PMA Companies

The Hidden Costs of Accidents

October 28, 2013

Presented By:
JoAnn Goshorn, MS, ARM, CSP, CIH - Risk Control
Joseph Sanna, Jr., MS, CSP, CPSI - Risk Control
What is the goal of *Your Business*?
How do you get there?

- Quality product/service?
- Customer service/reputation?
- Acceptable profit margins?
  - Skilled estimating…
  - Smart purchasing…
  - Cost containment…
- Financial endurance?
Best Practice

Prevent injuries before they occur.
Managing Safe Behaviors

We all know the rules, but we all break them….

Why?
Managing Safe Behaviors

Culture:

The norms, beliefs, values and expectations that guide our behaviors.
Behavior Equation

Activator $\rightarrow$ Behavior $\rightarrow$ Consequence
Managing Safe Behaviors

Activator → Decision → Behavior

Consequence

(Support/Reinforce)
Identifying Behaviors

How do they behave now?

vs.

How would you like them to behave?
Can you think of . . . .

One thing that your employees currently do,

that if they continue to do it . . . .

you know they’re going to get hurt?
Exhibiting Your Commitment

Examples:
• Wear required PPE
• Insist on good housekeeping
• Pick up debris
• Follow all safety rules
• Make an effort to talk to each employee at least weekly
http://thechive.com/2011/07/01/that-seems-safe-21-photos/
But what if you have an incident?

http://www.iklimnet.com/hotelfires/big_industrial_fires.html
What is the cost of accidents?

Analogy:
At home – hose bursts on back of washing machine.
List Outcomes:
Possible Outcomes

- Structural water damage – insulation, drywall, carpet, framing, etc.
- Mold
- Electrical problems
- Furniture/appliance damage
- Evacuation?
- Damaged historical items (i.e., family photos)
- Interruption of daily activities – laundering work clothes and school clothes, laundering clothes for activities – gym, sports, children’s activities.
Impact on you?

• Insurance? Is there coverage? What does it cover? What is your deductible?

• Who pays?

• How do you budget these costs?
Business Scenario

http://www.youtube.com/watch?v=c3eGRKt8vGQ
Impact on your business?

- Increased insurance costs – workers’ compensation, auto, property, GL, etc.
- Lost productivity/damaged equipment/product
- Reduced quality?
- Morale?
- Psychological impact?
- Bad public image?
- Regulatory problems?
Risk Management Process

- **Identify** loss exposures
- **Examine** feasibility of alternative risk management techniques
- **Select** the apparent best risk management technique
- **Implement** the chosen risk management technique
- **Monitor** and improve the risk management process
Identify Loss Exposure *

Defined as:
any possibility of loss from accidental or business risk or more specifically, the **possibility of financial loss** that an entity faces as the result of a particular peril striking a particular thing of value.

Every loss exposure has the following 3 dimensions:
- the type of value exposed to loss
- the peril causing the loss and
- the extent of the potential financial consequences of that loss
Identification of Loss Exposure *

- Property: Buildings, tools, equipment, vehicles, etc.
- Net Income: Delayed work, higher cost for work, additional employees needed, etc.
- Liability: Possibility of being sued and having to defend oneself regardless of merit and
- People: Employees, Public, Visitors, etc.

*ARM 54 Study Guide
Perils Leading to Loss *

- Natural – Hurricane, flood, tornado, wind, disease, vermin infestation, etc.

- Human – Thefts, homicides, vandalism, incompetence, failure to fulfill a contract, etc.

- Economic – Strikes, boycotts, depression, housing market, etc.
Financial Consequences of Loss

The impact of

Frequency AND Severity

can be controlled/mitigated by appropriate planning and efforts.
Risk Management Techniques

Risk Control
- Exposure Avoidance (example - Africa Trip)
- Loss Prevention
- Loss Reduction
- Segregation of Exposure (Separation and Duplication)
- Contractual Transfer (Financial *AND* Legal Burden)
Risk Financing (you’re going to have the loss, but…)

Retention
- Current Expensing
- Unfunded Reserve
- Funded Reserve
- Borrower Fund
- Captive Insurance

Transfer
- Insurance
- Hold Harmless
- Indemnification
Selecting the Best R.M. Technique

Forecasting
- Frequency and severity of losses
- Effects various risk control and financing techniques are likely to have on frequency, severity and the predictability of projected losses
- Costs of these techniques

Selection Criteria
- Financial criteria of an organization-cash flows, and
- Criteria related to other objectives, such as legal and humanitarian
A Good Tool: Risk Analysis Matrix

<table>
<thead>
<tr>
<th>Severity</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>[Zero]</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Low</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>High</td>
<td>3</td>
<td>6</td>
<td>9</td>
</tr>
</tbody>
</table>
Implementation Technique

Example:

Purchase an automated packaging machine (helps reduce repetitive trauma).

