PRISM
Public Risk Innovation, Solutions, and Management

February 14, 2023

To: Workers' Compensation Program Members

From: Gina Dean, CEO

Re: Workers' Compensation Market Update

Better Together - It's still a good time to be in a JPA!

Much like the liability market, the excess workers' compensation market is facing challenging renewals for a myriad of reasons. While excess workers' compensation is a more stable line of coverage, the combination of the aging workforce, medical cost inflation, new and expanded presumptions for public safety personnel, and the pandemic have disrupted the workers' compensation environment dramatically.

Factors affecting workers' compensation premium rates according to Safety National include:

Medical Inflation

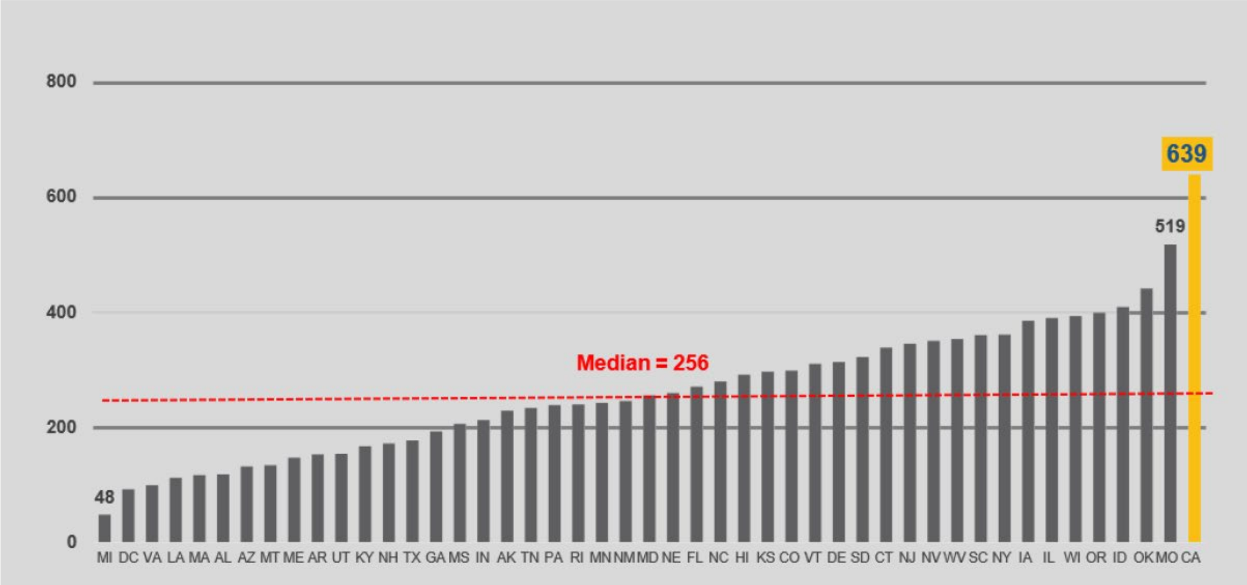
Workers who are injured on the job are living longer, better lives than they were 25 years ago, which is a positive outcome. However, increased costs associated with new medications and medical devices, like prosthetics, are costly.

Increased Severity of Workplace Injuries

There's a misconception that losses, in general, are improving. While that is partially true, most of the improvement is on a frequency basis. However, injury severity has not seen the same improvement. Catastrophic claims are becoming more sizable, and the frequency of severe claims has not significantly decreased, partly due to medical inflation. For example, if a worker becomes a quadriplegic, more resources exist to provide the best possible care. However, it can be quite expensive. Loss prevention methods have traditionally focused on reducing injury frequency. This has helped reduce the number of less costly claims, but not as much emphasis has been placed on lowering injury severity, which results in catastrophic claims.

