

## 2025 Market Outlook

# Workers' Compensation Insurance

Several emerging trends indicate a challenging outlook for the workers' compensation market in 2025. Despite nine consecutive years of underwriting profits and an impressive combined ratio averaging 91% from 2015 to 2023 (which fell to 88% in 2023), Fitch Ratings suggests that the prolonged period of reserve redundancy and low claims frequency is beginning to soften. Insurers have benefited from unusually strong workers' compensation reserves, yet recent indicators reveal a gradual decline in reserve strength and a more cautious approach to reporting incurred losses. While rates are still expected to decrease overall in 2025, the future is largely uncertain. Insurers will need to carefully manage these rising costs and evolving risks to maintain profitability.

## Developments and Trends to Watch

- **Inflation issues**—The workers' compensation segment is primarily affected by medical and wage inflation. Medical inflation refers to rising costs for medical resources (e.g., physician services, health care facilities and supplies, and pharmaceuticals). For 2025, employer-sponsored health care coverage is set to increase by 9%, exceeding \$16,000 per employee. Further, the Centers for Medicare and Medicaid predict health care spending will rise by 5.4% each year through 2028, presenting ongoing medical inflation concerns. Amid rising cost-of-living expenses and ongoing labor challenges, many businesses have increased their workers' pay to boost attraction and retention efforts, resulting in wage inflation. Because payroll is leveraged as an exposure base to calculate workers' compensation premiums, wage inflation could prompt increased rates.
- **Employee mental health challenges**—One in 5 U.S. adults experience mental illnesses each year, but just one-third of these individuals seek help. What's worse, the National Safety Council confirmed that instances of both moderate and severe mental health distress have been linked to a greater risk of workplace incidents. In response, many states have enacted or are in the process of enacting legislation that would expand workers' compensation coverage to include job-related mental health conditions, particularly PTSD and trauma-related disorders. Such legislation is likely to continue to be created in 2025.
- **Marijuana**—While it remains illegal on the federal level, there's a growing push for state legalization of both medical and recreational marijuana. This creates a conflicting regulatory environment for employers, insurers and workers. As of 2024, many states have enacted or are considering enacting new legislation related to marijuana use. In fact, according to the Pew Research Center, 74% of Americans live in a state where recreational or medicinal marijuana is legal. As it stands, the workers' compensation system faces a confusing legal framework where marijuana is both prohibited and accepted, depending on the context. This raises questions about how workers' compensation programs may respond following a claim related to marijuana use.
- **Shifting workforce demographics**—Multiple workforce movements have occurred since the beginning of the pandemic, motivating a considerable number of employees to leave their positions in search of new roles that better suit their changing job priorities (e.g., greater work-life balance) or exit the labor market altogether. In response, many businesses have resorted to hiring more inexperienced and entry-level employees. Additionally, employees in the baby-boom generation are working far longer than their predecessors, with many holding off on retirement until they reach their 70s. According to the Bureau of Labor Statistics, the share of workers ages 75 and older in the labor force is projected to grow by 96.5% over the next decade. These trends have shifted overall workforce demographics, resulting in a larger proportion of both new and aging employees and elevating related occupational safety and workers' compensation exposures.

## Tips for Insurance Buyers

- Implement safety and health programs to address common risks, especially when using a loss-sensitive workers' compensation program.
- Conduct routine safety training for employees of all ages and experience levels.
- Consider implementing various digital solutions, such as wearable safety technology and AI tools, to help prevent incidents, treat employee injuries and navigate the claims process within your workers' compensation program.
- Regularly review your experience modification factor (mod) with your insurance professionals to fully understand how it impacts your premiums. A mod is an indicator of your claims history compared to similar businesses, and even small changes can have a big effect on your costs.
- Establish workplace wellness initiatives aimed at preventing or treating chronic health conditions and improving the overall well-being of your staff. Additionally, consider incorporating mental health resources and support options within employee wellness offerings.



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