What must be done to make this successful?
Example:
Purchase an automated packaging machine

- Technical decisions by risk management professionals
  - Insurance
  - Space requirements/work flow
  - Adequate machine guarding
  - Set up/maintenance
  - Training

- Managerial decisions by risk management professionals and other managers
  - Hours of operation
  - Department that will operate
  - Staffing
  - PM program needed
<table>
<thead>
<tr>
<th>Position</th>
<th>Responsibility</th>
<th>Authority (Low / High)</th>
<th>Accountability</th>
</tr>
</thead>
</table>
| President / CEO          | • Direction  
• Vision  
• Leadership  
• Support                                      | High                   |  
• Goals  
• Board of Directors  
• Governmental Agencies |
| Line Managers & Supervisors | • Understanding  
• Reinforcement  
• Awareness  
• Response  
• Results  
• Activities | High / Moderate                   |  
• Goals  
• Loss Results  
• Executive Management |
| Front-line Employees     | • Implementation  
• Awareness  
• Understanding | Low / Moderate           |  
• Goals  
• Injury  
• Line Managers & Supervisors |
| Staff Managers & Supervisors | • Understanding  
• Reinforcement  
• Awareness  
• Response  
• Anticipation | Moderate / Low                   |  
• Goals  
• Productivity  
• Efficiency  
• Executive Management  
• Line Management (possibly) |
| Safety Director / Coordinator | • Program Development  
• Risk Assessment  
• Loss / Trend Analysis  
• Risk Communication  
• Compliance Monitoring  
• Education / Training  
• Monitoring  
• Reinforcement | Moderate / Low                   |  
• Goals  
• Loss Costs  
• Compliance  
• Executive Management  
• Line Management |
| Safety Committee         | • Risk Assessment  
• Loss / Trend Analysis  
• Program Development  
• Product Evaluation  
• Compliance Monitoring  
• Risk Communication | Low                     |  
• Goals  
• Activities  
• Manager / Supervisor  
• Safety Director (dotted)  
• Executive Management (dotted) |
Monitor Results

- Standards or Acceptable Risk Management Performance
  - Results Standards - frequency and severity results
  - Activity Standards - measuring tasks

- Comparison of actual results with standards

- Correction and improvement of substandard performance
But...once an injury occurs...

http://www.razor-gator.com/StaphPhotos/hospital_bed.htm
Where can losses come from?

• Workers’ Compensation

• General Liability

• Property (including EDP, special machinery, etc.)

• Product Liability

• Business Interruption

• Lost business/public reputation

• Negligence

• Etc.
Controlling Workers’ Compensation Costs
Importance of Timely Reporting of Injuries & Illnesses

• Effective, timely and cost-effective management of WC benefits are disrupted

• Higher cost and lost work days

• Injured worker more likely to seek attorney representation

• Many states have instituted employer and insurer fines for late reporting. (e.g. Minnesota, Rhode Island, Louisiana, Florida)
Return to Work: Keys to Success

• Employer & Supervisor must be totally supportive of the Return-to-Work program

• Employee & Supervisor must understand the restrictions

• Fellow employees understand & support

• Easy to send the wrong message

• Follow treatment plan
Paying for Lost Time

Which bucket of organization resources does money come from when an employee is out on COMP?

**BOTH!**

- Payroll – overtime and replacement workers
- Training and retraining

- Workers’ Compensation – injured worker lost wages
How bad could it be?
When asked “DO YOU HAVE A RETURN TO WORK PROGRAM IN PLACE” how would you answer?
If you answered NO and are not interested in this, why not?

If you answered YES, now answer the following questions:

• Is it effective?

• Is it uniform?

• Is it supported?

• Is it something you want to brag about?
Common Barriers vs. Facts

• “We don’t have an light duty jobs.”

• “What if an employee’s condition gets worse by coming back early”?

• “I have a lot of work to do.......I need everyone to be able-bodied.

