

Absenteeism and incapacity: Getting employees back to work or coping with the fact that they will never return

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Lost productivity due to absenteeism and ill-health represents an enormous challenge to South African employers. At any given time 3.4%¹ of the South African workforce is on sick leave. For some, this is a temporary absence while for others it may be a sign of a possibly protracted disability claim. In addition, at least 3% of retirements on funds administered by Alexander Forbes occurred before the age of 55 and are likely to be early retirements due to ill-health. Absent workers have a direct negative effect on productivity, which was estimated to be R3.9bn in 2011¹. So, how should employers manage absenteeism and incapacity?



Absenteeism, Incapacity and Disability Claims

During 2011, 9.2% of workers in the private sector and 33.6% of public sector workers took sick leave¹. Over the three-year cycle ended December 2011, one out of every four employees took their full sick leave benefit¹. When absenteeism is not managed correctly, employees tend to view sick leave as an entitlement and use, or rather, abuse their full benefit. Therefore it is important to ensure sick leave is only taken for valid reasons.

Monitoring and managing sick leave effectively is also critical to detect disability claims before they occur. In some cases, appropriate cost-effective interventions, such as employee assistance programmes or absenteeism monitoring can help prevent an illness or injury from turning into a permanent disability claim. However, for those workers genuinely unable to continue working, the disability claims process can be expedited. Poor handling of the disability claims process can result in workers going without any income if both sick leave and annual leave run out before the disability benefit can be paid. In extreme cases, the disability claim may be repudiated due to late notification. This may result in reputational risk or possible financial liability for the employer.

In line with the disability claims process, it is important to remember that not every employee with medical conditions that hamper their productivity would qualify for a disability insurance benefit. Nevertheless, Schedule 8 of the Labour Relations Act² requires employers to at least investigate all cases of disability and incapacity. There is also a requirement for employers to comply with the Employment Equity Act (EEA) and the Code of Good Practice for disability in the workplace. Appropriate case management and appropriate accommodations or adjustments to the workplace can keep workers productive.

The main drivers of disability in South African workplaces are listed in the following table according to levels of physical intensity associated with the occupations of the claimants. It is interesting to note that HIV does not feature in the top three reasons for disability claims and therefore companies should focus not only on HIV programmes, but also integrated wellness programmes that incorporate all chronic diseases and lifestyle conditions. The highest number of disabilities noted below is due to musculoskeletal conditions which could, with the correct intervention and rehabilitation allow the person to be able to return to gainful employment. Active case management may also reduce the long-term costs of disability benefits.

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PERCENTAGE OF DISABILITY CLAIMS BY LEVEL

	PHYSICAL INTENSITY		
	Light	Medium	Heavy
Musculoskeletal, back and connective tissue	25.2%	24.9%	26.4%
Cancer	10.4%	8.3%	7.5%
Mental	11.0%	8.2%	6.5%
HIV	7.0%	4.1%	8.7%
Respiratory	5.6%	8.7%	8.7%
Nervous system	7.4%	7.9%	7.4%

Source: GenRe Analysis, 2012

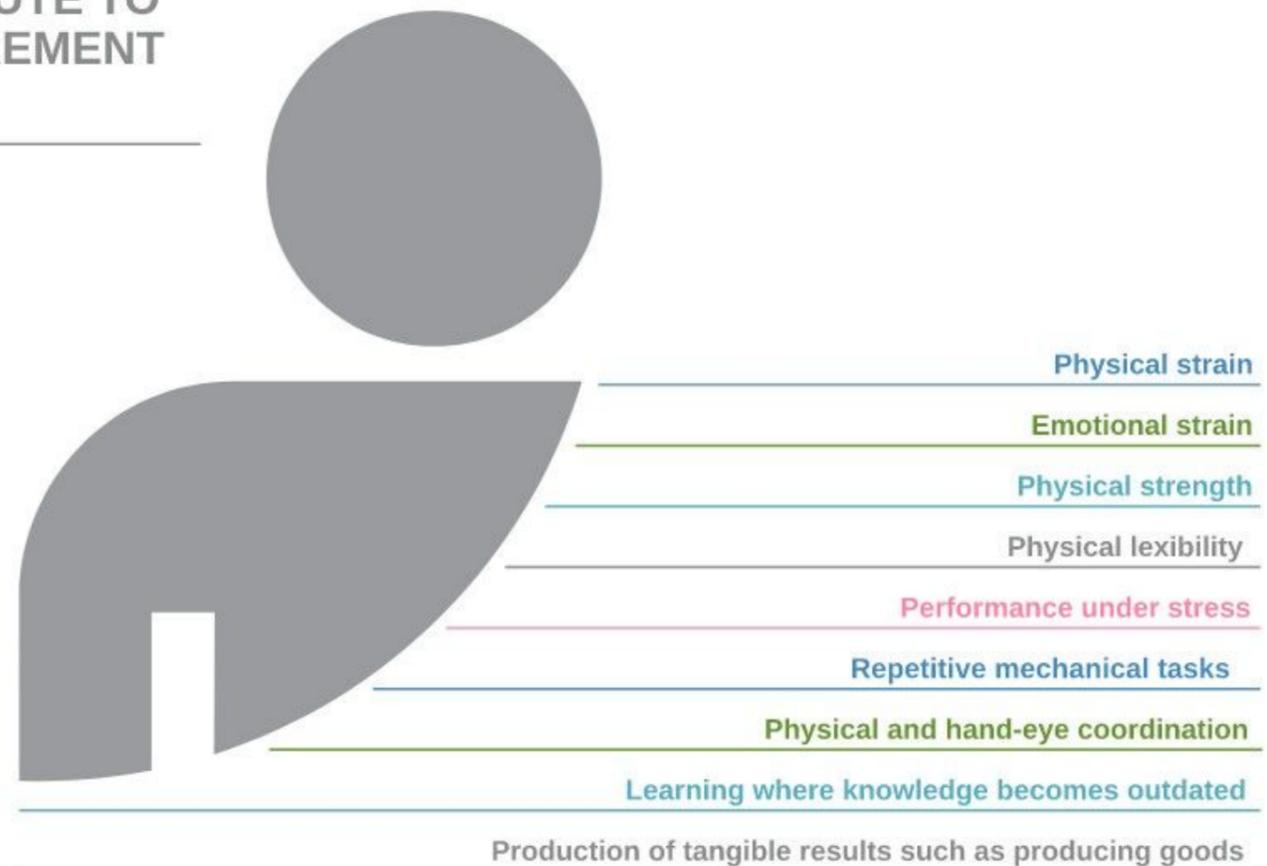
For many white collar workers and workers performing light manual tasks, a number of the top causes of disability in the workplace can be addressed using appropriate wellness interventions. There are five elements to an effective wellness programme, namely: health education, integration with employee services and benefits, supportive environments for health improvements, integration with corporate culture and employee screenings with follow-ups. In the South African working environment there are relatively few fully integrated employee wellness programmes with all five elements in place. There is also a lack of coordination of the various services and service providers, making it difficult to identify trends and any correlating factors. These shortcomings can hamper the effectiveness of these programmes to prevent absenteeism, incapacity and disability³ due to lost synergies.

