

# THE HIDDEN COSTS OF WORKER'S COMPENSATION...

What lies below the surface could be putting you (and your client) at a higher (and more costly) risk....

**Direct Costs**



Medical/Indemnity

**Indirect Costs**



Lost Time/Profit  
Lost Production

Total accident costs in the workplace can be compared to an iceberg: the (visible) top part equals the direct accident costs associated with a claim, while the larger, indirect and uninsured costs are buried below the surface.

When employees are injured on assignment, the staffing firm assumes direct worker's compensation costs. But, what about the indirect (or hidden) expenses? These costs are difficult to measure, but can become a serious financial problem. What are the indirect costs to you and your client?

## Staffing Firm /Indirect Costs

- Replacement of Injured Employee
- Lost-time by management/admin – accident investigation, filing claim report, follow-up on claim activity
- Out of pocket expenses for light duty assignment
- Increase in Experience Mod Rating\*
- Higher insurance rates and premiums
- Less competitive bill rates
- Limited (or none) incentives and/or bonuses
- Loss of bottom-line profitability – insurance costs, assessments, etc.

## Client / Indirect Costs

- Lost productivity (employee, crew or project)
- Supervisory time to investigate and/or ask questions
- Replacement of work, equipment or machinery, etc
- Down-time of equipment, machinery or department
- Emotional impact of “on-lookers” and loss of production activity
- Employee morale
- Inefficiency of replacement worker
- Overtime expenses during peak season
- OSHA violations/fines

\*Worker’s Compensation policies are experienced rated based on three years of previous losses. Policies are debited when actual losses exceed what is “expected” based on actuarial statistics per classification codes and payrolls.

Entering into peak season – you cannot afford to fill orders with “**warm bodies**” – employees must be physically qualified for the position and should feel comfortable/familiar with the working environment. Also, new hires have been statistically shown to have a higher risk of injury. Industry experts estimate indirect costs equal three to ten times the cost of the original accident. The following is a case study.

## Frequency/Severity Scenario

Employees working in a distribution facility using box cutters.

There were 22 finger/hand lacerations reported within an annual term. The average claim expense was **\$550.00**. Total incurred losses: **\$12,100** (laceration injuries).

One severe injury – finger amputation (using box cutter) resulted in a **\$45,000**.

And, other miscellaneous claims reported - **\$10,000**.

Overall annual incurred: **\$67,100**.

Total Annual Premium **\$100,000**.

Annual loss ratio: **67%**.

Modification rating increase – **1.00 to 1.25**

## Costs to the Staffing Firm

- The cost of increased debit rating per frequency/severity losses: **\$25,000 (annually)**
- Light duty payroll paid - **\$5,000 (finger amputation)**
- Amount of time (in hours) spent by managers/administration to investigate, complete claim report, general claim follow-up, etc (23 claims). 5 hours/laceration and 15 hours/amputation  
**Total hours: 125 hours**
- Amount of time (in hours) spent by recruiters to replace the injured employees - X number of hours
- Due to the 25% increase of work comp policy debit rating – all bill rates had to be adjusted to include the debit – thereby, reducing the profitability % margin – **Lost Profit: \$X dollars**
- Loss of incentive/bonuses to branch personnel as losses exceed bonus profitability model - \$X dollars in income lost to branch employees

# Costs to the Client

- **Loss of production –**

1. Time/expense to clean areas (OSHA General Industry Standard 1910/Bloodborne Pathogens). Depending on injury – this could include equipment, machinery, department, etc.

2. Employee shortage (i.e., injured employee) and

3. Accident **“on-lookers”** – other employees watching injury/accident activity unfold. Note: Depending on the severity of the injury – the hysteria (injured employee), panic (general work area), department shutdown and emergency medical exposure can adversely (emotional impact) affect morale and performance. \$X dollars in lost revenue (production loss)

- Replacement employee – Training and inefficiency until **“up to peak performance”**

- Overtime expenses to compensate for lost production time.

- Replacement of equipment

- Amount of time (in hours) spent by supervisor to investigate, notify staffing firm, complete accident report, coordinate medical treatment, etc (23 claims). X Number of Hours

**Note:** The above frequency/severity scenario is from an actual staffing company. Had they investigated the “root cause” of the box cutter injuries early – they would have reduced the frequency and ultimately prevented the finger amputation. The investigation confirmed all employees were assigned retractable knives – however, no established policies/procedures to regularly inspect the knives – it was determined, many were broken or in poor working condition. As a result, an inspection/maintenance plan was implemented as well as periodic (refresher) communication with employees to notify their supervisor when equipment is not performing correctly.

The staffing firm estimated the indirect costs associated with the 23 claims totaled close to \$200,000 (expenses to staffing firm and client).

In summary, worker compensation is critical to both the economic well being of the employee and employer. Unfortunately, there is a trend of escalating costs to the employer, which are passed on directly to customers. This is due to the fact that there is also a trend toward increased benefits to the injured employee, increased insurance costs, fraud, etc. The workers compensation system, can also contain a great many incentives, which can motivate you to contain costs. A side benefit of controlling these costs is that you send a message to all employees, clients and management that health and safety are high priorities at your company and that you value all your employees.