

REPORT

Centre for
Mental Health



Mental health at work

The business costs ten years on

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Summary

Every organisation in the country is affected by mental health problems in the workforce and, while there is growing awareness among employers that addressing these problems makes good business sense, much remains to be done.

This paper presents new estimates of the costs to employers of mental health problems at work, updating figures published by Centre for Mental Health ten years ago. The new figures relate to the financial year 2016/17 and show that the aggregate costs to employers come to £34.9 billion in that year, equivalent to about £1,300 for every employee in the UK workforce. The new estimate represents an increase of 35% on the corresponding total for 2006, most of which is attributable to the combined effects

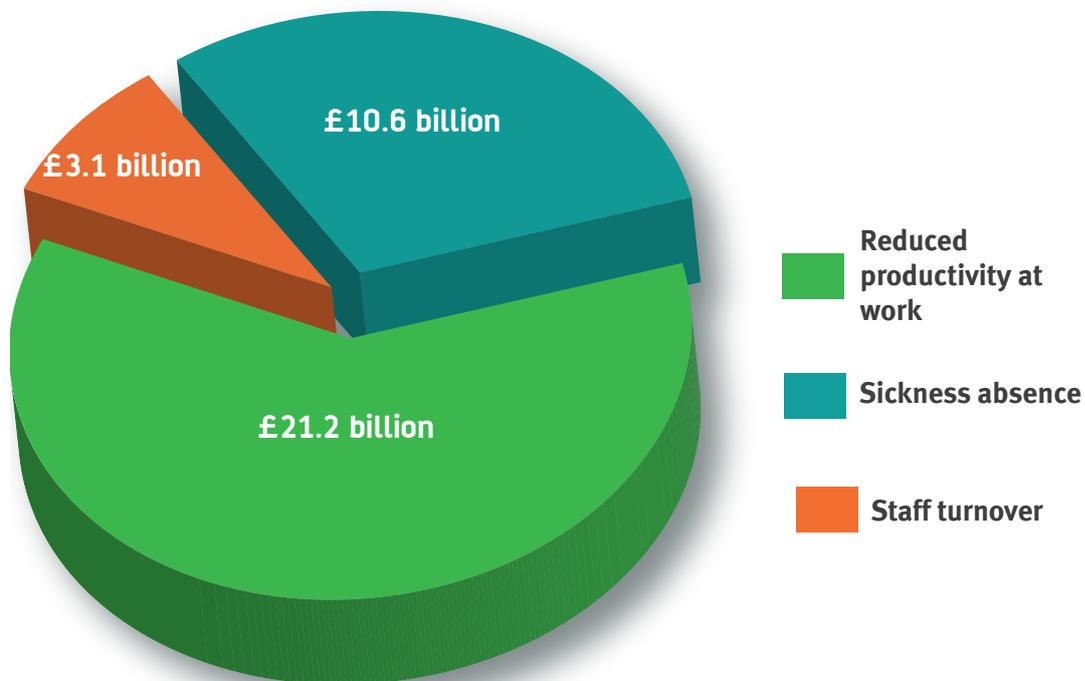
of a larger workforce receiving higher money earnings.

The business costs of mental ill health are shown in the pie chart below. They comprise:

- £10.6 billion in sickness absence;
- £21.2 billion in reduced productivity when at work (“presenteeism”); and
- £3.1 billion in replacing staff who leave their jobs for mental health reasons.

These figures indicate the critical need for organisations to promote wellbeing, create healthy work environments, support those experiencing mental ill-health and equip employees returning to work.

Figure 1: The business costs of mental ill health at work



Introduction

In 2007, Centre for Mental Health published a report on ‘Mental health at work: developing the business case’ which presented estimates of the aggregate costs to UK employers of mental health problems among their staff. These estimates showed that the overall costs of mental health problems at work amounted to some £25.9 billion in 2006, equivalent to 3.6% of the national pay bill or £1,035 for every employee in the UK workforce.

This short paper provides an update of these estimates for the financial year 2016/17, taking into account changes in the underlying determinants of aggregate employer costs such as sickness absence rates, the overall numbers

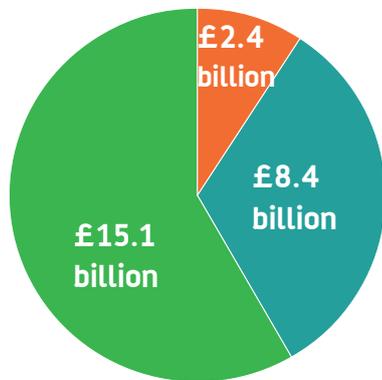
of people in paid employment and average earnings. Account is also taken of the findings of a brief review of relevant research published since 2007.

