
Safety & Profitability



Introduction

- Safety & Profitability
- John E. Schumacher, CSP
- Assurance Safety Consulting
- Summary of Background

THE TRUE COST BENEFIT OF SAFETY: *IS THE EFFORT WORTH IT?*



Cost - Profits

- Top 3 costs for a contractor:
 1. Employees (Labor)
 2. Equipment / Material
 3. Insurance Costs... **Worker's Compensation**

Need To Know Concepts

- Experience Modification Rating
- Incident / Severity Rates
- Illinois Contractor Credits
- Indirect Costs of Losses (How to measure)

Experience Modification Rating

EMR and Workers Comp Costs

- Workers Compensation Insurance Cost is calculated:
 - Payroll X
 - Insurance Rate (current rate) X
 - **Experience Modification Rate**

EMR How it affects you

- 3 year history of incidents:
 - 2009 rates based on 07, 06, 05
 - The previous year is skipped to allow claims to close

- Therefore, an incident essentially stays with the company for **4 years** !!!

EMR How it affects you

- The EMR is based on the scale of **1.0**
 - Exp Mod of 1.0 = Average
 - Exp Mod above 1 = Good
 - Exp Mod less than 1 = Not good

Comparison of EMR

2 Similar Companies

- .90 EMR

- Payroll & Insurance Rate of \$500,000 X **.90 = \$450,000**

- *\$50,000 Discount*



- 1.50 EMR

- Payroll & Insurance Rate of \$500,000 X **1.50 = \$750,000**

- *\$250,000 Surcharge*



EMR Issues

- Many General Contractors require EMR *BELOW 1.0*
- How many contractors do you work for that require this?
- Consider the cost of losing those contracts

Illinois Contractor Credit

Illinois Contractor Credit

- Illinois Contractor Credit
 - Related to Workers Compensation Insurance
 - A discretionary premium credit for contractors with EMR below 1.0
 - Maximum premium discount of 40%
 - \$200,000 for contractor in previous example

