ADP Research Institute conducted the ADP HR/Benefits Pulse Survey on Total Absence Management in May 2012. This survey is one of the quarterly thought leadership studies conducted among HR and benefits decision makers on topics of current interest. Decision makers in midsized (50-999 employees) and large (1000+ employees) organizations, across the United States were surveyed to better understand their business priorities and practices regarding FMLA administration and Total Absence Management (TAM).

Research Methodology

The ADP HR/Benefits Pulse Survey on Total Absence Management includes input from 503 HR/benefits decision makers in U.S. enterprises. These respondents include 254 participants from midsized organizations (those with 50-999 employees) and 249 from large organizations (those with 1,000 or more employees). The resulting data for midsized and large companies achieved statistical reliability at the 95% confidence level. Respondents had to be key decision makers (evaluators, recommenders, final decision makers) for critical employee benefits policy changes or major benefits system or service purchases within their enterprises. One-half of midsized respondents and 32% of large respondents were the actual heads of HR or employee benefits within their organizations.

About the ADP Research Institute

The ADP Research Institute provides insights to leaders in both the private and public sectors around issues in human capital management, employment trends, and workforce strategy.
Sources:
http://www.shrm.org/LegalIssues/StateandLocalResources/StateandLocalStatutesandRegulations/Pages/default.aspx, and following:
3 “Direct costs of FMLA to Employers is $21 billion – equivalent to 3.2% of before tax profits” Employment Policy Foundation - EPF FMLA Survey, April 2005.
7 “Depression, chronic diseases, and decrements in health: results from the World Health Surveys,” The Lancet, Volume 370, Issue 9590, Pages 851 - 858, 8 September 2007 Saba Moussavi MPH a, Dr Somnath Chatterji MD a Corresponding Author Email Address, Emese Verdes PhD a, Ajay Tandon PhD b, Vikram Patel PhD c, Bedirhan Ustun MD.
For a broader discussion of the impact of obesity on chronic disease and absence, see:
9 “The Absence Culture and the Psychological Contract—Who’s in Control of Absence,” Nigel Nicholson, University of Sheffield, United Kingdom.
12  See for examples:
See also:
P.7 About four out of 10 HR professionals reported approving FMLA requests that they believed were not legitimate. When HR professionals were asked to provide written comments on FMLA cases that they perceived as illegitimate, the main themes that arose were related to the administration and timing of intermittent leave and the validity of documentation/medical certification.”
See also, pp 23, 24, and Table 14.