THE ECONOMICS OF WELLBEING

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WELLBEING: THE FIVE ESSENTIAL ELEMENTS
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Whether you manage a few people, lead a large group, or run an entire organization, you are already in the business of managing employee wellbeing.

The research on this topic is quite clear: Your workforce’s wellbeing has a direct impact on your organization’s bottom line.

Even if you have never thought of your employees’ wellbeing as “your business,” each person’s wellbeing is critical to achieving an organization’s goals and fulfilling its mission. Every day in your organization, people don’t show up, don’t give their best effort, erode your productivity, and cost you millions of dollars because of poor mental and physical health. You also have employees who engage their colleagues and customers, generate new ideas, and save your organization thousands of dollars in healthcare costs because they take responsibility for their health. Simply put, the wellbeing of your employees can be measured, managed, and quantified.

Since the mid-20th century, Gallup scientists have been exploring the demands of a life well-lived. Recently, in partnership with leading economists, psychologists, sociologists, physicians, and other acclaimed scientists, we began to explore this topic in greater detail. From various in-depth analyses, including random samples from more than 150 countries and areas around the world, we studied the common elements that best differentiate lives that are spent thriving from those that are spent struggling or suffering.

As we completed this research, five distinct statistical factors emerged. These core dimensions are universal and interconnected elements of wellbeing, or how we think about and experience our lives. These five elements are:

**Career Wellbeing**: how you occupy your time and liking what you do each day.

**Social Wellbeing**: having strong relationships and love in your life.

**Financial Wellbeing**: effectively managing your economic life to reduce stress and increase security.

**Physical Wellbeing**: having good health and enough energy to get things done on a daily basis.

**Community Wellbeing**: the sense of engagement and involvement you have with the area where you live.

These five elements of wellbeing are measured by Gallup’s Wellbeing Finder, an assessment with scores that range from 0-100. The Wellbeing Finder program
enables individuals to track their wellbeing to see the areas in which they are thriving (a score of 70 and above), struggling (a score of 40-69), or suffering (a score below 40).

Gallup’s wellbeing benchmarks are designed to help individuals and organizations create change in each of these five key areas. Additional information on the research behind the common elements of individual wellbeing can be found in the book *Wellbeing: The Five Essential Elements* (Gallup Press, 2010). For more information about Gallup’s organizational approach to improving wellbeing, please see the Appendix.

## ESTIMATING THE COSTS OF LOW WELLBEING

For the purpose of illustration, let’s look at the cost of “sick days” due to variance in employees’ wellbeing. The number of sick days, or days when poor health keeps people from doing their usual activities, is a relatively direct metric that can be compared across different levels of wellbeing. Conservative cost estimates account for missed productivity only and do not include healthcare expenses, the effect of low wellbeing on customers and colleagues, or a host of other costs. However, understanding the impact of sick days on productivity allows us to make comparisons that are relevant to almost any organization in any part of the world, regardless of how health and benefit costs are subsidized between governments, employers, and individuals.

In the United States, the average sick day (across industries, job types, etc.) costs an employer about $348 in lost productivity (Goetzel, Hawkins, Ozminkowski, & Wang, 2003; Bureau of Labor Statistics, 2009). When we adjust this number because people are sick on weekends and non-working days and because some work does get done on sick days, the cost is still approximately $200 per sick day. This is a general estimate based on a median salary. A missed day for a physician or a lawyer, for example, obviously costs more, and sick days for employees with other jobs cost an organization less. Using this estimate, merged with information about the overall wellbeing of 2,276 randomly selected Gallup Panel members (based on their Gallup Wellbeing Finder scores), we generated conservative estimates of sick-day costs associated with wellbeing. As you can see in the graph to the left, lost productivity costs due to unhealthy days alone have a major impact on an organization’s bottom line.

For example, the difference in the annual per-person cost of lost productivity due to sick days for those in the middle of
the struggling zone (scoring 50-59) and those in the lower band of the thriving zone (70-79) is $3,384. For every 100 people, that difference represents $338,400; $3.4 million for every 1,000; and $33.8 million for every 10,000 people. This is just one of many outcomes that link to individual wellbeing.