Incident & Severity Rates

Incident & Severity Rates

- Incident Rates

- Frequency of injuries per 100 employees

Recordable Injuries X 200,000

Actual # work hours

Incident & Severity Rates

- Severity Rates

- Severity rate per 100 employees

$$\frac{\text{\# Lost Time Injuries X 200,000}}{\text{Actual \# work hours}}$$

Incident & Severity Rates

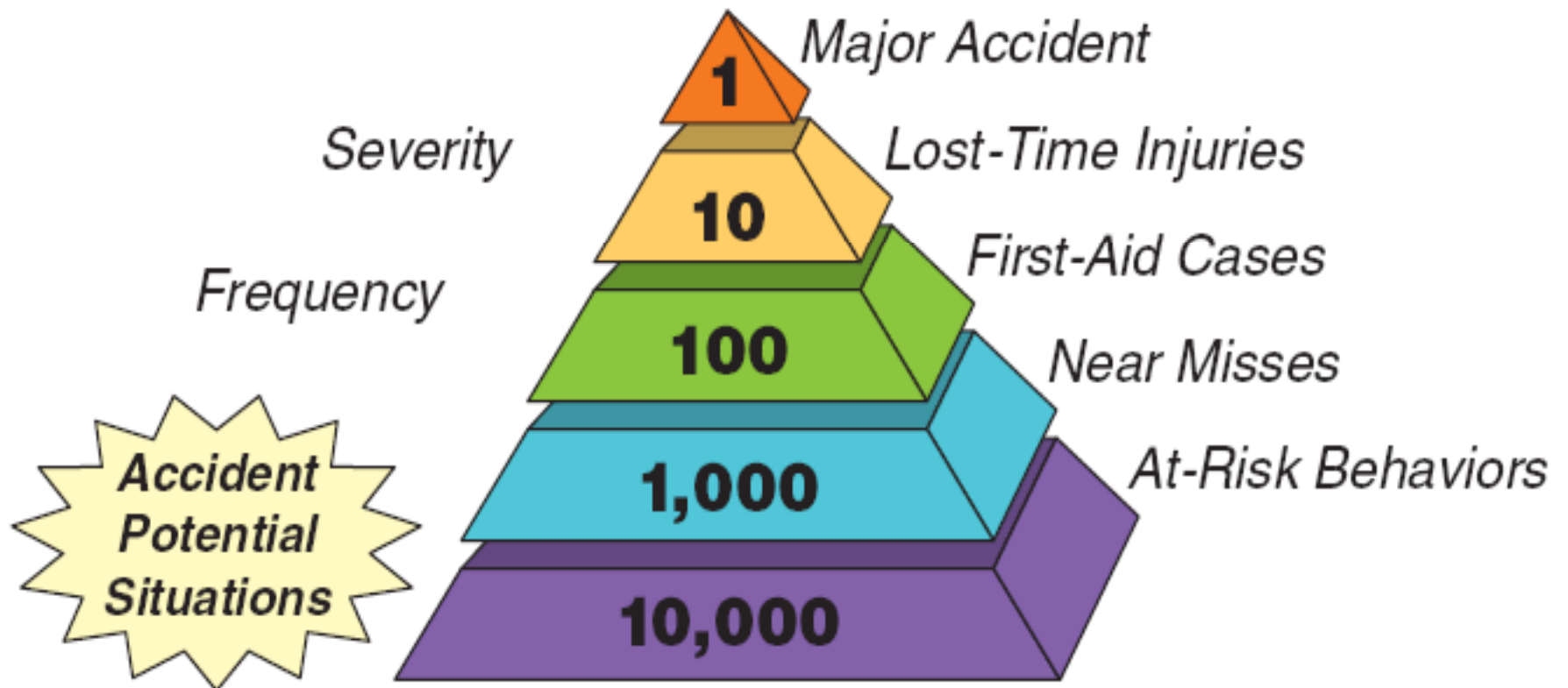
- Incident & Severity Rates

- Measurement for comparison of injury rates for same classification of contractors
- Based on SIC or NAICS codes
- www.bls.gov/iif/oshwc/osh/os/pr996gu.pdf

Know how you compare to other companies

Relationship to Severity

Accident Pyramid



Indirect Costs of Losses

Indirect Costs of Losses

- Numbers you do not really want to see
- But you need to know what it really costs

Cost of Incidents – An Overview

DIRECT COST

**Compensation Payments
Medical Cost**

**Indirect &
Hidden Cost of
Injuries**

**Replacing Employees
Investigation Time
Supervision Time
Training
Staff Morale
Possible Patient Injury
Break-up Work Team
Administrative Time
Overtime Paid
All Other Costs**

Costs of Incidents

- DIRECT

- Covered by insurance company

- Easy to measure

- (Medical bills)

- (Lost time wages)

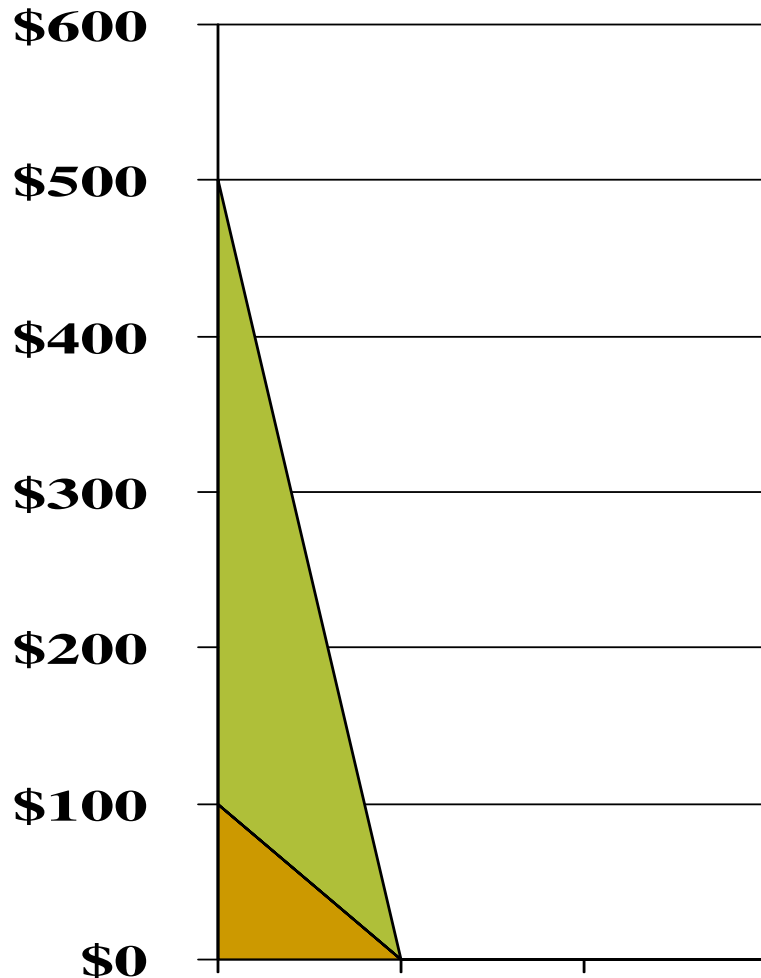
- INDIRECT

- Not covered by insurance company

- More difficult to measure

- Hits bottom line

Costs of Accidents



- Indirect costs are not covered by insurance
- Indirect costs account for **2- 10** times the cost of Direct costs
- Most companies do not measure this because....
 - They don't know how
 - They don't want to know

Examples of Indirect Costs

- Administrative time
- Overtime for other employees
- Investigation time
- Internal paperwork
- Legal Costs
- Production due to moral
- Damaged equipment
- etc

Incident Cost Impact: PROFITS

■ \$2,500 LOSS

Generally considered a lower level injury. Maybe a minor laceration with stitches and physician follow up.

