

COST OF LOSSES & CONSEQUENCES TO THE COUNTY

_____ County

OBJECTIVES

- Staff will understand the direct and indirect cost of losses
- Staff will understand the financial impact of losses
- Staff will understand the benefits of controlling losses

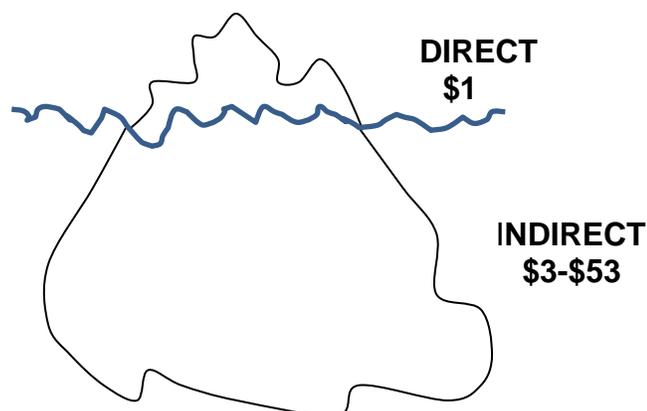
Managers and employees are just understanding just how much accidents and losses cost or affect them personally and their departments. Employees and managers that wear the blinders of traditional thinking are likely to only see the direct cost of loss; they do not comprehend the greater indirect cost to their operations or budget.

Several studies suggest that for every \$1 paid in direct loss, companies paid \$3-\$53 in indirect loss. What is worse, they accept most losses as an inevitable “cost of doing business.” Even fewer managers and employees understand that the same factors, which create losses, are also creating production or service losses as well as performance and budgetary shortcomings.

When looking at the direct and indirect cost of risk, the iceberg principle is a good analogy. How much of an iceberg is above the water, in other words, how much of the iceberg can you actually see? The answer, somewhere between 10-15% is visible. The cost of risk works the same way, we see the direct cost of losses; however, we are paying between \$3 and \$53 in indirect loss. It's money we don't normally see, because we inadvertently budget for loss every year.

Demonstration: Draw the iceberg on a board or flipchart. Everything above the waterline is direct loss, while everything below the water is indirect loss.

COST OF LOSSES



The County has averaged \$_____ in direct losses per year over the past three years. The true indirect cost is difficult to determine; it's based on the sophistication of our infrastructure. **Luna County** is a medium size county and probably experienced \$3-\$5 in indirect cost. If we apply the internationally recognized formula, the county experiences approximately the following in indirect losses annually:

$$\text{at } \$3 \text{ X } \$\underline{\hspace{2cm}} = \underline{\hspace{2cm}} \$$$

(Total direct loss cost per year) County's true cost of losses

$$\text{at } \$5 \text{ X } \$\underline{\hspace{2cm}} = \underline{\hspace{2cm}} \$$$

(Total direct loss cost per year) County's true cost of losses

$$\text{at } \$10 \text{ X } \$\underline{\hspace{2cm}} = \underline{\hspace{2cm}} \$$$

(Total direct loss cost per year) County's true cost of losses

Where does the money from indirect losses come from? It comes from every department's operating budget. Direct losses are generally insured costs (workers' compensation, multiline, and law enforcement liability). Indirect losses are all the costs associated with loss, but not covered by insurance. Who pays, I'll give you a hint, it's not our insurance company, indirect costs come from each department's operating budget: Examples of indirect costs include, but are not limited to:

- Decreased output of affected workers
- Wage paid to affected staff for time lost
- Wages paid to other staff for business interruption
- Managerial time devoted to losses
- Supervisory time devoted to losses
- Clerical time devoted to losses
- Human Resource Department's time devoted to losses
- Purchasing Department's time devoted to losses.
- Investigation time devoted to losses
- Overtime to replace injured workers
- Cost of hiring and training replacements
 - Manager
 - Supervisor
 - County Manager
 - Human Resources
 - Advertisement
 - Clerical
 - Interviews
 - Backgrounds/Reference Checks
 - Training
- Expenditure of emergency supplies
- Building damage
- Tool, equipment, and material damage or replacement
- Legal expenses

- Loss of production and goodwill

- Failure to meet community expectations
- Media sensationalism (high profile losses)
- Miscellaneous (over 100 other items of indirect cost associated with losses)

The benefits of controlling losses are significant:

- More effective and efficient services
- Better quality of service
- Increased production (more services per dollar)
- Decreased operational costs
- Increased discretionary money
- Community satisfaction (happier taxpayer)
- Improved employee morale (motivation)

These benefits, by themselves, should be enough for all of us. However from a personal perspective, the money we waste in losses annually could be spent on us:

- Employee benefits
- Additional staff
- Training or better training
- Equipment

Based on the high cost of losses to the county, every employee has a vested interest in reducing losses. Every loss cost us money, personally; it may not come out of our pockets, but it is money the county or our department doesn't have to spend on employees.

When was the last time we had a respectable raise or received all the training necessary to do our jobs, or had all the necessary equipment and resources to do our jobs professionally? It's been a long time, if ever. If we use the minimum \$3 of indirect loss for every \$1 of direct loss, we are wasting \$_____ (at a minimum) every year for nothing. This money could be used for employee benefits, better equipment and training, and better services.

Now that you understand that this is not only a county employer problem, it's costing all of us in benefits, resources, and professionalism. Let's all work safely and save ourselves money. And remember, nothing we do is worth getting hurt or sued.

CLOSING

- *Encourage discussion about the presentation, and cost of losses and the consequences to the county as well as to employees' themselves.*