

THE State Auto Group

*Your Business
Insurance Specialists*

Risk Control Services

The Non-Insurable Cost of Employee Accidents

and their Impact on Your Bottom Line

The ***Non-Insurable*** Costs of Employee Accidents & Their Impact on Your ***Bottom Line***

What happens when a tough business climate leads to a more competitive market place? You must continue to provide your goods and services, but at a lower price. Knowing that your investors will not accept a reduction in return on investment you must take action to sustain your profit margin. Your choice is to maintain current production but at less cost. With no available resource to fund creation of greater efficiencies you must achieve your goal by either implementing shortcuts in your production process or making workforce reductions, or both. Whatever changes you make, they increase the strain on your managers, supervisors and workforce. Pressure to work faster with less help usually results in an increase in employee accident rates. Can your business absorb the additional costs of more employee injuries?

Insurable vs. Non-Insurable Costs

The insurable costs of employee accidents are covered by your Workers' Compensation insurance policy and paid for through your premium. Known as "direct costs" these are easily identified as payments made to cover medical costs and compensation for lost time or permanent impairment. What you may not have come to realize however, is that there are considerable "indirect costs" arising from these accidents that are not paid by Workers' Compensation insurance. Indirect costs are paid by you, the business owner/employer, robbing you of expected profits at exponential rates.

What are these non-insurable costs?

The following are the elements of non-insured "indirect costs" you must absorb every time one of your employees is injured on the job and loses time from work:

- ***The costs of wages paid for the time lost by the injured employee including***
 - 1 Medical treatment time
 - 2 Time away from the job not covered by Workers' Compensation
- ***The costs of wages paid to other workers not injured, including***

- 1 Those who stopped work to watch or assist the injured worker
 - 2 Those who need the output of the injured worker to complete their tasks
- ***The cost of damage to equipment and/or materials or, in the event of little or no damage, the cost of resetting the accident scene after the incident so production can be resumed***
 - ***The cost of lost production if a process has to be shut down during the investigation of the accident***
 - ***The cost of overtime and/or the hiring of temporary replacement workers necessitated by the accident, including***
 - 1 Costs to make up for lost production
 - 2 Costs of additional supervision
 - 3 Costs of additional overhead such as heat, light or space
 - ***The cost of wages paid to supervisors for the time expended on their activities related to or arising from the accident, including***
 - 1 Caring for the injured worker
 - 2 Investigating the accident
 - 3 Supervising the activities necessary to get the department/area functioning again
 - 4 Costs incurred for wages to others that

must step in and perform the supervisor's functions disrupted by the accident

- ***The costs associated with the re-design or re-engineering or re-training of the involved process and the employees involved or repositioning those employees to resume production***
- ***The costs incurred in the event a replacement must be hired, including***
 - 1 Recruiting costs
 - 2 Training costs
 - 3 Additional cost for benefits
- ***Any medical costs you may incur, for***
 - 1 Treatment facilities
 - 2 Personnel
 - 3 Equipment
 - 4 Supplies
- ***The cost in time and salaries/pay for managers, supervisors and/or support staff for time spent***
 - 1 Investigating the accident
 - 2 Processing claim forms
 - 3 Sending associated paper work to your insurance provider (don't forget the cost of the forms, supplies and postage)
 - 4 Telephone calls
 - 5 Interviews
- ***The cost of wages to make up for decreased productivity after the injured worker returns to work, resulting from:***
 - 1 Physical restrictions placed on the worker by the physician
 - 2 Self imposed restrictions, both physical and from nervousness (the fear of recurring injury)
 - 3 Time spent discussing the accident and/or injury with other workers (including wages for the other workers)

There can be other miscellaneous costs, although not always typical, but often substantial depending on the nature of your business, the position and responsibilities of the injured employee and the severity and type of accident:

- A negative impact to your company's competitive position caused by delays in delivery
- An increase in operating costs
- Unfavorable publicity
- Time and money spent to rework spoiled product
- The costs of recalling defective products
- An increase in the costs of your insurance
- The costs arising from:
 - Time spent dealing with outside inspectors
 - Subsequent fines or penalties for safety violations
 - Legal Fees

OSHA has compiled a significant amount of data on these costs and devised a table of multipliers that can be applied to the direct cost to calculate these indirect, non-insurable losses. Since many of the impacts are the same regardless of the size of the claim, the multiplier increases as the total direct costs decrease, meaning a relatively small Workers' Compensation claim can have a disproportionately large impact on your profitability.

Calculating the Impact of Accidents on Sales and Profits

1. Determine the Direct Cost of the accident:

The total cost of the insurance claim for an injury, including medical payments and indemnity payments (paid for out of your premium dollars)

\$ _____
Direct costs

2. Calculate the Indirect Cost utilizing OSHA's established cost multipliers:

| <u>Direct Cost</u> | <u>Multiplier</u> |
|--------------------|-------------------|
| \$0 - \$2,999 | 4.5 |
| \$3,000 - \$4,999 | 1.6 |
| \$5,000 - \$9,999 | 1.2 |
| \$10,000 and up | 1.1 |

\$ _____ X _____ = \$ _____
Direct cost Cost multiplier Indirect cost

3. Calculate the Total Cost of the accident:

\$ _____ + \$ _____ = \$ _____
Direct cost Indirect cost Total cost

4. Calculate your company's profit margin:

Total Profits ÷ Total Sales = Profit Margin

\$Total Profits
_____ = _____ (margin expressed
\$ Total Sales as a decimal)

5. Calculate the volume of sales you must generate to fund the cost of the claim:

Divide the Total Cost of the injury by the Profit Margin

\$ Total Cost of Injury
_____ = Sales Required
\$ Profit Margin

By using these calculations you will find that even a relatively small claim will require a significant amount of sales to cover its cost. For instance, a Workers' Compensation claim with direct costs of \$1,185 medical and \$265 indemnity will have indirect costs of another \$6,525. The total cost of the claim is \$7,975. If your profit margin is .074 (based on a \$2M profit on \$27M total sales) your sales team will have to go out and drum up an additional \$107,770 in sales to cover the loss. Just imagine where this goes if the loss is a tad larger and your profit margin is a bit tighter.

An increasingly tough, competitive market that leads to tighter profit margins makes controlling your accidents a very wise move.

Conclusion

The indirect costs created by employee accidents are not readily apparent, but they still must be paid. What solution does a business owner have to deal with these exposures? A well-conceived and managed safety program will contribute to your profitability. In the realm of controlling the impact of employee injuries we find that the age old proverb probably applies:

"An ounce of prevention is worth a pound of cure."

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