WORKERS' COMPENSATION

DEPT. OF INSURANCE ORDERS BENCHMARK RATE HIKE

CALIFORNIA INSURANCE Commissioner Ricardo Lara has ordered an 8.7% average advisory pure premium rate hike for policies incepting on or after Sept. 1, 2025.

The rate follows a substantial uptick in claims and claims adjustment costs over the past four years, resulting in a $1.3 billion underwriting loss for the industry in 2024, the first since 2014. However the market is still competitive and carriers may price their policies as they see fit.

The 8.7% increase is an average across nearly 500 class codes, and according to the Workers' Compensation Insurance Rating Bureau (WCIRB), employers in several industries may see premiums begin to rise after hitting a 10-year low last year.

The pure premium rate is a benchmark insurers use to price policies. It only accounts for the cost of claims and adjusting those claims, not expenses such as office operations, personnel costs outside of claims representatives, marketing or other overhead.

What's driving costs

The main drivers of the rate increase, according to the California Department of Insurance and the WCIRB — which had recommended an 11.2% hike — include:

Rising medical costs. The average medical cost per claim has been steadily climbing since 2016 (see chart below).

Rising costs for medical-legal reports. These are prepared by a qualified physician to assess an injured worker's condition and its relationship to their workplace injury. This report is crucial for determining eligibility for benefits. As medical costs have increased, there has been a corresponding increase in requests for these reports, which adds to the cost of a claim.

Growing effects of cumulative trauma claims. These are injuries that develop over time, typically from repetitive motions. The WCIRB now estimates that over one-fifth of indemnity claims involve cumulative trauma.

Rising claims adjusting costs. The average cost of adjusting claims rose to $12,600 in 2024 from $9,800 in 2021. The Rating Bureau projects it will reach $14,300 in 2027.

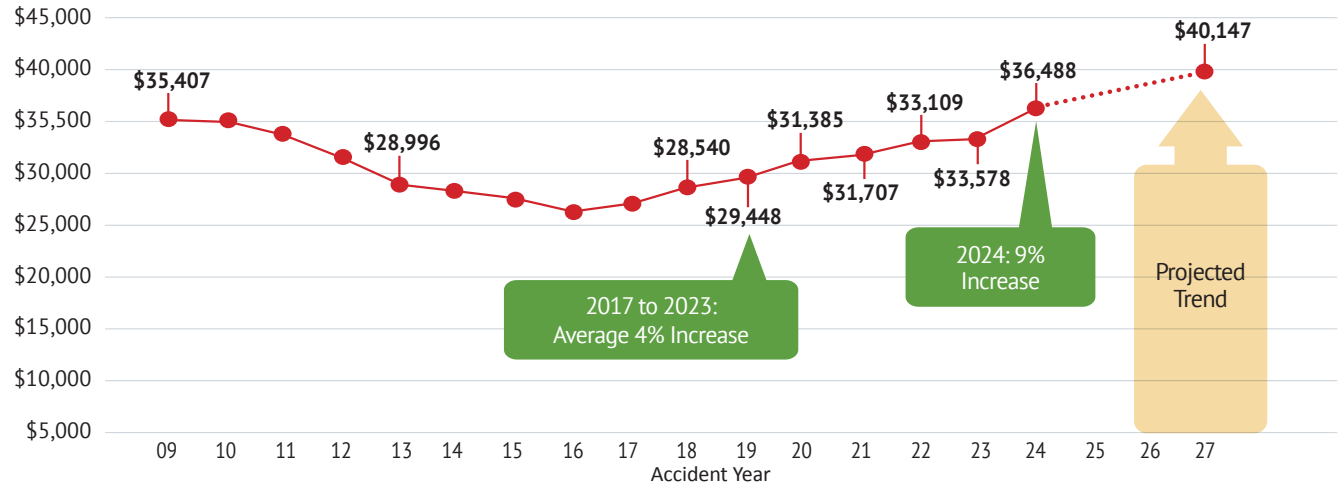
The effects

The premium an employer pays depends on their claims experience.

According to WCIRB, more than 280 classes are projected to face a higher-than-average pure premium increase next year. Conversely, some sectors will see lower pure premium hikes, while others may see decreases.

But thanks to a robust workers' comp market, employers with strong safety records and low X-Mods are likely to continue receiving favorable pricing.

AVERAGE MEDICAL COST PER INDEMNITY CLAIM



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clauses into their policies. These clauses allow for increased coverage limits if costs increase more than expected.

- **Review replacement costs and policy limits:** Ensure the policy reflects current rebuilding costs, accounting for inflation from materials and labor. We can help you review your replacement cost.
- **Consider higher deductibles:** This can reduce the premium, but policyholders must pay more out of pocket for claims.
- **Plan for longer claims cycles:** Understand your carrier's average claim timelines and adjust your business continuity plans accordingly.
- **Find new vendors:** If you rely on products from a high-tariff country, you may want to explore sources in other countries.