



Workers' Compensation Understanding the True Cost of an Employee Injury

A safe job is a profitable job—especially when you add up the direct and indirect costs of an accident! For example, a \$25,000 sprain/lost time injury might take between \$500,000 and \$2,500,000 of additional company sales to pay for the cost of the injury.

Direct costs are easier to quantify—medical bills and lost wages. These are usually paid by your workers' compensation insurance company.

Indirect costs are harder to quantify, and they range up to 7 times the direct costs of an accident. The smaller the injury, the greater the indirect multiplier. Conversely, the larger the claim, the smaller the multiplier. These costs impact you immediately for job site disruptions, lost productivity, and for the next three years with increased experience modification ratings, and reduced profitability. You pay all the indirect costs. These hidden indirect costs are commonly referred to as the "iceberg effect".

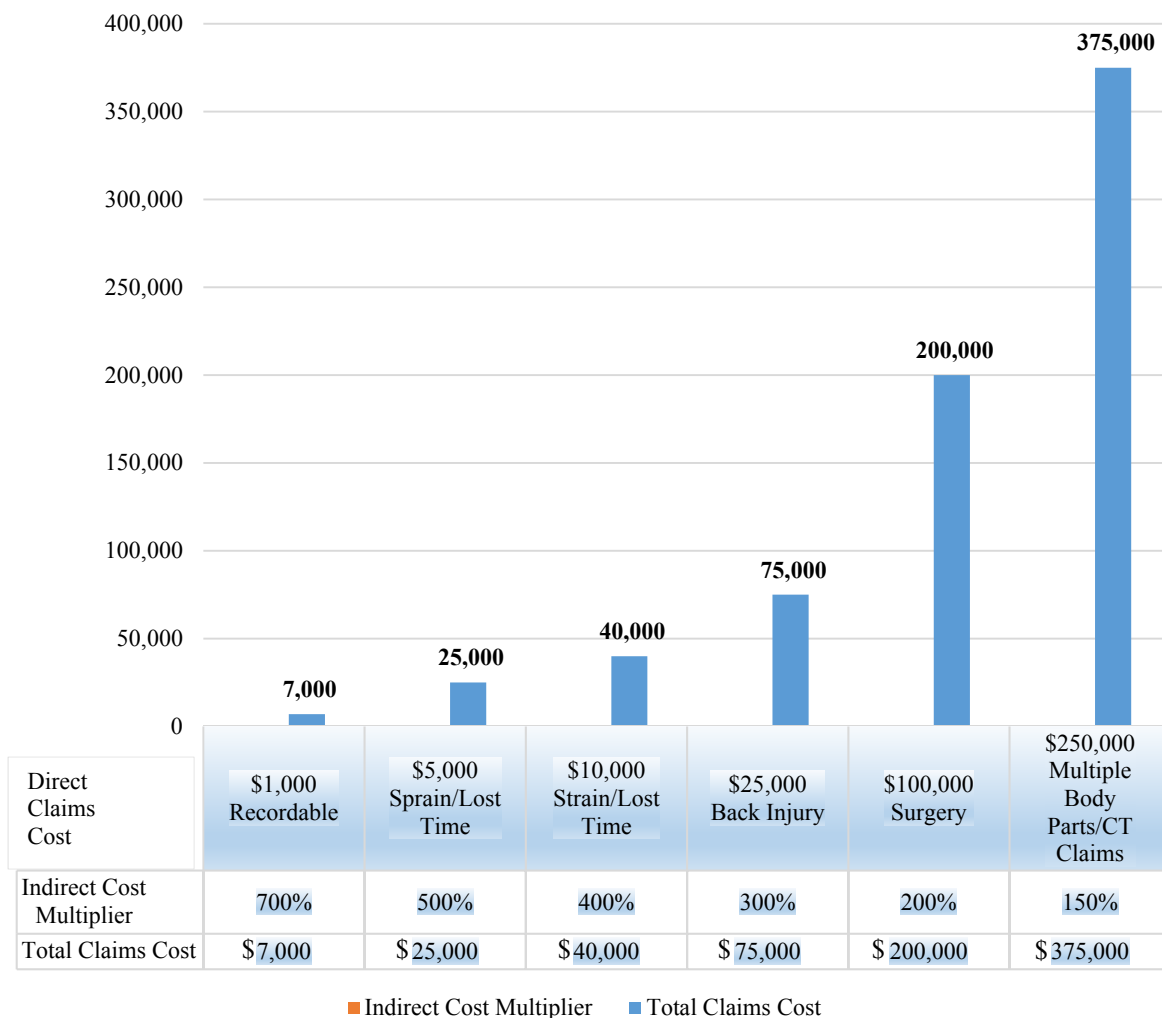


Note: Indirect costs vary from 2 to 7 times the direct costs for an employee injury.

The following table indicates the amount of dollars needed in sales to pay for the accident costs at varying profit margins for your company:

		Company Profit Margin				
		1%	2%	3%	4%	5%
Total Claims Cost	\$7,000 Recordable Incidents	\$700,000	\$350,000	\$233,000	\$175,000	\$140,000
	\$25,000 Sprain/Lost Time	\$2,500,000	\$1,250,000	\$833,000	\$625,000	\$500,000
	\$40,000 Strain Lost Time	\$4,000,000	\$2,000,000	\$1,332,000	\$1,000,000	\$800,000
	\$75,000 Back Injury	\$7,500,000	\$3,750,000	\$2,500,000	\$1,875,000	\$1,500,000
	\$200,000 Surgery	\$20,000,000	\$10,000,000	\$6,666,000	\$5,000,000	\$4,000,000
	\$375,000 Multiple Body Parts/CT	\$37,500,000	\$18,750,000	\$12,500,000	\$9,375,000	\$7,500,000

Total Claims Cost = Direct Cost x Indirect Cost Multiplier



Impact on Your Experience Modification Rate

The impact of claims on your Experience Modification Rate (EMR) changed in 2017.

