STATE OF THE LINE REPORT

SUMMER 2023 CASUALTY

Workers' compensation industry trends and considerations

Introduction

Sedgwick is known for taking a people first, tech forward, data driven approach to claims and productivity management. The extensive and diverse data we hold as the leading solutions provider in this space allows for sophisticated industry benchmarking and data analysis that can pinpoint trends, identify cost drivers, and track performance metrics. How we use our robust bank of data to benefit our clients and partners is one of our many differentiators.

This report is one such value-added offering. It provides an overview of the current metrics used for our workers' compensation claim programs and contextualizes the trends we see in our book of business within the broader story of the industry environment. While the report can offer useful information for your organization, it is not meant to be used as a side-by-side comparison with the data from your particular claims program. It also includes insights from Sedgwick's expert practice leads to offer perspectives on the previous period and an outlook on trends to watch for in the months ahead.

Thank you for your continued business partnership. We look forward to continuing to bring you additional data driven insights.

Sincerely,

K. Max Koonce
Chief claims officer, Sedgwick

CASUALTY

Workers' compensation

Scotty Benton, VP, workers' compensation practice
Desiree Tolbert-Render, AVP, national technical claims compliance – workers' compensation

The objective of this report is to provide a broad-based view of our current metrics for our workers' compensation programs that is somewhat comparable to what is periodically released by research organizations and rating bureaus.

For that comparative analysis, our business intelligence and workers' compensation practice teams collaborate to configure Sedgwick's claims data into a state of the line report intended to compare and contrast trends with other relevant industry studies.

Available analysis from the following entities was utilized:

- National Council on Compensation Insurers (NCCI)
- California Workers' Compensation Insurance Rating Bureau (WCIRB)
- Workers' Compensation Research Institute (WCRI)

Data parameters

For industry comparisons, the data is based on new claims for a rolling 12 months, July 1, 2022, through June 30, 2023, for insured and self-insured claims in all states at five valuation points from 2019 to 2023. The impact of the COVID-19 pandemic and the economic recovery on workers' compensation continues to be reflected in Sedgwick's claims data.

Summary/key observations

- Workers' compensation results continue to be impacted by the COVID-19 pandemic, although that impact is lessening.
- Excluding COVID-19 claims, Sedgwick's workers' compensation claims count increased 3.4% from 2022 to 2023. Sedgwick's claims count decreased 4.2% when COVID-19 claims were included.
- WC claims in California dropped 10.8%; however, excluding COVID-19 claims, there was a 3.5% increase in the state's claim volume.
- The average paid per new indemnity claim increased by 16.3% from fiscal year 2022 to 2023, with increases in every category. Excluding COVID-19 claims, the increase in the average paid per indemnity claim was 9.3% in 2022 versus 2023.
- The closing rate on indemnity claims slightly decreased to 40.7% in 2023.

Market

"Overall, we see a healthy and strong workers' compensation system," said NCCI's chief actuary, Donna Glenn, during her presentation of the State of the Line Report during the Annual Insights Symposium (AIS) on May 9, 2023. Key insights from the report, compiled from results for 38 states where NCCI recommends workers' compensation rates, include:

- The workers' compensation calendar year 2022 combined ratio for private carriers was 84%, the sixth consecutive year of results under 90% for the workers' compensation market.
- Workers' compensation premium increased 11% in 2022, highlighting a return to a similar level of premium as in 2019.
- There was a notable rise in severity for 2022 with medical claim severity increasing about 5% and indemnity claim severity rising about 6% year over year (YOY).

The WCIRB California recently released its 2023 State of the System report highlighting the following key metrics of the California workers' compensation system:

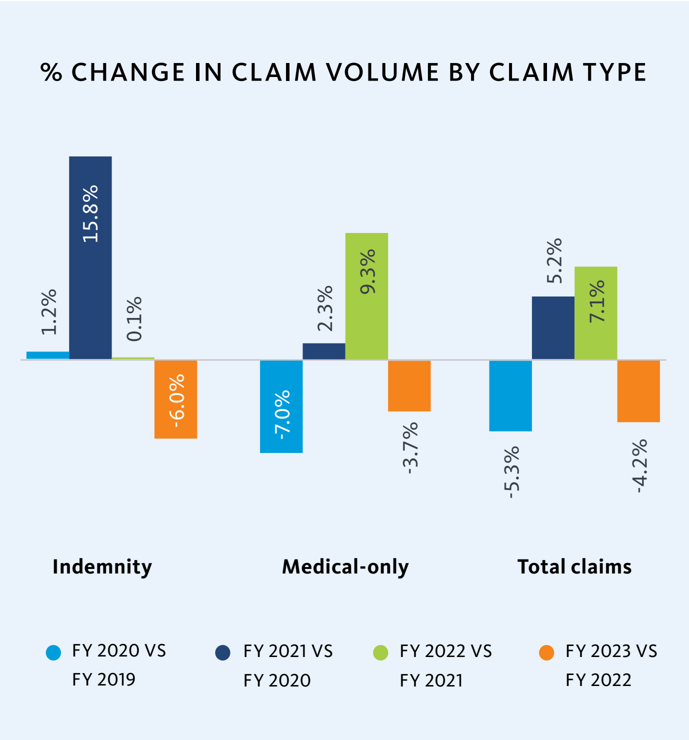
- The projected 2022 combined ratio for private insurers continued to increase, rising to 95% and surpassing the countrywide ratio for the second consecutive year.
- The share of COVID-19 claims and costs declined after the Omicron surge in winter 2021 and has been stable for the majority of 2022 through early 2023.
- Average indemnity claims costs continue to increase, primarily driven by increasing average wage levels and percent of indemnity claims.
- California continues to experience longer-than-average claim durations compared to other states, driven by slower claim reporting, lower settlement rates and higher frictional costs.
- California workers' compensation premium levels increased 14% in 2022 due to the economic recovery from the pandemic-related downturn.

