2026 US MARKET OUTLOOK SERIES

RISK PLACEMENT SERVICES

2026 US WORKERS' COMPENSATION MARKET OUTLOOK

EXECUTIVE SUMMARY

The US workers' compensation market stands at an inflection point looking ahead to 2026. After nearly a decade of declining rates and favorable conditions, carriers are confronting a fundamentally altered landscape driven by medical inflation, cumulative trauma litigation and reserve adequacy concerns.

At the same time, social inflation, fueled by nuclear verdicts and often tied to motor vehicle accidents, is amplifying claim severity in California and across other states. Carriers are also reassessing reserve cushions as losses outpace projections, a shift likely to influence pricing and coverage strategies. California has emerged as the bellwether for nationwide trends. Representing almost a quarter of the US workers' compensation market, the state's loss ratio reached 127% in 2024, the highest in over two decades.[1] This moved the Insurance Commissioner to approve an 8.7% pure premium rate increase, marking California's first rate hike in ten years. "This signals a potential tightening market, and underlying issues such as escalating medical costs, increased frequency and severity of claims (especially complex ones like cumulative trauma) and higher litigation expenses have reached a critical point," says Patrick Edwards, Area Senior Vice President, Workers' Compensation Practice Leader, RPS.

Medical inflation continues to drive the severity of claim costs, with the Workers' Compensation Weighted Medical Price Index (WCWMI) reflecting inflation rates between 2% and 3.5%.

Meanwhile, hybrid work environments continue to bring additional challenges. Blurring the lines between personal and work-related injuries, the hybrid work model underscores the need for proactive strategies to manage rising costs and adapt to evolving workplace dynamics.

Technology and workplace safety analytics are pivotal in reducing claims and premiums, leveraging predictive models, AI-powered monitoring and wearable devices to improve safety outcomes and compliance.

For brokers in the workers' compensation market, adaptation is essential to remain competitive and deliver value to clients. Navigating pricing pressures requires leveraging workplace safety analytics to demonstrate measurable safety improvements. By honing specialized expertise and offering differentiated solutions, brokers can stand out in a tightening underwriting environment.

"A perception is that the California Workers Comp. market is about 1.5 to 2 years ahead of all other states' marketplaces," Edwards notes. "But the marketplace is in turmoil, especially for workers' compensation carriers who are now seeing the steep losses due to the 127% Accident Year Combined ratio. Carriers that have been aggressively writing as much workers' compensation business as possible and doing so in a non-profitable manner could face significant challenges ahead."

Looking ahead, staying updated on state-level legislative changes, such as presumption laws for mental health injuries and hybrid work compensability challenges, is vital for adapting strategies and ensuring compliance.

2025 MARKET OVERVIEW

Historic rate environment shifts

California's rate environment has undergone a seismic shift, forcing a re-evaluation of what has traditionally been considered one of the most stable casualty product lines and following a steady decade-long decline. Bringing rates to historic 50-60 year lows, the Insurance Commissioner approved an 8.7% increase in average pure premium rates across all class codes.

The prolonged soft market period led clients and brokers to view workers' compensation as an afterthought, with the focus shifting toward the sharp increases in property and casualty lines. These increases overshadowed declining workers' compensation rates and the market's deteriorating fundamentals.

Carrier appetite and underwriting discipline

California's combined ratios have consistently exceeded 100% for the past five years, reaching over 127% in the most recent year and continue to be above those for the rest of the country.[2] This dramatic increase reflects the convergence of rising medical costs and increasing litigation and cumulative trauma claim growth, forcing carriers to fundamentally reassess their strategies.

Major carriers are implementing adjustments to their risk portfolios. In California, accounts are facing intense scrutiny and are subject to potential non-renewal and/or price increases. "Although there is still considerable market capacity and competition, carriers are now analyzing their risk portfolios and further reassessing their strategies and approaches," adds Edwards.

> **While the headline figure of an 8.7% increase in average pure premium rates may not seem drastic, the reality is far more significant when you look at the details. In some industries, such as manufacturing and education, pure premium rates are rising by over 20% year-over-year, with certain codes even exceeding 30%.**
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> **L.J. Battagliese**
> Area President
> RPS

Broker observation: Market dynamics in action

"In California, I have witnessed a significant increase in non-renewals this year compared to previous years," says Amanda Ikari, RPS Area Senior Vice President in Westlake Village, California. "Carriers are raising their minimum premiums, and base rates have increased by 20%. Carriers are removing credits that were applied last year and, in some cases, adding debits — even on clean accounts where you wouldn't expect it."

