

2025 US MARKET OUTLOOK SERIES



WORKERS' COMPENSATION



WORKERS' COMPENSATION ADJUSTS TO A CHANGING JOB MARKET

As goes the US labor market, so goes the demand for workers' compensation coverage, and by that metric it has been a robust few years for this segment of the insurance market. Across the country, jobs are plentiful, wages are up, and, as a result, premiums have grown in near lockstep. According to the US Bureau of Economic Analysis, wages increased 5.60% in the month of October 2024 versus the same month in 2023, and, as of November, the monthly unemployment rate was 4.2%.

Taken together, wage increases and job growth have spurred a spike in premiums across workers' comp, with overall net premiums now above pre-pandemic levels.

"In a strong job market like we're seeing, companies face pressure to pay more when hiring," says Patrick Edwards, Area Senior Vice President, Workers' Compensation Practice Leader, Risk Placement Services (RPS). "If you're going to attract talent, you have to pay more for that talent, and that creates a tighter job market than might otherwise be anticipated. It is impacting premiums in Workers Comp in industry areas like Hospitality and Healthcare."

This mirrors recent findings published by the National Council on Compensation Insurance (NCCI). In its [2024 State of the Line](#) report, the association found that premiums across workers' compensation increased 1% in 2023, with a combined ratio of 86% for the year, signaling ongoing profitability for the segment. This private carrier combined ratio marked the seventh consecutive year under 90% and capped a decade of underwriting gains in workers' comp. Nearly 40% of carriers saw a net combined ratio below 86%, and two-thirds saw an underwriting gain in 2023. Other positive news included a new high of \$18 billion in workers' comp reserve redundancy across the industry and an 8% reduction in lost-time claim frequency, more than double the long-term average decline in that metric.



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Area Senior
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The Property & Casualty industry wrote \$43 billion in workers' comp premiums in 2023, up from \$42.5 billion in 2022, and the line had the lowest combined ratio of all P&C lines, accounting for 5% of net written premium in the industry.

“We see wage growth continuing,” says Joshua Gloyd, Senior Actuarial Analyst at Atlas General Insurance Services, an RPS company. “It’s a part of a healthy economy as people are competing for resources and unemployment remains relatively low. Wage growth in general is also good for putting more money into the medical system, which can make a meaningful difference in treatments and outcomes, so we also see that as a benefit.”

That said, the marketplace as a whole is also under continued pressure related to medical inflation and the rising cost of hospital stays and healthcare. Claim frequency has continued its downward trend, but now with rising wages and payroll inflation, indemnity claims are starting to creep back up. This is a natural result of higher wages since indemnity claim costs correspondingly increase alongside the cost of the claim due to the person being injured and what they are being paid. The tight labor market and low unemployment rates are also making it more difficult for employers to find talent that’s properly trained in their jobs when hiring. The end result of that is more hiring of less experienced workers and an increase in the number of first-year, on-the-job injuries that involve those fresh employees.

“My current view of the WC marketplace into 2025 has me looking out the front door of my house, and from an accident year standpoint, I’m seeing storms rage out in front of my house,” says Edwards. “The storms are due to claims-related losses/profitability issues associated with healthcare inflation and more, but as I walk to the back of my house, the way the WC carriers are processing claims reserve releases, all of a sudden the storms disappear, and it’s a beautiful, sunny day out from a calendar year standpoint, with the reserve redundancy releases from the WC carriers masking what’s really going on.”

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Still, Edwards believes that the overall market for workers' comp is "working very well" and adapting to the challenges it faces. It remains a highly competitive market, with high levels of available capacity and WC carriers looking to write as much in the product line as they can.

Mark Williams, Area Executive Vice President in the UW Work Comp Division at Atlas General Insurance Services, an RPS company, agrees, saying that there were only a few new entrants into the market in 2024, primarily national multi-line writers looking at workers' compensation as a way to balance out their portfolios. "From a rate perspective, we haven't seen huge rate decreases with wages still going up, which is a good sign for the long-term health of the market," he says.

