

The economic impact of illness on business: What it's costing you and how you can regain control

Executive summary

As part of our ongoing commitment to providing PinnacleCare Members, referral partners, business leaders and prospective members with an understanding of the issues surrounding poor health and the cost of it to their businesses, we've prepared this paper highlighting studies and estimates on the rising cost of poor health in the workplace. Drawing on data on the economic impact from a variety of sources, this paper demonstrates the devastating cost the illness of a key player, or a member of that executive's family, can have on a company, a partnership, an association or a foundation. To address this situation, business owners and leaders must take a proactive approach if they are to realize the economic benefit of improved health down the road. Because the fact is, there are effective strategies to minimize and protect your key people, their families, and your bottom line from illnesses, injuries and accidents.

People are the essential core of business

No matter whether an organization is on the Fortune 500 list or is a smaller, entrepreneurial or philanthropic venture, it is *people* who form the core of that enterprise. Each key executive plays an important role in the smooth and successful operation of the company. He or she holds their role in the enterprise because of accumulated skills and expertise that are essential to the organization. In other words, within each employee population, there are key people without whom the organization cannot thrive. They are the creators of ideas, the drivers of success, and the engines that move the company toward a profitable and successful future. That is even more the case in family and privately held enterprises and philanthropic organizations in which the organization's purpose, identity, and vision are usually closely tied to the people in leadership positions.

While every successful company around the globe performs regular preventive maintenance on its equipment and information systems, that proactive approach rarely is applied to the people who make up the company. Though some organizations offer employee wellness programs and incentives, most get involved with the preservation and improvement of employee health only by providing a health benefits plan, and are forced to scramble when a medical crisis arises.

"In every organization, there are people who are critical to the company's success, whether they have key client contacts or technical knowledge or are the visionaries who both embody the company's value and plot its future course," explains Bruce Spector, the Founder and Chairman of PinnacleCare. "When a major illness or injury occurs to one of those people, it's difficult if not impossible to replace their expertise while they receive treatment and convalesce. A similar effect is felt when a member of a key executive's family is ill. Though they may still come to the office and try to keep up with 'business as usual', they are significantly distracted by their family situation and unable to operate at full capacity. The economic impact these situations have on companies of all sizes is tremendous. Ill health drives huge costs for business."

Lessons from business and politics

There are, unfortunately, many examples of the disruption caused by the illness or death of mission critical leaders. Recently, Apple CEO Steve Jobs took a medical leave of absence to address undisclosed health issues. A pancreatic cancer survivor, rumors swirled after the announcement of his leave, undermining confidence in the firm's future. When the initial announcement was made, Apple stock dropped 2.9 percent. Some experts predicted a more than 20 percent drop in stock value if Jobs' health prevented him from returning to work. After a liver transplant, Jobs returned to the helm at Apple in the summer of 2009 and confidence in the company has rebounded.

Other situations don't end so positively. In 1997, Coca-Cola Co.'s Chairman and CEO Roberto C. Goizueta died of lung cancer just two months after being diagnosed. Though M. Douglas Ivester was named to step into the leadership position, his tenure was short and unsuccessful compared with Goizueta's legendary turnaround of the company.

McDonald's Corp. also suffered the loss of its CEO in 2004 when Jim Cantalupo, who was responsible for turning the fast food giant around, suffered a fatal heart attack at the age of 60 at a company convention. Charlie Bell, who succeeded Cantalupo, only served as CEO for six months. He was diagnosed with cancer just a month after taking on the leadership role at McDonald's, and died at 44, two months after stepping down.

An even more catastrophic example comes from the experience of TLC Beatrice International Holdings Corp., a snack food, beverage, and grocery store conglomerate that was the largest African-American-owned and managed business in the U.S. with \$2.2 billion in sales at its peak. When Reginald F. Lewis, a noted philanthropist and CEO and controlling shareholder of the company died of a cerebral hemorrhage at 50, the company went through a series of leaders, ending with Lewis' widow, who eventually dissolved the company.

And it is not simply the illness of key leaders that can impact an organization. When a family member is seriously ill, it becomes difficult if not impossible for the leader to remain 100% focused on the work at hand. Larry Little was recently elected to the Port Angeles City Council. Two days after he was sworn in he was forced to resign, because his wife has cancer and is in the middle of chemotherapy. He admitted publicly, "I thought I could do it. But already things have been forced to slide in some of my other obligations. First in my list of priorities is the physical and emotional health of my family."

