

## **Worker's Compensation relief is on the horizon – but there's a catch**

There seems to be some hope on the horizon for the beleaguered California Worker's Compensation Insurance fiasco. It appears that Governor Swartzeneggers initiative for changes in the W/C system may offer employers some relief. More importantly, there are definite indications that W/C carriers are returning to the California W/C market, albeit cautiously. It appears that discounts may be available for companies that are serious about risk management and loss control. For example, discounts may be available for those who have implemented Early Return to Work Programs, Drug Free Workplace Programs, aggressive Safety Programs and other risk management measures. No longer will it suffice to check the box – Yes, we have one of those. Actual proof of the existence risk management programs are being required in the form of written policy statements, documentation of the number of pre-hire and post accident drug screens performed, records of light duty early returns to work, job site inspections performed, safety training records with employee signatures, effective safety programs to Cal/OSHA standards, etc. A risk management audit by a W/C carrier may take as long as a day or more and require copies of hundreds of records – actual proof of proactive loss control measures.

### ***The catch? The cost risk management/loss control!***

Risk managers commonly refer to the total cost of accidents in terms of *losses*. Losses are generally controlled in one of four ways, through (1) avoidance, (2) abatement or mitigation, (3) shifting or transferring of the risk to a third party, and (4) acceptance of the risk and potential loss. Each control measure will have an associated cost. Consider how you might handle (manage!) direct and indirect losses and what the costs amount to compared to actual direct and indirect incident/accident costs..

Start by reviewing your incident/accident history by injury type for a year or two from your Cal/OSHA 300 Logs. To develop costs (losses) based on past history apply your actual lost time and associated direct and indirect costs by injury category. To see what your loss exposure is based on national averages (preferred method) use the incident/accident loss time chart below and estimate direct and indirect costs based on history. Use the hard and soft cost items listed below as a guide to hidden costs.

To estimate loss control costs apply the four loss control measures and associated costs to each injury category.

Compare total incident/accident costs for the period to control measure costs. The result will be an eye opener.

*Median number of days away from work, by event or exposure leading to occupational injury or illness, 2001:*

<b>Event or exposure</b>	<b>Lost days</b>	<b>Event or exposure</b>	<b>Lost days</b>
Repetitive motion	18	Slip, trip, loss of balance (without fall)	6
Fall to lower level	11	Fires and explosions	5
Transportation accidents	10	Assaults and violent acts by persons	5
Overexertion	7	Contact with objects and equipment	4
Fall on same level	7	Exposure to harmful substances	3

### **Hard (or direct) costs:**

Compensation to injured employee

- Direct wages
- Work transition
- Wage Loss (light-duty differential)
- Pain and suffering
- Short/long term disability

Medical

Death benefits

- Property damage
- Rehabilitation of employee
- Handicap reimbursement

**Soft (or indirect) costs**

Indirect costs are often referred to as *soft* costs. The following are examples of soft (or indirect) costs

- Training, retraining
- Recruiting, rehiring, orientation
- Insurance (General Liability, Builder's Risk, Umbrella, W/C)
- Bonding and surety costs
- Lost production
- Additional drug testing and physicals
- Loss of good will
- First aid
- Redrafting/creating policies and procedures
- Administrative expense
- Incident investigation
- Abatement means and measures
- Schedule delays
- Employee's potential loss of livelihood
- Death
- Criminal prosecution
- Third-party suits
- Intentional tort claims
- Negligence claims
- Cal/OSHA fines, citations, and penalties
- Consultant fees
- Legal fees and cost of litigation, arbitration, mediation, or negotiation

A final word on costs: It is not uncommon for soft costs to exceed hard costs by a factor of five (5 x). When money is paid for costs out of bottom line net profits (typically ranging from 2% to 8% of sales), a single incident with \$1650 in direct costs can equate to an additional \$125,000-\$500,000 in sales required to simply *break even*.

How many of your single-incident direct costs are held to only \$1650? Then ask yourself, when do control measures pay off?

For an extensive list of soft and hard cost categories, an Excel spread sheet to tally costs, estimates of control measure costs, and a comprehensive risk analysis of your current operation contact Quantum Risk Management at [info@qrmonline.com](mailto:info@qrmonline.com) or 619 523-4859.