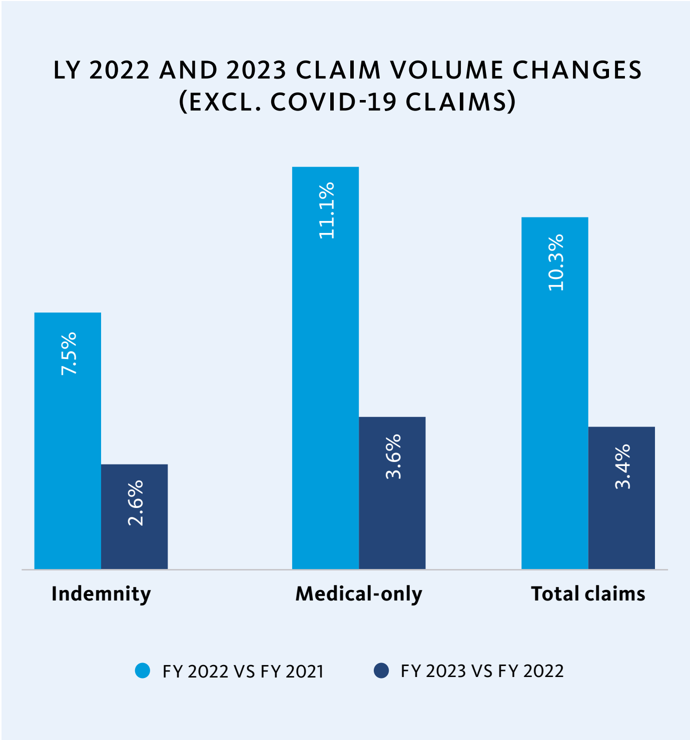
Claim volume

Sedgwick's data for fiscal year 2023 reflects a 4.2% decrease in total claim counts compared with 2022, when COVID-19 claims are included.

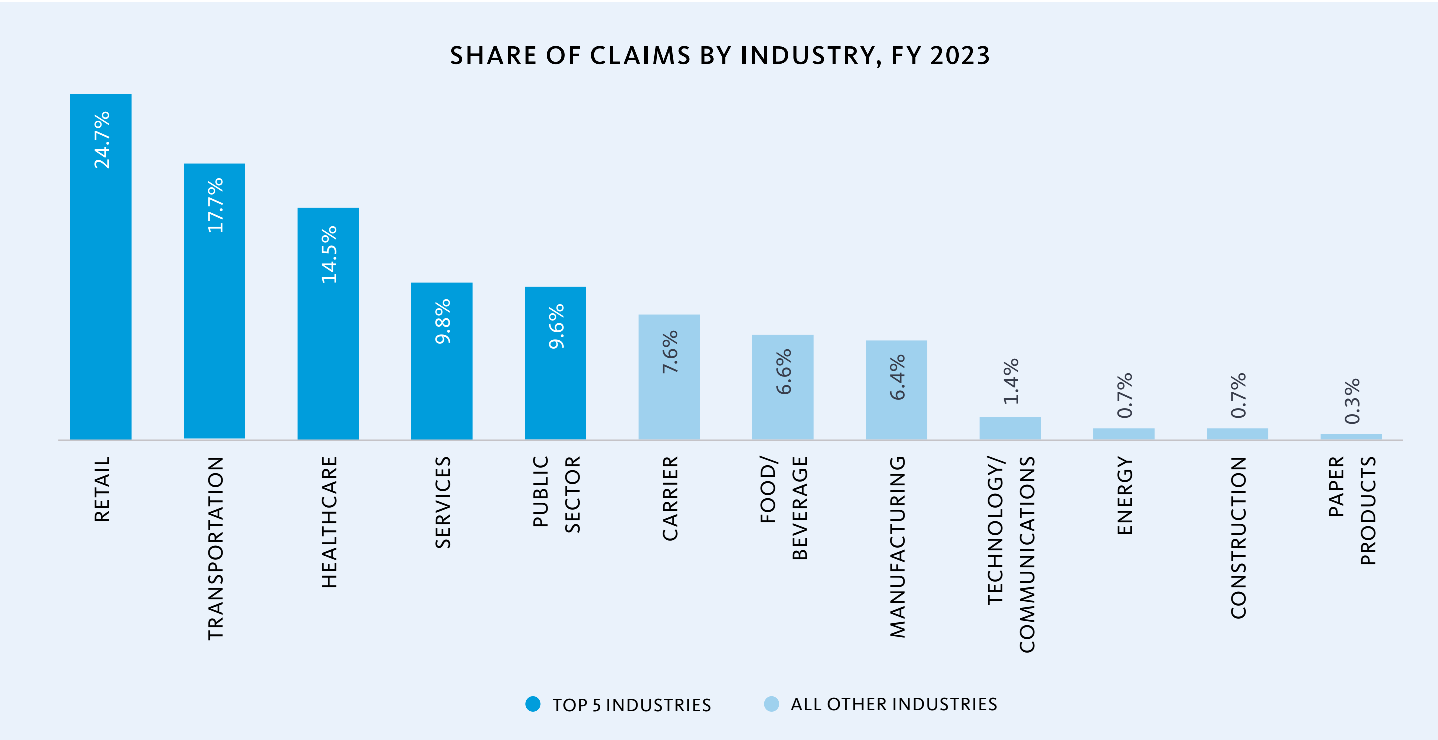
The U.S. labor market has moderated with job openings and total hires down in most industries over the year ending June 2023, according to [The Economics Daily (TED),](#) published by the Bureau of Labor Statistics on Aug. 3, 2023. Additionally, more than three years into the pandemic, the number of COVID-19 cases and fatalities remain low despite a recent uptick.

