

Sick Pay VS Well Pay: An Analysis of the Impact of Rewarding Employees for Being on the Job

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Variations in employee fringe benefits have begun to permeate modern human resource management in both the public and private sectors. With the acknowledgment that absenteeism is costly to any organization, sick leave has become a high agenda item in management's attempt to deal with absenteeism. There are several studies which suggest that sick leave plans may actually increase sick leave use by employees.¹ There is empirical evidence that organizations with paid sick leave programs experience almost twice the absenteeism of organizations without a program.²

An examination of a sick pay program will reveal the following common characteristics:

- (1) paid sick accrues over time (usually every pay period)
- (2) used when absent from work due to short term illness
- (3) upon termination of employment no compensation is given for accrued sick leave.

The central mission of any paid sick leave program is to provide short term insurance to workers against loss of wages due to short-term illness. However, this well intended "insurance program" for employees has "added costs" incurred due to sick leave abuse. Sick leave abuse is the use of paid sick leave due to non-reality illnesses—slight fatigue, personal problems, weather, personal activities and transportation problems, and results from the employee posture that paid sick leave is a right of the employee and if not used will be lost.

The costs associated with the abuse of a paid sick leave program include:

- Expenses which come from covering for the absent employee via overtime, extra work for present employees or overstaffing. It is also noted that overtime due to absenteeism can have a snowball effect and cause employees who worked the overtime to reward themselves with a non-reality illness causing more overtime,
- when a worker is absent fringe benefit expenses continue to accrue,
- costs of maintaining and administering an absence control system,
- absenteeism (most are unscheduled with short or no notice) increases the amount of supervisory time devoted to its impact,
- possible lowering morale of workers who may resent having to do someone else's work resulting in turnover and grievances, and
- drop in productivity (effectiveness) because unexperienced personnel are performing the work of the absent worker.³

This article outlines an organization's attempt to overcome the various problems associated with paid sick leave programs and also increase employee morale. The approach, called "Well-Pay" was instituted to replace the sick pay program and its ill-effects.

HISTORY

Before outlining the program it is important to note briefly the historical development of deviations from traditional paid sick leave programs/plans. One of the first published deviations from traditional sick leave plans was called "the paid leave plan."⁴ The new concept was introduced in a hospital that had experienced alleged abuse of their sick leave program. The desire was to create a paid time off plan that would be more responsive to the employee's wants and needs, allow flexibility for individual differences and meet the needs of the organization.⁵ A review of the organization's records reveal that some employees constantly used sick leave while others did not—an inequity. The review also indicated that the paid sick leave program actually provided incentive for employees to be sick. The "paid leave plan" actually combined the average number of sick leave paid per employee, vacation leave and holidays into a total for the employee to use at his or her discretion. The result was to take away the incentive to be sick, reward those who did not miss work, increase the self-control of the employees by making them responsible for administering their own leave program. It should be noted that there was a separate sick leave provision for prolonged illness but the paid leave hours must be used first. The major result was a marked reduction in absenteeism and perceived increase in employee morale.

Another study, based on the first using the same concept was conducted some time later.⁶ The concept was called "The Personal Time Bank." The results were similar to that experienced in the first study—reduced absenteeism, better scheduling of time off, increased employee self-control and perceived increase in employee morale.

Another variation of the paid leave concept is sick leave banks. This is an arrangement that allows employees to pool some of their compensated sick-leave days in a common fund and draw upon the fund if extensive illness uses up their remaining time off. It is said that the sick leave bank is effective (reduces absenteeism) because employees are intent on protecting those jointly owned days in the bank, there is psychological pressure on the worker to get to work unless he/she really is sick.⁷

WELL-PAY

The well-pay concept is the act of reinforcing employees for not being absent or sick. The basic premise is to increase the effectiveness of an organization by encouraging employees to be on the job (or discouraging unnecessary absences—non-reality illnesses). The objectives of well-pay include:

- (1) offer employees an incentive to stay well
- (2) lower the absenteeism rate due to illness
- (3) improve the productivity by decreasing absenteeism

In application the well-pay program replaces the traditional sick leave plan by giving a bonus to employees well for four weeks and discontinues sick pay.

CASE STUDY

This article reports a case study of the application of well-pay in a non-profit organization. The organization, founded in 1968, is located in the Midwest and provides employment and

training activities for the jurisdiction it serves. The management of the organization prides itself on a "for profit organization" philosophy. This philosophy is realized by the intent to insure adequate client services through a cost-conscious program.

As in the case of many organizations, the largest budget item of this organization is salary/wages and employee benefits. The organizations employee benefit package includes an annual leave accrual and sick leave accrual systems. In a review of the sick leave accrual system, it was observed that some employees used sick leave as personal time, for as soon as sick leave accrued (one day a month), it was used. Further investigation concluded that since sick leave (unlike annual leave) was not paid to terminating employees, there appeared to be an "if I don't use my sick leave, I'll lose it" attitude.

The investigation found that absenteeism (of sick leave) cost the organization in the 1980 fiscal year approximately \$41,000 (6400 hours with an average of 53 hours per employee). The cost represented payment for zero productivity. The investigation further revealed that current sick leave patterns reflected excessive one-day absenteeism. Management sought an answer to their sick leave dilemma.

