

Calculating absenteeism costs

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Calculating the costs of absenteeism will help you make the case for better injury management systems and investment in health and wellbeing.

Absenteeism refers to the productivity lost when someone is absent from the workplace because of injury or illness. Research commissioned by Medibank Private in 2005 found that absenteeism costs the Australian economy \$7 billion each year.

Medibank Private has also calculated that, of 3620 Australian corporate and small business employees surveyed, those with poor overall health status are nine times more likely to be absent from work than healthy workers (18 days, as compared to 2 days).

The link between health status and likelihood of absenteeism means that workplace initiatives that lead to better health—for example workplace health and wellbeing programs and improved disability management practices—also lead to reduced absenteeism.

In order to make the business case for these investments, you need to be able to estimate the costs of absenteeism.

When calculating the overall cost of absenteeism within a particular organisation (or team) there are many smaller costs to take into account, including:

- Supervisor time spent dealing with absence;
- Temporary staff;
- Training time for temporary staff;
- Loss of production;
- Quality loss;
- Overtime for replacement of absenteeism;
- Costs of external agencies that provide support on absenteeism; and
- Costs of HR dealing with absenteeism.

There are various methods for calculating the costs of absenteeism. *One simple approach is to double the daily wage of the employee.*

Another approach (which may be of more use within a large organisation—and carry more weight in the finance department!) is to use a complex formula devised by Gijs Houtzagers in



2003.

Houtzagers formula for calculating absenteeism

$$ACE = (ML (WH + EBC) + S (RH + SBC) + OC) / E$$

Where...

ACE - Total costs of absenteeism per employee for a defined period

ML - Total employee hours lost to absenteeism for a defined period, including illness, accidents, compassionate absences (e.g. funeral) and emergencies, but excluding annual leave

WH - Weighted average hourly pay for the various occupational groups in the organisation

EBC - Cost of employee benefits per hour per employee (= 35% of WH)

S - Supervisor hours lost in dealing with absenteeism for the defined period.

To get this figure:

- Estimate the average amount of hours lost per supervisor per day
- Determine the number of supervisors who have to deal with absenteeism
- Define the total of working days for the defined period
- Multiply these three figures

RH - Average hourly pay for supervisors

SBC - Costs of supervisor benefits per hour per supervisor (= 35% of RH)

OC - Estimation of other costs:

- Temporary staff;
- Training time for temporary staff;
- Loss of production;
- Quality loss;
- Overtime for replacement of absenteeism;
- Costs of external agencies that provide support on absenteeism; and
- Costs of HR dealing with absenteeism.

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