




Dollars & \$en\$e


\$afety Pay\$

The dollar\$ and \$en\$e of safety



Controlling costs and
improving profits by
integrating safety and
management practices.

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- We believe that safety is no different than production or quality with regards to the success of a project, and via profits, the success of the organization.

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- Our goal with this presentation is to help enhance your organization's safety, production, quality and profits.

Today's Topics:



The SPQ Triangle


- A Perception Exercise
- Piece Workers
- Wrap vs. Non-Wrap Claims
- Experience Modification Rate (EMR)

Today's Topics (2):




- Indirect cost of incidents
- Lost profits
- Return-to-work programs (RTW)
- References and Resources

A new concept to consider - the SPQ Triangle:

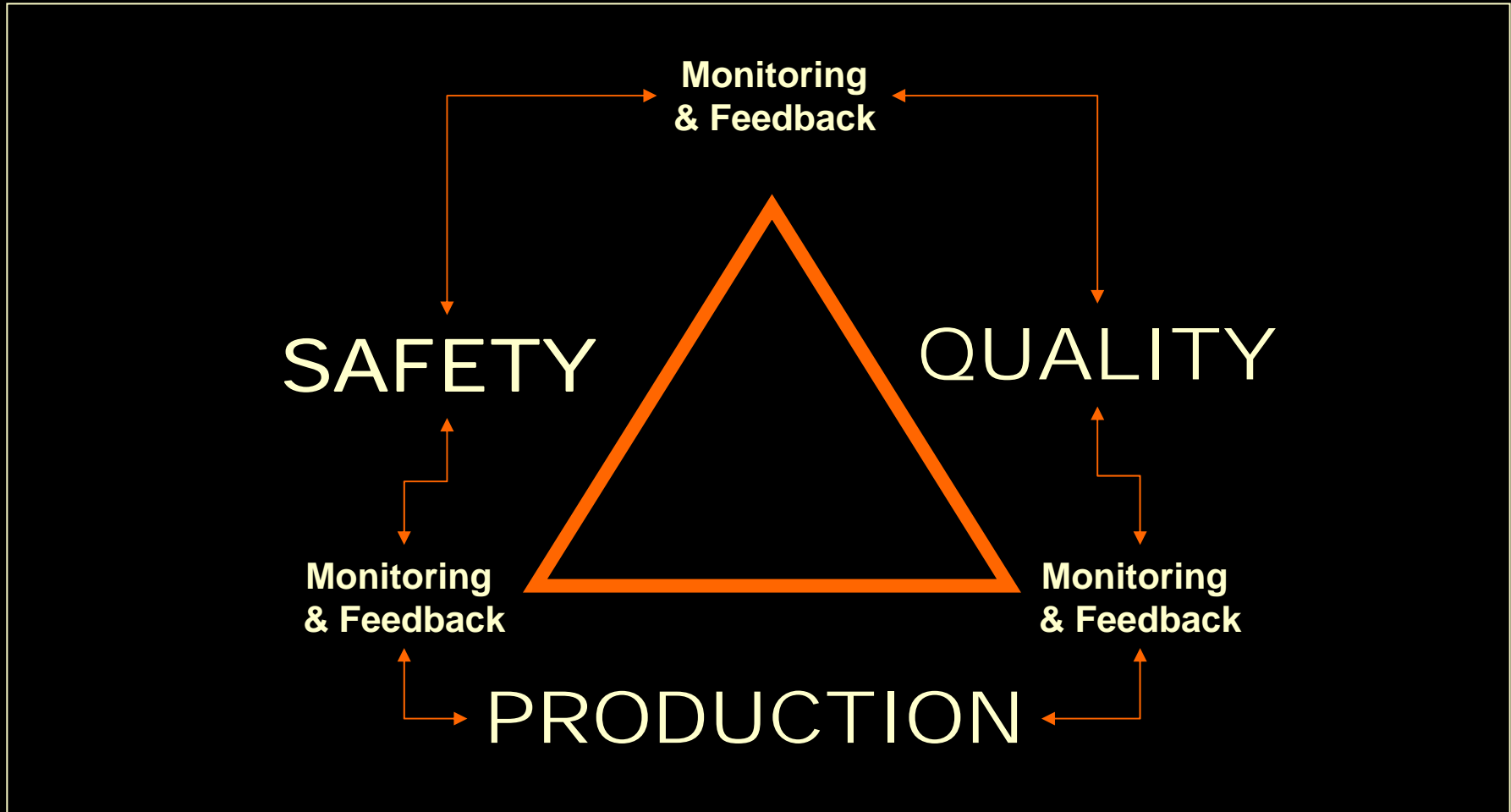



Safety as an equal to
production and quality

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- You'd want the following to happen on any project:
 - No punchlist.
 - No rework.
 - Punchlist and rework costs come straight out of your profits - you don't include rework and punchlist in your bids.
 - So do the costs of incidents.

