The magazine for today's electrical and systems contractor

WWW.IECI.ORG

Insights

MAY/JUNE 2011

IEC PRIDE

Independent Electrical Contractors

Innovation. Education. Success.

Spotlight on SAFETY

The Savings in SAFETY

By Christian D. Malesic

Safety is thought of as a "compassion issue" or a "workplace environment improvement." The care and consideration placed on safety issues by management is seen as an indicator of attention-to-detail and teamwork. Safety is all of those things but it is also a "profit center" that should be monitored by management. Said plainly, safer companies are more profitable!

Continued on page 18.

Continued from page 16.

The Cost of a Poor Safety Program

The costs of safety incidents build up quickly. The company must pay: the injured worker(s) for their time during the incident; employees that respond to the injury; those that complete the paperwork; and office personnel who work with the insurance company, medical providers, inspectors, and government officials. But, it doesn't stop there! When incidents occur materials or equipment can be damaged, insurance rates may increase (including Worker's Compensation rates & General Liability rates), and productivity is greatly affected. Then, there is the increasing possibility of OSHA and/or other government inspections and fines. Interestingly enough, most companies respond to a breakdown in safety and the associated growing expense report with emergency training programs, new safety gear, and increased operations monitoring, which adds even more costs.

Just as a poor or non-existent safety program can cost, a good safety program can save! Savings can be added directly to your profit or can be used to garner more work through reduced bid prices or lower service charges. Eliminating or minimizing safety incidents will eliminate or reduce all of the potential costs listed above. What's more, a clean safety record will also reduce insurance premiums.

The Real Money Made in Safety

Companies with a history of zero or only minor incidents can see their insurance premiums drop to 75 percent of what their competitors are paying for the same policy, whereas poor incident history can lead to paying insurance premiums as high as 300 percent of the going rate. Since Worker's Compensation insurance is mandatory in every state by federal law, and General Liability insurance is required by governments at various levels, as well as by most clients, insurance premiums are one of the larger items on most annual budgets. Savings in this area translates directly to savings in the cost of doing business.

Companies with a history of zero or only minor incidents can see their insurance premiums drop to 75 percent of what their competitors are paying for the same policy...

Insurance companies report Workers Compensation loss information to their state rating bureau or to the National Council on Compensation Insurance (NCCI), depending on state code. This information is used to generate an Experience Modification Rating (EMR) factor, also referred to as an Experience Rate Modifier (ERM), for the state or region. Those companies with an average safety incident history, based on a comparison of losses paid by the insurers to cover claims, are assigned a rating of 1.0. Companies with a better history (lower losses) will have an EMR of less than 1.0, which can drop as low as 0.75. Conversely, companies with a poor average incident cost history can watch their EMR jump to as high as 3.0.

The company's EMR is used each year to determine the proposed premium price offered by insurers to win the company's insurance business. Thus, those companies with a 0.75 EMR will pay only 75 percent of the premium that the average competitor in their state is paying for insurance, while companies with a 3.0 EMR will pay three times (or 300 percent) the premium of their competitors. Additionally, those companies considered lower risk (less than 1.0 EMR) will find that insurers who seek to win your account may also discount their price further, as much as an additional 15 percent, after calculating in the EMR-effected price. So, safety savings pile on top of safety savings.

Know Your EMR and Improve It

The EMR is based on a rolling three year period, not counting the most current year since those losses are still developing. It is rarely calculated using calendar years as a term, but rather as policy effective years. Thus, if your policy renews on the fourth of June each year and is effective from June 4 through June 3 of the next year, your EMR will reflect the previous three full policy effective years.

Your insurance agent can provide your company's EMR from the rating bureau report and should be able to explain ways to improve it. It will change from policy year to policy year as older years drop off and newer years are added. Moreover, many states' formulas add a weighting system so newer years weigh more heavily in your EMR than do older years. This works in your favor if you have had high-cost incidents in the past and have taken steps to improve your safety program. It is important that you review your losses with your agent six months prior to your renewal term to make sure there are no open claims or claims which can be reduced, before the insurance company files the "Unit Stat" report (statistical data) with the rating bureau. The formula that generates the EMR can be difficult to understand if you are not an insurance expert, which is why your agent should be a trusted advisor or partner of your company.

Assessing Safety

The best tool available to identify your safety program's strengths and weaknesses is IEC National's annual Safety Program Awareness and Retention Kit (SPARK). SPARK is one of the many valuable resources included at no additional charge through IEC membership. It allows you to self-analyze your company's standards and practices, and its annual safety progress. IEC National provides top safety performers with recognition and a certification that can further be used for marketing purposes to demonstrate that the company is an industry-recognized leader in safety.

Today's electrical contractors need every edge over the competition they can find. The safety edge comes complete with larger profits, more bids won, national acclaimation, and restful nights – What more could you want? Be safe!

IN SIGHTS

Christian D. Malesic is a founder of CM Squared, Inc., Full Service Electricians, in Harrisburg, PA and has served as its President / CEO for the last 13 years. He has volunteered as the Central Pennsylvania IEC Chapter President, Vice President, and Apprenticeship & Training Chair. He currently serves on the IEC National Board of Directors representing the northeast region. To receive notice of the newest articles written by Christian, follow him on Twitter @CDMalesic.