

# The Total Cost of Accidents and How they Effect your Profits



By Loss Control Consultants

Many employers look at the cost of work related accidents as only the dollars that are paid by the insurance carrier. Usually this is what has been paid and reserved for medical and indemnity costs as required by state statute. Often these are referred to as the direct costs of an accident. Most experts estimate that the indirect costs are 3 to 10 times the direct costs of an accident. An employer's insurance does not pay these costs.

The true cost of an accident to an employer includes many indirect or hidden costs that are not as easily recognized. Some of these indirect costs include

- **Replacement Cost of Workers.**  
Often an employer must replace an injured employee with another employee. This may involve both hiring and training costs. Other workers may need to work longer hours to make up for lost production.
- **Cost of Employees Not Injured.**  
Others may be involved in investigating and managing injuries. Often there is loss of production while discussions regarding accidents occur around the water cooler or in meetings. Accidents may prompt additional investigations by governing agencies such as OSHA or the DOT requiring valuable management time.
- **Damage to Equipment or Materials.**  
Many accidents involve damage to equipment or materials. Even if there is minimal physical damage to property or materials there often is down time after an accident before production can be resumed.
- **Supervision Costs.**  
Supervisors may spend considerable time addressing the needs of the injured worker, investigation the accident or supervising activities to correct unsafe hazards or processes.
- **Indirect Costs Related to Injured Workers**  
An employee may need to leave work for additional medical treatment. An employee returning from an accident may be less productive or may need to work in a restricted capacity until they are able to return to full duty.

- **Other Indirect Costs.**

On occasion there are costs that may not occur in every accident but can be quite substantial to employers. Some may include:

- Increased cost of insurance.
- Loss of goodwill
- Loss of a customer
- Delays in delivery of product
- Equipment replacement costs not covered by insurance
- Fines, legal fees and civil penalties
- Loss of a key employee

These costs may be harder to measure but are a direct result of accidents.

When evaluating the true cost of accidents to an employer both direct and indirect costs should be measured. These costs must be paid for by the profits derived from company sales or service. The table below can help you determine the additional dollars of revenue required to pay for the costs

Accident Cost	Profit Margin				
	1%	2%	3%	4%	5%
\$1,000	\$100,000	\$50,000	\$33,000	\$25,000	\$20,000
\$5,000	\$500,000	\$250,000	\$167,000	\$125,000	\$100,000
\$10,000	\$1,000,000	\$500,000	\$333,000	\$250,000	\$200,000
\$25,000	\$2,500,000	\$1,250,000	\$833,000	\$625,000	\$500,000
\$50,000	\$5,000,000	\$2,250,000	\$1,677,000	\$1,250,000	\$1,000,000
\$100,000	\$10,000,000	\$5,000,000	\$3,333,000	\$2,500,000	\$2,000,000
\$150,000	\$15,000,000	\$7,500,000	\$5,000,000	\$3,750,000	\$3,000,000
\$200,000	\$20,000,000	\$10,000,000	\$6,666,000	\$5,000,000	\$4,000,000

of accidents at varying profit margins.

EXAMPLE: If your profit margin is 5%, \$500,000 in sales is required to pay for the direct and indirect costs of a \$25,000 accident.

The total costs of accidents are expensive and result in a substantial loss of profits. An effective safety program plays a far more important role in contributing to company profits than many individuals recognize.