- ❑ Based on a 5% profit margin
- ❑ Requires \$50,000 worth of billable work to cover *direct cost* of loss
- ❑ *Indirect cost* anticipated at \$1,500
- ❑ Requires \$30,000 additional work to be performed
- ❑ **Total cost=\$80,000 free work performed!**

Incident Cost Impact: PROFITS

■ \$25,000 LOSS

Generally considered a moderate level injury. Maybe a fall from a ladder resulting in broken limb, lost time and some permanency.

- ❑ Based on a 5% profit margin
- ❑ Requires \$500,000 worth of billable work to cover *direct cost* of loss
- ❑ *Indirect cost* anticipated at \$10,000
- ❑ Requires \$200,000 additional work to be performed
- ❑ **Total cost=\$700,000 free work performed!**

Safety Best Practices

- Safety Programs....

typical safety “programs” are a series of random activities that are set in place without regard to goals or results

Focus is often on compliance issues not related to actual loss issues

Safety Best Practices

- Safety as a **Process**
- Effective loss prevention involves a “process” of multiple activities that are
 - Strategic
 - Based on real exposures
 - Are measurable
 - Goal driven

Elements of an Effective Safety Process

- Formal Hiring & Orientation
- Formal Written Safety Policies
- Formal Safety Training Initiative
- Formal Injury Investigation Process
- Management Leadership
- Safe Work Practices Evaluation
- Results Measurement

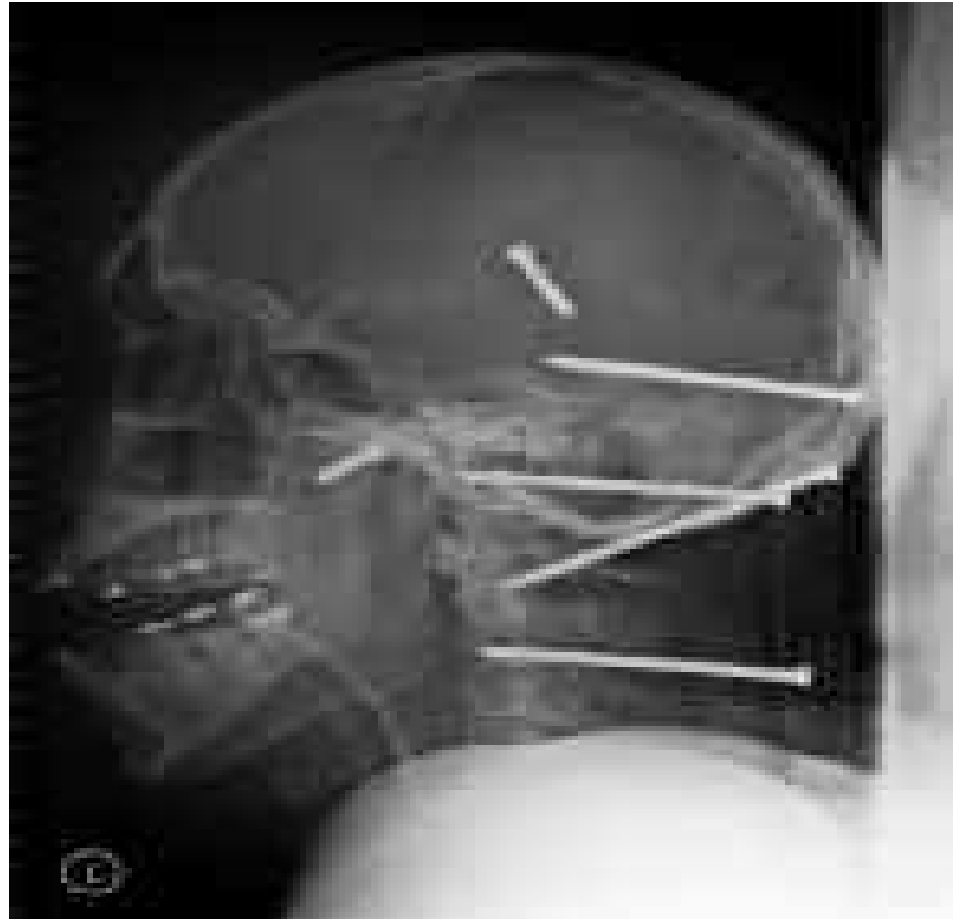
You may be clueless if you say...

- Safety is common sense. Our employees are trained by the union...



You may be clueless if you say...

- Our employees are trained in their apprenticeship why do we need to continue training....



You may be clueless if you say...

- We discuss ladder safety at our tool box talk meetings...



You may be clueless if you say...

- We have a formal PPE program....



You may be clueless if you say...

- Our employees are concerned about safety on and off the job...



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