WHITE PAPER

SAFETY AND LOSS CONTROL

Strategies to Protect Employees and Profitability

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Most people associate "loss control" with specific elements such as reducing theft, but the broader meaning of the strategy is to minimize the possibility that any kind of loss may occur—and when losses do happen, to reduce their severity or impact on the business. In simple terms, loss control is a strategy designed to reduce the inherent risks associated with business operations.

While companies may pursue loss control strategies on their own, loss control is something offered and encouraged by their insurance carriers. Because those carriers are providing coverage for losses suffered by those businesses, it's in their interest to assist those businesses in risk mitigation processes and procedures. Depending on the situation, loss control strategies may include anything from a review of security practices to helping companies develop a safety culture among employees.

INJURIES, ILLNESSES AND FATALITIES COST AMERICAN BUSINESSES MORE THAN $170 BILLION ANNUALLY. IN A TYPICAL YEAR, MORE THAN A MILLION INJURIES ARE SUFFERED AND OVER TWICE THAT NUMBER OF WORKERS SUFFER NEGATIVE HEALTH EFFECTS CAUSED BY ON-THE-JOB CONDITIONS. TOGETHER, THOSE INCIDENCES LEAD TO A LOSS OF ABOUT NEARLY 40 MILLION FULL WORKDAYS.

The Business Value of Safety

Business owners and managers often think of safety solely in terms of the direct impact of injuries on employees. While the concern for others is laudable, and nobody would dispute that a significant on-the-job injury creates a life-changing event for an employee, there's also a compelling business case to be made for workplace safety.

To begin with, injuries, illnesses and fatalities cost American businesses more than $170 billion annually. In a typical year, more than a million injuries are suffered and over twice that number of workers suffer negative health effects caused by on-the-job conditions. Together, those incidences lead to a loss of nearly 40 million full workdays. On average, every minute sees 50 workers suffer injuries, and every day sees 17 workplace deaths.[1]

Indirect costs. Those are chilling statistics, but they take on an even greater impact when you consider the effect on the bottom line. The simple fact is that workplace injuries have a far greater impact than the direct cost of medical care. A series of studies have attempted to quantify the indirect costs of safety incidents, and no matter which study seems most accurate to you, they all suggest that indirect costs far exceed whatever medical costs result from an incident. A study by H.W. Heinrich suggested that each dollar in direct costs led to $4 in indirect costs, while the Bird and Loftus study said the ratio is closer to $50 in indirect costs for every dollar expended to pay the direct costs of an injury.[2]

How can that be? Consider a workplace injury that leads to a 911 call and hospitalization. The ambulance fee and hospital bills are part of the direct costs, but where do the indirect costs come in? Start with the likelihood that work came to a halt while the EMTs treated the worker, so productivity dropped off significantly. Supervisors had to oversee the situation and it's likely that at least one supervisor had to accompany the worker to the hospital, forcing someone else to take over his or her role on the worksite.

Beyond the production downtime, there may have been damage to materials, products or equipment that needs to be addressed. The inevitable OSHA investigation will take supervisors and workers off their normal tasks while they're being questioned, leading to further declines in productivity, and the employer may face fines if there are any signs that the jobsite or tasks were not as safe as they should be.

Making up losses. Having to make up any lost work also carries a cost. Typically, that's determined by totaling the direct and indirect costs and dividing them by the company's profit margin. Suppose the total costs of the incident were $230,000, and the company's profit margin was 13.47%. At that rate, it would take an additional $1.7 million in production to cover the losses from this incident.[3]

Future coverage costs. A key factor in determining the cost of workers' compensation coverage is a company's claim history. Carriers apply a factor known as the EMR (experience modification rate or rating) to the base rates of the policy to adjust for the predicted risk of future injuries. An EMR of 1.0 indicates a company has an average history of worker injuries, a number below 1.0 demonstrates a better-than-average loss history, and a number higher than 1.0 indicates more losses than expected.

To understand the importance of EMR, compare two essentially identical construction contractors performing the same kind of work. We'll say the base annual workers' compensation premium for companies of this type and size is $200,000. One company has a strong safety culture and few injuries, and has achieved an EMR of 0.9, while the other company has experienced more frequent safety incidents, resulting in an EMR of 1.3. The safer company would then pay an annual premium of $180,000, while the other would pay $260,000.