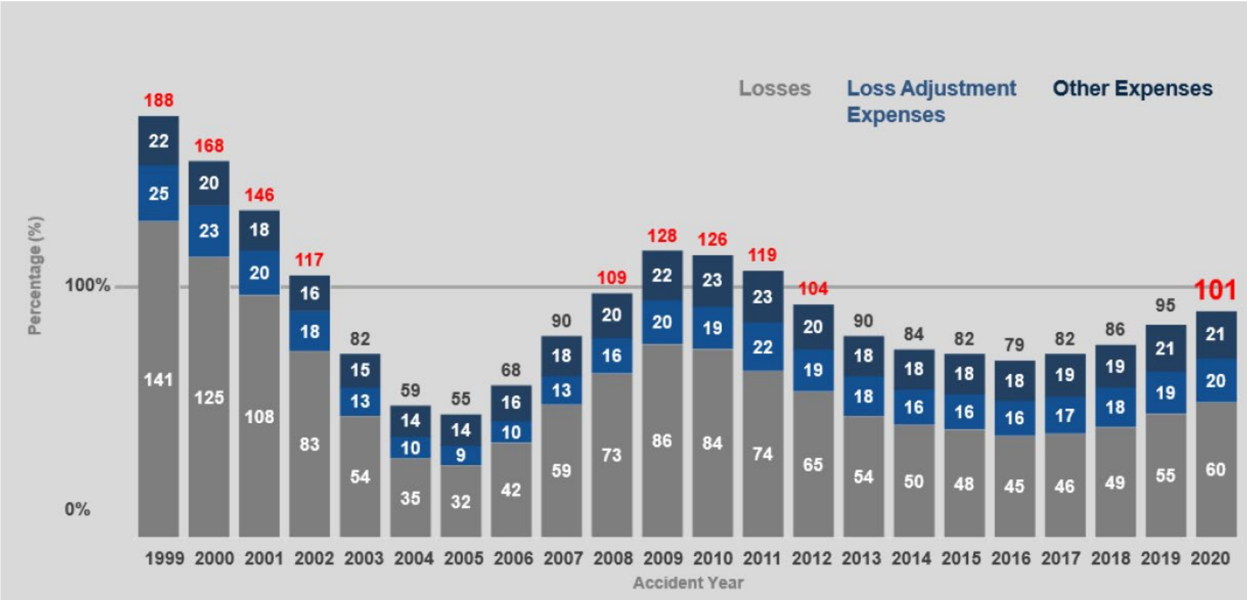
Data published by the Workers' Compensation Insurance Rating Bureau points to a firming of the workers' compensation market in California.

Permanent Disability Claims per 100,000 Employees



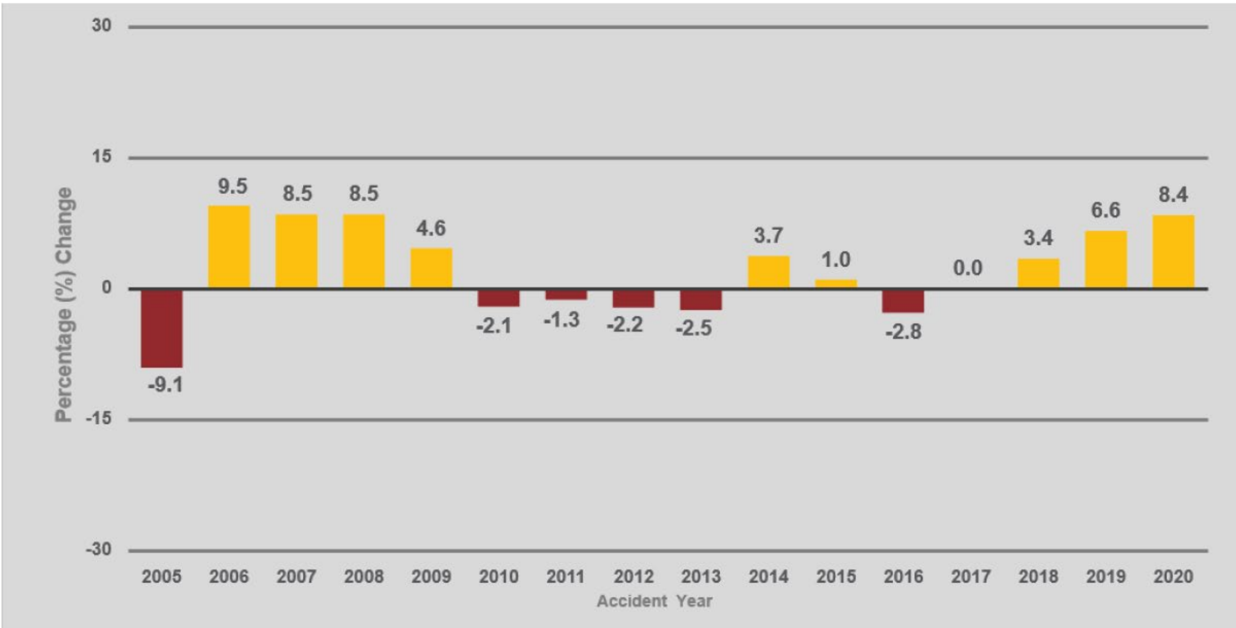
California has the highest permanent partial disability claim frequency in the country, approximately two times the countrywide median.