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- Why not plan for no incidents (injuries), too?


A balanced construction system:



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- There are two ways to look at this premise with respect to safety:
 - What is not measured does not get done.
 - You measure production...
 - Why not safety?
 - If it is not expected, it won't happen.
 - You expect, if not demand, quality...
 - Why not safety?

A perception exercise:



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- We know you have a commitment to production, and thus profit.
 - Without profit, you wouldn't be in business for very long.
 - There is also a real or implicit commitment to quality, for without quality, there is punchlist and rework. That destroys profits.
 - What about safety?

Consider the following list:


Safety: _____

Productivity: _____

Quality: _____


Think about the best Foreman or Supervisor (stick with one role or the other for consistency) in your organization in each of these three areas.


Write the individual's name in the blank beside each category.


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- How many of you wrote the same person's name in each blank?
 - Remember the SPQ Triangle...

Piece Workers

A thick, horizontal yellow brushstroke underline that spans most of the width of the slide, positioned below the title.

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- Some of today's attendees may have the perspective or opinion that:
 - “we really don't have 'employees' - we just hire piece workers when we need them”
 - “a piece worker isn't the same as a regular employee, we just hire them when we need them”

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- In many segments of the construction industry, piece workers are very much a reality.
 - However, many contractors don't think of piece workers in the same ways they think of their regular employees.
 - That can be dangerous. Here's why:

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- If they are on your payroll, whether for a day or a week, a piece worker is an employee from the insurance perspective, and their claims count against your firm just the same as a regular employees claim does.
 - You need to treat them the same as any other employee.

Think about this:



- Workers' Comp payments are made according to established fee and benefit schedules.
- OSHA citations have regulatory limits and formulas that determine their costs.
- Jury awards in the event of a lawsuit do not have regulated schedules, limits, or formulas.


P.S.:




- OSHA fines are not covered by any form of insurance nor are they tax-deductible.
 - They come straight out of your profits.
 - They go directly to the General Treasury Fund.


OCIP/CCIP (Wrap) Claims compared to your Non-OCIP/CCIP (Wrap) Claims


What's the difference?

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- Each of your businesses have Workers' Compensation insurance policies for (Wrap) or OCIP's/CCIP's as well as for your firm's normal (non (Wrap)-OCIP/CCIP) operations.

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- An unfortunate mistake happens to many companies that work on OCIP's/CCIP's (Wraps).
 - They think that since they don't pay for their Workers' Comp insurance while working on a (Wrap) or OCIP's/CCIP's, the cost of the (Wrap) Workers' Compensation claims doesn't affect them.

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- WRONG ANSWER.


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- The reality is that the OCIP/CCIP (Wrap) sponsor pays for your insurance while you are on the project, and they may have costs related to your claims on their project(s).
 - *However, they do not bear the history of your claims - you do!*
 - *Every claim affects your firm the same way - negatively.*


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- Cost containment for any claim, OCIP/CCIP (Wrap) or not, happens in three ways:
 - prevent the claim from happening
 - actively managing the claim with the insurance carrier
 - implementing a return-to-work program
 - (we'll cover the basics of this later in the session)


The Experience Modification Rate (EMR)



Insurance as a controllable
cost

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- You may also know the EMR by a different name or acronym:
 - EMF
 - X-Mod
 - Mod Rate
 - Modifier


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- All of your Workers' Comp claims are tracked by your firm's Rating Bureau File Number (RBFN), regardless of who pays for your Workers' Comp insurance.


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- The EMR is, in very simple terms, a ratio of your actual claims costs for a rating year divided by your projected claims costs for that rating year.
 - Projected claims are based on your firm's Workers' Comp Class Codes and expected payroll.
 - Your competitor's EMR's are calculated the same way - there is no "special treatment".


$$\text{EMR} = \frac{\text{Actual claims values}}{\text{Expected claim values}}$$


$$\text{EMR} = \frac{\$75,000}{\$150,000} = 0.50$$


$$\text{EMR} = \frac{\$300,000}{\$150,000} = 2.00$$


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- There is also a factor in the calculation for what is known as “frequency”.
 - In the insurance world, frequency is a measure of how many claims your company has.
 - Some of you may think that it’s OK to have a lot of claims, as long as they are small ones.

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- Unfortunately, that's not the reality.
 - A company with 20 "small" claims totaling \$75,000 will have a higher EMR than a company with one (1) "big" claim of \$75,000.