What does poor health cost business?

Many discussions about the impact of health costs on business focus on the skyrocketing cost of healthcare and insurance. Spending on healthcare in the U.S. increased to \$2.2 trillion in 2007, accounting for 16.2 percent of the U.S. gross domestic product. Health costs outpaced both inflation and income growth.¹ Some experts project these costs to reach \$2.5 trillion or 17.6 percent of the GDP when final figures for 2009 are tallied.

What often gets lost in these discussions is the equally significant cost to business of indirect costs or lost productivity due to illness. Looking at recent statistics for the cost of lost productivity due to common diseases, conditions, and risk factors is eye-opening.

- In 2009, cardiovascular disease and stroke cost American business more than \$475 billion in lost productivity and health care costs.²
- In 2008, Alzheimer's Disease and other forms of dementia cost \$148 billion in lost productivity and direct health care costs. In addition, the Alzheimer's Association found in a 2006 study that an additional \$36.5 billion was lost because of caregiver absenteeism, lost productivity and need for worker replacement.
- In 2007, \$3.9 billion was lost in productivity due to obesity.³
- In 2008, the estimated cost of lost productivity due to cancer was \$18.8 billion. Lost productivity due to premature death from cancer was estimated to be \$116.1 billion.⁴
- According to a 2009 study, workers with diabetes lost an average of 11 to 15 percent of work time due to health problems.⁵
- In 2003, the most recent year for which statistics are available, arthritis was responsible for a \$47 billion in lost earnings.⁶
- Each year, smoking costs business about \$97 billion in lost productivity.
- Alcohol abuse cost \$81 billion in lost productivity in 2009.⁷
- Depression accounts for \$51 billion a year in lost productivity and absenteeism.
- Lost productivity due to asthma costs business \$5 billion annually.

More broadly felt, though harder to quantify, would be the overall deleterious effect of high stress levels on key executives, those on the hectic front lines of an enterprise.

Chronic conditions affect almost half of Americans

Even diseases that are not necessarily life-threatening such as headache and the common cold cause employees to miss significant amounts of time from work. *And it is not a limited population of seriously ill people who are responsible for these staggering productivity losses.* A recent study conducted by the Center for Work and Health, a non-profit arm of AdvancePCS, a national pharmacy benefits management firm, discovered that the average American worker loses 115 hours of productivity every year because of a health problem.⁸

According to recent statistics from the CDC, almost one out of every two Americans has been diagnosed with at least one chronic illness. That percentage rises with the age of the population reviewed, which means a majority of the people who make up the upper ranks in American business are living with one of these conditions.

A study by Wayne Burton, M.D. published in the Journal of Occupational and Environmental Medicine showed that a person with 2-3 risk factors, such as weight, high cholesterol and blood pressure, smoking, inactivity, high stress, and poor nutrition, will lose five or more days a year from work. If there are four risk factors, the number of lost days jumps to 13. There are few if any business leaders who are not battling at least one of these risk factors, with high stress topping the list.

Highly compensated employee ill health hits business even harder

Another vantage point from which to consider the bottom line impact of lost productivity is demonstrated in a study by the Wharton School. Lost time for a lawyer, for example, was found to be 5.88 times the daily wage. If a lawyer is worth \$1,000 per day, just a single day off the job will cost her firm \$5,880. If she has to undergo coronary artery bypass surgery which has an average in-hospital and recovery time of seven weeks, the cost to the firm in lost productivity is nearly \$300,000.

In addition to the costs of lost productivity, companies also must confront the additional costs of disability payments and the cost to find and train a temporary or permanent replacement for the ill employee. In a presentation at the 2003 National Forum on Health, Productivity and Absence Management Review, Thomas Parry, PhD, President of the Integrated Benefits Institute, calculated that for each average full-time employee, the hidden costs of absence add up to \$3,288 in excess staffing and more than \$10,000 in lost revenue potential.

The cost of “presenteeism”

Adding to the lost productivity equation is a situation uncovered by researchers which they term “presenteeism,” that is the employee is at work but is unable to function as well as normally either because of his or her own illness or the distraction caused by the *illness of a family member*. A study by the Institute for Health and Productivity Studies at Cornell University found up to 60 percent of the total costs of employee illnesses come from people continuing to work despite illnesses that reduce their productivity.

