



March 21, 2024

To: Workers' Compensation Program Members

From: Gina Dean, CEO

Re: Workers' Compensation Program Stakeholder Communication

As most of you are aware, the Excess Workers' Compensation (EWC) insurance industry has its challenges, impacting California public entities. As PRISM members begin their budgeting process, I want to take this opportunity to provide some background information on the state of the market and the status of the EWC Program.

Background

The EWC market has its own set of problematic issues to hurdle, some similar to excess liability and others unique to the workers' compensation (WC) system. While EWC is currently the more stable line of coverage, the aging workforce, medical inflation, presumptions such as cancer, heart and post-traumatic stress, and the pandemic have disrupted the WC environment.

"While accident frequency in workers' compensation has been steady to slightly downward for several years due to loss prevention methods, claim severity continues to trend upwards," said Mark Walls, Vice President of Client Engagement at Safety National. "This is especially true for catastrophic injury cases where the costs are rising dramatically and predicting future costs is very challenging."

Rising Medical Costs on Catastrophic Claims

WC tends to be shielded from medical inflation due to fee schedules tied to Medicare reimbursement rates, helping to stop surges in fee-for-service items. However, a few key factors are causing medical costs to rise in the treatment of catastrophic injuries, including:

Accident survivability – Severely injured individuals are more likely to live due to better care on the scene, air ambulances and the care provided by Level 1 trauma centers.

Life expectancy – Catastrophically injured workers are living longer due to the improved medical science used to prevent complications associated with severe burns or quadriplegia.



Medical care advances vastly improve the quality of life and independence for injured workers, but these technologies come at a price. According to Safety National's catastrophic claims data over the last three years, there has been a 30% increase in claims incurred over \$10M, as well as increases in claims incurred of \$5M to \$10M.¹ Within PRISM's own EWC Program, we have seen a similar trend. Although these large claims are infrequent, they cost much more and continue escalating.

Costs Not Covered by Fee Schedules

The need for home health care or a skilled care facility as a result of a catastrophic injury is also on the rise. The costs of these services are increasing at rates far more significant than average medical inflation.

While PRISM has a significant pooling layer, we are also reliant on reinsurers to provide coverage for catastrophic claims. The factors noted above, along with projections and risk modeling results for catastrophic claims, have resulted in rate increases by reinsurers for the past few years. PRISM's Underwriting Committee has been working with our brokers and reinsurers to find creative ways to stabilize costs going forward, but increases are still likely.

What Advantages Does PRISM Have Over a Stand-Alone Open Market

Placement?

PRISM's EWC Program size is an advantage. 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 law enforcement and/or firefighter exposure is generally \$1M and for all others is \$500,000. Of the Program's 180 members, 75% have a self-insured retention of \$500,000 or less.

Pools have an advantage in challenging markets. If we have learned from history, we know that JPAs (self-insured pools) have benefited 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. Pooling also provides stability for the members during adverse loss development when compared to an individual self-insured bearing the costs alone. This can also be beneficial with your organization's budget year over year with more consistent funding expectations, versus having to fund unexpected loss developments.

¹Safety National Carrier Chronicles

What You Can Do to Manage Your Risk

One of the most impactful ways to control costs is to close your claims via Compromise and Release (C&R). PRISM's data scientist conducted a study on claims closed via C&R versus via Stipulated Awards. Findings indicated a 30% - 60% lower loss ratio for members with a high C&R culture compared to those who do not. We've heard members say they don't settle by C&R if the injured worker is still employed by the entity because they might file a new claim. We found no evidence of that sort of trend. In fact, the only trend we could point to is that not utilizing a C&R ultimately costs more money. Read PRISM's [Wavelength](#) for more details on the study.

Another way to mitigate your risk is to prevent the injury from happening in the first place. 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 direct consultation or connecting you with one of our trusted partners. There are over 40 master service agreements for members to take advantage of, so see our [Quick Start Guide](#) for reference. Regardless of the topic, we encourage you to reach out to the Risk Control team for assistance with your organization's risk management challenges.

Below are a few services and resources specific to your workers' compensation risk that we think you should take advantage of:

- Returning employees to work early in the life of a claim can be one of the most effective cost-control techniques available, while also improving employee morale and aiding in the employee's ultimate recovery from their injury. 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 medical care.

To assist members with providing this message to your stakeholders, following is a one-page information sheet that summarizes much of this material. We are prepared to also have individual calls/meetings with members who may want assistance in preparing communications to their stakeholders. In the meantime, myself and the rest of the PRISM and Alliant staff stand ready to answer questions and assist any way that we are able.

As noted above, the collective financial strength, expertise and resources continue to make PRISM the best solution even, and perhaps especially, through these hard market conditions.

Please don't hesitate to reach out to us for assistance.

Sincerely,

A handwritten signature in black ink that reads "Gina Dean". The signature is written in a cursive, flowing style.

Gina Dean





WORKERS' COMPENSATION PROGRAM STATE OF THE MARKET

EMPOWERING PRISM MEMBERS

TOP 5 WAYS TO MANAGE YOUR RISK



EWC Market

1. Is the more stable line of coverage compared to excess liability and property.
2. Disruptions to the workers' compensation environment include:

- Aging workforce
- Medical inflation
- Presumptions (cancer, heart, PTSD)
- COVID-19 pandemic
- Rising catastrophic claims
- Home health care
- Skilled care facilities

According to Safety National:

- 30% increase in claims incurred over \$10M in last 3 years
- Additionally, increases in claims in the \$5M - \$10M range

Power of Pooling

- Advantages and benefits in challenging and turbulent markets.
- Ability to leverage the insurance markets with our flexibility and economies of scale.
- Provides stability to members for individual adverse loss development.
- Beneficial to member's budget with more consistent funding expectations vs. funding unexpected losses throughout the year.

Catastrophic Claims Major Impact on the EWC Market

1. Accident Survivability: Increased due to better care on the scene, air ambulances, Level 1 trauma centers.
2. Life Expectancy: Increased due to improved medical science used to prevent complications associated with burns or quadriplegia.
3. Medical Advances: Improved outcomes and quality of life.

With the common goal of optimal recovery, this often results in significant costs, along with changes to projections, risk modeling, and reinsurance market.

C&R

PRISM's Data Scientist Study:

- Members with a high C&R culture indicate a 30% – 60% lower loss ratio, compared to those who do not.
- Myths: If they are still working, they will file another claim. False. The study showed no evidence of a high recidivism rate.

Return to Work

Early Return to Work Benefits:

- Cost effective
- Improves employee morale
- Improves outcome of ultimate recovery from injury

Company Nurse

Injury Reporting/Triage:

- First call/reporting system
- Medical triage
- Directed to appropriate medical care, if indicated

PRISM Risk Control Services

- Direct consultation
- Coordination with one of our trusted partners for services

Safety Talks: Tailgate Resource

- Provides a wide variety of safety meeting topics with over 200 to choose from!