• “The budget doesn’t allow for ‘extra’ employees.”
Common Barriers vs. Facts

- “Modified duty is bad for morale or encourages favoritism.”
- “The program is too time consuming to administer.”
- “I can’t have everyone on permanent light duty assignments.”
- “The program costs too much.”
- “I don’t want employees to get re-injured.”
- “The union will never agree to this.”
Non-Medical Reasons for Keeping Injured Workers Out of Work:

- Treating physician unwillingness/not equipped to determine the restrictions/limitations/caught between conflicting versions of event/conflict of opinion exists between two physicians

- Employer has a policy against light duty work
Definitions:

• Return to work – implies they leave, are not part of things, but hopefully come back into the fold

• Modified duty – implies their job is modified (either permanently or temporarily) to accommodate them until they are better

• Alternate duty – implies another task can be done by the injured worker for some period

• Light duty – implies the work is not hard and the injured worker is not being productive

• *Transitional duty* – *implies the work is a stepping stone back to their original job*

• And many more…
An Effectively Implemented Program

• Maintains an experienced work force

• Maintains production, workflow and quality standards

• Stabilizes wage and production expenses

• Accelerates/improves recovery

• Improves employee morale and security
Stay-at-Work Reduces

- Insurance overhead
- Hiring & job training costs
- Use of nonessential medical treatments
- Injury rates
- Frequency of lost-time claims
- Number of open claims
- Litigation costs
- Fraud and abuse
What about the hidden costs of accidents?
An Example…

- Who would spent $57,000 for a cup of coffee?
$57,000 cup of coffee

Tractor trailer driver was reaching for cup of coffee. He did not notice a pickup with a utility trailer in front of him that slowed down to make a turn. He tried to stop, could not, and swerved to miss the pickup. The tractor trailer clipped the rear of the utility trailer, went off the road, and went down an embankment. The tractor trailer, which was hauling a load of beer, flipped. The driver received a careless driving ticket. The roadway was shut down for 9-10 hours.
Costs – Auto and Physical Damage

- 2005 Freightliner tractor – total loss $28,575
- 1994 trailer – 53 foot dry van – total loss $3,730
- Pull tractor trailer from embankment - $750
- Tow tractor - $202
- Tow trailer - $135
- Stand by tow truck - $300
- Dump truck for clean up - $2,760
- Tilt trailer/skid loader - $300
- Loader - $760
- Rental trailer for debris - $137
- Recovery Manpower - $3,564
- Appraisal, storage, title check, etc. - $1,433
Costs – Workers’ Compensation

- Medical costs - $10,273
- Expenses $4,854

Total of Direct Costs

$57,773
How do we determine hidden costs?

Costs Associated with the Injured Worker
Wages spent on employee after injury occurs (balance of shift)  ___ rate x _____ hours =  ____
Lost efficiency/downtime ___ rate x ___ hrs x ___ employees =  ____

Costs Associated Co-Injured Worker(s) Involvement/Replacement of Injured Worker
Wages paid to replace injured worker ___ rate x ___ hrs x ___ employees =  ____
Pay for replacement worker ___ rate x ___ hrs x ___ employees =  ____
Wages to train replacement worker ___ rate x ___ hrs x ___ employees =  ____
Time away from normal duties to respond to incident ___ rate x ___ hrs x ___ employees =  ____

Costs Associated with Supervisor(s) Involvement in Incident Follow-Up & Investigation
Time to document incident ___ rate x ___ hrs x ___ employees =  ____
Time to investigate incident ___ rate x ___ hrs x ___ employees =  ____
Time to transport injured worker for medical attention ___ rate x ___ hrs x ___ employees =  ____
Time to call in and train replacement(s) ___ rate x ___ hrs x ___ employees =  ____
Time away from normal duties to respond to incident ___ rate x ___ hrs x ___ employees =  ____
Time away for normal duties ___ rate x ___ hrs x ___ employees =  ____

Costs Absorbed by the Company
Lost Production ___ rate x ___ hrs x ___ employees =  ____
Damaged product/ unacceptable quality product ___ rate x ___ hrs x ___ employees =  ____
# Sales Required to Pay for Accidents

*If Your Company's Profit Margin Is:*

<table>
<thead>
<tr>
<th>Accident Costs</th>
<th>1%</th>
<th>2%</th>
<th>3%</th>
<th>4%</th>
<th>5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$100,000</td>
<td>$50,000</td>
<td>$33,000</td>
<td>$25,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>$5,000</td>
<td>$500,000</td>
<td>$250,000</td>
<td>$167,000</td>
<td>$125,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>$10,000</td>
<td>$1,000,000</td>
<td>$500,000</td>
<td>$333,000</td>
<td>$250,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>$25,000</td>
<td>$2,500,000</td>
<td>$1,250,000</td>
<td>$833,000</td>
<td>$625,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>$100,000</td>
<td>$10,000,000</td>
<td>$5,000,000</td>
<td>$3,333,000</td>
<td>$2,500,000</td>
<td>$2,000,000</td>
</tr>
</tbody>
</table>
Questions?

Thank you!

Joseph_sanna@pmagroup.com
Joann_goshorn@pmagroup.com