



Workplace Safety

## Reducing the Indirect Costs of Workplace Injuries

Gillian Scott | Jan 24, 2019

**Workplace injuries and illnesses can be costly for employers. Some of those safety costs are clear, but less obvious costs can add up, too.**

“Workplace accidents impact employees’ physical, emotional and financial well-being,” Debbie Michel, general manager of Liberty Mutual’s National Insurance Casualty operation, *told EHS Today*. “They also financially burden employers, who pay all of the medical costs related to a workplace injury, together with some portion of an injured employee’s pay. Besides these direct costs, workplace injuries also produce such indirect costs for employers as hiring temporary employees, lost productivity, quality disruptions, and damage to a company’s employee engagement and external reputation.”

**According to the Occupational Safety and Health Administration**, employers pay almost \$1 billion a week in direct workers’ compensation costs. But employers also face indirect costs, which are typically not covered by insurance.

### What Are the Direct Costs of Workplace Injuries?

OSHA says examples of direct costs of workplace injuries and accidents include:

- Compensation payments
- Medical expenses
- Costs for legal services

“The direct costs of an injury are the easiest to see and understand. These costs include emergency room and doctor visits, medical bills, medicines, and rehabilitation,” Ray Gagne, EET, CFE, NADEP, writes in *a study*. “But direct costs are just the tip of the iceberg.”

According to *Liberty Mutual Insurance’s Workplace Safety Index*, which examines injuries that cause workers to miss six or more days of work, serious workplace injuries cost businesses more than \$58 billion in direct costs in 2018. Overexertion—with injuries related to activities such as pushing, pulling, lifting, carrying or throwing—was the most costly, at \$13.7 billion.

Other expensive injuries included falls at the same level (\$11.2 billion), falls to a lower level (\$5.9 billion), struck by object or equipment (\$5.3 billion), injuries caused by other exertions such as bending or twisting (\$4.2 billion), slips or trips (\$2.3 billion), caught in or compressed by equipment (\$2.1 billion),

and repetitive motion (\$1.5 billion).



*Want some help figuring out safety costs? Help yourself with our interactive workplace injury calculator.*

## Calculating the Indirect Costs in Workplace Injuries

Indirect costs can be hard to calculate. Traditional ratios are flawed, says Ray Pitcher, president of Pitcher Insurance, in *an article in MetalForming Magazine*, because they don't take into account the unique risk of each business, lack flexibility and vary too widely to offer accurate information. If you want to try calculating your costs, here are a few options.

In a *2011 study* on accident costs, Fred A. Manuele, PE, CSP, president of Hazards Limited, examines common ratios used to estimate indirect costs to direct costs. These ratios vary depending on what data is included in indirect costs, with estimates suggesting indirect costs could be equal to direct costs, three times as much, four times as much or even 10 times as much. Manuele concludes that "safety professionals who use a 1-to-1 ratio can be reasonably comfortable."

One company suggests using loss performance measures such as Enterprise Rate Modifier (ERM) and Days Away, Restricted or Job Transfer (DART) to calculate indirect costs. "Indirect costs are often not counted correctly, and sometimes not at all, because they are harder to quantify," *says Sentinel Risk Advisors*. "To calculate the financial impact of these costs, we can use the amount of sales that must be generated to pay for a single incident. The more narrow a company's profit margins, the more sales that must be generated."

The Society for Human Resource Management and Kronos *conducted a survey* in 2014 to examine the impact of employee absences—planned, unplanned and extended time off—on organizations and employees. In it, the authors calculated indirect costs looking at three types of productivity loss: productivity due to replacement, co-worker productivity loss and supervisor productivity loss.

"When considering all three types of productivity loss, the average cost of productivity loss as a percentage of payroll was 6.2 percent," the study says.

OSHA's *safety Pays program*, designed to help employers assess the impact of injuries and illnesses on their profitability, uses an indirect cost multiplier (ranging from 1.1 to 4.5) in its calculations. It takes into account factors like overtime and training costs, but not the cost of regulatory fines or lawsuits or damage to a company's reputation.

## What Are the Indirect Costs of Workplace Injuries?

“Indirect costs can be best described as all unbudgeted costs associated with an injury in order to get the employee back to pre-injury status,” says Gagne.

According to OSHA, indirect costs of workplace injuries and illnesses include:

- Training replacement employees
- Accident investigation
- Implementation of corrective measures
- Lost productivity
- Repairs of damaged equipment and property
- Costs associated with lower employee morale and absenteeism

Ron Pitcher, president of Pitcher Insurance, in *an article in MetalForming Magazine*, says that indirect costs can be difficult to calculate accurately.

“Uninsured costs rarely are accounted for by most business owners and financial managers, because they are not easily identifiable,” Pitcher writes. “It’s difficult to accurately measure the financial impact and obtain reliable information to allow business owners and financial managers to appropriately deploy scarce resources and minimize costs. However, designing safety and health practices around the credible quantification of your organization’s total cost of worker injuries is effective to reduce short- and long-term costs.”

The overall financial impact of these indirect costs is subsequently also up for debate. Ratios that use direct costs to calculate indirect costs vary from 1:1 to 1:3 to 1:10 and higher (see sidebar).

## How to Reduce the Indirect Costs of Workplace Injuries

Like efforts to reduce the direct costs of injuries and illnesses, methods of reducing indirect costs include implementing safety programs, preventing accidents and keeping workers as safe and healthy as possible.

“A properly constructed ‘preventative’ program to prevent injuries from occurring in the first place is the primary objective of corporate America,” says Gagne. “From post-offer screening and integrated soft tissue injury management programs to preventative maintenance protocols for the aging workforce, it is clearly a positive return on investment.”

*Sentinel Risk Advisors* says a good safety culture can have long-lasting results on the bottom line, but it can also help in less concrete ways. “A robust self-inspection program can find hazards before they occur, reduce the potential for and severity of injuries, and reduce potential of an OSHA citation,” the company says. “Additionally, demonstrating that the company cares about employee safety positively impacts employee morale.”

More than reducing costs—direct or indirect—improving safety means valuing workers. “Even though cost savings are a motivator, safety’s biggest return on investment may be human capital,” Kyle Morrison, a former senior associate editor, *writes in Safety and Health magazine*. In the article, Rich Widdowson, Schneider Electric’s vice president of safety, environment and real estate, tells Morrison that “employers should not base decisions on whether a particular change will result in cost savings, but instead on whether it will keep workers safe.

“I hate to go into the dollar savings. They’re there, but that’s not why we do it,” Widdowson told Morrison. “We don’t do this because of the dollars. We do this because of the people.”

For businesses determined to focus on indirect costs, Pitcher suggests performing an internal risk audit

or using software to quantify the total impact of worker injuries with claim data and specific economic information. "

The program calculates all of the possible areas of risk, and evaluates where the strongest threat of liability lies. Companies can then focus on their most imminent areas of risk, reducing overall cost of losses due to work-related injuries," he says.

*How do you calculate the indirect costs of injuries and illnesses?*

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