

Direct versus Indirect Costs of Workplace Injuries

It has been estimated that employers pay almost \$1 billion per WEEK in direct costs related to workers' compensation. What's even more astounding a great cause of concern is according to the National Safety Council, the indirect costs surpass the \$1 billion to a tune of \$4 billion per week! Is this really the time to cut the safety budget?

Did that raise your attention level? I hope so, because this problem doesn't rest on the shoulder's of the insurance companies. It rests on the shoulder's of every American and something needs to be done. I believe that one of the first steps in trying to control this ever growing giant is to educate the very people in charge of their company work comp and safety strategies. Many of these people are aware only of the direct costs; ie what they pay for their work comp insurance.

We all know keeping your employees safe and healthy is the number one priority, or should be, of every company across the country. However, companies need to be profitable in order stay competitive and relevant in their market. And sometimes, companies looking to cut costs will look at safety and workers' compensation budget.

With that said, you may end up costing your company more money by cost cutting this area than you save. Workers' compensation and safety budgets are too often viewed upon as a shade of grey. Meaning, it's very difficult to truly see value and monitor the rewards of your efforts in hard dollars. The only thing black & white is the dollars going out in work comp premiums.

As we just described above, the direct costs of safety and workers' compensation are the premiums paid, safety investments, and incentive programs. The indirect costs can be described as all unbudgeted costs associated with an injury in order to get the employee back to pre-injury status. With a direct vs. indirect cost ratio of 4:1, the indirect costs need to be identified to understand the implications of each injuries that occurs. Some of these items include, but not limited to:

- Damage to equipment, machinery, materials, facility, etc.
- Production downtime
- Lower employee morale
- Loss of product or services
- Delays in shipment or filling orders
- Additional overtime
- Managers lost time resulting from the accident. Also includes inspections, investigations, meetings, and administration

- Employees assisting with the accident. Includes administering 1st aid, and witness interviews
- Hiring and training replacement workers
- Wages of replacement workers
- Other non-productive time incurred by injured employee. Includes all medical related appointments
- Potential OSHA penalties
- Attorney fees

That's quite a list and yet, it still doesn't encompass every indirect costs. Understand that for each injury that occurs in your workplace, the increase in your workers' compensation premiums is dwarfed by all of the indirect costs associated with that injury. Take the necessary precautions to limit, or better yet, eliminate all injuries to ensure maximum productivity and profitability.

Jeff Slusser is a workers' compensation consultant with Hilmerson Safety Services, Inc. and can be reached at jeff.slusser@hilmersonservices.com or 952.224.9390.