As the claims burden increases, carriers are pushing for greater rate adequacy and are applying debits to accounts where the experience modification (mod) has increased. The mod is a factor that is applied to the rating and adjusts premiums based on an employer's past claims activity as compared to industry averages — higher mods mean higher costs to the employer. Overall: Net rates for renewals are increasing by as much as 27% year-over-year, even for accounts with minimal losses.

Reserve outlook and adequacy scrutiny

Industry-wide claim reserves are under review as loss experience continues to exceed prior projections. In California, estimated claims redundancy (excess reserves carriers historically release to offset losses) has fallen sharply, from $17 billion in 2017 to just $3 billion in 2024, according to WCIRB.[3] At this pace, this reserve cushion could disappear within two to three years and shift to a reserve deficiency. "The question is whether all other states will follow California's lead?," says Edwards.

Broader US market trends outside of California

Outside California, the workers' compensation market remains highly profitable, with calendar year combined ratios around 86%-89% and accident year ratios near 99%, which is significantly more favorable than California's stressed levels. However, there has been some deterioration in accident year loss ratios depending on carrier-specific figures, data from the National Council on Compensation Insurance (NCCI) or other reported metrics.

In contrast, Nevada experienced a 6.5% increase in rates, a notable exception, based on NCCI data. "Nevada implemented the rate increase on March 1, 2025, driven by rising loss costs and increased claim frequency. This is a significant jump from the 1.8% pricing increase in 2024, marking the first major rate adjustment for Nevada after nearly a decade of gradual loss cost increases," says Caine Hernandez, Underwriting Manager, Work Comp Division at Atlas General Insurance Services, an RPS company.

OTHER STATES CONTINUE TO BUCK THE TREND

The following continued to experience rate decreases for 2025:[4]

Connecticut

6.1%

Overall average reduction in workers' compensation premium rates for the voluntary market, approved by the Connecticut Insurance Department in November 2024.

West Virginia

9.1%

Reduction, representing the 20th consecutive year of cost decreases, with an estimated average of $15,000 in savings for West Virginia employers.

Massachusetts

14.6%

Reduction — the fifth consecutive year of workers' compensation rate reductions, resulting in savings of $181,000 annually in premiums and an estimated $87 million to employers in Massachusetts.

Missouri

5.3%

Decrease for 2025, marking the fourth consecutive year that premium rates have declined and indicating a drop in average indemnity and medical expenses per workers' compensation claim.

> Med-legal costs have increased by 30% over the past four years. The per-page medical record charges have given applicants' attorneys more leverage to escalate the costs of claims that used to be considered minor or nuisance claims.

L.J. Battagliese
Area President
RPS

MEDICAL COST AND CLAIM SEVERITY TRENDS

Medical inflation returns with force

After years of relative stability, medical cost pressures are accelerating across multiple fronts. The average cost of an indemnity claim in California reached nearly $80,000 in 2024 — a figure that has reshaped the risk landscape for carriers and insureds alike.

"Several factors are driving these costs," says Battagliese. "One significant factor is the change in Med-Legal costs that occurred in 2021, where charges began to accumulate per page. These costs have surged significantly."

As a result, costs of lower-end claims have surged, particularly for the non-catastrophic ones. Additionally, a large percentage of these claims are cumulative trauma (CT) claims, such as repetitive stress injuries, which further contribute to the rising costs.

The percentage of statewide indemnity claims involving cumulative trauma has reached an all-time high, now accounting for nearly a quarter of all indemnity claims.[5] This highlights the growing prevalence of CT claims, with California leading the nation.

Further, the Centers for Medicare and Medicaid Services (CMS) predict that healthcare spending will rise by 5.4% each year through 2028, with Medicare experiencing the fastest spending growth amid ongoing medical inflation concerns.[6]

Post-pandemic utilization pattern changes

The COVID-19 pandemic temporarily reduced reported claims and medical treatments, which artificially lowered pure premium calculations. As medical offices reopened and employees returned to traditional work settings, claims reporting accelerated, driving rate adjustments.

"Now we're seeing a more accurate reflection of post-COVID activity. In the cumulative trauma space, there's a concerning trend where some claims bypass treatment guidelines and use costly compounded medications. These tactics inflate costs significantly," says Mark Williams, Area Executive Vice President, UW Work Comp Division at Atlas General Insurance Services, an RPS company.