Excluding COVID-19 claims, Sedgwick saw a 3.4% increase in workers' compensation claims count from 2022 to 2023.



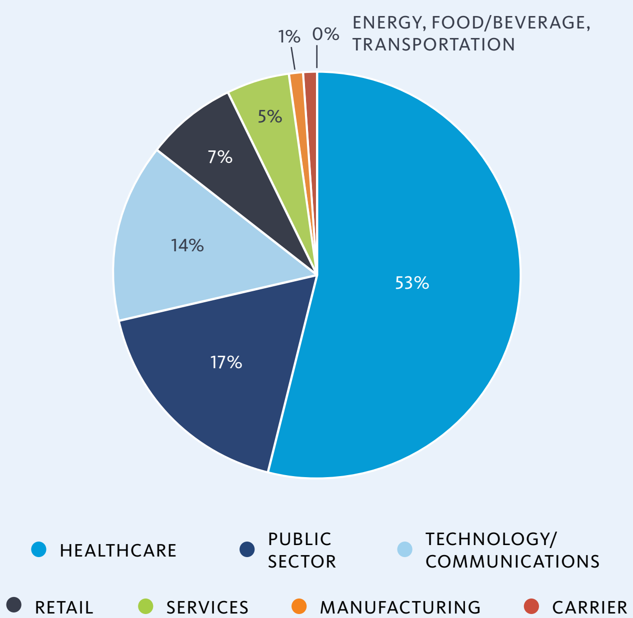


The share of claims by industry is the same whether or not COVID-19 claims are excluded.



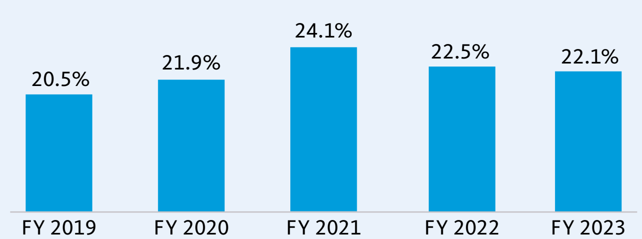
70% of COVID-19 claims occurred in healthcare (53%) and public sector (17%).

COVID-19 CLAIMS IN INDUSTRY GROUPS



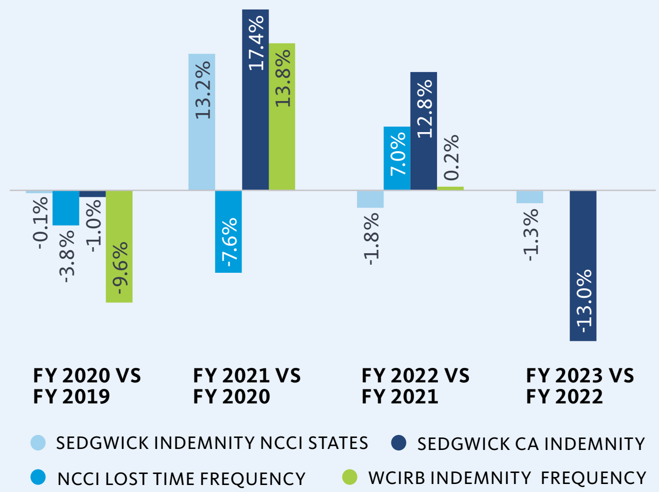
Another lingering effect of the pandemic has been a change in the mix of indemnity and medical-only claims. The share of indemnity claims remains relatively flat in 2023 (-0.4% from 2022) but remains higher than pre-pandemic.