Another recent study compared the disease burden (incidence of high blood pressure, high cholesterol, heart disease, back pain, diabetes, depression/anxiety, sleep apnea/insomnia) of 662 people with varying levels of wellbeing (Goetzel, Hawkins, Ozminkowski, & Wang, 2003; Kleinman, Brook, Doan, Melkonian, & Baran, 2009). For each disease, we entered the average annual cost into our database; 1999 figures were adjusted to 2009 healthcare, absence, and short-term disability costs (Bureau of Labor Statistics, 2009; Kaiser Family Foundation and the Health Research & Educational Trust, 2009). After adjusting for demographic differences (age, gender, marital status, education, and income), respondents in the thriving category averaged $4,929 per-person disease burden cost. This compares with $6,763 for those in the struggling/suffering category, a per-person differential of $1,834. This represents a cost difference of 37%. For every 1,000 employees, the cost differential is approximately $1.8 million for the primary areas of disease burden where we obtained costs.

We took this study a step further and tracked changes in disease burden from 2008 to 2009 for the same group of 662 panel members. After collecting incidence of disease burden (as previously noted) and Wellbeing Finder scores, we studied the relationship between wellbeing and recent changes in disease burden (new occurrences of disease burden from 2008 to 2009). Based on new cases of disease burden only (and adjusting for demographic differences), the average annual new disease burden cost for people who are thriving is $723, compared with $1,488 for those who are struggling/suffering — a per-person difference of $765. Based on these figures, those who are struggling/suffering realize two times higher new medical costs due to disease burden (2008-2009) in comparison to those who are thriving (Agrawal & Harter, 2009).

There are many ways to represent the economics of wellbeing. Whether using a basic approach based on estimates of lost productivity due to sick days or an approach that attempts to quantify the cost of disease burden, the economic differences between those who are thriving and those who are struggling or suffering are substantial and have practical relevance to any organization.

Much like medical researchers study how disease burden influences our physical health, we can see how specific elements in our lives shape our overall wellbeing. If someone has two forms of disease burden (such as heart disease and obesity), it
is possible to not only study these conditions in isolation, but also to examine the cumulative effect of both conditions. Gallup is finding that the same underlying principle applies to our wellbeing. If someone has struggling Career Wellbeing and struggling Financial Wellbeing, for example, there is a cumulative effect in terms of how this combination increases his or her stress levels while decreasing productivity. What follows are high-level findings about the costs associated with “wellbeing burden.”

**THE COST OF LOW CAREER WELLBEING**

Among randomly selected U.S. workers, *a mere 28% are engaged in their jobs.* Work units with many engaged employees realize substantially higher levels of customer engagement, productivity, and profitability compared to teams with less engaged employees. And engaged teams have less absenteeism, lower turnover, fewer accidents on the job, less theft or unaccounted for merchandise, and fewer quality defects (Harter, Schmidt, Killham, & Agrawal, 2009). These short-term effects of engagement on performance translate into long-term effects on earnings per share.

The 28% of engaged employees (who are thriving in Career Wellbeing) are also twice as likely as actively disengaged employees to be *thriving in their lives overall.* While most people don’t realize how closely intertwined their Career Wellbeing is with their overall evaluation of their life and daily experiences, Gallup’s research suggests that this may be the single most important element of one’s wellbeing.

Because they enjoy what they do on a daily basis, those with high Career Wellbeing get more done and can work substantially longer hours without burning out. In sharp contrast, workers we studied with low Career Wellbeing began to disengage after just 20 hours of work in a given week (Harter & Arora, 2009). As a result, workgroups made up of employees with low Career Wellbeing are less likely to retain workers and have more incidents of workplace injury and theft.

Engaged employees are also healthier than their disengaged colleagues, even after controlling for age and prior health status. And employees with low Career Wellbeing are likely to take a toll on an organization’s bottom line in the form of substantially higher healthcare costs. People in disengaged workgroups are nearly *twice* as likely to be diagnosed with depression, have higher stress levels, and are at greater risk for heart disease (Agrawal & Harter, 2009). And as we age, the impact of low Career Wellbeing on sick days continues to increase.
Gallup research on wellbeing has revealed that there are numerous ways for organizations to help employees improve their Career Wellbeing. Organizational leaders and managers can help workers connect their work to a higher purpose. They can focus on people’s strengths more often, which can eliminate active disengagement. Leaders can also motivate employees to achieve their goals and to have hope for a better future.

Recent research also indicates that engaged employees are 21% more likely than actively disengaged employees to get involved in wellness programs offered by their employers (even after controlling for differences in demographics). Based on a study of 7,898 panel members, 38% said that their organization offers a wellness program. Of this group, 39% said they currently participate in a wellness program. This means that only 15% of all workers we studied are offered and participate in a wellness program sponsored by their organization.