In summary, the increase in combined ratios for California is driven by several factors creating something of a perfect storm:

1. **Medical inflation**
   The cost of medical care continues to rise post-COVID. Impact on costs is seen from shifts in medical utilization, including surgery rates and use of physical therapy.

2. **Wage inflation**
   Wage inflation has significantly driven up indemnity claim costs, with California's minimum wage set to increase to $16.90 per hour starting January 1, 2026.

3. **Telelegal activity**
   The "telelegal" revolution has enabled Los Angeles attorneys to litigate claims virtually across California, with remote litigation skyrocketing to 80%-85% during 2023-2024. This has spread high-cost litigation practices statewide, driving rates and claim volumes.

4. **Aging workforce**
   Younger workers, particularly in trades, are gravitating toward the gig economy. This shift leaves the older workforce in traditional roles, which tends to drive up costs due to higher injury rates and longer recovery times.

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> **Higher wages translate to higher indemnity benefits, creating additional financial pressure. Carriers now have to account for higher costs associated with lost time for injured employees who are unable to work.**

Amanda Ikari
Area Senior Vice President
RPS

Claims severity by cause and industry

Claims frequency varies across industries, majorly focusing on office decline, healthcare injury patterns and hospitality automation impacts. Claim frequency among office workers remains low for those who have continued to work remotely.[7]

According to NCCI data, the costliest lost-time workers' compensation claims, by cause of injury, result from motor vehicle accidents (MVAs), costing over $100,000 on average.[8] This is followed by burns with an average of $63,119. These severity figures underscore why even a single catastrophic claim can devastate smaller premium accounts.

Wage inflation is another factor that has significantly driven up indemnity claim costs.

LEGAL AND LEGISLATIVE WATCH

Presumption laws are expanding rapidly

Presumption laws represent one of the most significant regulatory shifts impacting workers' compensation trends. These laws, which particularly affect firefighters and first responders, create presumptive coverage for conditions like post-traumatic stress disorder (PTSD), certain cancers and other long-term health issues based on occupational exposure.

As of July 31, 2024, NCCI monitored 64 bills related to workers' compensation and mental injuries, with 51 specifically addressing PTSD coverage.[9] "With the growing knowledge of PTSD, it is essential to ensure that accounts are properly priced and have adequate coverage for their potential exposures," says Kenny Palmer, Area Vice President of Workers' Compensation in Chicago, RPS. "These coverage changes reflect smarter and more comprehensive coverage for individuals."

Gig economy and worker classification challenges

The blurring of lines between employee and contractor status creates significant coverage gaps and compliance challenges. "When it comes to the gig economy, workers are typically classified as independent contractors and are responsible for securing their own coverage. This creates a two-fold issue: first, they're typically excluded from the standard workers' compensation policy. Second, when they're responsible for their own coverage, it often leaves them vulnerable with inadequate protection," adds Palmer.

A key challenge with remote and gig workers is defining the employment relationship. Establishing compensability can be challenging, requiring consideration of factors such as where the injury occurred, whether it happened during designated work hours and if it was related to job duties performed, either remotely or on-site.

REGIONAL RISK LANDSCAPE: MARKET DYNAMICS AND RENEWAL STRATEGIES

California: The market transformed

California typically leads national trends by approximately one and a half to two years. As the market hardens, increasing rates aim to counter carrier losses driven by medical inflation and higher expenses.

CT claims are more expensive, heavily litigated, slower to resolve and rising frequently. This trend is amplified in low-wage industries like construction, where repetitive injuries often go untreated initially, escalating into larger, more complex claims.

In response, clients and brokers are increasingly exploring alternative risk financing. Alternative risk product support captives are gaining significant traction in the workers' compensation space, particularly with two-line and three-line placement strategies (auto, comp and general liability). This trend, initially concentrated in the Northeast, is now expanding nationwide.

"There is a considerable amount of business that is frequently lost to captive markets, package programs and even some Professional Employer Organizations (PEOs)," says Ikari. "But self-insured groups, which gained traction during the workers' compensation crisis of the early 2000s, may see renewed interest as carriers exit the market or raise rates significantly."

Broker action plan for California risks

1. **Understand industry-specific impact**
   Analyze the specific industries your clients operate in to assess whether they will be more adversely impacted by rate changes compared to the average.