SHARE OF INDEMNITY CLAIMS



The following is a comparison of Sedgwick percentage change in indemnity claims to industry groups.

% CHANGE IN INDEMNITY CLAIMS, INDUSTRY COMPARISON



AAPC*

Sedgwick Indemnity NCCI States: +2.5%
NCCI Lost Time Frequency: -1.5%
Sedgwick CA Indemnity Volume: +4.0%
WCIRB Indemnity Frequency*: 1.5%

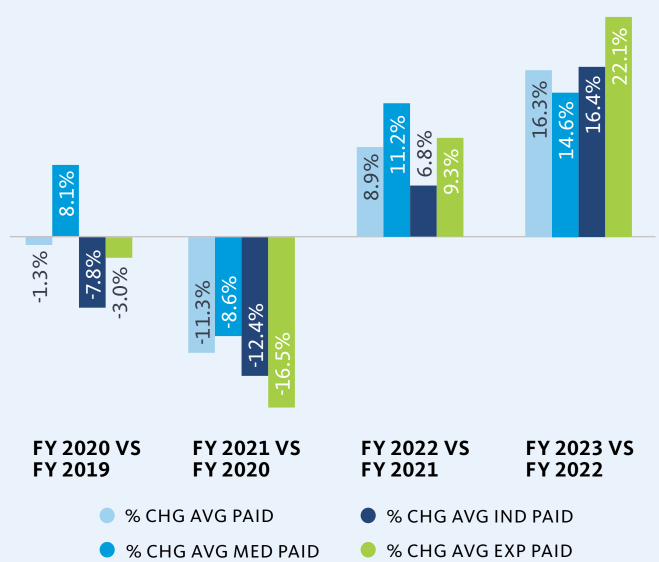
* AAPC – Annual Average Percentage Change.
* NCCI normalizes data with employee counts or payroll.
* WCIRB report normalizes data with employee counts or payroll.

Claim costs

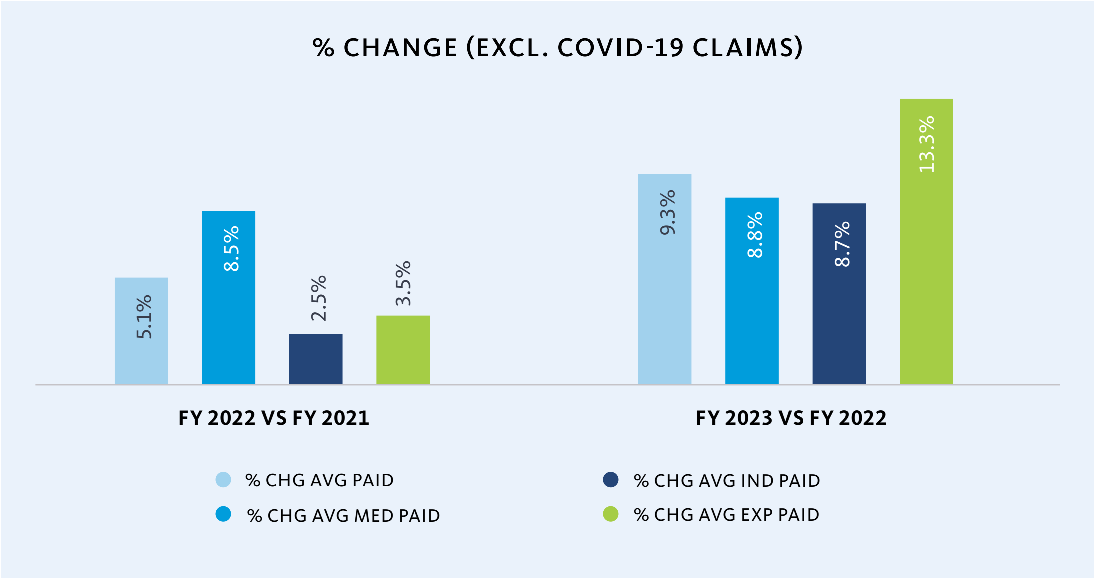
Indemnity

There was a 16.3% increase in the average paid per indemnity claim in fiscal year 2023, when compared to 2022.

% CHANGE OF AVG. PAID PER INDEMNITY CLAIM BY CATEGORY



When COVID-19 claims are excluded, the increase in the average paid per indemnity claim was 9.3% in 2023 versus 2022, which continues to show that COVID-19 claims temper the average paid per indemnity claim.



