

JUST WHAT DO JOB RELATED ACCIDENTS COST YOUR FACILITY

I recently performed a safety audit of a small-to-medium size long term care facility that was seeing an increase in job related injuries. Like most, they seemed concerned about safety, and seemed intent on lowering the risk of accidents to their workers. At the same time, I felt an uncanny sense that they seemed to accept job related accidents as a “way of life” in the healthcare industry, and wanted me to express the same opinion.

As my kids used to scream as teenagers...**NOT!!!**

During interviews with key stakeholders in the organization, I kept hearing the same song...workers compensation insurance takes care of everything, so the only cost is the cost of our premium...

Again I repeat...**NOT!!!**

While laws vary from state to state, workers compensation insurance typically covers the direct cost of job related injuries, including medical treatment, physician’s costs, hospital costs, ambulance costs, physical therapy costs, and lost wages for the employee. Unfortunately, there is no insurance to cover the indirect costs of accidents and injuries. And, while these indirect costs aren’t immediately recognized, they quickly add up to “out of pocket” losses to the company. Typically, we estimate that hidden costs are about four times the direct costs. Some studies, however, have suggested a rate as high as 20 times the direct loss!

Let’s assume for a minute that an occupational accident has resulted in a lost time injury to an employee. Workers compensation insurance will cover the direct costs mentioned above. Indirect losses (uninsured) to the company may include:

- Training costs for a new / temporary employee to replace the injured employee
- Labor costs while the replacement worker is in training
- Spoilage or waste of product and materials
- Time spent cleaning / repairing damaged equipment
- Costs for accident investigation / legal fees
- Schedule delays / shortages
- Added administrative fees associated with forms and paperwork caused by the original accident
- Potential loss of client because of the accident
- Potential loss of good name / reputation in the community because of the accident.

Just what does that accident cost? Most will say “it varies” and that is true; but there is a simple equation that helps drive home the point of how costly the accidents really are.

To determine the approximate indirect cost of an accident to your company, and to recognize the hit the accident paces on your bottom line, you can use the simple formula of:

$$\text{Direct Cost} \times \text{Cost Multiplier} = \text{Indirect Cost}$$

Direct cost is the total value of the insurance claim for the injury. The cost multiplier that you use will depend on the size of the direct cost.

<u>If your direct (insured) cost is</u>	<u>your multiplier is</u>
\$0 – \$2,999	4.5
\$3,000 - \$4,999	1.6
\$5,000 - \$9,999	1.2
\$10,000 +	1.1

Let’s imagine that you incur a shoulder injury to an employee from improper lifting, and all said and done, your direct costs are \$7500. Using our formula, our direct costs are:

<u>Direct Cost</u>	x	<u>Cost Multiplier</u>	=	<u>Indirect Cost</u>
\$7,500.00	x	1.2	=	\$9,000

So that accident that you thought only cost you \$7,500 as an insured loss actually cost you \$16,500 in total, with an additional \$9,000 on your bottom line that you didn’t even realize! Then the question becomes, how do we recover that \$9,000 we just lost and didn’t realize it was happening? That depends on a couple of things. First, calculate your company profit margin:

$$\text{Profit margin} = \frac{\text{Total profit}}{\text{Total sales}}$$

Using round numbers for simplicity purposes:

Let's assume your total "profits" for the year are \$250,000 and your revenue is \$5,000,000. Your profit margin is then .05 (5 %):

$$\frac{\$ 250,000}{\$5,000,000} = .05$$

Next, add the direct plus indirect costs of the accident together to determine the total cost.

Total direct costs	\$ 7,500.00
Total indirect costs	<u>\$ 9,000.00</u>
Total cost of accident	<u>\$16,000.00</u>

Then, take the total cost of the injury (direct cost + indirect costs) and divide the sum by your profit margin. Using our example:

Total cost of injury:	<u>\$16,000.00</u>	=	\$320,000.00
Profit margin:	.05		

You read it right...that little accident that you thought only cost you a \$7,500 workers compensation insurance claim will require an additional \$320,000.00 in new revenues to recover the profits on your loss!

Unless you work with insurance costs on a daily basis, most facilities never realize the costs of occupational injuries. Once they do, safety seems to take on a whole new meaning with a lot more importance!

If I can be of any assistance, please drop me a line.

Stay safe, and stay in touch!

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