

Workers Compensation: State of the Risk

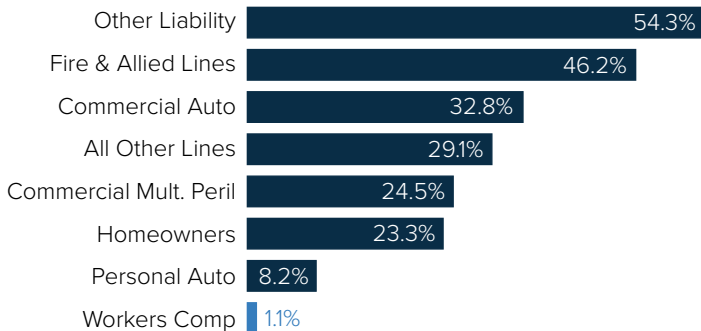
Workers compensation insurance provides for the cost of medical care, rehabilitation, and wage replacement for injured workers and death benefits for the dependents of persons killed in work-related accidents. In recent years, it has been the most profitable property/casualty line of business, having experienced its sixth consecutive year of combined ratios under 90 and its ninth straight year of underwriting gains, according to the National Council on Compensation Insurance (NCCI).

“Overall, we see a healthy and strong workers compensation system,” said NCCI’s chief actuary, Donna Glenn, FCAS, MAAA. “Premiums written have returned to pre-pandemic levels, and claims frequency has resumed a long-term average decline.”

During the pandemic, all property/casualty lines experienced significant increases in written premium – except for workers compensation, which saw only a 1.1 percent rise.

P&C Industry Net Written Premium Growth

Percent Change from 2019 to 2022, Private Carriers



Unless otherwise indicated, all data contained in this brief is from the National Council on Compensation Insurance.

Key Definitions

Combined Ratio represents total cost of claims and expenses divided by premiums.

Claim Frequency equals number of claims divided by the insured exposure base.

Claim Severity equals total cost of claims divided by the number of claims.

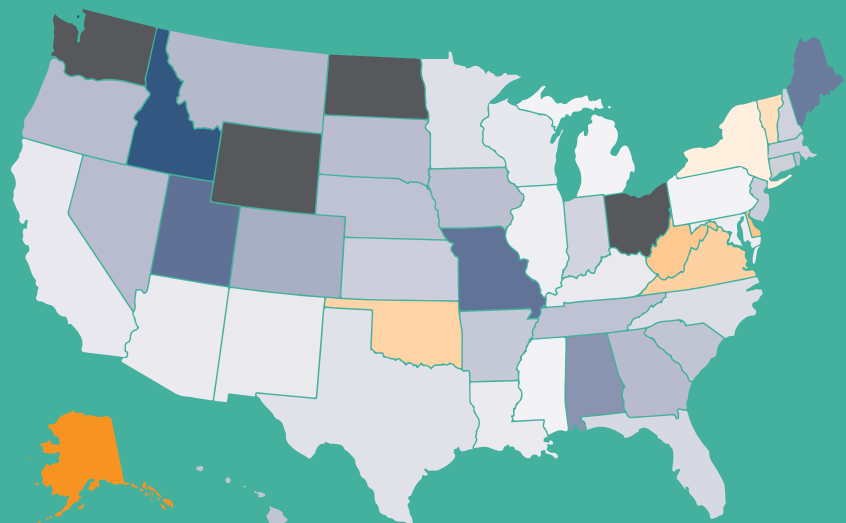
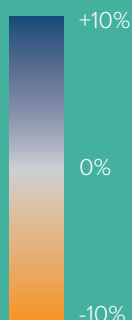
Workers comp net written premiums improved in 2022, with an 11.2 percent increase, compared with 8.4 percent for the overall industry.

Between 2019 and 2022, workers comp direct premiums written rose 3.1 percent for private carriers. But, as shown in the map below, that improvement isn’t uniformly distributed across the country. Because of the tight linkage between workers comp performance and the economy, every state and industry has its own story.

The line’s underwriting profitability for private carriers – represented by the combined ratio – remains strong. Combined ratio represents claims and expenses paid divided by premiums collected. A combined ratio below 100 represents an underwriting profit, and one above 100 represents a loss.