2. **Prepare strong submissions**
   Present clients in the best possible light to underwriters, exploring a variety of markets to secure viable options and highlighting where clients have strong risk management frameworks and loss controls in place.

3. **Set client expectations early**
   Prepare clients for upcoming renewals. Explain that the combined loss ratio is rising and rates have been historically low. This mental preparation is critical for maintaining client relationships.

4. **Explore alternative solutions**
   If traditional markets fail to provide viable options, explore alternative risk financing mechanisms such as captives, self-insurance groups or package programs that consolidate multiple lines for better discounts.

FLORIDA: THE SET RATE STATE CHALLENGE

The "set rate" regulatory structure of Florida limits pricing flexibility and makes the state less attractive from a national perspective. Many carriers are hesitant to write Florida business due to the rates being at historic lows, leading to the inability to secure adequacy/pricing for the level of risk exposure present.

Despite these unique dynamics, Florida saw a very minor 1% rate decrease in 2025, one of the smallest reductions in recent history. This modest decrease is driven by declining lost-time claim frequency and legislative reforms.

Looking ahead, the NCCI has proposed a 6.9% decrease in workers' compensation insurance rates in Florida for 2026, which would mark the tenth consecutive year of reductions and a continued year-over-year rate reduction of almost 80% over the last 20 years.

INDUSTRY SECTOR OBSERVATIONS

Workers' compensation trends manifest differently across industry sectors, each facing unique risk profiles and market dynamics.

Construction

Labor shortages impact experience mods and loss ratios as companies struggle to maintain adequate staffing levels while managing safety protocols. These shortages, combined with supply chain struggles, are delaying projects and increasing costs.

The increasing prevalence and rising costs of Action Over Claims have caused insurers to limit their coverage offerings for construction businesses in certain areas, with New York City/5 Boroughs being one of the more challenged areas.

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> **Florida operates as a unique set-rate state, meaning that all carriers in the state must charge the same base rates. There is no scheduled rating allowed, whether for credits or debits, which significantly limits pricing flexibility.**
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> **Mike Zaremba**
> Workers' Compensation Broker, RPS

Healthcare

Healthcare workers face escalating workplace violence and assault claims, creating significant exposure for facilities. Ergonomic injuries from patient handling and repetitive stress remain prevalent, while mental health claims among care providers are rising — often categorized as cumulative trauma when linked to job-related stress.

Public entities

Public sector exposures are experiencing the most dramatic regulatory and cost shifts. Presumptive claims for firefighters, police and corrections officers are growing, covering conditions like PTSD, certain cancers and long-term health issues based on occupational exposure.

Cyber risk, talent shortages, regulatory shifts and extreme weather are driving sector-wide change. These trends require proactive risk management strategies and specialized coverage to protect public entities from escalating exposures.

Temporary staffing

This sector has slowed sharply after an initial post-pandemic surge in payrolls. Over the past six to nine months, actual payrolls have fallen far below projections, triggering large premium return audits and forcing mid-term payroll reviews.

The decline spans multiple industries, including construction, healthcare and clerical work. Most accounts report monthly payrolls, and the numbers continue to come in significantly lower than expected.

At the same time, joint employer liability concerns are growing and complexities around experience mod assignments are creating additional challenges for staffing firms and their brokers.

Hospitality

The industry is adopting robotics, AI and service automation to improve efficiency and enhance customer experiences. But these innovations come with trade-offs: concerns about job loss, ethical implications and the erosion of the personal touch that defines hospitality.

Post-COVID, the industry witnessed significant wage and payroll inflation, driven by sweeping legal changes across multiple states. California, Illinois and other jurisdictions have implemented new minimum wage requirements and livable wage standards that are fundamentally reshaping the sector's cost structure.

This evolving legal climate has created substantial payroll increases for restaurants and hospitality businesses, directly impacting premium calculations and claim exposures as carriers adjust to the new regulatory landscape.

Broker strategy toolkit

Navigating the potentially tightening workers' compensation market requires proactive strategies, early client engagement and comprehensive market knowledge.

The following toolkit provides guidance for brokers to position clients for success in 2026.

Pre-renewal action timeline

90 days out: Assessment phase

The foundation for successful renewals begins three months before expiration. For sophisticated accounts facing challenges, this involves working collaboratively with the insured and sub-producer to identify the right mix of markets that align with the client's specific needs.