Three main components of cost were analysed in the 2007 report:

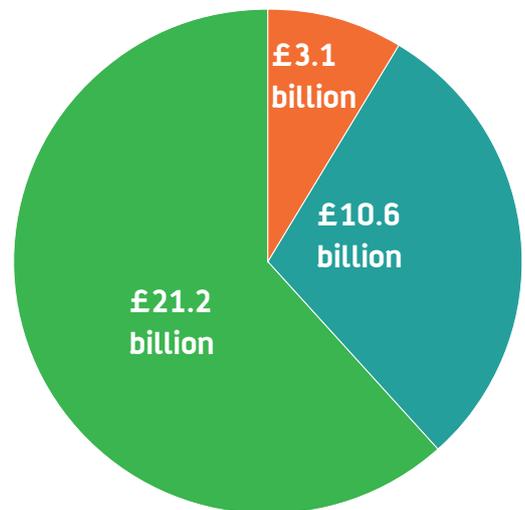
- Sickness absence, accounting for 32.4% of total costs in 2006;
- Presenteeism, i.e. losses in productivity that occur when employees come to work but function at less than full capacity because of ill health (58.4% of the total); and
- Staff turnover (9.2% of the total).

Taking these in turn, updated cost estimates for 2016/17 are as follows.

Key points



£25.9 billion
2006



£34.9 billion
2016/17





Overall Cost
34.9 billion

Sickness absence

The aggregate UK cost to employers of sickness absence associated with mental health problems is estimated at £10.6 billion in 2016/17. This compares with a figure of £8.4 billion in 2006, implying an increase in costs of 26%.

The aggregate cost of sickness absence is the product of two variables: the total number of days lost because of ill health and the average cost to employers of each of these days. Dealing first with the volume of sickness absence, it was estimated in our 2007 report that some 70 million working days were lost in 2006 because of sickness absence among people with mental health problems. In updating this total, account is taken of three main factors.

First, the total number of employees in the UK rose from 25.2 million in 2006 to 26.8 million in 2016/17, an increase of 6.3%. This obviously increases costs at the aggregate level. (In passing, it is worth noting that the overall number of people in work rose somewhat faster than the number of employees, reflecting a particularly rapid rise in the level of self-employment. In 2006 13% of all people in work were classified as self-employed, rising to 15% ten years later. Mainly because of data limitations, the impact of mental health problems among the self-employed is not covered in our cost estimates.)

Second, according to the most recent survey of absence management carried out by the Chartered Institute of Personnel and Management, the average level of absence during 2016 was 6.3 days per employee (CIPD, 2016). This is a fall of 10% on the corresponding figure of 7.0 days used in our 2007 report, which in the absence of other changes would clearly reduce aggregate employer costs.

And third, the latest national survey of adult psychiatric morbidity published in 2016 shows that in the population of working age the

prevalence of common mental health problems such as anxiety and depression increased from 17.6% in 2007 to 18.9% in 2014 (NHS Digital, 2016). In proportionate terms, this represents an increase of 7.4%. As the great majority of people with common mental health problems are in paid employment, it is assumed that this proportionate increase can be applied directly to our estimates.

As can be seen, two of the three factors just described (more people in work, a higher prevalence of common mental health problems) imply an increase in the total number of working days lost, while the third (a general fall in rates of sickness absence) works in the opposite direction. Assuming that the three factors are all independent of each other, it can be calculated that, overall, the aggregate numbers of working days lost among employed people with mental health problems rose from 70 million days in 2006 to 72 million in 2016/17.

Turning now to costs, it was estimated in our 2007 report that the average cost of a working day lost because of sickness absence was £120 in 2006. This calculation was based on national accounts data for average gross compensation per employee (i.e. wage or salary plus on-costs such as national insurance and pension contributions), adjusted downwards to take account of the evidence given in absence surveys that lower-paid workers tend to take more time off work than those on higher earnings.

National accounts data indicate that between 2006 and 2016/17, average gross compensation per employee rose by 23.5%, so increasing the estimated cost of a working day lost because of sickness absence to £148. Applying this unit cost to a total of 72 million working days lost, it is thus estimated that the aggregate cost to employers of sickness absence associated with mental health problems in 2016/17 amounted to £10.6 billion, an increase of 26%.

Presenteeism

The aggregate UK cost of presenteeism (reduced on-the-job productivity) associated with mental health problems is estimated at £21.2 billion in 2016/17. This is an increase of 40% on the corresponding figure for 2006, which was put at £15.1 billion. For the most part, this increase is attributable to the combined effects of a larger employed workforce receiving higher money wages, but it also reflects a revised assessment of the importance of presenteeism relative to sickness absence, based on evidence published since our 2007 report.

