Work Comp Insights

ToughComp - Your Workers' Compensation Partner

Trends Impacting Workers' Compensation Insurance

Workers' compensation coverage is not only required in most states but also plays a major role in connecting injured employees to the care they need to return to work as quickly and safely as possible. That's why it's crucial for your organization to develop an effective workers' compensation program. Accordingly, it's important to stay up to date on workers' compensation trends. In doing so, your organization will have the information needed to respond appropriately and make any necessary workers' compensation program adjustments.

Don't let your organization fall behind in this evolving risk landscape. Review the following guidance to learn more about the latest trends impacting workers' compensation coverage.

Labor Shortages

Businesses of all sizes and sectors have been facing labor shortages for several years, posing employee safety risks and elevating workers' compensation exposures. There is a range of factors currently contributing to such shortages. In the past few years alone, various workforce movements (e.g., the Great Resignation and the Great Reshuffle) have led to a difficult labor market. Amid these movements, many employees opted to either exit the workforce altogether or leave their positions in search of roles that better suit their shifting priorities.

In response, businesses have begun hiring a larger number of workers who are inexperienced or new to their particular fields. This shift is evidenced by recent National Council on Compensation Insurance (NCCI) data, which found that the proportion of short-tenured employees—those who have been with their respective employers for 12 months or less—increased across multiple sectors (e.g., leisure and hospitality, retail trade, and transportation and warehousing) over the past year.

Yet, short-tenured employees are more likely to get injured on the job, carrying additional workers' compensation risks. According to the U.S. Bureau of Labor Statistics (BLS), 40% of all workplace injuries involve employees who have been in their positions for less than one year, and 1 in 8 injuries happen on employees' first days. Further, the latest industry research found that injuries among short-tenured employees contribute to more than 6 million lost working days each year, representing more than one-third (37%) of overall lost days.

Compounding labor challenges and related employee safety issues, the workforce is rapidly aging. By 2026, the BLS estimates that the workforce participation rate among employees ages 65-74 will reach 30.2%, up from 17.5% in 1996. The potential ramifications of this trend are twofold. First, this means that a greater percentage of the workforce will be approaching retirement age, opening the door for further labor shortages in the future. Second, older employees are more likely to experience occupational injuries and take longer to recover from such injuries, possibly driving up related workers' compensation claims and costs. Specifically, NCCI data shows that employees over the age of 55 account for more than one-fifth (21%) of workers' compensation claims and contribute to nearly one-third (31%) of total claim expenses.

In light of these labor challenges, it's vital for your organization to prioritize effective employee retention strategies and in-depth safety training.

Telemedicine

The COVID-19 pandemic contributed to an acceleration in the adoption of telemedicine within the workers' compensation market. However, telemedicine has remained a key offering even after the pandemic has subsided.

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Telemedicine allows employees to receive medical services virtually after they've been injured on the job. Examples of telemedicine in action may include video consultations with care providers following an injury (allowing for a virtual evaluation and diagnosis) and text message alerts that remind the recovering employee of treatment steps or upcoming appointments.

Telemedicine can be useful in situations where medical care isn't easily accessible to staff, such as the following:

- When an injury occurs during an overnight shift and most treatment facilities have closed
- If your workplace is located in an area where there are limited care facilities nearby
- If your organization frequently conducts work off-site, making care availability unpredictable

In addition to providing employees with easy access to medical care following an injury, utilizing telemedicine can offer a variety of key benefits to your workers' compensation program. This includes transportation and time savings by limiting physical trips to the doctor, simplified access to medical specialists and improved recovery capabilities for injured employees, thus minimizing potential treatment delays. The combination of these benefits can, in turn, help reduce your organization's overall workers' compensation claim costs, limiting the need for in-person treatment while still ensuring quality care and a speedy recovery process among injured employees.

However, keep in mind that telemedicine is not a universal care solution for all workplace injuries; this offering only applies to nonurgent situations. In-person treatment will always be necessary in the event of an emergency. Even in nonurgent situations, telemedicine may still need to be combined with in-person treatment.