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- The concept of frequency recognizes the fact that there were 20 “small” claims - but there was a chance for 20 “big” ones - each could have been worse.
 - In other words, “frequency breeds severity.”
 - Sooner or later, the odds will turn against you, and there will be a “big” claim.

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- The EMR is a multiplier that is calculated and applied to the rate your firm pays for Workers Compensation insurance.
 - An “average” EMR is 1.0.
 - An EMR less than 1.0 is desirable, as it reflects a better than average claims history, and results in a discount being applied to your firm’s insurance costs.


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- For the sake of example, let's assume that your EMR is based on a calendar year period.
 - Your firm's 2005 EMR is based on your firm's experience in 2001, 2002 and 2003.
 - Your firm's 2005 experience will impact your firm's insurance costs in 2007, 2008, and 2009.


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- So, in the world of Workers' Comp,
 - *What you did in the past lives on for four (4) rating years.*
 - *What you do today, and for the rest of the rating year, will affect you for the next four (4) rating years.*

An example of what the
EMR really means:



Dollars and sense?

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- Firm's A, B, C and D are bidding for the same subcontract.
 - Their wages rates are the same, and they arrive at the same amount of labor hours.
 - Both firms have the same material costs, and coincidentally, use the same profit and overhead rate.

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- So far, we're looking at what appear to be equal bids.
 - For the sake of example, let's say that the manual rate for Workers' Comp is \$30/\$100.
 - The payroll is figured at \$250,000.
 - The Workers Comp cost component of the bid is thus \$75,000.

The differentiator (and perhaps the terminator?):

- Firm A has an EMR of 0.75
- Firm B has an EMR of 1.50
- Firm C has an EMR of 1.00
- Firm D has an EMR of 0.50

The cost of Comp.:

- Firm A will have to pay \$56,250.
- Firm B will have to pay \$112,500.
- Firm C will have to pay \$75,000.
- Firm D will have to pay \$37,500.
 - *Who gets the job?*
 - *Who says safety doesn't pay?*
 - If firm B has the lowest bid, how do they do it?

Think about this...

- *Will your company be able to compete when the market is tight?*
- *Will you be able to afford insurance?*
- *Will your insurance costs drive you out of the competitive market?*

The Indirect Cost of Incidents




Real costs that you don't budget for, and may have never recognized

Indirect Cost of Incidents

- There tends to be a focus only on the direct costs of an incident –
 - what it paid out of pocket, or
 - what shows up on the insurance loss runs.
- There is not a lot of attention paid to the indirect, or hidden, costs.
 - These don't show up on a cost sheet or a loss run.

Indirect costs include:

- Lost productivity of the crew, or the entire project
- Supervisory time to investigate and/or answer questions
- Staff/clerical time
- Replacing the worker or equipment
- Litigation costs
- Investigations
- Treatment time
- Inefficiency of the replacement worker
- Morale
- Public image / goodwill
- Schedule impact
- OSHA citations

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- Indirect costs are commonly accepted to range between four (4) and twenty (20) times the direct cost of an incident.
 - Even if the incident occurs to a subcontractor, you still have indirect costs to bear.
 - You just may not have recognized it until now.

Let's do an example:



- We're going to assume that there is an eye injury that requires treatment at the clinic and two follow-up visits at a specialist.
- The medical costs are \$200.00.
- This firm sends the Foreman with the injured employee for all medical visits.
- Burdened rate for the Foreman = \$25/hr.
- Burdened rate for the employee = \$20/hr

Initial visit, 3 hours:

- Foreman @ \$25/hr = \$75
- Employee @ \$20/hr = \$60
- Company vehicle time @ \$20/hr = \$60
- Inefficiency at site while Foreman is gone, 5 employees working at 75% x 3 hours = \$75
- Lost production of injured employee = \$60
- Overtime needed to maintain production, 3 hours + 1 hour for Foreman at time and a half = \$127.50
- Lost time for Foreman to do reports and communicate with office, 2 hours = \$50

Approximate total for initial visit = \$507.50

Two follow-up visits, 3 hours each:

- Foreman @ \$25/hr = \$75
- Employee @ \$20/hr = \$60
- Company vehicle time @ \$20/hr = \$60
- Inefficiency at site while Foreman is gone, 5 employees working at 75% x 3 hours = \$75
- Lost production of injured employee = \$60
- Overtime needed to maintain production, 3 hours + 1 hour for Foreman at time and a half = \$127.50
- Lost time for Foreman to do reports and communicate with office, 1 hours = \$25

Approximate total for follow-up visits = \$487.50 x 2 =
\$975.00

A Lost Profit Exercise



Let's assume your firm has \$40,000 in claims in a particular year (direct expenses)...