Key actions

- Conduct comprehensive loss run analysis and trend identification
- Review claim detail for reserve accuracy and open claim status
- Verify payroll accuracy and experience mod worksheet calculations
- Update safety program documentation and identify gaps

60 days out: Preparation and market engagement

For larger transactions, getting ahead of the market early is essential. This involves potentially taking the deal out to market early and establishing common ground with the buyers to ensure they feel comfortable renewing coverage and moving forward into the next term.

Key actions

- Develop carrier marketing strategy and submission materials
- Evaluate return-to-work program effectiveness and documentation
- Assess telemedicine adoption and utilization
- Conduct client meetings to set realistic renewal expectations

30 days out: Execution phase

Today's market environment demands brokers conduct a comprehensive due diligence and make use of rating tools to thoroughly shop the market.

Key actions

- Finalize submission packages with all required documentation
- Explore alternative markets if capacity concerns exist
- Set final client expectations and discuss budget parameters
- Confirm renewal timeline with all parties and identify backup market options

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Over the past decade, brokers have often been able to secure rate decreases for their clients without needing to shop the market extensively. However, my advice for brokers today is to prioritize due diligence and leverage tools like the RPS eCommerce platform.

Mark Williams
Area Executive Vice President, RPS

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> **Technology is playing a critical role in improving safety and reducing risks. Over the past few years, we’ve seen innovative solutions like wearable devices that employees can use to track their employee’s activity and monitor safety practices.**
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> **Kenny Palmer**
> Area Vice President, RPS

Loss control and moderate management

For larger, complex risks, price is not the only lever. The focus is on value-add services and solutions that improve the client’s risk profile, Implementing/strengthening safety programs, reducing injuries, improving recovery outcomes and addressing mod remediation issues. These efforts help set both carriers and brokers apart in a competitive market.

Predictive analytics is another powerful tool that helps analyze historical data, employee demographics and environmental conditions. Organizations can leverage it to forecast areas where risks are most likely to occur and prevent or reduce injuries.

Excess workers’ compensation complexity

Excess workers’ compensation operates more like reinsurance than primary coverage, attaching above a self-insured retention (SIR) and responding only to catastrophic losses — essentially, the excess carrier acts like a reinsurer, while the insured behaves like a primary carrier. The market for municipalities with exposures related to police, fire and first responders has been firm and stable since 2020, following sharp corrections driven by mass shootings, wildfires, COVID-19 and statutory changes.

“There is a limited number of underwriting participants in the excess workers’ compensation arena,” notes Rafael Olivares, Area Vice President, Excess Workers’ Compensation, RPS. This limited capacity, combined with the long-tail nature of claims, makes excess WC uniquely complex.

Inflation, medical advancements and extended life expectancies can dramatically increase ultimate loss costs years after the date of the occurrence (date of injury). “Claims can reopen decades later due to new medical procedures or extended life expectancies. A claimant expected to live 20 years may live 40, forcing carriers to reassess reserves and costs,” Olivares adds.

For insurance carriers and brokers, this means early engagement, deep specialization and strong carrier relationships are critical to navigating one of the most specialized segments of the market.

LOOKING AHEAD TO 2026

Carriers are navigating a complex and evolving landscape with strategies shaped by California's influence and broader market pressures.

Rapid market corrections may be ahead

"We've experienced a long and protracted soft market. Typically, when a change occurs, it happens rapidly and more dramatically than most clients and brokers expect," says Battagliese. Carriers may need to implement substantial and sustained rate increases over the next year as they work to correct years of underpriced risk.

1. The key takeaway is workers' compensation prices are rising with an increase in minimum premiums.
2. Carriers are increasingly selective about the risks they're willing to underwrite and are pulling back capacity in some areas.
3. Now, more than ever, agents need to actively shop for the best pricing available and prepare their clients for the reality that year-over-year discounts or flat rates are unlikely.

"Proactive risk management will define market leadership in 2026, and this will likely shape carriers' strategies moving forward," says Edwards. "The upcoming changes represent a true value-add component, i.e., placing clients in positions where they can genuinely improve risk profiles and turn situations around. This differentiation will separate market leaders from followers."

[1]"Workers' Compensation Continues to Lead P/C Industry With Strong Profits," *Insurance Journal*, 08 Oct 2025.

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[5]"2025 State of the System," WCIRB California, 24 Jul 2025. PDF file.

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