

S E L F - I N S U R A N C E

BULLETIN

Volume 5, Issue 6
December 2003



STOP LOOKING THE WRONG WAY!

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Over in England, cars and buses travel on the "wrong" side of the street. This poses a significant hazard to Americans visiting that country. Walking out of a store in London, attempting to cross the street, a pedestrian looks left as they do here in the United States, steps out into the street only to be flattened by the bus coming the "wrong" way.

Moral of the story...

Bad things can happen when you look the wrong way!



SHAWN MACKEY
Director of Sales

Well guess what!

When it comes to purchasing insurance, many employers and their agents are

looking the wrong way.

Employers and their insurance agents spend a significant amount of time each year re-analyzing their coverage needs and soliciting bids from insurance companies in an effort to purchase

broad coverage and the protection it affords for the lowest possible price.

Success or failure of any insurance renewal is based on how much more or less the employer pays in the insurance transaction. This "transaction mindset," or focus

on premium is by far the most common tactical error an employer can make.

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STOP LOOKING THE WRONG WAY! CONTINUED

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Those focused on the "transaction" are looking the wrong way.

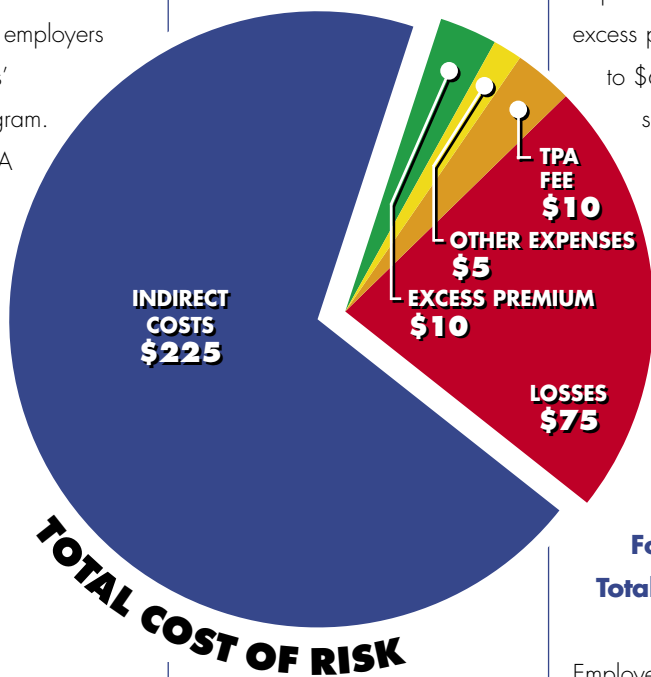
Direct Costs

Consider a typical employers self-insured workers' compensation program. Fixed expenses (TPA fees and excess premium) are approximately 25% of an employers total self-insured costs while losses make up the remaining 75%.

Indirect Costs

In addition to direct program costs, self-insureds also are impacted by indirect costs. Studies have concluded that indirect costs (loss of productivity, cost of replacement workers, administration, supervisory time, etc.) are generally considered to be much higher than direct program costs. Indirect costs are conservatively estimated to be 3 to 6 times direct costs. To learn how to calculate a self-insured's **Total Cost of Risk**, see the OSHA Formulae.

As an illustration, assume an employers TPA Fee and Excess Premiums are \$10 each. Losses are \$75, and Surety Bond, Fees, Assessments, etc. are \$5.



just 3% ($\$10 \div \325) of their **Total Cost of Risk**.

This employer, focused exclusively on the insurance "transaction," would require a **40%** reduction in excess premium (from \$10 to \$6) to achieve the same level of savings (\$4), a **1.3%** reduction in losses and Indirect Costs would achieve (\$300 to \$296). Which is easier to achieve?

Focus on Reducing Total Cost of Risk

Employers that understand the **Total Cost of Risk** concept, choose to take a different path.

In addition they seek partners that support their efforts to achieve optimal performance in their program. They look for partners (TPAs, excess carriers and other vendors) that provide services and support their efforts to lower their **Total Cost of Risk**. They evaluate their insurance partner on the basis of "value" they bring to their program, not just the cost of the insurance transaction.

In the "transaction approach," where coverage and premium are the sole focus, the employer fails to take into consideration the "value" of cost reducing services available to them from the excess carrier. Happy with a nominal savings in insurance expense, they lose the opportunity to manage their **Total Cost of**

Total Direct Cost is the sum of all these or \$100.