Further, the relationship between engagement at work and involvement in wellness programs was consistent across body mass index (BMI) groups (normal, overweight, and obese) and people with and without disease burden. In other words, even among people who are classified as obese and who have pre-existing disease burden, those with higher Career Wellbeing are more likely to become involved in wellness programs that are offered (Agrawal & Harter, 2009). This research shows that investing in people’s development might in turn cause them to take the initiative to invest in themselves and their own wellbeing. When they see that the work they do matters, they are motivated to use available resources to make sure their overall wellbeing is strong.

**THE COST OF LOW SOCIAL WELLBEING**

Our Social Wellbeing is closely intertwined with our Career Wellbeing. In a random sample of 1,479 working adults, we found that 32% had thriving Career Wellbeing. But among those with low Social Wellbeing, the percentage who were thriving in their careers dropped to 10%. For those with thriving Social Wellbeing, 49% were thriving in their careers.

Yet the vast majority of organizational leaders don’t think it is their responsibility to help employees boost their Social Wellbeing. Even though strong social relationships are among the most fundamental of human needs, just 5% of workers strongly agree when asked if their organization helps them build stronger personal relationships, while most employees disagree with this statement.
Gallup has extensively studied the impact of friendships on an organization’s productivity. By asking more than 15 million workers if they have a “best friend at work,” we discovered that people who have high-quality friendships on the job are seven times as likely to be engaged in their work. Without a best friend, work can be a very lonely place: Those without a best friend in the workplace have just a 1 in 12 chance of being engaged. Social relationships at work have also been shown to boost employee retention, safety, work quality, and customer engagement.

But can organizations really help workers lead better social lives? Obviously, leaders can’t just tell people to have better relationships, but they can create an environment in which people are more likely to make connections and build strong social networks. They can provide mentors to encourage an employee’s personal and professional development. And organizational leaders can help employees understand the need for quality social time during the workday and beyond.

Recent research suggests that many important health and wellbeing trends are closely connected to our social ties, even several degrees removed. Even our friends’ friends’ friends’ happiness, health habits, and obesity can have an effect on our happiness and health. We are social beings, and our need to be connected to others doesn’t disappear when we enter the office.

THE COST OF LOW FINANCIAL WELLBEING

Employees need a moderate level of Financial Wellbeing to meet their basic needs. Yet many organizational leaders — from executives to leaders in human resources and benefits — make the mistake of confusing monetary compensation with real financial security. Gallup’s studies have found that financial security has nearly three times the impact of income alone on your employees’ overall wellbeing.

Many organizations do offer programs to help employees manage their finances, but the average employee does not think his or her organization is very effective in this regard. Unfortunately, just 6% of employees strongly agree that their organization does things to help them manage their finances more effectively.

Low Financial Wellbeing, even if it is not specific to one’s job, has a wide range of ramifications for the employee and the employer. If people don’t perceive their pay to be fair and
equitable for the work they are doing, it can lead to disengagement and cause them to leave the organization when a better job comes along. Yet what might be even more damaging is the impact of financial worries on employees’ mental and physical health. Low Financial Wellbeing can lead to stress, anxiety, insomnia, headaches, and depression.

Even if your organization is not able to increase wages, there are a host of things employers can do to increase employees’ Financial Wellbeing. The choices that organizations make for their employees, such as opting them into retirement plan participation, can positively influence savings over a lifetime. In the United States, employers are in a unique position to help employees make choices about retirement, savings, and healthcare. At a more individualized level, the most progressive organizations we have worked with are already doing a great deal to help employees make better decisions about their short-term finances as well. Education programs at work can help employees make better decisions about how they spend their money and how they save it to minimize risk and subsequent stress.

Perhaps most importantly, organizations can help their employees be more conscious about how they spend their money. As we discuss extensively in the book *Wellbeing: The Five Essential Elements*, people can improve their wellbeing by spending on others or giving to charities — instead of spending only on themselves. And they can improve their wellbeing by spending on experiences, such as time out with friends or vacations with family. The challenge lies in helping people understand how managing their finances well can allow them to do what they want to do when they want to do it.