To that effect, carriers are offering new incentives to write policies, private equity money is running into the marketplace, and even traditional standard lines carriers are getting into the specialty workers' comp space, utilizing other lines to help hold for losses.

"Just like last year, the market is still very soft," says Amanda Ikari, RPS's Area Senior Vice President in Thousand Oaks, California. "It's a mixed bag. Some carriers are being aggressive in pricing; others are pulling back. It depends on the carrier and whether they're hungry for business and trying to buy up some market share, perhaps forecasting a change to a hard market. Some carriers have already taken a big hit on losses from trying to buy up market share in prior years, so they tend to not be as aggressive in their pricing."

ECONOMIC FORCES AT WORK

Many of these market changes, of course, can be traced back to the overall state of the US and global economy.

High inflation, which was the story of the economy in 2022 and 2023, has cooled in recent months, with the consumer price index posting a monthly increase of just 0.2% in October, [according to the US Bureau of Labor Statistics](#). On an annual basis, prices have increased 2.6%, before seasonal adjustments, which is nearly in line with the Federal Reserve's 2% inflation target and well below the CPI's [recent high of 9.1%](#) in June 2022. US Gross Domestic Product (GDP) — a comprehensive measure of US economic activity, including the value of the final goods and services produced domestically — increased at an annual rate of 2.8% in the third quarter of 2024, according to the [US Bureau of Economic Analysis](#), up from a 1.6% increase in the first quarter of the year. The agency credited this acceleration in real GDP to an upturn in private inventory investment and greater consumer spending, often a reflection of consumer confidence in the state of the economy as a whole.

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Citing this growing economic strength and reduced inflation findings, the Fed in December [cut its target for the federal funds rate](#) from 4-1/4% to 4-1/2%. The [International Monetary Fund \(IMF\)](#) in October raised its U.S. economic growth forecasts for 2025 based on continued strong consumer spending results. It predicts, however, that the rest of the world will continue to struggle with armed conflicts, ongoing trade wars, and the continued unwinding of the tight monetary policies that many countries instituted in the wake of the COVID-19 pandemic. The organization [left its prediction](#) for global GDP growth unchanged at 3.2% and predicted that inflation around the world will fall to 4.3% in 2025.

On the insurance front, the state of the overall economy is having a direct impact on the workers' compensation market and premium growth.

L.J. Battagliese, Area President at RPS Monument, says that, aside from the quick spike in unemployment during and after the pandemic, unemployment is still at historically low levels and expected to hold fairly steady.

"Wages have continued to increase in this environment," he says, "and wage increases are probably the more responsible driving factor for the increases in net-written premiums because rates continue to trend down. There was a little bit of a bump the last few years because a lot of municipalities had increased their minimum wage, which has been a factor, especially for lower-wage workers, who make up a big share of the employee population, but those minimum wage increases have definitely had a domino effect on all wages with a measurable impact on workers' compensation."

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In expanding economic times, when companies are flush and growing, payrolls expand, and more workers' compensation coverage is needed, typically leading to an increase in claims activity. On the flipside, during an economic downturn, premiums fall, but so too do claims. But that's not the only reason for insurance brokers, carriers, and others in the industry to pay attention to Fed moves. Investment returns, particularly bond yields, can play a role in overall profitability as well, although they don't respond immediately to changing interest rates.

"From our standpoint, our ratios on our underwriting are low enough that we don't rely on investment income to create the profitability that we need for our members," says Joe Clifford, Area President with RPS Regency in East Lansing, Michigan, "but a lot of carriers do. Sometimes they are thin on their underwriting and rely on their investments to take care of the profitability that they need for their shareholders. That's where interest rates can have a real impact on the overall business."