At the beginning of their 1981 fiscal year the organization began the well-pay program. The program contained the following features:

- (1) discontinue and freeze the current accrual of sick leave,
- (2) employ a well-pay policy that pays a bonus to employees who stay well (no absences) for four weeks,
- (3) discontinue pay for absences for the first eight hours of absence due to illness,
- (4) employees who are not sick for two consecutive pay periods or four weeks would receive a bonus of four hours pay, and
- (5) any illness time beyond eight hours would be paid in full until the disability plan began (two month's waiting time).

Thus the sick leave accrual system was replaced with a system that provided an incentive to be on the job and protection against serious illness. The key features are being paid for being on the job (carrot) and discouraging casual absences by non payment of the first eight hours of absences (stick). Figure 1 presents a comparative analysis of the sick leave accrual system and well-pay program.

FIGURE 1
Well-Pay Plan Analysis

	Fy 1980	FY 1981	FY 1981 % Change
Number of employees (average)	129	120	6.6% decr.
Total Sick Leave Used (hours)	6,893¼	3,754	45.5% decr.
Average Sick Leave Used Per Employee (hours)	53.44	31.28	—
Average duration of Sick Leave (hours)	9.6	20.0	108% incr.
Amount Paid For Sick Leave (unadjusted)	\$40,864.	\$21,558.	47.2% decr.
Amount Paid For Sick Leave (adjusted)*	\$40,864.	\$18,540.	54.6% decr.
Number of Employees Eligible for Well-Pay Bonus	N/A	120	—
Number of Employees Receiving Bonus (average)	N/A	102	—
Amount Paid in Well-Pay Bonus	N/A	\$38,374	—

*Adjustment made based on an average employee wage increase on 10/1/80 of 14%.

RESULTS OF THE ANALYSIS

After introducing the well-pay program, absenteeism decreased 46% in the 1981 fiscal year. This equated into a reduction of sick leave per employee of 53 hours in 1980 to 31 hours in 1981. Moreover, the new plan resulted in 55% reduction in sick leave paid (40,864 vs 18,540). This data represents a significant benefit to the organization. However, other elements must be considered for an effective comparison. Figure 1 shows an increase (108%) in average duration of sick leave from 9.6 to 20 hours. The increase may be due to the fact that the program encouraged those employees who had an illness not to take only one day (for which they would not be paid) but two or more so as to minimize their loss of eight hours pay. Another seemingly negative element in the comparative analysis is the amount of bonus paid under the new program—\$38,374.00. Comparing the 1980 cost of sick leave (\$40,864) with \$18,540 paid in 1981 plus the bonus pay (\$38,374) results in a cost to the organization of \$16,050 under the new plan ($\$38,374 + \$18,540 - \$40,864$).

In making a comparison between the sick pay system and the well-pay plan in terms of costs, the real cost of sick pay must be considered. That is, when sick leave is used, not only are employees paid their daily rate but they are also paid fringe benefits for their day of absence resulting in a significant increase in real costs for sick leave. Further, a comparison of the two systems must evaluate the savings to the organization due to increased productivity. In this organization, reduction in productivity occurs when an employee is not on the job, resulting in reduction in quality of services provided to the client population. Because the well-pay plan reduced absenteeism significantly, it was concluded that there was an increase in productivity. Figure 2 attempts to calculate the real cost of the well-pay plan by estimating the savings derived from increased productivity based on the assumptions (for comparison purposes) that:

- (1) without well-pay, absenteeism would be the same average number of hours per employee in FY '81 as it was in FY '80 (53.44 hours per employee), and
- (2) the same class of employee (average wage rate) would utilize sick leave.

Figure 2 shows that the well-pay plan resulted in 3139.25 hours of reduced absenteeism or additional hours of productivity. These hours resulted in \$18,019 in savings from productivity. Using this productivity savings figure and adding the cost savings from reduced absenteeism to compare the cost of the well-pay plan bonuses, the plan results in an organization savings of \$1,203 (see Figure 2).

Any change in policy must also be evaluated based on the impact it has on employee attitudes. At the end of FY '81 (one year after well-pay plan had begun), a survey was conducted to determine the positive or negative impact the well-pay plan had on employees and supervisors. The survey response rate was 89%. The results of the survey are presented in Figure 3. As can be seen from the data, the well-pay plan was not well received initially, but when asked which program they chose (sick leave vs well-pay), well-pay was overwhelmingly accepted. Another key element in the survey was supervisor attitudes. Supervisors indicated that the program was somewhat effective in increasing productivity and reducing absenteeism as compared to the sick leave system (see Figure 3). In addition, the supervisors were very satisfied with the well-pay plan with 85% indicating moderately or very satisfied (Figure 3).