Early retirement due to ill-health

Health tends to decline with age. While there are certain biological and genetic factors that influence the pace and pattern of this deterioration, there are certain modifiable factors that influence how long health is maintained. These include the physical and mental aspects of work and lifestyle⁴. Where appropriate accommodations in the workplace are not possible due to the very nature of the work, poor health may lead to an early exit from the workforce. Job characteristics strongly influence the age at which individuals are no longer able to work safely or productively. Job characteristics that contribute to earlier retirement ages are illustrated below.

JOB CHARACTERISTICS THAT CONTRIBUTE TO EARLIER RETIREMENT AGES⁷⁵

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An integrated employee benefits system needs to account for effective management of the sick leave benefit and the chronic conditions driving the disability claims experience within the company.

This suggests that earlier retirement ages may be necessary for jobs involving heavy manual labour, manufacturing, mining and transport. Jobs in personal services involving high degrees of emotional involvement and high-stress jobs may also lend themselves to earlier retirement. Early retirements are problematic from a benefits perspective for a number of reasons. Firstly, the employee has less time to save for retirement. Given that all employees typically have the same contribution rate, shorter working lives would result in lower retirement benefits, assuming that the other factors affecting retirement outcomes remain constant.

Secondly, the cost of securing life annuities is higher at younger ages for the same level of income required, which means even lower retirement incomes.

Finally, retirement typically signals the end of the employer's medical scheme subsidy where employers do not offer post-retirement medical subsidies to employees. For many workers, funding their current medical scheme membership in retirement on a lower income and without a subsidy represents a significant hardship. Unfortunately, the reality of early retirement is that the medical conditions that shorten the working lifetime of an individual will persist in retirement and require the individual to participate on a more comprehensive and therefore more costly benefit option.

The potential loss of medical scheme cover or the inability to afford adequate cover, combined with higher medical expenses, may result in many early retirees paying substantially more for healthcare during retirement⁶, which would need to be funded from a relatively low level of income. Employers facing high rates of early retirement due to ill-health could structure contribution rates so that workers with earlier expected retirement dates contribute more towards their retirement funds during their shorter working lives. However, the increased cost to the employee or employer is unlikely to be appealing and may affect their standard of living during their working lifetime. Choosing the appropriate combination of cash lump sum and annuity at retirement can help stretch the retirement benefit further. For workers in a poor state of health at retirement, an impaired annuity, which factors in their potentially shorter life expectancy, may deliver value for money while still preventing the retiree from outliving their retirement savings. Appropriate financial planning, which includes advice on funding for post-retirement medical costs, is essential for individuals to ensure that they consider all potential outcomes and plan accordingly.

Implications

Although many employers have a wellness programme to address elements of physical and mental health, if these are not fully integrated with employee benefits and services, then their effectiveness will be severely compromised. In other words, an integrated employee benefits system needs to account for effective management of the sick leave benefit and the chronic conditions driving the disability claims experience within the company. Additionally, when considering the wellness of employees, employers should take into account that certain jobs lend themselves to an early retirement due to ill-health and that benefits packages may need to be adjusted accordingly.



Most **disability cases** relate to musculoskeletal conditions, which **can be managed** through appropriate interventions and rehabilitation.

Certain jobs, particularly those which entail **heavy manual labour** or involve **high stress levels**, lend themselves to **early retirement** for health reasons.

References

- 1 Adcorp Employment Index, April 20012
- 2 Act no. 66 of 1995, as amended
- 3 Goetzel & Ozminkowski (2008)
- 4 See also Case & Deaton (2005)
- 5 Filer & Petri (1988)
- 6 Butler & Van Zyl (2012a)

[ABSENTEEISM](#)

[INCAPACITY](#)

[DISABILITY CLAIMS](#)

[EARLY RETIREMENT](#)

[HEALTH](#)