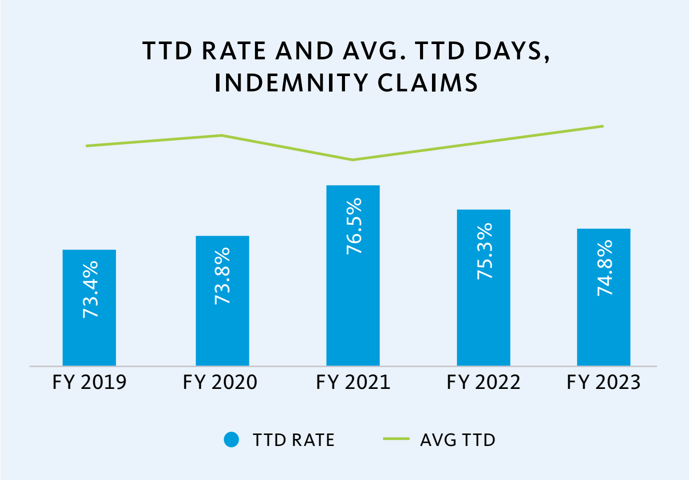
Indemnity benefit payments, which are calculated based on wages earned, increased by 8.8% per indemnity claim in fiscal year 2023. Our TTD paid per day inflation analysis indicated a 6.9% increase for 2022/2023 compared to 2021/2022. According to Phase II of the Multibureau Collaboration on COVID-19 and Workers' Compensation, released in November 2022, healthcare and public sector (Sedgwick analysis shows them with the largest increases at 10.3% and 8.9%, respectively) were influenced by the continued prevalence of COVID-19 claims that include indemnity-only claims in every state analyzed.

TTD PAID PER DAY INFLATION ANALYSIS: JULY 1 TO JUNE 30

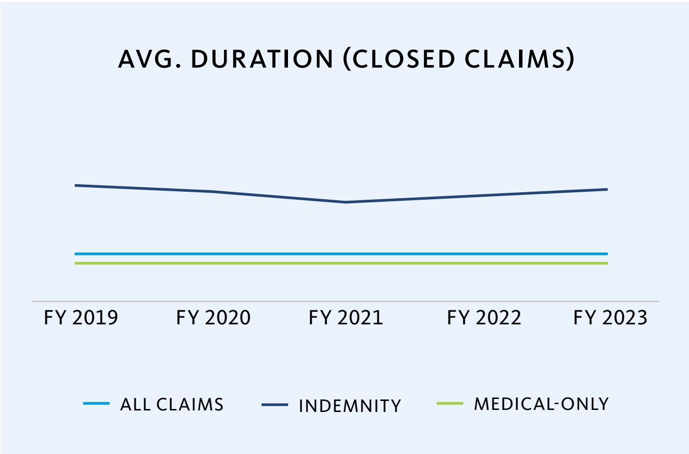
All states	7/1/19 - 6/30/20	7/1/20 - 6/30/21	7/1/21 - 6/30/22	7/1/22 - 6/30/23	2019/2020 to 2020/2021	2020/2021 to 2021/2022	2021/2022 to 2022/2023
Carrier	$76.55	$78.36	$80.90	$87.36	2.4%	3.2%	8.0%
Construction	$103.52	$110.84	$113.31	$117.90	7.1%	2.2%	4.1%
Food/beverage	$96.50	$100.89	$99.76	$102.85	4.6%	-1.1%	3.1%
Healthcare	$102.82	$106.94	$108.58	$119.80	4.0%	1.5%	10.3%
Manufacturing	$104.93	$104.99	$107.55	$114.40	0.1%	2.4%	6.4%
Public sector	$77.10	$85.36	$85.01	$92.58	10.7%	-0.4%	8.9%
Retail	$61.95	$65.97	$68.64	$72.74	6.5%	4.0%	6.0%
Services	$67.57	$70.28	$74.90	$81.11	4.0%	6.6%	8.3%
Tech/communication	$125.31	$134.01	$133.29	$138.23	6.9%	-0.5%	3.7%
Transportation	$80.12	$77.72	$84.24	$90.06	-3.0%	8.4%	6.9%
Total	**$81.82**	**$83.65**	**$87.05**	**$93.06**	**2.2%**	**4.1%**	**6.9%**

Additionally, most states annually index their maximum indemnity benefit to the state average weekly wage (SAWW) to prevent inflation from eroding the level of the workers' benefits. WCRI/IAIABC workers' compensation laws as of Jan. 1, 2022, show that the maximum temporary disability benefits in 2022 were larger than the average annual change in the previous 21 years in all but five jurisdictions, resulting in a median annual increase of 7%.

The rate of indemnity claims with at least one day of TTD payments has been greater than 75% since the pandemic but reflects a slight decline this fiscal year as the system normalizes.

