



# 2024

## WORKERS' COMPENSATION INSURANCE MARKET OUTLOOK

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In 2024, the US workers' compensation insurance market is expected to maintain a stable outlook, according to AM Best.

While most states are seeing overall rate decreases in 2024, pricing remains somewhat firm and wage growth may offset any decrease for policyholders. Certain states such as California, New Jersey and New York are beginning to show signs of the hardening market due to higher claims costs and increased litigation.



## KEY STRENGTHS OF THE MARKET

Historically the workers' compensation sector stands out for its profitability, consistently outperforming other major lines in the property/casualty domain. This success stems from a blend of factors: a long-term trend of decreasing claims frequency has been a significant boon, contributing to a more manageable and predictable risk environment. The sector also enjoys the benefits of favorable developments in prior year loss reserves, underscoring a prudent and conservative approach to reserve management. Another pillar of strength is the sector's robust risk-adjusted capitalization, highlighting its financial solidity and readiness to meet future claims.

## CONTINUED CHALLENGES

Despite its strengths, the market navigates through several challenges. Inflationary pressures, particularly in medical and wage sectors, are slowing the rise in claims costs but remain a concern. The market also grapples with the implications of ongoing rate decreases, which could add pressure to the direct loss ratio. The aftermath of the COVID-19 pandemic, specifically the long-term health effects and claims latency, continues to be an area of vigilance. Furthermore, the intensifying competition among insurers is a dynamic that demands attention, as it could lead to significant shifts in market behavior.

## UNDERWRITING RESULTS AND CLAIMS TRENDS

The market's underwriting results have remained solid, benefiting from a decrease in workplace accidents and reduced instances of fraud. This has led to favorable combined ratios, driven by consistent loss ratios. Interestingly, the gap between medical and indemnity severity has been narrowing, reflecting changes in the nature and cost of claims.

## RATING UPDATES

Over the past few years rating methodology updates have been in the works in states that elect to use the formula set by NCCI (National Council on Compensation Insurance). These updates started rolling out effective November 1, 2023 and will continue throughout all 36 states over the next twelve months. This new update allows for state specific rating instead of using national averages. The new updates were designed to improve the accuracy and fairness of experience rating modifications. States will now have unique primary and excess thresholds and prior claim history may vary the experience mod score greater this year than prior. NCCI expects there will be no impact on the overall average experience rating and most employers are expected to see changes of +/- 5%.

## THE ECONOMIC RECOVERY'S IMPACT

The workers' compensation line, being a major part of the commercial insurance market, has shown resilience in the face of the COVID-19 pandemic. The pandemic's impact on insurers' financials was less severe than anticipated. As the economy rebounded in 2021, with businesses reopening and workers returning to full-time employment, it produced a positive shift in the market. This recovery, evidenced by the drop-in unemployment rates to 3.4% in early 2023, points towards a potential increase in workers' compensation premiums. However, these trends are not immune to the broader economic factors and the looming possibility of a recession.

## LOOKING AHEAD: POTENTIAL RISKS AND MARKET DYNAMICS

Inflation remains a significant concern, with the potential to affect claims severity. The workers' compensation sector, like other long-tail lines, must closely monitor the evolving landscape, especially considering the potential long-term health effects of COVID-19. Additionally, the increase in jobs and wage inflation, while positive for the economy, could result in heightened payroll growth. This, coupled with competitive pressures leading to possible downward rate adjustments, may dampen the segment's profitability to some extent.

## MENTAL INJURY LEGISLATION

Recently there has been significant legislative attention on workplace related mental injuries. Ten states enacted laws related to mental injuries, with most laws either expanding or providing a mental health presumption to first responders. Washington and Connecticut expanded eligibility to file claims for post-traumatic stress disorder or if an event is witnessed that affects their mental health. In Illinois, the definition of compensable mental injury was expanded to include repetitive stress and in California the definition was expanded to include any mental injury resulting from a stress related injury. These developments reflect a growing recognition of the impact of mental health issues in the workplace and applying appropriate benefits for these conditions. This shift is a significant step towards acknowledging and addressing the mental well-being of workers.

## CONCLUDING THOUGHTS

As we look towards 2024, the US workers' compensation insurance market is poised to continue its stable and profitable trajectory, underpinned by strong fundamentals. However, it must navigate the challenges of inflation, the ongoing impacts of the pandemic, new legislation, and a competitive landscape. The interplay of these factors with the broader economic recovery and labor market trends will be crucial in shaping the market's performance in the upcoming year.