WC Direct Written Premium Change - 2019 to 2022

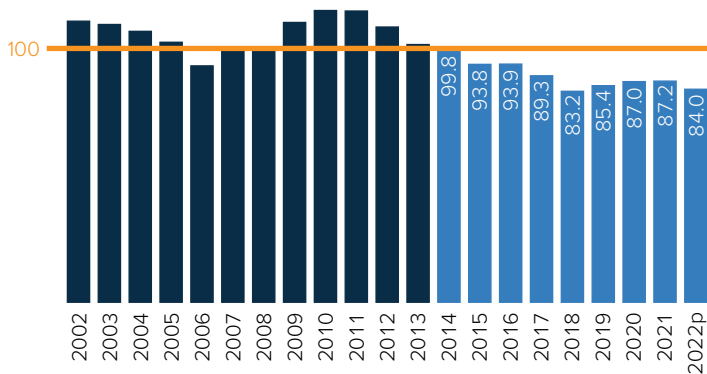
Private Carriers



As the chart below shows, the combined ratio for workers comp has been below 100 since 2014.

WC Net Combined Ratio

Private Carriers



By comparison, property/casualty insurance as a whole has struggled with underwriting profitability, due in large part to the impact of rising [replacement cost inflation](#) on personal and commercial auto insurance – two lines that account for about 40 percent of the property/casualty industry, according to S&P Capital IQ data. The property/casualty industry ended 2022 with a net combined ratio of 102.4, according to [a recent analysis](#) by Triple-I and Milliman, compared to workers comp’s 87.4. The NCCI numbers in the chart above reflect the combined ratios of private workers comp carriers only (84 projected for 2022), while the Triple-I/Milliman data includes state funds.

“Commercial lines achieved lower net combined ratios than personal lines in both 2021 and 2022, and we forecast that to continue through at least 2025,” said Dale Porfilio, FCAS, MAAA, chief insurance officer for Triple-I. “Workers comp had the lowest combined ratio among major product lines in 2021 and 2022, resulting from many years of deliberate efforts by insurance carriers and their policyholders to improve workplace safety.”

While the broader industry has suffered due to replacement cost trends, workers comp has benefited from a generally strong economy and, in particular, strong growth in payrolls. Private employment surpassed its pre-pandemic level early in 2022, according to the U.S. Department of Labor’s Bureau of Labor Statistics, and employment growth remains faster than pre-pandemic norms. The past two years have seen payroll growth at rates of approximately 10 percent.

Even if the current tight labor market begins to relax, the forces driving payroll growth – particularly an aging work force and reduced immigration – will likely keep upward pressure on payrolls.

Claim frequency trend resumes

Claim frequency is the main cost driver in workers comp. Due to improved workplace safety and increased use of automation,

frequency has been low – averaging 3 percent declines annually over the past 20 years. After an 8.3 percent decline in 2020, frequency rebounded by exactly the same amount in 2021, reflecting the impact of the pandemic and the subsequent recovery.

From 2019 to 2021, claim frequency fell slightly (0.7 percent), reflecting rises in the Manufacturing (5.2 percent) and Miscellaneous (6.7 percent) industry groups, offset by a 12.1 percent drop in the Office and Clerical group. Manufacturing and Miscellaneous – which includes package delivery, warehousing, and transportation – are groups that have seen a great deal of new hiring, so it’s possible these increases reflect accidents related to employee inexperience and insufficient training during the pandemic. The drop in Office and Clerical claim frequency almost certainly is due to the pandemic-driven rise in remote work.

NCCI estimates that claim frequency for 2022 is consistent with the long-term downward trend.

Severity on the Rise

Unlike claim frequency, medical and indemnity severity have increased about 60 percent over the past two decades. In 2022, indemnity severity rose 6 percent, and medical severity was up 5 percent.

The factors contributing to worsening severity are multi-faceted and complex. For a detailed explanation, see [Donna Glenn’s presentation](#) at NCCI’s 2023 Annual Insights Symposium (AIS).

What lies ahead?

Current trends bode well for workers comp, but the industry needs to recognize and be responsive to emerging issues that may affect the line going forward. The impact of the pandemic – suddenly prompting more generalized acceptance of remote work and introducing a new issue in the form of “long COVID” – has been one case in point, but it is hardly the only one.

“In 2016, there were 14 mental-injury bills considered in state legislatures,” said NCCI president and CEO Bill Donnell. “In 2023, year to date, there have been more than 75.”

These measures – aimed at addressing issues as diverse as post-traumatic care for firefighters, mental wellness and suicide prevention for students, and impacts of workplace violence on employees – illustrate how stakeholder expectations continuously shift.

Learn More:

[Triple-I Facts and Statistics: Workplace Safety and Workers Comp](#)

[Executive Exchange with Donna Glenn](#)

[Executive Exchange with Bill Donnell](#)