



Supervisors' Safety Update

Ideas and Strategies for Leaders



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IS YOUR SAFETY PROGRAM SAVING YOU MONEY?

By SeaBright Insurance Loss Control

Most of us desire a safe workplace because no one should have to suffer a painful injury or illness on the job. Nor do we want to have firsthand experience with an occupational fatality. These humane concerns are usually at the heart of a company's Injury and Illness Prevention Program (IIPP).

There are other important reasons for preventing employee accidents and injuries too, and they are financial in nature. The goal of most organizations is a profitable operation—without it, jobs may disappear. The expenses associated with injuries and illnesses cut deeply into this profit, and can make or break the ultimate success of your company. These costs can be avoided, or significantly reduced, if an effective program is in place.

As a supervisor, you should try as hard to control accident costs as you do to increase production revenues. The following information will help you understand the cost factors associated with work-related injuries and illnesses, and the vital role *you* play in helping to control these expenses.

Direct Costs - Insurance Coverage

Unless your company is self-insured for workers' compensation, an insurance policy has been purchased through a company such as SeaBright Insurance Company. In exchange for the "premium" paid, benefits are paid to claimants when a work-related injury or illness claim has been filed and accepted. These benefits represent most of the direct or "insured" costs of an employee injury or illness. The majority of direct costs paid by your insurer fall into three basic areas:

- 1) Payment of bills associated with treatment, which can include visits to the doctor, physical therapy, diagnostic tests, and prescriptions.
- 2) Payment of temporary wage replacement, or "time loss benefits," to the injured employee during the time he or she is unable to work.
- 3) Payment of permanent impairment awards in the event that the injury or illness causes a permanent disability. In the event of a death, payment for death benefits to qualified beneficiaries may be applicable.

Indirect Costs - Hidden But Real

What you see in direct cost is actually much less than the true costs. Direct costs are only the tip of the iceberg. You may not be aware that indirect or hidden costs of accidents and injuries are not covered by your workers' compensation insurance policy. The indirect costs are estimated to be at least **four times higher** than the insured costs. Indirect costs vary, depending upon the industry and the nature of the accident, but here are a few of the most common expenses:

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A) Uninsured costs related to the injured employee:

- Employee time away from work on the day of the injury or illness for initial treatment;
- Cost of first aid supplies or in-house treatment providers;
- Employee time away from work for subsequent treatments as necessary;
- Payments made to the employee during the waiting period before wage replacement benefits begin (note: some jurisdictions require a waiting period);
- Supplementary wage payments made to the employee in addition to time loss compensation.

B) Uninsured supervisory costs:

- Wages during the time you assist the injured worker;
- Wages during the time you investigate the incident, and fill out the necessary paperwork;
- Time you spend training a replacement or rescheduling work assignments.

C) Uninsured costs related to non-injured workers:

- Time away from work tasks by employees who assist the injured party, including transportation to and from a treatment facility, if applicable;
- Employee time away from work tasks while observing the incident scene;
- Clean up operations related to the incident;
- Loss of employee productivity due to disrupted work flow;
- Unplanned overtime costs which become necessary as a result of the incident;
- Salary of administrative employees who process claims reporting paperwork.

D) Uninsured equipment and tool damage:

- Cost of repairing or replacing a damaged machine, and the cost of renting interim equipment during repairs.
- Cost of production losses while equipment is down.
- Cost of destroyed or damaged products.

Variable Costs - Claims Experience

Insurance coverage is designed to cover the cost of unplanned events—both individuals and organizations need this “assurance” in order to go about their lives and business without the fear of financial disaster. However, premiums usually go up when claims are higher than average, whether the coverage is for an automobile, personal property or workers’ compensation. In most cases, rates seldom come down. However, industrial insurance premiums are different. These premiums *increase* for companies and industries that have above average claims and costs; but they also *decrease* when the pattern is reversed. This is because workers’ compensation insurance is “experience rated.” Here is how it works:

The Experience Modification Factor

The standard annual premium which employers pay for workers’ compensation coverage is determined, in part, by the industry in which they operate and by the following equation:

$$\begin{aligned} & \text{Annual Gross Wages Paid to Employees} \\ & \quad (\text{Multiply by}) \\ & \text{The Established Dollar Rate for Every \$100 of Payroll} \\ & \quad (\text{Multiply by}) \\ & \text{A Firm's Experience Modification Factor} \\ & \quad \text{EQUALS} \\ & \text{The Standard Annual Premium} \end{aligned}$$

A firm’s experience modification factor (usually known in the industry as “EMF” or “x-mod” for short) is calculated every year by the appropriate rating bureau or State agency. The calculation formula uses claims information from your company’s prior three years. A new company with no prior loss history is automatically assigned an EMF of 1.00 until three years of loss data is available. An EMF of 1.00 is considered average. The formula for calculating EMF is very complicated and there is no useful reason to cover it here.