**THE COST OF LOW PHYSICAL WELLBEING**

Many employers are already making a considerable investment in helping employees improve their physical health and wellness. In the United States, because many organizations pay for a large portion of an employee’s healthcare costs, a lot of employers have some type of workplace wellness initiative. This is why it is so surprising that just 8% of American workers strongly agree that their organization does things to help them improve their physical health.

Recently, the costs of poor physical health have received a great deal of attention. In general, estimates show that up to three-fourths of all costs in the U.S. healthcare system might
be due to conditions that are preventable and within our control (Roizen, n.d.). Smoking, poor diet, and lack of exercise are a few of the biggest challenges we face today.

While many leaders — organizational and political alike — focus on the direct costs associated with paying for their employees’ medical care (which has been well-documented), our results suggest that employees with low Physical Wellbeing could be taking an even larger economic toll. Much of the research on this topic has looked strictly at medical costs such as prescription drugs, doctor visits, hospital stays, and insurance premiums. While these costs are eroding many companies’ balance sheets, they may be a gross underestimation of the actual economic cost of low Physical Wellbeing.

Even when a worker with struggling Physical Wellbeing shows up for work, it is highly unlikely that he or she has the energy to achieve as much as an employee with thriving Physical Wellbeing can. Those with high Physical Wellbeing simply have more energy and get more done in less time. They are also more likely to be in a good mood, thus boosting the engagement of their colleagues and customers. So the next challenge for organizational leaders is to quantify the indirect costs of low Physical Wellbeing.

As we are learning from some of the most progressive organizations we have worked with, employers are in a unique position to help employees and their spouses, partners, and children lead healthier lives. Organizations can create cultures and workplaces where employees have more healthy choices. Whether this is in the form of low-fat foods in a common dining area, on-site exercise facilities, incentives for healthier behaviors, greater physical education initiatives, or managers who truly care about the entire employee, organizations can give people the means to take responsibility for their physical health.

Today, just 9% of workers in the United States say that it is very easy to find healthy food at their place of work. And less than 5% report that their organization offers financial incentives for leading a healthier lifestyle. Improving the current situation is in both the individual’s and the organization’s best interest, with the average family insurance premium costing $3,515 per worker (as of 2009) and an additional cost of $9,860 to the employer for each worker who is covered (The Henry J. Kaiser Family Foundation, 2009).

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The people you lead have a direct influence on the quality of life in their communities. The most progressive organizations we have studied are actively involved in making a difference in their communities, whether through improving aesthetics, social offerings, serving on community councils, or donating time or money. Thriving Community Wellbeing requires active participation in some type of community group or organization. Having employees who are thriving in Community Wellbeing improves an organization’s image and increases its positive impact on the community. On the other hand, when organizations run their business in isolation, they miss out on potential gains in Community Wellbeing for their employees and organization.

Community Wellbeing is strongly linked to the other four areas of wellbeing. For instance, in one large international study, we found that people with strong Career Wellbeing were 20%-30% more likely to say they volunteered their time to an organization in the past month. And having a career mentor is particularly important to Career Wellbeing. In another study of more than 150 organizations, business units with many employees who agreed that someone encourages their development were much more likely to engage customers, compared with business units with few employees who agreed that someone encourages their development.

In one organization, we tracked employees’ monetary donations through a voluntary community program. We found that people in workgroups with the highest levels of employee engagement (those in the top quartile) were 56% more likely to give money to the community, and they gave 2.6 times more money than people in less engaged teams (those in the bottom quartile).

When we surveyed more than 23,000 people, we found that nearly 9 in 10 report “getting an emotional boost” from doing kind things for others. Throughout the course of our lives, “well-doing” enhances our social interaction as well as our meaning and purpose. And some studies suggest that it inoculates us from stress and other negative emotions, thus increasing our longevity (Piliavin, 2003).

These findings show a pattern of reciprocity: If the organization invests in the employee, the employee then invests in others — including the organization’s customers and the community they live in. So the question for leaders might be: How can you make it easy for your associates to connect their personal mission to something that benefits others in the community? The advantages for the individual and the organization are substantial.

A mere 8% of employees strongly agree that they have higher overall wellbeing because of their employer, and the vast majority clearly think that their job is a detriment to their overall wellbeing.
As you can see from this review of the costs associated with low wellbeing, this is a problem that runs rampant, even in the most engaged organizations we have studied. A mere 8% of employees strongly agree that they have higher overall wellbeing because of their employer, and the vast majority clearly think that their job is a detriment to their overall wellbeing.