Employee Mental Health

Employee well-being refers to the overall state of workers' physical, mental and emotional health. Although employee well-being is often considered an HR-related matter, it's also an enterprise risk that directly correlates with key business objectives, including workplace safety.

Over the years, many businesses have attempted to boost employee well-being by offering workplace solutions aimed solely at maintaining physical health (e.g., serving nutritious meal options on-site, offering smoking cessation programs or providing discounted memberships to local gyms). While such solutions can certainly help employees make healthier lifestyle choices and reduce their risk of chronic illnesses and workplace injuries, promoting employee well-being requires the adoption of initiatives that address all aspects of workers' overall health and happiness. Specifically, employees' mental health must be considered.

Mental health consists of individuals' emotional, psychological and social well-being. In times of distress, individuals may suffer from poor mental health. Emotions associated with poor mental health include grief, stress, sadness or anxiousness. According to the Centers for Disease Control and Prevention, mental health concerns are on the rise, with 71% of U.S. adults experiencing adverse symptoms of stress (e.g., feeling overwhelmed or anxious) each year.

What's worse, the National Safety Council confirmed that instances of both moderate and severe mental health distress are linked to a greater risk of workplace accidents. This is likely because employees facing mental health concerns are often less focused, engaged and aware of potential safety hazards, resulting in poor decision-making and unnecessary risk-taking. These accidents not only lead to injured employees but also higher workers' compensation costs.

With this in mind, it has become increasingly critical for your organization to adopt a supportive workplace culture and incorporate mental health initiatives in employee well-being efforts.

Inflation

Recent years have been met with growing inflation concerns, impacting individuals and industries across the board. The commercial insurance market is no exception to these concerns. Similar to other goods and services, inflation can also elevate coverage costs.

In the scope of workers' compensation, this segment is primarily affected by medical inflation and wage

inflation. Here's a breakdown of these two types of inflation:

- **Medical inflation**—Such inflation refers to rising prices for health care necessities (e.g., medical devices, supplies and pharmaceuticals). These prices are typically determined a year in advance based on projections by Medicare and private insurance contracts. Because these projections took place before inflation concerns skyrocketed, medical inflation has remained fairly low in comparison to overall inflation trends. As such, the workers' compensation segment has yet to face the full impacts of rising inflation issues. Fortunately, the segment is better equipped to handle inflation issues than other commercial lines of coverage due to its past several years of profitability. Additionally, many states have fee schedules in place for workers' compensation coverage, which are predetermined expenses for medical services that are intended to keep treatment costs for injured or ill employees and associated claim expenses reasonable. In any case, it's still important to note that elevated claim and coverage costs brought on by medical inflation are expected in the year ahead.
- **Wage inflation**—Amid rising cost-of-living expenses and ongoing labor challenges, many businesses have increased their workers' pay to boost attraction and retention efforts, resulting in wage inflation. Because payroll is leveraged as an exposure base to calculate workers' compensation premiums, wage inflation could prompt increased rates. After all, higher wages are tied to greater benefits, and it's crucial for benefits and premiums to remain in balance to ensure workers are adequately reimbursed for lost income following occupational illnesses or injuries. The NCCI also reported that the surge in employees receiving raises and moving from lower-wage positions to higher-paying roles could increase the risk of payroll miscalculations and create short-term disconnects between wages, benefits and workers' compensation premiums. Most states have an index for wage inflation to make sure premiums and benefits keep up with each other, but it's still possible for errors to occur.

Mega Claims

Another trend that has become a costly issue in the realm of workers' compensation is the surge in mega claims. These are exceptionally large claims, namely those totaling $3 million or more in incurred losses. These claims typically stem from employees experiencing severe (and possibly permanent) injuries on the job. While the causes of these injuries vary, mega claims are usually attributed to serious falls, motor vehicle accidents and struck-by incidents. In some cases, however, mega claims can develop slowly, particularly when caused by minor injuries that go untreated.