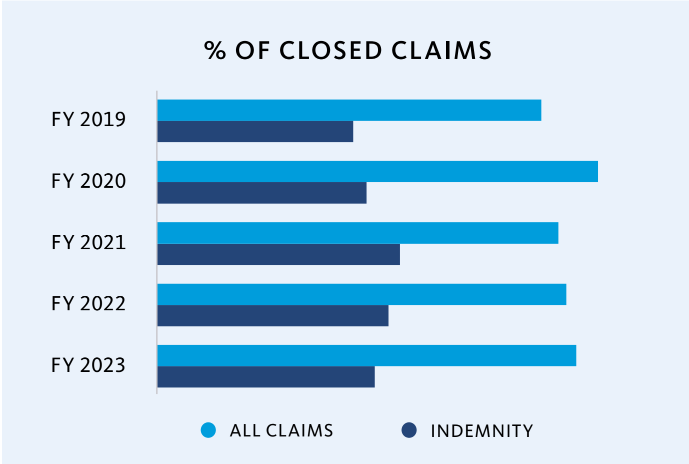


The duration of indemnity benefits is another component of indemnity costs; however, Sedgwick average claim durations were stable in 2023 when compared to 2022.



Closures

The percentage of all claims closed in fiscal year 2023 stayed consistent, with a slight decrease for indemnity claims. On average, COVID-19 claims closed faster than non-COVID-19. Excluding COVID-19 claims, the 2023 percentage for indemnity claims closed remained flat.



Medical costs

Average medical services paid per indemnity claim increased overall by 9.9% in fiscal year 2023 relative to 2022. Medical costs are primarily driven by a combination of price and utilization.

Focusing on the price component of medical payments, the workers' compensation system is highly regulated by each state resulting in substantial differences in prices paid for medical services across states. Physician services categorized as evaluation and management (E&M), physical therapy, surgery and radiology were the primary drivers of growth in average medical costs paid in fiscal year 2023.

This inflation analysis tool also indicates a 2.9% increase in the price per service change between 2021/2022 and 2022/2023.

MEDICAL INFLATION ANALYSIS: JULY 1 TO JUNE 30

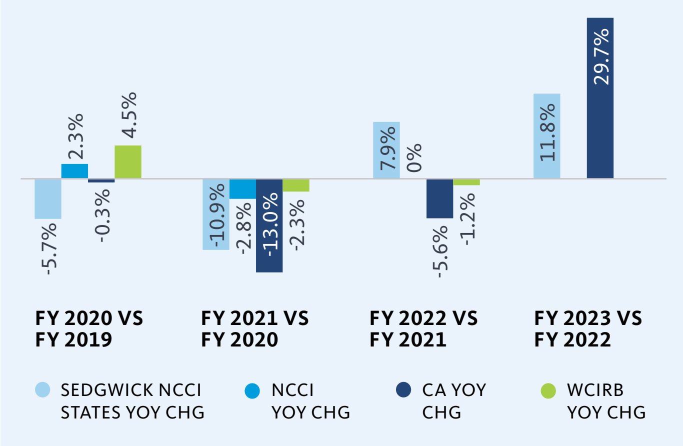
All states	7/1/19 - 6/30/20	7/1/20 - 6/30/21	7/1/21 - 6/30/22	7/1/22 - 6/30/23	2019/2020 - 2020/2021	2020/2021 - 2021/2022	2021/2022 - 2022/2023
Evaluation and management	$131.54	$138.17	$149.42	$154.36	5.0%	8.1%	3.3%
Physical therapy	$63.22	$62.80	$63.02	$64.43	-0.7%	0.3%	2.2%
Major diagnostics	$482.12	$481.06	$489.12	$513.52	-0.2%	1.7%	5.0%
Minor diagnostics	$68.03	$69.94	$72.18	$76.01	2.8%	3.2%	5.3%
Surgeries	$1,982.94	$2,027.18	$2,133.65	$2,214.30	2.2%	5.3%	3.8%
Total	**$97.88**	**$99.42**	**$103.06**	**$106.08**	**1.6%**	**3.7%**	**2.9%**

Not unexpectedly, the increase in the price per service varies by type of service with diagnostics, major and minor, followed by surgeries exhibiting the largest price pressure in 2022/2023 versus 2021/2022.

One cause for the increase in E&M costs for workers' compensation is the Centers for Medicare and Medicaid (CMS) rate increase in 2021 for those services combined with workers' compensation physician fee schedules based on Medicare rules and reimbursement rates in many states. Click here to view the NCCI report, "Inflation and Workers' Compensation Medical Costs – Physician Services," published Feb. 7, 2023

Sedgwick's average medical services paid per indemnity claim for fiscal year 2023 cannot yet be compared with the industry; however, in 2022, Sedgwick's average medical paid per indemnity claim favorably compared with the industry.