REGULATIONS KEEPING PACE

As was the case in 2023, the definition of "work" has continued to evolve, embracing more remote and hybrid options, flexible situations, and other changes from the traditional nine-to-five job. This includes so-called "gig economy" work, in which workers provide on-demand services or goods on a temporary, contract basis. As a result of these changes, the relationship between employers and their employees has become looser. This means greater complications for workers' compensation.

"Both during and after COVID, companies benefited from having their employees work from home," says Edwards. "However, as companies now encourage employees to return to the office and resume face-to-face business activities, there is potential for increased risk from a Workers' Compensation perspective. This shift in how business is conducted today could lead to additional claims and loss development."



On the gig economy front, a number of states are working this year to better define who should be classified as an employee who would need workers' compensation coverage.

On the gig economy front, a [number of states](#) are working this year to better define who should be classified as an employee who would need workers' compensation coverage vs those who are independent contractors and do not need insurance from their employers. New York, Pennsylvania, Rhode Island and West Virginia have pending legislation related to criteria for determining employment status. California earlier this year repealed its "ABC test" that defined a gig worker as an employee unless they were fully independent of the hiring company, and Massachusetts is looking to pass similar legislation regarding the status of app-based workers. Washington is working to extend survivor death benefits to the families of gig workers killed on the job.

All of this is happening against the backdrop of the Department of Labor's updated [Fair Labor Standards Act](#), enacted in March 2024, which uses the same "economic reality" test used by the courts to make determinations as to whether a worker is an employee or a contractor.

Locally, however, progress has been slow. In California, for instance, Battagliese reports that the last few years have been relatively quiet on the legislative front, though a few bills have been progressing through the statehouse this year. "Everything has been around the edges," he says, mentioning changes to the medical fee schedule and the medical review process. "Nothing like a wholesale change to the system."

FINDING OPPORTUNITIES IN NEW AREAS

In the immediate post-COVID years, rapid payroll increases buoyed the workers' comp market through what could have been a difficult period. Now, 4 years on, that growth has begun to flatten out a bit, leading to lower additional premium audits. Payrolls continue to rise, but not as drastically as a few years ago.

"The good news is that rates are decreasing less drastically than they have in recent years," says Kenny Palmer, RPS's Area Vice President of Workers' Compensation in Chicago. "We used to see double-digit rate decreases basically everywhere, and now in 2025, it seems like we're more in a mid-single digit decrease range. Still seeing decreases, but at least it's not as drastic as it has been in years prior."

This is leading many market participants to niche areas that others are not covering as closely and attracting new entrants, both of which come with their own challenges. For Palmer, one of those niche areas is temporary staffing, writing policies for companies that employ workers who they contract out to other companies on a temporary basis. It's a gray area for workers' comp due to the conflicting priorities and responsibilities on both the employer's and contract firm's sides.

“Temporary staffing is an area where you should have some expertise, especially on the carrier side, if you’re going to get involved,” he says, “but that’s not necessarily been the case. We see carriers bouncing in every couple of months, taking their licks, and bouncing back out. It’s been interesting to see that even the niche areas are getting the same treatment as the rest of workers’ comp. Everyone seems to want to have a piece.”

He’s seeing similar trends beyond these types of niche areas as well, including more traditional lines like healthcare, transportation, and heavy construction. Accounts that would have been no problem at renewal as recently as 5 years ago are now facing multiple quotes every time due to increased carrier interest in the segment.

Another change Palmer sees in the market is a renewed interest among insureds in taking on risk versus just settling for guaranteed cost coverage, which is typically available at a lower cost due to the limitations related to flat fee coverage that doesn’t adjust based on loss experience. “I’m not seeing a lot of need for loss-sensitive programs in the marketplace yet because guaranteed cost is still so inexpensive, but the fact that the questions are being asked is promising,” Palmer says.

WHAT’S WORKING FOR EXCESS AND SELF-INSUREDS?

The market for Excess Workers Compensation – which protects self-insured employers from catastrophic industrial losses – is adjusting to increased exposures.