Ron Goetzel, Vice President, Consulting and Applied Research, The Medstat Group, and Director of Cornell University’s Institute for Health and Productivity Studies, research on presenteeism discovered that the average number of unproductive hours in a typical 8-hour work day is:

- 4.3 hours for workers with heart disease
- 4 hours for those with diabetes
- 3.2 hours for arthritis
- 2.3 hours for high stress
- 2.2 hours for depression

Health promotion and risk management:

How U.S. business leaders are combating the high cost of ill health

When businesses only look at the effect of rising healthcare premiums on profitability, they make what seems to be the most logical move to cut costs—they shift costs to employees by adopting the following:

- higher premium contributions and co-pays
- plans with lower benefit levels that often do not cover preventive care, health screenings, and prescription medications
- plans that limit coverage for family members

But, as we have just seen, these changes can often end up costing the business more in terms of lost productivity! That is because employees:

- either can't afford the insurance
- don't seek needed care
- or, a lack of access to preventive and screening services results in diseases like heart disease, diabetes, and cancer undiagnosed until the employee or a family member develops symptoms and manifests a more severe form of the condition

In fact, a study by Tuck School of Business at Dartmouth found that doubling co-payments in a typical two-tier drug plan led to decreases in prescription medications of eight classes of therapeutic drugs, resulting in more visits to emergency rooms and longer hospital stays, both of which are significantly more costly forms of care.

CEOs at a number of businesses around the country are leading a movement away from simple cost cutting toward health promotion and risk management. In his presentation at Value of Health Executive Summit, "Healthy Employees, Healthy Companies: Making the Connection," GlaxoSmithKline's Ingram outlined some common sense solutions to minimize the impact of poor health on business.

- **Disease prevention.** Includes:
 - tobacco-free worksites, workplace-based cessation initiatives, and no cost coverage for evidence-based treatments to end tobacco use
 - a focus on diet and nutrition with tactics such as subsidized healthier foods in the company lunchroom
 - encouragement of physical activity through programs such as one at Johnson & Johnson that invites employees on a daily walk with the CEO;
 - making available low-cost screening and early detection tests; and access to quality treatment and clinical trials
- **Management of chronic diseases.** Includes:
 - removing administrative barriers to accessing health care
 - setting out-of-pocket costs from chronic disease management at lower levels to encourage patients to receive regular care
 - integrating disease management programs into the corporate culture and incentivizing employees to take better care of themselves

Employee health care is an investment that has bottom line impact

Leading by Example, a program launched by Partnership for Prevention, was designed to encourage CEO-to-CEO outreach on the benefits of viewing employee health care as an investment rather than a cost. Participating CEOs make health promotion and disease prevention an integral part of their business strategy and culture.

“Given today’s healthcare environment, it is important that CEOs understand and appreciate the relationship between a healthy workforce and a healthy bottom line,” said Partnership for Prevention’s former President John Clymer. Healthcare costs pose a serious threat to the competitiveness of U.S. companies, especially annual productivity losses of \$225.8 billion.

Health promotion and risk management are asset protection

In an economy where human capital is increasingly at the core of a company’s competitive advantage, it is essential that businesses, no matter how large or small, seek out creative, effective strategies and tools to protect this essential, often irreplaceable, investment.

“The real keys to cutting costs are lowering risk factors, adding preventive health management strategies, making early detection and screening easy to access and affordable, and improving employees’ access to quality care,” adds PinnacleCare’s Bruce Spector.

Describing how PinnacleCare fits into the new paradigm of risk management he adds, “What we offer is a form of asset protection. Our organization provides clients with a holistic approach to health management. PinnacleCare professional health advisors manage the entire process of seeking and receiving healthcare for clients and their families. This includes gathering medical records and test results from all of the healthcare practitioners a person has seen, to expediting appointments with the top healthcare practitioners across the country, to accompanying patients to appointments to ensure all the needed information is shared and gathered. And because we centralize clients’ medical records, we can provide them with global access to this vital information no matter where in the world they find themselves when illness strikes. When mission-critical employees know their care and that of their families is being overseen and guided by experts, they gain more time, peace of mind and a steadier focus on business.”

Resources

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