



NAHB Building Business Briefs

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Safety: A Wise Investment for Your Business

By Brad Mahalak

Tallying the final cost of workers' compensation insurance amounts to more than a simple figure. Most employers look only as far as their annual premium because that's what they see as the actual out-of-pocket expense. However, looking below the surface reveals significant indirect costs that affect the proverbial bottom line—costs that are often uninsured and, as a result, unrecoverable. Some examples of indirect costs resulting from a jobsite accident include:

- Loss of productive time for the injured employee.
- Damage to product, equipment, and tools.
- Disruption of workflow and interruption of schedules as well as the costs associated with training new employees or hiring temporary employees to fill the void left by a missing employee.
- Costs associated with increases in insurance premiums or the time spent researching new carriers.

Studies by the National Safety Council reveal that indirect costs are estimated to be between four and eight times the direct costs of the accident. The most common illustration of this concept is depicted as an iceberg where the direct costs--those paid by workers' comp insurance--are represented by the portion above the water line and the indirect costs are represented by the much larger portion beneath the water line.

How does this influence the bottom line? Here's the math: A business with an 8 percent profit margin and \$2 million in sales generates \$160,000 in profits. However, a single workers' compensation loss can carry \$10,000 in direct costs, and an estimated \$40,000 (4 x \$10,000) in indirect costs. Thus, the accident generates a total cost of \$50,000, reducing profits by 31.25 percent. Simply put, with a profit margin of 8 percent, you would need to have an additional \$625,000 in sales to make up for the loss.

Safety awareness, hazard recognition and controls, accident investigation, and corrective action are all critical elements of a comprehensive safety program. In addition, the plan requires active involvement and commitment from top managers and supervisors along with accountability for goals and performance objectives to succeed.

Investing in an aggressive and proactive safety program pays dividends long into the future for a

business and its employees. Focus on the following key areas when establishing a comprehensive accident prevention plan:

- Identify hazards.
- Minimize exposures.
- Provide training.
- Clearly define expectations.
- Identify personnel within your organization—from all levels—to carry out the established expectations and policies.

If an accident occurs, manage the claim and return the employee to work as soon as practical, using light duty where possible.

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NAHB's Construction Safety Program Manual: A Guide for Home Builders and Contractors is a practical guide for developing a comprehensive safety program and accident prevention plan. The publication includes a model safety program on disk that can be easily customized and adapted to meet your business' safety needs. It costs \$22.50 for NAHB members and \$25 for non-members. Call 800-223-2665 or go to BuilderBooks.com to order.

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