Indirect costs are 3 x Losses (\$75) or \$225. This employers' **Total Cost of Risk**


(depicted in the pie chart) as respects its self-insured workers' compensation program is \$325.

Based on the above example, the time this employer spends focusing on the insurance transaction is directed at an expense representing

Studies have concluded that indirect costs (loss of productivity, cost of replacement workers, administration, supervisory time, etc.) are generally considered to be much higher than direct program costs. Indirect costs are conservatively estimated to be 3 to 6 times direct costs.

They expend energy to measure and define their **Total Cost of Risk**. They constantly analyze accident causes and direct resources to eliminate sources of injuries within the organization. They energize their entire organization to achieve Best Practice results.

Risk more effectively. **Think about it.**

Which way are you looking? Are you focused on reducing your insurance transaction costs or reducing the **Total Cost of Your Risk?** 

STOP LOOKING THE WRONG WAY! CONTINUED

Midwest Employers has adopted this OSHA Formulae as a means of estimating indirect costs.

EXAMPLE 1: HOW TO ESTIMATE THE IMPACT OF ACCIDENTS ON YOUR PROFITS AND SALES

This worksheet will assist you in determining the costs of injuries and illnesses and their impact on your business operations.

DIRECT COST

To calculate the direct cost, enter the following information:

- Total Value of the insurance claim for an injury or illness \$ _____
 - consists of medical costs and indemnity payments

INDIRECT COST

To calculate the indirect cost of this injury or illness, multiply the direct cost by a cost multiplier.

The cost multiplier that you use will depend on the size of the direct cost.

If your direct cost is:	Use this cost multiplier:	If your direct cost is:	Use this cost multiplier:
\$0 - \$2,999	4.5	\$5,000 - \$9,999	1.2
\$3,000 - \$4,999	1.6	\$10,000 or more	1.1

▪ Direct Cost x Cost Multiplier = Indirect Cost
 \$ _____ x = \$ _____

TOTAL COST

▪ Direct Cost + Indirect Cost = Total Cost
 \$ _____ + = \$ _____

IMPACT ON YOUR PROFITABILITY

To calculate an accident's impact on your profitability, you will use your profit margin to determine the sales your company would need to generate to pay for this injury or illness.

Divide your total profits by total sales to get your profit margin:

▪ (Total Profits)/(Total Sales) = Profit Margin
 \$ _____ / \$ _____ = \$ _____

Divide the total cost of an injury or illness by your profit margin to determine how many sales your companies must generate to pay for the injury or illness. Keep the profit margin in decimal form (for example: .04).

▪ (Total Cost of Injury or Illness)/(Profit Margin) = Sales Required to Pay for Injury or Illness
 \$ _____ / \$ _____ = \$ _____

EVERYTHING YOUR TRUSTEES NEED TO KNOW

Midwest Employers Casualty Company is pleased to announce the release of its newest course, **Trustee Responsibilities.**

Group Self-Insured Funds provide vital protection to many business entities across the country. We



realize the challenges Fund Administrators face when selecting and preparing

new Trustees or Board Members to assume their roles as effective stewards of such Funds. A part of MECC University's educational series, the Trustee Responsibilities course is designed to prepare newly selected Group Self-Insured Fund Trustees or Board Members to assume these leadership roles.

In developing this course, we partnered with notable Group Self-Insured Fund experts to identify the information most needed for effective fund management. We then present valuable concepts in an easy-to-use on-line, interactive classroom setting. Using an executive format, this course provides the

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EVERYTHING YOUR TRUSTEES NEED TO KNOW!

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necessary resources to familiarize your Trustees with the fundamental information and knowledge they need to manage a successful Group Self-Insured Fund.

Moreover, they can complete this course and establish this knowledge base before they attend their first Trustee meeting.



The Trustee Responsibilities course addresses the following areas as they relate to the operations of an

effective Group Self-Insured Fund:

- Vendor Relationships
- Accounting Issues
- Regulatory Issues
- Actuarial Terms and Concepts
- Fiduciary Responsibilities
- Hard and Soft Insurance Cycles

This course is available to all of our Group Self-Insured Fund clients free of charge through MECC University. For those

Group Self-Insured Funds which are not yet Midwest Employer clients, Funds can receive three years of unlimited access to the course for only \$1,000.

Enrolling is easy! We register your Trustees for you. Contact Pam Goldman at Midwest Employers Casualty Company today. Email her at pgoldman@mwecc.com to start the registration process or learn how you can receive a free preview of MECC University. 



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