Indirect Costs:


- first visit = \$507.50
- second and third visits = \$975
- Office time for claim follow-up, etc.,
3 hours @\$20/hr = \$60
- TOTAL INDIRECT COSTS = \$1542.50
- DIRECT (INSURED) COST = \$200.00

Ratio of Indirect Costs to Direct Costs = 7.71

You eat the indirect costs!

They come directly out of your profits!

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- You can take a piece of paper and pen, and do the same calculation for any given injury, or incident for that matter, in your company.
 - If nothing else, you'll learn where you're losing money.

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- Let's bring indirect costs in, too - you still pay people to do things, even if you didn't put it in the bid. Let's also look at profit factors.
 - We're going to do an example to show what incidents really cost...
 - Amount of Work Done for Free = (Direct Costs) X (Indirect Cost Factor) X (Profit Factor)

Profit Margin Factor (PF)

- 1% - 100
- 2% - 50
- 3% - 33
- 4% - 25
- 5% - 20
- 6% - 16
- 7% - 14
- 8% - 12
- 9% - 11
- 10% - 10

Direct Costs (D):

$$D = \$40,000$$

Indirect costs (I)

$$I = D \times 4 = \$160,000$$

(we'll use a factor of 4):

$$\text{UGH!} = I \times \text{PF} =$$

$$= \$160,000 \times 20$$

What's your profit margin (PF)?

$$= \$3,200,000$$

We'll use 5%, so $\text{PF} = 20$.


What's the lost profit?

Revenue needed to recover indirect expenses (UGH!),

In this example, this firm did \$3,200,000 of work for free!

This is how much work you need to do to cover the cost of incidents.


Their profits on \$3.2 million worth of work went to cover the total costs of their claims!


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- Using the same formula, do the math using your company's numbers, and see how things look.
 - That should make you think about things a little differently.


Return-to-Work (RTW) Programs





What they are, and how
they can help you control
costs.

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- A RTW program is a program that you use to keep a recovering employee working, and off of Workers' Compensation payments.
 - Some of you may say "why do I have insurance then?"
 - Well, the answer is simple.

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- When a worker is off of work and receiving Workers' Comp. payments, these payments are costs to the insurer that are reflected in the total costs of the claim.
 - These costs are claims costs that affect your EMR.


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- Claims costs contribute to a higher EMR,
 - A higher EMR = higher cost of insurance,
 - Higher cost of insurance = higher cost of doing business,
 - Higher cost of doing business = higher prices or lower profit to stay competitive


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- If you can put the worker to work doing a task that the Doctor allows them to do, then you are still getting production that you'd have to pay someone for - but you are not driving your claims costs up.
 - Examples include:
 - sorting invoices
 - tool maintenance
 - inventory / material tracking


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- Your regular insurance carrier should have a program that you can adapt and use.
 - You need to be involved and look out for yourself to control your claims costs -
 - if you leave it to your carrier, the claims will get closed, but the results won't be as good.





References and Resources


- 
- “Improving Construction Safety Performance”, Report A-3
 - “The Worker’s Compensation Crisis”, a companion publication to Report A-3
 - Both of these are free downloads available from the Construction Users Roundtable, www.curt.org


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- “Construction Safety Management and Engineering”
 - Editor: Hill
 - Published by the American Society of Safety Engineers
 - Available for purchase at www.asse.org


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- "Zero Injury Techniques"
 - Published by Construction Industry Institute
 - Publication 32-1, May 1993
 - Available for purchase at www.construction-institute.org


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- "Safety Plus: Making Zero Accidents A Reality"
 - Published by the Construction Industry Institute
 - Research Summary 160-1, February 2003
 - Available for purchase at www.construction-institute.org

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- “Managing Subcontractor Safety”
 - Published by the Construction Industry Institute
 - Publication 13-1, February 1991
 - Available for purchase at www.construction-institute.org

- 
- “Construction Safety Management”
 - Authors: Levitt, Samuelson
 - Publisher: John Wiley & Sons
 - Available for purchase at [Amazon.com](https://www.amazon.com) and other retailers

- 
- “Construction Site Safety, A Guide for Managing Contractors”
 - Author: Hislop
 - Publisher: Lewis Publishers
 - Available for purchase from the American Society of Safety Engineers at www.asse.org Amazon.com, and other retailers

- 
- "Safety Program Elements in Construction: Which Ones Best Prevent Injuries, Control Costs?"
 - Authors: Findley, Smith, Kress, Petty and Enoch
 - Professional Safety Magazine, American Society of Safety Engineers, February 2004,
 - www.asse.org

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- Your firm's regular Workers Compensation insurance carrier should also be able to provide references, resources, and information to you.
 - There may, or may not, be a charge for their services.