Mega claims are not only expensive but often lengthier and more complex in nature. Such claims can leave lasting impacts on your organization by way of hefty costs, lost productivity and the potential for severe reputational damage. What's more, mega claims have become a rising concern in the past decade. In fact, the NCCI reported that these claims have reached a 12-year high, increasing in both frequency and severity. This rise has been attributed to several possible factors, such as changes in mortality patterns, medical advances and an increase in health care costs.

Despite their potentially devastating impacts, mega claims may be preventable in some instances. To combat such claims, it's critical to ramp up your organization's workplace safety efforts, especially when it comes to preventing falls, motor vehicle accidents and struck-by incidents.

Comorbidities

The rising issue of comorbidities has also emerged as a workers' compensation trend. A comorbidity is the simultaneous presence of two or more medical diagnoses for an individual. Comorbid conditions are typically long-term health complications that have the potential to increase the severity of other injuries or illnesses that the affected individual may experience, making it more difficult to fully recover. Common comorbid conditions include obesity, diabetes, hypertension, depression, anxiety and substance abuse.

According to the NCCI, workers' compensation claims involving comorbidities have nearly tripled since 2000. Further, the average cost of workers' compensation claims connected to a comorbid

condition is almost twice as much as that of comparable claims that don't involve comorbidities.

This increase in workers' compensation costs is likely tied to the often complex, long-term nature of claims that involve comorbidities. For instance, individuals who have comorbid conditions typically take longer to heal from an injury, are more prone to develop additional complications due to an injury and are even at an increased risk of being left permanently disabled by an injury.

To combat the impacts of comorbidities, some employers have found success by implementing wellness initiatives. In other words, if your organization takes the time to address chronic health conditions and improve the overall well-being of your staff, you could reduce the severity of workers' compensation claims and maintain low comorbidity rates overall.

Wearable Safety Technology

In an effort to minimize employee injuries and subsequent workers' compensation claims, many businesses have recently turned to wearable safety technology. This technology refers to a variety of electronic devices that employees are able to wear comfortably on their bodies while they work. These devices can help monitor employees' behaviors on the job, alert them of hazardous situations and provide real-time safety instructions, thus promoting a safer work environment, mitigating injuries and lowering workers' compensation costs.

According to Allied Market Research, the industrial wearable technology market is projected to reach $8.4 billion by 2027, with more than 100 companies currently in the process of developing this technology. While there are initial implementation costs and privacy concerns to consider for these devices, a recent study from Auburn University found that over three-quarters of safety professionals are in favor of using wearable safety technology to help protect employees from injuries on the job.

Furthermore, industry research shows that businesses could experience up to a 250% return on their investment in such technology as a result of fewer workplace accidents, injuries and associated workers' compensation claims. Taking a closer look at businesses that have already implemented wearable safety technology, large-scale retail corporation Walmart recently reported a 65% decrease in ergonomic-related occupational injuries among participating store locations within the first year of rolling out such devices. As this technology continues to advance, your organization could likely experience similar (if not better) results.

Marijuana Legalization

As of 2023, medical marijuana is now legal in 38 states, and recreational marijuana is now legal in 23 states. In response, your organization will need to review any applicable changes to your state's marijuana-related legislation and adjust your workers' compensation program accordingly.

In terms of medical marijuana, very few prescription drugs that are approved by the U.S. Food and Drug Administration (FDA) and contain marijuana exist on the market. Further, because doctors are only permitted to prescribe FDA-approved drugs, the actual prescription of medical marijuana for treatment is rare. That being said, if your state has legalized medical marijuana, it's best to consult legal counsel to ensure your workers' compensation program supports compliant treatment options for injured and ill employees.

In regard to recreational marijuana, it should be treated similarly to alcohol usage in the workplace. That is, it should be prohibited during work hours, as it can hinder employees' abilities to perform tasks safely and increase the likelihood of injuries, ultimately contributing to additional workers' compensation claims.

We're Here to Help

You don't have to respond to this changing risk landscape alone. We're here to help you navigate these trends with ease. For additional workers' compensation resources, risk management guidance and insurance solutions, contact us today.