The estimate of £15.1 billion for the costs of presenteeism in 2006 was based on two main assumptions: first, that for every one day of working time lost because of sickness absence, 1.5 days are lost because of presenteeism; and second, that the unit cost of an average working day lost because of presenteeism is higher than it is for sickness absence, mainly because there is no evidence to suggest that rates of presenteeism are higher among lower-paid workers as they are for sickness absence. Taken together, these assumptions suggested that, overall, the costs of presenteeism were 1.8 times the costs of absenteeism.

Concerning the first of these assumptions, evidence from research studies published before 2007 suggested that, as a broad average, productivity losses for presenteeism attributable to mental health problems are perhaps three times as large as the equivalent losses for absenteeism. However, most of these studies relate to the US and this will almost certainly lead to an overstatement of the scale of presenteeism relative to absenteeism if translated directly to the UK context.

The main reason for this is that the coverage of occupational sick pay is markedly lower in the US than here. Sickness absence thus imposes a much larger financial penalty on the employee, with the result that proportionately fewer days are likely to be taken off work and a correspondingly higher proportion of the overall

productivity costs of ill health will be reflected in presenteeism. Taking into account this point and also the evidence from a small number of studies in Australia (where sick pay schemes are more like those in this country than in the US), it was thus decided in our 2007 report to use the much more conservative assumption that presenteeism accounts for 1.5 times as many working days lost as sickness absence, rather than the figure of 3.0 suggested by the literature. Also taking into account the higher unit cost of a day lost because of presenteeism compared with absenteeism, we thus came to an overall judgement that the aggregate costs of presenteeism are 1.8 times the corresponding costs of sickness absence.

Our brief review of the evidence on presenteeism published since 2007 (summarised below) suggests that, if anything, the cost multiplier of 1.8 errs too much on the conservative side, and it has therefore been increased to 2.0 in our estimates for 2016/17. The following points are relevant to this revised assessment.

First, it is important to emphasise that the measurement of presenteeism remains problematic. A number of different measuring instruments are used in the literature and there is still no clear consensus on which of these provides the most reliable results. Findings vary widely depending on which instrument is used, implying that the results from any individual study should be treated with caution. It also remains the case that the evidence base on presenteeism continues to be dominated by studies undertaken in the US, with very few relating specifically to the UK context.

Subject to these qualifications, there is strong agreement in the literature that, averaged over all health conditions, the costs of presenteeism are significantly higher than those of sickness absence. To take a possibly extreme example, a recent study of health, wellbeing and productivity in the workplace in this

country found that overall productivity losses associated with presenteeism were no less than seven times as large as those attributable to absenteeism (RAND Europe, 2015). However, the sample of employees used in this study is in some respects unrepresentative of the UK workforce as a whole, including above-average numbers of higher-paid white-collar workers, and this may tend to push up the importance of presenteeism relative to sickness absence.

There is also a high level of agreement in the literature that the association between ill health and presenteeism is particularly significant in the case of mental as opposed to physical ill health, a point brought out in a number of evidence reviews which have been published in recent years (Johns, 2010; Schultz and Edington, 2007; Schultz *et al.*, 2009). A major reason for this is that a continuing fear of stigma and discrimination by both employers and co-workers may lead many employees with mental health problems to turn up for work even when feeling unwell rather than take time off, for which an explicit reason often has to be given, e.g. in the form of medical certification.

The evidence review on presenteeism and mental health by Schultz *et al.* highlights three US studies which estimate that presenteeism accounts for 71%, 81% and 70% (respectively) of the combined overall costs of anxiety and depression to employers. (These costs cover not only presenteeism and absenteeism, but also medical bills.) Also, an Australian study of depression in the workplace found that the costs of presenteeism associated with this condition were more than eight times as high as those of sickness absence (McTernan *et al.*, 2013). This is a particularly high figure and may reflect the specific instrument used for measuring the scale of presenteeism, but it clearly does lend support to increasing the cost multiplier of 1.8 used in our 2007 report to a conservative figure of 2.0.

Reverting to the UK context, it was noted earlier that the level of sickness absence in this country fell from an average of 7.0 days per employee in 2006 to 6.3 days in 2016, a decline of 10%. It seems implausible to argue that a fall on this

scale can be attributed to improved health in the workforce; indeed, in the case of mental health, it has already been seen that the prevalence of common mental health problems among people of working age actually increased somewhat.