% CHANGE OF AVG. MEDICAL PAID PER INDEMNITY CLAIM, INDUSTRY COMPARISON



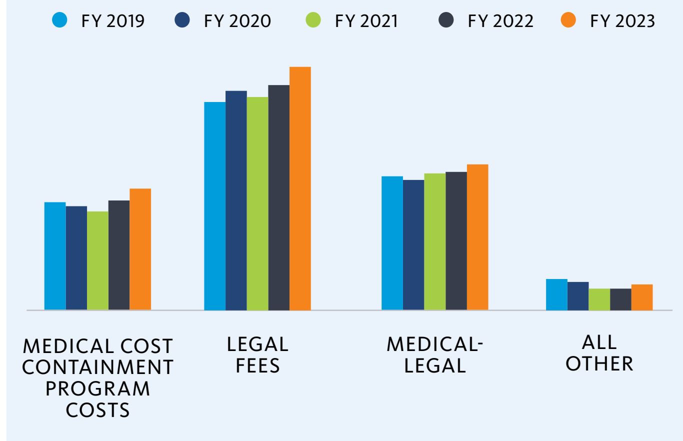
Expense costs

Allocated loss adjustment expense costs per indemnity claim are driven by three major categories:

- Average medical cost containment program costs
- Legal fees
- Medical-legal

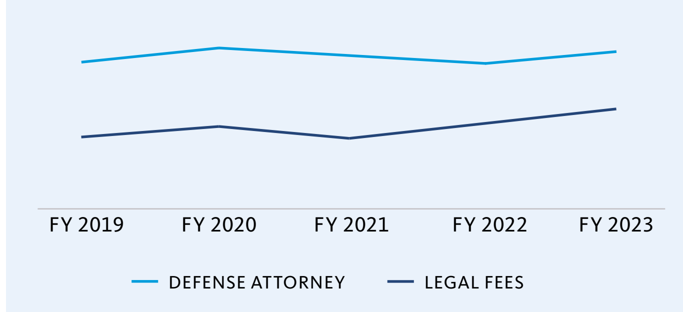
While average expenses paid increased in each of these categories, medical cost containment and legal fees reflected the largest increases.

AVG. EXPENSE PAID BY PAY CODE GROUP, INDEMNITY CLAIMS

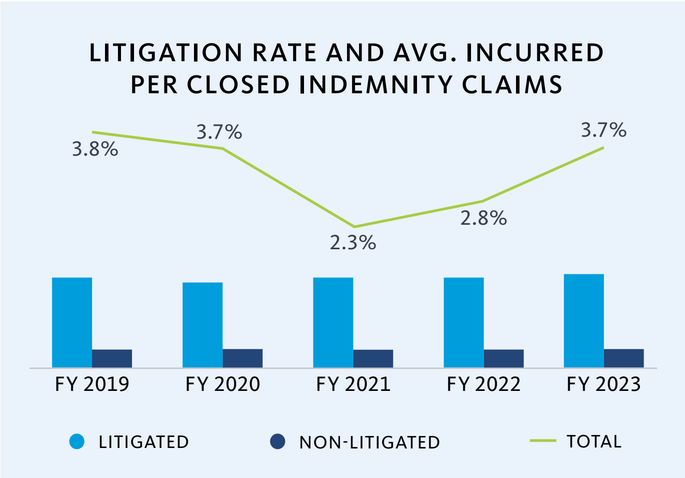


Defense attorney fees make up 56.3% of legal fees, and the average paid increased by approximately 3% in fiscal year 2023 with wide variations between jurisdictions. Legal fees increased approximately 6% in fiscal year 2023, driven by increases in attorney (non-litigated), court costs, court reporters, deposition, photocopies and non-medical witness fees.

AVG. DEFENSE ATTORNEY AND LEGAL FEES, INDEMNITY CLAIMS



In fiscal year 2023, indemnity claim litigation rates reached the same rate as in 2020, another indication of the system normalizing with the reopening of the courts and resumption of in-person proceedings.



Because litigated claims historically cost more, this increase in the litigated rate per claim is also a reason for increased indemnity and medical costs.

2023 workers' compensation

Bill Donnell, president and CEO of NCCI, reminds us that, while the performance of the workers' compensation system remains healthy, "experience tells us that it won't last forever, and we must be ready." Headwinds that we are monitoring include:

Labor market shifts

The COVID-19 pandemic resulted in labor market shifts and wage changes that impacted workers' compensation:

- The current national unemployment rate is 3.5%, among the lowest in over 50 years, yet there remained 9.6 million job openings on the last business day of June 2023. With employees being forced to cover greater workloads, higher claim rates may occur.
- Shortened average job tenure due to workers moving into new jobs, occupations and industries tends to increase injury frequency and may also affect injury severity as the difference in injury rates varies across industries. NCCI suggests this increase may be offset by the lower frequency of job-related injuries experienced by remote workers.
- Demographic shifts, such as a change in the age distribution of workers in certain industries due to early retirement, may also affect injury frequency and severity. According to the Bureau of Labor Statistics (BLS) Employment Projections Programs, 2021 – 2031, the U.S. labor force will grow by 7.7 million from 2021 to 2031 with 4.9 million coming from workers 65 and older.

As these labor trends continue, attention to safety, training and return-to-work programs become more important than ever.