Fortunately, you can also see some hope in these data we collected. Sixty-six percent of people we studied are thriving in at least one of the five areas of wellbeing — 47% are thriving in two areas, 31% are thriving in three, 18% are thriving in four, and 7% are thriving in all five areas. Herein lies an enormous opportunity. In the same way that the medical community formally studies disease burden — or the number of major diagnosed health problems a person has — these five domains provide a way to look at the overall wellbeing of an organization through a different lens. How many of your employees are thriving in all five areas? How many are thriving in four out of five?

Because each of these five elements of wellbeing are additive, an employee who is thriving in two areas should have a cumulative advantage over someone who is thriving in just one. Someone thriving in three of the five areas should have an even greater advantage, and so on. In fact, we see this pattern in the data. The annual cost of missed days due to illness decreases incrementally as we categorize employees in our database according to how many of the five elements they are thriving in. This is also the case both for total disease burden cost and the increase in disease burden cost from 2008 to 2009.

If you lead or manage a large number of employees, the costs add up quickly, and these are only the costs attributed to lost productivity due to sick days and disease burden. Future Gallup studies will include the impact of your employees’ wellbeing on numerous other organizational outcomes, including turnover, safety, direct measures of productivity, customer engagement, and profit.

Over the last decade, Gallup has worked with hundreds of organizations to help leaders create engagement and boost the wellbeing of their workforce. When leaders embrace this opportunity to improve their employees’ wellbeing, they
create more engaging places to work and greater returns for the organization. But when they choose to ignore employees’ wellbeing, it erodes the confidence of those who follow them and limits the organization’s ability to grow. In sharp contrast, the most progressive leaders not only understand that they are in the business of boosting their employees’ wellbeing, but they also use this as a competitive advantage to recruit and retain employees. They know they will attract top talent if they can prove to a prospective employee how working for the organization will translate into better relationships, more financial security, improved physical health, and more involvement in the community.

Leaders can’t just tell employees that they care about their wellbeing. They have to take action if they want to see results. And this requires continual measurement and follow-up to help workers manage their wellbeing over time. Just as the most successful organizations have worked systemically to optimize their levels of employee engagement in recent decades, they are now turning their attention to employee wellbeing as the way to gain an emotional, financial, and competitive edge.
REFERENCES


Step One – Audit
In this initial phase, Gallup conducts an organizational audit of existing strategies, programs, and metrics to assess readiness, map an overarching approach strategy, and begin modeling potential quantitative impact.

Step Two – Implementation
During this step, Gallup creates an organizational map, gathers the appropriate individual-level information, defines the groupings for aggregation, and helps craft an overall communication strategy. Twice each year, the Wellbeing Finder assessment is administered throughout the entire organization. Employees can measure and manage their individual wellbeing throughout the year by taking the assessment and accessing action ideas and tools as frequently as they like through their online account. Leaders, managers, and other champions will have access to aggregated results following the two organizational administrations. They will also have resources for improving wellbeing in groups or teams.

Step Three – Interventions
Interventions are made at the individual, team, and organizational levels. This top-down, bottom-up approach helps improve the wellbeing of individuals as well as the organization as a whole.

A. Individual and Team Interventions.
Individuals will receive ongoing communication about strategies for improving their wellbeing. Best practice sharing, action planning, learning, and coaching are available. The individual’s Wellbeing Account provides access to organization-specific programs and resources as well as ideas for action based on his or her unique results.

B. Enterprise-Wide Interventions.
Gallup will meet with client leadership teams and senior executives to share results and discuss strategies for improving business outcomes. Gallup will conduct one-on-one sessions with key stakeholders to review the wellbeing results of the relevant portion of the organization and discuss possible interventions, areas of change, and improvement. Analysis will identify opportunities to improve the awareness and participation in existing programs and to advise on changing or adding new programs. The ongoing monitoring of results, action, effectiveness, and use continues during this step.

Step Four – Ongoing Improvement
Gallup’s goal is to help organizations sustain high levels of wellbeing to further improve overall performance and financial growth. Gallup will provide organizations with a business impact analysis examining the link that overall wellbeing and the five essential elements have with key metrics. The broader change management approach must be designed during this step. Other actions during this phase include: set new metrics and milestones for success, encourage ongoing assessment of individual wellbeing, and begin to implement company-wide improvement programs. Monitoring of action, progress, and use of programs continues.