Starting 1/1/17, the California Workers' Compensation Insurance Rating Bureau changed the Experience Modification formula to weight smaller claims more than a single large claim. The impact of a small claim will now be variable from \$4,500 to \$75,000, based on the size of your payroll and expected claims, rather than the current fixed value of \$7,000 per claim. For a contractor with several small claims, their EMR will go up faster than if they had large claim.

Impact on Employees

If you get a reputation for being an unsafe employer, it may become harder to retain or recruit new employees. Without the best workers, productivity and profitability will go down.

A return to work program will help to reduce the impact of claims to your experience modification rate. If you can accommodate an injured worker with modified duty during their recovery, you can reduce the cost of the indirect expense, and get some worker productivity at the same time.

Full Time Safety focus

The safest and most profitable contractors invest in safety by having one full time safety professional for every 50-100 field workers. They will support your foremen with best safety practices and use automation to track safety performance and objectives. Refer to the June 2015 PentaRisk Perspectives article *30 Tips for Preventing Injuries, Reducing Workers' Compensation Costs, and Lowering Your EMR*: <http://www.pentarisk.com/2015/04/30-tips-for-preventing-injuries-reducing-workers-compensation-costs-and-lowering-your-emr/>

All employees need to understand the true cost of an employee injury. In our experience, when employees see how much work is needed to pay for a claim, they further commit to being safe. It's job security!

For more information, Contact Jim Untiedt at 408.418.2734 juntiedt@pentarisk.com, and visit our website at <http://pentarisk.com/>.

California

PentaRisk Insurance Services
2033 Gateway Pl Ste 150
San Jose CA 95110
p 408.418.2720 · f 408.418.-2721
CA License Number 0G47886

Georgia

PentaRisk Insurance Specialists
3715 Northside Pkwy
Bldg 400 Ste 550
Atlanta GA 30327
p 404.809.2530 · f 404.809.2531
GA License Number 186880

Alabama

PentaRisk Associates of Alabama
500 Office Park Dr Ste 420
Birmingham AL 35223
p 205.874.9700 · f 404.809.2531
AL License Number 0415532

Illinois

PentaRisk Associates of Illinois
600 Spring Hill Ring Ste 201
West Dundee IL 60118
p 847.649.5000 · f 847.836.1431
IL License Number 100288418