Medical accessibility/costs

Medical costs and severity are expected to increase in the future driven by:

- The American Hospital Association estimates a shortage of up to 124,000 physicians by 2033 and a need for approximately 200,000 nurses a year to meet rising healthcare demands. This will inevitably impact healthcare accessibility. Sedgwick data is already showing slight increases in the lag between the date of loss to the first service date(s) of certain medical treatments with variation in results by state.
- The talent shortage in the healthcare industry is resulting in increased labor costs for health systems and hospitals that are expected to be passed on to payers and consumers through higher prices and increased utilization.
- This year has seen continued regulatory and antitrust scrutiny for health system mergers and acquisitions at the federal and state levels.
- Medical advances – such as "precision medicine" – offer the potential for improved outcomes by tailoring interventions based on patient-specific demographics and disease-specific data to treat patients with non-unions and fractures associated with polytrauma and burns. However, new advances in medical care are usually costly.

Workers' compensation is not immune to these trends. Controls developed in recent years will be critical to containing medical costs and managing utilization.

Marijuana legalization

In 2023, Kentucky legalized medical marijuana, and Delaware and Minnesota legalized recreational marijuana for adult use. It remains illegal on the federal level as a Schedule I drug under the Controlled Substances Act (CSA).

On March 17, 2023, the Commonwealth of Pennsylvania joined a small number of states that ruled medical marijuana may be reimbursable under workers' compensation. L. Fegley, as Executrix of the Estate of P. Sheetz v. Firestone Tire & Rubber (WCAB) - 680 C.D. 2021 FILED: March 17, 2023, and E. Appel v. GWC Warranty Corp. (WCAB) - 824 C.D. 2021 FILED: March 17, 2023, ruled:

- Because Section 2102 of the Medical Marijuana Act (MM) does not prohibit insurers from covering medical marijuana, employers must reimburse claimants for out-of-pocket costs of lawful medical marijuana use, which has been found to be reasonable and necessary for their work-related injuries.
- The employer is not in violation of the federal drug act since they are not prescribing marijuana but rather reimbursing the claimant for lawful use.

- An insurance company or third-party administrator who fails to reimburse an injured worker for out-of-pocket expenses for legally obtained medical marijuana will be subject to penalties.
- There are now 39 states, the District of Columbia and three territories that have legalized the medical use of marijuana, and 23 states and the District of Columbia have legalized adult use of recreational marijuana.

COVID-19

Although COVID-19 remains a pandemic according to the World Health Organization (WHO), the Public Health Emergency of International Concern declared by WHO for COVID-19 ended on May 5, 2023. The U.S. Public Health Emergency for COVID-19 expired at the end of the day on May 11, 2023. All states as of that time had ended their public health emergency declarations.

On July 6, 2023, the California Supreme Court ruled that employers have no duty of care to prevent the spread of COVID-19 to other members of their employees' households. In reaching this conclusion, the court reasoned that "although it is foreseeable that an employer's negligence in permitting workplace spread of COVID-19 will cause members of employees' households to contract the disease, recognizing a duty of care to non-employees in this context would impose an intolerable burden on employers and society in contravention of public policy."

There remains only one area of uncertainty related to potential exposures for work-related COVID-19 claims. However, our current data has yet to show a significant impact due to the prevalence of post-COVID conditions — also referred to as long-COVID or long-haul COVID-19. Read Sedgwick and DMEC's co-authored white paper, Long COVID: Assessment and Managing Workforce Impact, to learn more.

Heightened regulatory environment

More than a dozen states have introduced new or revised legislation regarding presumptions and post-traumatic stress disorder (PTSD) for first responders. They are typically rebuttable presumptions, meaning they can be overcome by a preponderance of evidence to the contrary. The most common diseases covered by these presumptions are lung and respiratory conditions, heart and vascular conditions, blood and infectious diseases, cancer and mental injuries (PTSD and other). These presumptions generally affect compensability. Legislatures met in every state this year and enacted numerous bills that directly affect the ability to manage claims and costs. Following are some of the legislative trends observed during this year's sessions:

- Bills were introduced and passed in several states to address the compensability of mental injuries under workers' compensation, primarily post-traumatic stress disorders (PTSD) for first responders. In Connecticut, legislation was enacted that extends the presumption to all eligible employees who meet specified requirements.
- Multiple states expanded other presumptions for first responders to either add additional conditions or make additional first responders eligible. These laws are historically applied to local public entities or certain state and federal agencies, though they sometimes apply to private sector employees or volunteers.
- Several states enacted bills that increased claimant attorney fees and expanded circumstances when the employer may be responsible for payment of those fees.
- Indemnity benefits were increased for injured workers in states such as Colorado, Georgia and Minnesota, due to legislation activity.
- Penalty exposure substantially increased in Nevada and Washington due to enacted legislation.

Meanwhile, leadership recently changed within state workers' compensation agencies in several states, and more changes are anticipated due to retirements and the upcoming election.

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