

Workers' Compensation Insurance

Profitable underwriting results have generated favorable conditions across the workers' compensation insurance market for nearly a decade. According to the National Council on Compensation Insurance (NCCI), the segment produced combined ratios of 84.5 and 84.9 in 2022 and 2023, respectively, demonstrating continued profitability. Industry experts initially reported that reserve redundancies stemming from reduced presumptive liability issues since the beginning of the COVID-19 pandemic and increased market competition could drive down profits in 2024; however, these experts also confirmed that it would take a drastic shift in segment losses to actually push the ratio over 100, thus limiting potential impacts for policyholders. In the first quarter of 2024, most insureds experienced slightly declining premiums, with industry data revealing that average rate drops ranged between 0.4% and 1.6%. For the remainder of the year, the majority of policyholders can expect another year of flat premiums or modest rate reductions, while those with elevated risks may encounter increased pricing.

Developments and Trends to Watch

- **Accident frequency rates**—Historical data from the NCCI shows that accident frequency rates have fallen over the last few decades, paving the way for reduced workers' compensation expenses and rate drops. Yet, recent years have seen a reversal in this trend; the U.S. Bureau of Labor Statistics reported that nonfatal workplace injuries have increased by 4.5% since 2021, while fatal incidents have jumped by 5.7%. It's possible that these findings are the result of ongoing staff shortages, which have forced many employers to hire less experienced workers or place additional labor demands (e.g., extra shifts and longer hours) on tenured employees, both of which can increase the risk of workplace incidents and injuries. If accident frequency rates keep rising, this could lead to further workers' compensation claims, driving up related costs and premiums.
- **Inflation issues**—The workers' compensation segment has been affected by two types of inflation over the last few years: medical inflation and wage inflation. Medical inflation refers to increasing costs for medical resources. A recent survey conducted by the NCCI found that workers' compensation insurers ranked rising medical inflation as one of the top concerns currently facing the segment. Although most states have fee schedules in place to help control various medical cost categories, industry experts reported that shifts in the type and volume of medical services provided and the growing severity of injuries and illnesses being treated have continued to impact medical inflation, resulting in heightened workers' compensation costs. Additionally, many businesses have increased their workers' pay to minimize labor shortages and boost attraction and retention efforts, causing wage inflation. Because payroll is leveraged as an exposure base to calculate workers' compensation premiums, wage inflation could prompt elevated rates.
- **Mental health presumptions**—Many states have or are in the process of enacting legislation that would expand workers' compensation coverage to include job-related mental health conditions. In other words, workers may be able to receive benefits for mental health concerns occurring in the scope of employment and stemming directly from their job responsibilities. Coverage for post-traumatic stress disorder (PTSD) among emergency dispatchers and first responders has been the main focus of this evolving legislation. So far in 2024, five additional states have introduced or are considering workers' compensation laws that include PTSD-related presumptions for these types of employees. Such presumptions generally indicate that certain conditions are more likely to affect workers facing heightened physical and emotional demands on the job and outline detailed standards for proving that these conditions were clearly caused by employment. Therefore, these laws could widen employers' workers' compensation liabilities and fuel an increase in claims and associated costs going forward.

Tips for Insurance Buyers

- Implement workplace policies to address key safety risks. Conduct routine safety training for all workers.
- Include mental health resources in workplace well-being offerings. Consult legal counsel to ensure compliance with applicable workers' compensation legislation regarding coverage for mental health conditions.
- Have clear processes established for handling workers' compensation claims as efficiently as possible.