Combined Loss and Expense Ratios



The workers' compensation industry combined ratio has been trending upward, which tends to be an indicator of increased rates. 2020 was the first above 100% since 2012.

Change in Average Indemnity Cost per Indemnity Claim



Average indemnity costs per claim have been increasing; another indicator of firming rates. The increase in average indemnity costs per claim from 2018 to 2020 suggests moderation of the impact of the SB 863 reforms that kept average indemnity costs relatively flat prior to 2018.

PRISM's **Excess Workers' Compensation Program (EWC)** has been severely impacted by COVID-19 losses and we continue to see increased loss activity, COVID and non-COVID, in the layers above $5M. Excess carriers are placing more emphasis on wildfire related claims, which have the potential to involve severe injury to multiple firefighters in a single incident, and are focusing on employee concentration data related to catastrophic loss (earthquake). All of this contributes to the challenges we are seeing in the California excess workers' compensation market.

As a result, we expect PRISM EWC members will see rate increases this year. The amount of increase for individual members is dependent upon your entity's claims experience and size. If you are one of the lucky ones who have not yet experienced these claim trends, you may expect to see increases, but to a lesser degree. The PRISM Committees and Board of Directors have dedicated time and resources to ensure premiums are equitable amongst the members, based on an allocation that takes into consideration each individual member's potential exposure *and* claims experience.

What Can You Do?

PRISM Risk Control wants you to know that you are not alone while managing the multitude of risks facing your agency. Our team of specialists is here to help, whether by providing safety and workplace injury prevention training for your employees, direct consultation or connecting you with one of our trusted partners. Regardless of the topic, we encourage you to reach out to the Risk Control team for assistance with your organization's risk management challenges.

We would also like to call your attention to a few services and resources we think you should be taking advantage of:

- Returning employees to work early in the life of a claim can be one of the most effective cost-control techniques available. PRISM has partnered with Norm Peterson and Associates to offer a discounted rate on return to work services.
- The Workplace Violence Prevention guide describes methods public agency employers can adopt to both prevent and protect employees from workplace violence, as well as protect the members of the public they interact with.
- Safety Talks: A Tailgate/ Toolbox Resource is a selection of safety meeting topics which may be used to plan safety meetings. The guide includes over 200 topics to choose from such as; safe driving, portable ladders, working safely, hazard communication, and emergency preparedness.
- PRISM has partnered with Company Nurse, a first call, first reporting system that provides both a medical needs triage at the time of injury and a means of completing the first report documents for the member. As a result, more injuries are designated as first-aid while others are immediately directed to the appropriate level of care.

What advantages does PRISM have over a stand-alone open market placement?

PRISM's EWC Program size is an advantage. A positive for PRISM members is that the size of the EWC Program creates stability and offers economies of scale that could not be realized without being in a large pool. Because of this, we have been able to secure unique reinsurance agreements largely due to the Program's premium volume.

The EWC Program offers self-insured retentions well below the market minimum attachments. The market's minimum attachment for entities with police and or fire exposure is generally $1,000,000 and for all other, $500,000.

Pools have an advantage in challenging markets. If we have learned anything from history, we know that JPAs (self-insurance pooling) have been benefiting members in turbulent markets. All members benefit from our flexibility, economies of scale, our leverage in the insurance markets, and our sharing of best practices to help manage risk.