The EMF formula is weighted to place more emphasis on the *frequency* of claims than on the cost of one or a few expensive claims. The justification for this formula weighting is that high frequency will tend to increase the possibility of a more serious accident while

just one severe accident may represent an isolated event. EMF is recalculated every year, as the claims data from the oldest year of the three years is dropped from the calculation and data from the newest year is added.

In order to illustrate how EMF affects the annual premium, assume we have three companies, which have the same type of operation and employ the same number of employees. Also, assume that these three companies pay their employees exactly the same wage. Now suppose that the premium rate for every \$100 of payroll is \$10. Finally, estimate the annual gross wages to be \$500,000 for each company. Using the formula given earlier, however, the three companies have different loss histories and therefore each has a different EMF.

- Company A is a new company with no loss history. Because of this, they are assigned an EMF of 1.00.
- Company B has a very good loss history with minimal claims costs and an EMF of 0.75.
- Company C has a poor history with many claims-- some of which are costly-- and an EMF of 1.5. They could be paying much less for their insurance coverage! Here are the applicable premium calculations:

Company	Annual Wages	Dollar Rate	EMF	Annual Premium
A	\$500,000	\$10	1.00	\$50,000
B	\$500,000	\$10	0.75	\$37,500
C	\$500,000	\$10	1.50	\$75,000

- Company B, with good loss history, is required to pay only half the annual premium paid by Company C, which has poor loss history.
- Company A, which has no loss history, pays 25% more than Company B pays.
- This lower premium cost gives Company B a considerable advantage over the other two firms when all three compete for the same contracts or customers.

Penalty Costs - OSHA Citations

The penalties for safety and health violations found by OSHA inspectors can be significant. Serious violations, such as lack of adequate fall protection or lack of adequate confined space entry procedures, have fines ranging from \$1,500 to \$7,000 for each violation. A repeat violation within 3 years of the initial violation could cost up to \$70,000. A willful violation carries a minimum of \$5,000, but could cost up \$500,000 and jail time for supervisory personal if the violation is related to an employee fatality.

Most companies operate with a profit margin somewhere between 2% and 10% of gross sales volume or gross contract value. If you know your company's typical profit margin percentage, you can determine the *additional* gross sales or contract value that is needed to offset the cost of an OSHA penalty—or the indirect costs of a claim. This is shown on the following table:

SALES OR CONTRACT VALUE REQUIRED TO PAY FOR OSHA FINES OR INDIRECT CLAIM COSTS			
OSHA Fine or Indirect Claim Cost	Profit Margin:		
	2%	5%	10%
\$10,000	\$500,000	\$ 200,000	\$100,000
\$50,000	\$2,500,000	\$1,000,000	\$500,000
\$70,000	\$3,500,000	\$1,400,000	\$700,000

The Bottom Line - Less Pain & More Profit

Many of the costs to operate a business are relatively fixed in nature, such as payouts for labor and raw materials. Workers' compensation insurance costs are variable, and depend greatly on the quality of your safety management system. OSHA citation fines are avoidable if your company complies with OSHA standards, which also depends upon your safety management system.

All of these costs affect your company's bottom line, and can be controlled if you give accident prevention top priority. If you keep your overhead expenses lower than others in your industry, you can be more competitive in obtaining work. Companies that do not control these costs will likely be out of business soon.

In addition, all employees value a safe workplace and the management team that provides it. An effective Injury and Illness Prevention Program is essential to the success of your company. As a supervisor, both the morale of your crew members and the company's profit margin depends greatly on how well you participate in the safety program.

Ask yourself, do you support your safety program by:

- Conducting a thorough safety orientation with all new employees?
- Holding regular toolbox safety meetings with your crew?
- Enforcing safety rules, policies, and procedures?
- Conducting inspections so that new or previously missed hazards are identified and corrected?
- Investigating accidents and near misses so that methods for preventing recurrence are identified?
- Encouraging employees to report hazards, near misses, and accidents immediately?
- Providing modified duties so injured employees can return to productive work as soon as possible?
- Providing employees with the necessary training to perform their jobs safely?

Supervisors, Safety, Productivity, and Profit Work Together!