



# Loss Control Insight

Hidden Costs of Accidents

Most realize that accidents cost money; but few understand just how much. One reason so many underestimate the cost of accidents is that they assume insurance covers all losses. A worker gets hurt? No problem, they think. Workers' compensation will pay for the medical bills and cover the worker's wages during recovery.

If only things were that simple. When an accident occurs, a municipal entity incurs all kinds of losses. Insurance covers only a small percentage of them. Most of the costs of an accident are from losses not covered by insurance. So to win support for your safety efforts, you need to explain the real impact of uninsured losses.

When an accident happens, a company incurs two kinds of losses

**Losses Covered by Insurance.** These are the direct costs an organization pays for an accident, including the victim's medical bills and wages for lost work time.

**Losses Not Covered by Insurance.** These are indirect, or hidden costs of an accident and may include:

- The costs of finding and training a replacement for the victim;
- Overtime and extra wages paid to other workers to make up for the victim's lost production;
- Medical costs and payments to the victim not covered by insurance;
- Increases in insurance premiums;
- Delays in "production";
- Damage to equipment and other capital assets;
- Damage to morale and decline in productivity that inevitably follow on the heels of serious accidents;
- Time spent investigating the accident.

Uninsured losses are generally at least three times than insured losses. These are typically overlooked when evaluating a loss.

**Case Study:** Here's a case study you can use to drive home the point:

A skilled machine operator at a company employing 100 workers averaging \$15 per hour gets his sleeve caught in the moving part of an unguarded press machine and hurts his right arm. The machine is shut down, completely stopping production for two hours. All workers get full wages accrued during the two-hour shut-down (\$3,000). Morale is shattered and production drops in the two weeks following the accident resulting in a loss of \$2,000. The machine is damaged and needs \$10,000 in repairs, slowing production even further. The company must pay 10 workers 10 hours of overtime (\$2,250) to make up for the lost time. But it still misses a delivery date causing an angry customer to cancel a contract worth \$40,000.

Meanwhile, the victim undergoes extensive surgery. After a 10-day hospital stay, he's released. But he can't return to work for six months. It costs the company \$1,000 to find and train somebody to replace the victim. Insurance covers all medical bills (say, \$50,000) and 50 percent of lost wages (say, \$7,700). When the victim

gets back his productivity is 50 percent of what it was before the injury. It takes him another six months to get back up to speed. Let's say this loss in productivity costs the company \$7,700.

The government investigates the accident and charges the company with failing to guard the machine. The charge is later dropped because of a technicality, but only after the company runs up \$30,000 in legal fees. The company incurs another \$10,000 in administrative costs to defend itself. Moreover, the accident and prosecution damage the company's reputation and ability to compete for contracts. Although hard to value, this loss of good will costs the company at least \$30,000.

Let's consider the total costs of this accident to the company:

### **Approximate Costs to Company**

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1. Victim's Medical Bills:	\$50,000
2. Lost Wages:	\$7,700
3. Wages to Workers During	\$2,800
4. Lost Productivity	\$2,000
5. Overtime	\$2,250
6. Costs to Replace Worker	\$1,000
7. Lost Productivity When Victim Returns	\$7,700
8. Repairs to Machine	\$10,000
9. Value of Lost contract	\$40,000
10. Legal Fees/ Admin. Costs	\$40,000
11. Increase in Workers Comp Premiums	\$5,000

**TOTAL COSTS: \$198,450**

**Insured Costs: \$57,700**

**Uninsured Costs: \$140,750**