It is currently a fractured market with soft-market stability for certain operations like schools, hard-market uncertainty for other operations such as municipalities with police, fire and other first responder exposures. The remaining of the marketplace, including healthcare operations, is stable.

The main reason for the current hard-market condition for municipalities with police, fire and first responder exposures is the continued introduction of presumptive laws across the U.S. These laws presumed a causal connection between higher risk related specific injuries, and cumulative exposure injuries due to exposure to chemical, carcinogens and emergency events.

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Insurance companies are looking for more revenue, so they will often become more competitive in certain areas in order to bring in that revenue.

Kenny Palmer
Area Vice President

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Additionally, traditional Excess Workers' Compensation policies are "occurrence policies" which respond on a per event basis after a Self-Insured Retention (SIR) is satisfied, irrespective of the number of employees involved in the loss. Due to the higher number of emergencies like mass shootings, social unrest and wildfires, which have resulted in more losses involving multiple employees resulting in higher incurred losses, excess workers' compensation carriers have adjusted to not only higher SIR's, but also from a per occurrence basis to a "per employee" basis for losses involving police, fire and first responder employees.

In conclusion, the changing landscape across the nation due to the introduction of presumptive laws is dramatically increasing the potential loss picture for municipalities and their excess workers' compensation carriers. The increase in the number of emergencies is also adding the potential for large losses to self-insureds and their partner excess workers compensation carriers. The result is "a hard market" for this segment.

This is redefining the landscape for Workers Compensation carriers, explains Rafael Olivares, Area Vice President at RPS for Excess Workers' Compensation.

TECHNOLOGY ADDING NEW CAPABILITIES

It's impossible to talk about the emerging role of technology in insurance without acknowledging the elephant in the room: Artificial Intelligence (AI). While employee tracking, workplace cameras, and other technologies have been used for a number of years to improve on-site safety efforts, compliance, and lower claims costs, AI is still an emerging part of the insurance toolkit without a clear path toward future use yet.

Some carriers are using AI to do claims analysis and value projections, while others have developed their own internal AI tools to help with claims management. But, on the whole, AI adoption across the industry remains fairly low.

"We're still at the infancy of AI, but there are definitely applications coming," says Clifford. "It could be used by magistrates to understand case law; they could type in a few words about the case they're looking at and might be able to find case law from decades ago that applies.

And AI will definitely be a tool used throughout the compensation system, whether it is underwriters looking at an insured's loss history in a more consolidated fashion for projecting future claims or claims adjusters having a better idea of what comorbidities cause certain injuries to worsen in order to improve prevention.”

Other [potential applications](#) for AI in workers' comp include using the technology to identify patterns in injury care and forecast outcomes based on historical data, suggest more effective treatment plans, more accurately determine settlement pricing, and support continuous monitoring for patients during recovery to speed their time back to work.

Whatever the case, as it stands today, individuals in insurance are primarily using AI to help them make quicker and better decisions. Eventually, that could turn into new efficiency gains, with one person overseeing AI-enabled service hubs that are currently being managed by several employees, but how quickly that happens will depend on the efficiencies it offers.

Edwards agrees, particularly on AI's ability to help workers' comp providers better manage and improve risk exposures.

“We're already seeing a use of cameras and other electronic devices to check workplace safety practices and evaluate what employees are doing and how they're going about their jobs,” he says. “In addition, there are also ‘wearable’ bracelets, etc., that can track how people are performing tasks like lifting boxes — that provide data on how safely the employee is performing a job task on-site.”

With AI, these types of existing technologies can be tracked and optimized to improve overall job safety outcomes and reduce both the risk/potential for loss for all involved.

“If AI saves companies money, they're going to do it,” Clifford says. “And if it helps them use eight employees to do what used to take 10 or 15, they're going to do it even faster.”



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Area Executive
Vice President

MESSAGING FOR BROKERS

Overall, some workers' compensation carriers are aggressively pricing their offerings to gain market share, while others are pulling back due to previous losses. This shift suggests that carriers are either looking to capitalize on the current market conditions or are becoming more cautious due to past experiences.