Supervisors made the following observations:

- (1) less time had to be spent reprimanding employees with a history of absences, and
- (2) less time required to assist employees covering for absent co-workers

FIGURE 2

Well-Pay Plan Cost Analysis

A) 120 employees using 53.44 hours of sick leave	=	6,412.8 hours
B) Average hourly rate for employees using sick leave in FY '80 (\$40,864.00 divided by 6,893¼ hours)	=	\$5.93
C) Average wage increase on 10/1/80	=	14%
D) Adjusted hourly rate for employees using sick leave	=	\$6.76
E) Assumed cost for FY '81 sick leave (a × d)	=	\$43,351.00
F) Actual cost for sick leave in FY '81	=	\$21,558.00
G) Savings from decreased absenteeism (e – f)	=	\$21,793.00
H) Sick leave used in FY '81	=	3,754 hours
I) Sick leave used in FY '80	=	6,893¼ hours
J) Increased hours available to organization (i – h)	=	3,139¼ hours
K) Average hourly rate for employees using sick leave in FY '81 (\$21,558.00 divided by 3754)	=	\$5.74
L) Savings from increased productivity (j × k)	=	\$18,019.00
M) Cost of Well-pay plan bonus	=	\$38,374.00
N) Adjusted cost for well-pay plan (m – l – g)	=	<u>\$ 1,203.00</u>

CONCLUSION

Presented were the results of a case study. Case studies, as compared with other types of research methodology, are closer to real life.⁸ However, this type of comparative analysis results in a pre-post comparison only. Because there is no control group there can be alternative explanations for the results that are reported. Possibly alternative explanations include the impact of the economy, weather conditions, reduction in work load and change in management philosophy. In interviews with management and subordinate personnel none of these explanations were cited. Further, there were no other significant policy changes relating to sick leave or annual leave programs.

The evaluation found that overall the well-pay program when compared with the sick leave program resulted in the following:

- (1) increased savings to the organization
- (2) reduced absenteeism
- (3) increased productivity
- (4) increased employee satisfaction

Because of these results, the well-pay plan was continued.

The results generally support our contention that the sick pay plan provided a disincentive for employees to be on the job. By rewarding employees for being on the job, absenteeism was reduced and productivity increased. In addition, the well-pay program seems to increase employee satisfaction.

FIGURE 3

Well-Pay Survey

1. At the beginning of the Program, I thought the Well-Pay Program was
 - 5.2% useless
 - 41.8% questionable
 - 26.5% OK
 - 12.2% terrific
 - 1.43% no answer
2. *Now* I feel the Well-Pay Program is
 - 4.1% useless
 - 11.3% questionable
 - 45.9% OK
 - 26.5% terrific
 - 12.2% no answer
3. One of the basic philosophies of the Plan is to offer a continuation of pay for extended illnesses. Is this financial "peace of mind" important to you?
 - 59.2% very important
 - 12.2% undecided
 - 10.2% of little importance
 - 18.4% no answer
4. The Well-Pay Bonus is
 - 32.7% great—I look forward to it!
 - 37.8% OK
 - 14.3% too small to count
 - 15.2% no answer
5. If you had the choice of staying in the Well Pay Program or going back to the Sick Leave accrual system (starting with not time accrued, which plan would you choose?)
 - 64.3% Well-Pay
 - 14.3% Sick Leave
 - 21.4% no answer

Supervisors' Survey

1. As a supervisor has the Well-Pay Program been an effective tool for you in decreasing the absenteeism and increasing productivity, as compared to the Sick Leave system?
 - 23.8% very effective
 - 52.4% somewhat effective
 - 23.8% no difference
 - 0 no answer
2. Overall, what is the level of your satisfaction with the Well-Pay Program?
 - 52.4% very satisfied
 - 33.3% moderately satisfied
 - 4.8% dissatisfied
 - 9.5% no answer

Recently, the literature on sick leave programs indicates that such programs may, in fact, increase absenteeism. Our study seems to support this premise. By taking away the incentive to be sick and substituting a reward for being well, sick leave was reduced.

Many supervisors and managers may argue "why give well-pay to employees when they are paid to be on the job? The results presented show that by taking away the incentive to be sick there is a reduction in sick leave. Another argument is that such a program is expensive. A casual observation would conclude that the program is expensive, but a thorough analysis (as presented here) shows a real savings resulting from the program.

Although our study suffers from the possibility of alternative explanations for the positive results (already cited), we believe that the results are due to the well-pay plan. Other organizations should reexamine their sick leave programs to determine if it actually encourages sick leave.

NOTES

¹Absenteeism, Income Data Services Study, May, 1978.

²D. Willings, "The Absentee Worker," *Personal and Training Management*, December, 1968, pp.10-12.

³R. E. Kopelman, G. O. Schweller, IV and J. J. Silver, Jr., "Parkinson's Law and Absenteeism: A Program to Rein in Sick Leave Costs." *Personnel Administrator*, May, 1981, pp. 57-63.

⁴F. C. Jordan, "A Fair System of Time Off the Job: Combine Sick Days, Vacation Days and Holidays into Paid Days," *Modern Business Practice*, 1974.

⁵Ibid.

⁶B. H. Harvey, unpublished dissertation.

⁷"A Low-Cost Fringe that Workers Appreciate", *Business Week*, March 13, 1978, p. 79.

⁸F. N. Kerlinger, *Foundations of Behavioral Research*, New York: Holt, Reinhart and Winston, Inc., 1964.

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