An alternative explanation is that the overall health of the employed population was largely unchanged between 2006 and 2016, with the decline in sickness absence being offset by a corresponding increase in presenteeism. Such an explanation seems plausible if, for example, the fall in sickness absence since 2006 was attributable primarily to non-health factors such as tighter absence management by employers and increased job insecurity among employees during the recession which occurred in the years following our previous report. Evidence from a number of sources suggests that both these influences were at work (see, for example, the annual CIPD surveys for evidence of tighter absence management).

Using a multiplier of 2.0 for the costs of presenteeism relative to those of absenteeism, it can be calculated from our earlier estimate for sickness absence that the aggregate UK costs of presenteeism associated with mental health problems came to £21.2 billion in 2016/17, a 40% increase since 2006.

As a rough cross-check on this figure, it has been estimated in a recent Australian study that, for all health conditions combined, the costs of presenteeism are equivalent to 2.7% of GDP (Medibank, 2011). If the same proportion applies in the UK, this amounts to a cost of £52.4 billion. If it is further assumed that 40% of the costs of presenteeism are attributable to mental health problems (in line with the evidence reviewed in our 2007 report for the share of sickness absence attributable to mental health problems), then it can be calculated that on this method of estimation the aggregate cost of mental health-related presenteeism in the UK comes to £20.9 billion in 2016/17. This is reassuringly similar to our own figure of £21.2 billion.

Staff turnover

The aggregate UK cost to employers of replacing staff who leave their jobs because of mental ill health is estimated at £3.1 billion in 2016/17. This is an increase of around 30% since 2006 and has been calculated by increasing the estimate for that year in line with the growth in total employee compensation over the following decade. The increase in total employee compensation takes into account the growth in both the overall size of the employed labour force since 2006 (+6.3%) and the growth in average gross compensation per employee (+23.5%).

The estimate of staff turnover costs given in our 2007 report was based on two main assumptions: first, that mental health problems in the workforce account for 5% of total staff turnover; and second, that the average unit cost to employers of staff turnover was £11,625 in 2006, equivalent to 40% of average gross annual compensation per employee. It was recognised that there was only limited evidence to support these assumptions, particularly the first. On the other hand, in comparison with absenteeism and presenteeism, the costs of staff turnover are relatively small on any plausible set of assumptions, implying that a degree of imprecision in the costings for this factor is not of major importance in the overall picture.

The review of recent research studies undertaken for this paper brought to light only one major new source of evidence on the costs of staff turnover, namely a report by the consultancy Oxford Economics on 'The cost of brain drain: understanding the financial impact of staff turnover' (Oxford Economics, 2014). Based on an analysis of costs in five sectors of the economy (accounting, legal, media/advertising, IT/tech and retailing), the report estimates that the average cost of staff turnover for an employee earning £25,000 a year or more was £30,614 in 2013.

This is more than double the average cost used in our estimates, which is put at £14,420 for 2016/17. A direct comparison is, however, misleading, as our figure is intended as an average across the whole workforce, whereas the one calculated by Oxford Economics relates only to people earning over £25,000 a year in 2013 (who then accounted for less than half the employed workforce, including people working part-time) and to five sectors which may not be representative of the economy as a whole. Pending further research on nationally representative samples of employees, we have decided to leave unchanged the main underlying assumptions for the costs of staff turnover used in our 2007 report.

Figure 2: Overall costs to employers

The aggregate costs of mental health problems at work (UK, 2016/17) are summarised in the table below.

	Cost per average employee (£)	Total cost to employers (£ billion)	Share of total (%)
Absenteeism	395	10.6	30.4
Presenteeism	790	21.2	60.8
Turnover	115	3.1	8.8
Total	1300	34.9	100.0

The aggregate cost of £34.9 billion is equivalent to 3.6% of the national pay bill, the same as in 2006.

Discussion

Speaking in January this year, the Prime Minister launched a new review of mental health at work with the following words:

“I want us to do more to support mental wellbeing in the workplace. So I have asked Lord Stevenson and Paul Farmer to work with leading employers and mental health groups to create a new partnership with industry, and make prevention and breaking the stigma top priorities for employers. Because mental wellbeing doesn’t just improve the health of employees, it improves their motivation, reduces their absence and drives better productivity too.”

The findings set out in this report support the Prime Minister’s argument that improving mental health in the workplace makes good business sense. The scale of the challenge is undoubtedly great, not least because of the conspiracy of silence which continues to surround the issue of mental health in many organisations, but so too is the scale of potential financial benefits, as measured by the £35 billion aggregate cost of existing mental health problems at work. Evidence from a range of sources suggests that a significant proportion of this cost could realistically be saved by the implementation of established good practice.

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