Agents should be prepared to communicate these changes to their clients, especially when dealing with clean accounts facing rising prices. The challenge lies in explaining how current pricing is affected by factors like territory or historical losses and why certain carriers apply credits differently based on loss history.

“In California, for instance, territory modifiers significantly impact pricing, with urban areas like Los Angeles and San Francisco facing higher rates compared to rural regions,” explains Ikari. “AI is increasingly used for quick quotes, but it has limitations, especially in complex or high-risk industries. Underwriters still play a crucial role in assessing these risks accurately, and brokers need to be ready to communicate those decisions.”

Overall, while quick quote systems offer convenience, they often require additional scrutiny to ensure that the risk profile aligns with the carrier's appetite. For example, sometimes decisions are made not based on one large workers' comp loss but a series of smaller incidents. In these cases, a few hundred slips and falls might be a red flag to a carrier, indicative not of a product issue but pointing more toward a lack of workplace oversight that could impact future claims. Understanding these dynamics helps agents better negotiate and manage client expectations in a shifting market landscape.

Williams agrees, stressing that the big picture message for this year is that little around workers' comp has fundamentally changed. Yes, competition is up, and commissions remain high, so more insureds are holding on at renewal time, making it tougher to write new business. From the broker's perspective, generating new business comes down to finding areas where there have been some rate increases or at least some recent rate disruptions.

“I would focus on areas where you’re seeing increases to pure premium rates,” he says, “industries where there is still room for growth from both an employment and a wage perspective. Being less of a generalist and being more targeted in the industries you go after is really how a broker can grow their book of business in this kind of environment.”

LOOKING AHEAD

What’s next for workers’ compensation? As in past years, the primary message for the market in 2025 is anchored in stability and profitability. Yes, economic forces are changing, and the state of the employment market will have long-term consequences for carriers and their insureds alike, but workers’ comp will continue to be a necessary and important part of the landscape regardless of what happens.

“Comparing this year to last year, I would have expected everything to stay about equal,” says Palmer. “I would’ve expected less capacity in the marketplace. But, because interest rates are still relatively high, the capacity has remained steady. Insurance companies are looking for more premium, so they will often become more competitive in certain areas in order to bring in that premium. That’s what is happening across workers’ compensation right now.”

What forces could drive real change in the marketplace? Interest rate changes and inflation, certainly, could have an impact, as would a slowing or accelerating economy. But more external factors are worth watching as well, particularly issues such as medical inflation and the rising cost of medical care eating into carriers’ claims costs. Even though inflation is largely slowing down as we head into 2025, there is no reason to expect the healthcare industry to fall in line and lower prices, as there are still a myriad of reasons that can lead to increased costs for medical care.

“Across the whole P&C space, workers’ comp has been the most profitable line for a little while now,” says Gloyd, “even with some of the more recent experiences. Workers’ comp took on a big portion of the burden from COVID, and the system was able to integrate that into its normal pricing process. I do think we’re going to get to a point where companies are going to want to start making money on an accident year basis from an underwriting profit.”



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Workers'
Compensation
Practice Leader

There has been a slight delay in getting to that point with interest rates as high as they've been for the last couple of years. For instance, the P&C industry as a whole ran at a loss for 2023, but those losses were offset five-fold by investment income. "That's something that the industry isn't going to be able to rely on if interest rates continue to come down."

Edwards agrees, calling the overall Workers Compensation market both vibrant and healthy as the largest Casualty line by premium volume it's a product line that's still performing well. There are a few things that Edwards is watching going forward in 2025:

- The accident year vs calendar year loss ratios
- Claims reserve redundancy adjustment impact(s),
- State rate changes and carrier response
- Healthcare inflation
- Payroll/wage inflation and employment trends, etc.

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Workers' Comp continues to be a necessary and critical product in the Commercial Coverage landscape.



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For more information, visit RPSins.com.

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