The difference in claims history means the second company is paying $80,000 more for its coverage. Not only will that hurt the company's profitability, but having an EMR over 1.0 may prevent it from bidding on work for owners who have high safety standards (such as government agencies).

Productivity and morale. Although these factors are less easy to quantify, research has demonstrated that companies with a strong safety culture also see significant improvements in morale, productivity and profitability. Furthermore, a culture of safety can be a useful recruitment tool.

How Return-to-Work Programs Reduce Costs

Another loss control technique that can lead to significant savings in workers' compensation, short-term disability and liability premiums is the use of return-to-work programs to limit the amount of time injured workers are off the job.

When employees suffer an injury that prevents them from performing their normal tasks for a set period because of a doctor's directions, many companies simply allow them to remain home and collect payments through workers' compensation or short-term disability programs. However, those employees are often well enough to perform other job-related tasks long before they can return to their normal role. For example, a loading dock worker suffers a back injury, and his physician's order states he can't lift anything heavier than 20 pounds for an eight-week period. However, the order provides no limits for performing tasks that don't involve heavy lifting, so instead of spending eight weeks watching daytime television at home, he could be transferred temporarily to another department or other tasks. That way, he continues to receive his regular paycheck and the amount of claim paid through workers' compensation is decreased.

That's important, because OSHA records and a company's EMR reflect the amount of lost work time because of an injury. In our example, if the worker stays home, the company's OSHA 300 log will show 56 days of lost work. But if he's reassigned to another task that doesn't involve lifting, such as handling paperwork in the receiving office, the OSHA 300 log might only reflect the one day he sustained the injury and note the 55 days of light work.

Besides reducing the amount of insurance benefits the employee is paid, a return-to-work program makes employees feel more valued, so they're less likely to leave the company. It may reduce the number of temporary workers the company needs to hire to replace people with injuries and keep the

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worker's knowledge and experience available. The worker has the social benefits of being around his co-workers and continues to earn a full paycheck instead of lower insurance payments.[4]

Outside providers. What if your company is unable to provide suitable positions for an employee who is recovering from an injury? In those cases, it may make sense to establish a relationship with an organization that provides outsourced return-to-work services.

The nation's largest and best-known provider is ReEmployAbility, whose Transition2Work program gives employers a way to place workers in light-duty roles so they can continue to work and earn an income while they heal. ReEmployAbility has developed a national network of more than 35,000 nonprofit organizations, such as the YMCA, Red Cross and Habitat for Humanity. During their recovery, injured workers are given a supervised volunteer assignment with one of those organizations, performing tasks that comply with their medical requirements.

Depending on the relationship, ReEmployAbility will invoice the insurance carrier, the employer or its third-party administrator. The most common approach is for the insurance company to treat the fee for the placement of the volunteer assignment as part of the workers' compensation or disability claim. According to ReEmployAbility, a program such as theirs can lead to $8 to $10 dollars in savings for every dollar invested.[5]

COMPANIES WHO TAKE THE TIME TO DISCUSS LOSS CONTROL WITH THEIR CARRIERS AND INVEST THE TIME IN IMPLEMENTING THE PROGRAMS THEY OFFER MAY ACTUALLY ACHIEVE SIGNIFICANT COST REDUCTIONS.

No Need to Reinvent the Wheel

Some companies may be hesitant to explore loss control programs out of a belief that doing so would create additional costs. However, most workers' compensation and liability carriers have already created programs for use by the companies they insure. Many of these loss prevention services are available to companies at little or no out-of-pocket costs. After all, it's to the insurers' advantage to reduce the number of claims their policyholders encounter.

An example is workplace safety. An insurer that provides workers' compensation coverage may send teams to an employer to better understand the work its employees perform and procedures

or environments that may increase the chances a worker will be injured. After identifying these risks, the insurer's team will offer practical steps—which can include anything from training to enhanced personal protective equipment—that will reduce the risk of injury. The principal motivation behind this approach is that the cost of preventive measures tends to be significantly lower than the cost of paying claims when an injury occurs.

Beyond preventing losses from occurring, the types of loss control strategies discussed here increase the number of carriers that will insure a company's risk, thus creating more competition for their insurance program. For all the reasons discussed in this white paper, companies that prioritize loss control and invest the time in implementing the programs create a competitive advantage in efficiency, morale and profitability.

SOURCES

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