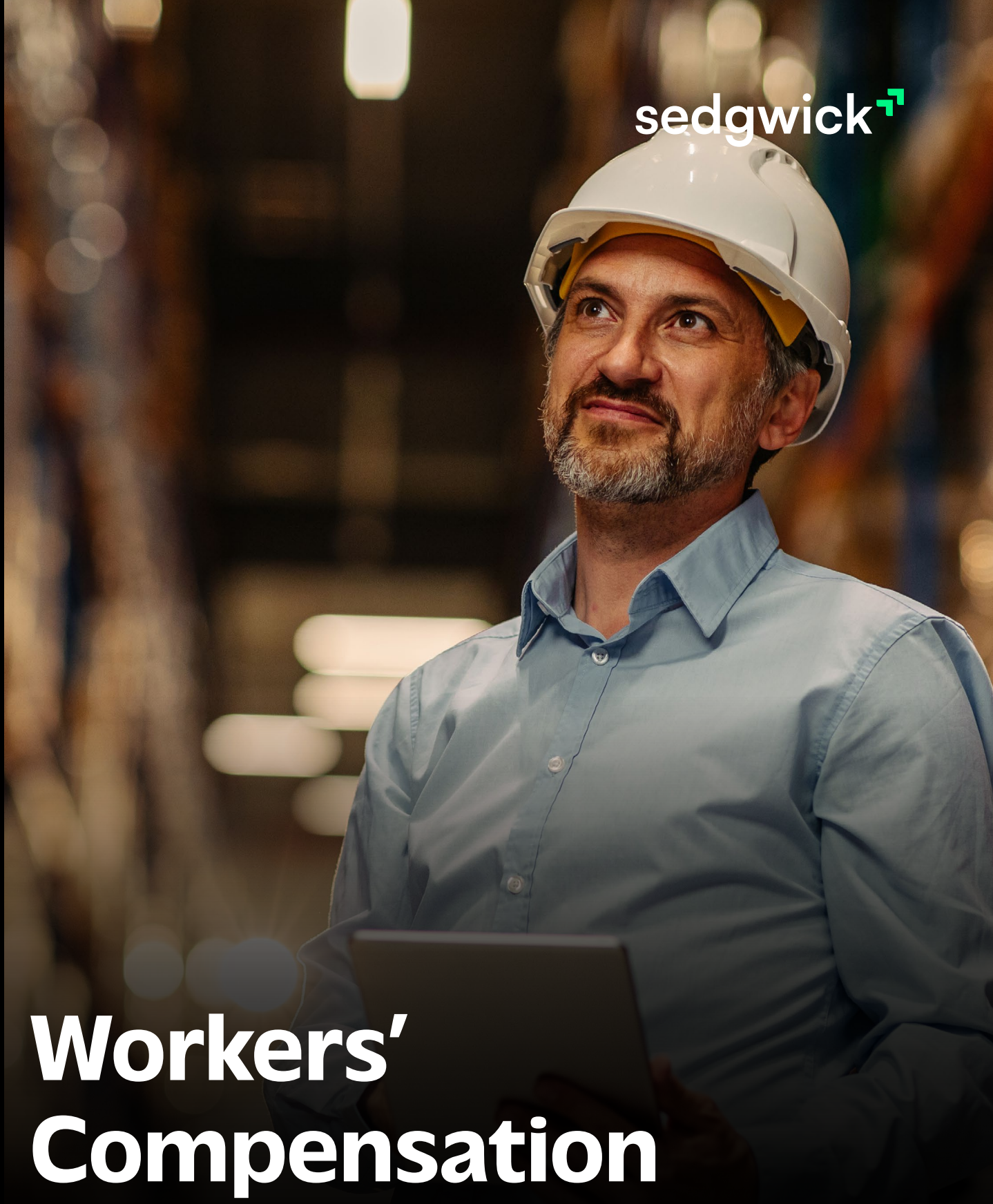
STATE OF THE LINE | 2025 FULL-YEAR

sedgwick



Workers' Compensation

Carrier claims management

An in-depth review of 2025 full-year claim outcomes and trends — and what we're watching for the rest of 2026 and beyond.

Introduction

A message from Max

The extensive and diverse data Sedgwick holds 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 provides an overview of the current metrics used for our claims programs and contextualizes the trends we see in our book of business within the broader story of the industry environment. It also includes insights from Sedgwick's expert practice leads to offer perspectives on the previous quarter and an outlook on trends to watch for in the months ahead.

While the report can offer useful information for your organization, it is not meant to be used as a side-by-side side comparison with the data from your particular claims program.

K. Max Koonce

Chief Claims Officer, Sedgwick

Report objectives

This report provides an analysis of our carrier programs, utilizing Workers' Compensation claim data derived specifically from carrier underwritten, multi-insured, multi-policy programs. The report serves to contextualize the trends we see in our book of business within the broader industry environment. The report includes insights from Sedgwick's expert practice leads each participating and providing their unique perspective and area expertise.

To aid our analysis, we utilized research from the following entities:

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

Data parameters

Data was harvested from Sedgwick's proprietary claim system, Juris, undergoing an objective year-over-year comparative analysis. Where warranted and presumed useful, Sedgwick subject matter experts have endeavored to assert some conclusions or more precisely, a reasonable interpretive theory providing a logical and equitable context. The data in this report is based on insured claims for all states across five, 12-month periods (referred to as CY) from Jan. 1, 2021, through Dec. 31, 2025.

Contents

Key observations

20%

Earlier volatility — driven largely by sharp spikes in expense growth above 20% — has given way to a more normalized period in which indemnity, medical and expense costs are all growing at a balanced pace.

Claim volume growth has slowed. ↓

CLAIM GROWTH ↑

While overall claim growth has softened, the 60+ age group consistently increased in claim volume while all other cohorts were flat or declined.

Aging claimants and increased disability durations continue to be fundamental drivers of claim severity.

MEDICAL SEVERITY ↑

Medical severity continues to increase, driven primarily by facility services and aging claimant demographics. Litigation frequency and severity are both increasing and impacting claim costs.

↓

Most industries declined in claim volume in CY2025

Food & Beverage –10.4%

Manufacturing –5.4%

Construction +16.4% and **Paper Products +5.4%** were notable outliers.

↑

Claim severity continued to rise.

Market

- Profitability has remained strong and steady over the past decade. Combined ratios have consistently stayed below 100 — and often below 90 in recent years, indicating strong underwriting results.

- Ongoing favorable reserve development continues to boost earnings as Carriers maintain conservative reserve practices, though redundancy is starting to narrow slightly. Additionally, claim frequency has declined long term, supported by improved workplace safety and technology.

- Strong capitalization and steady investment income also help support overall results.

- Rates have been declining since ~2015, largely due to strong results and heightened competition. This has created ongoing pressure on premiums and margins. With all that said, there are early signs of selective rate increases in markets experiencing higher costs.

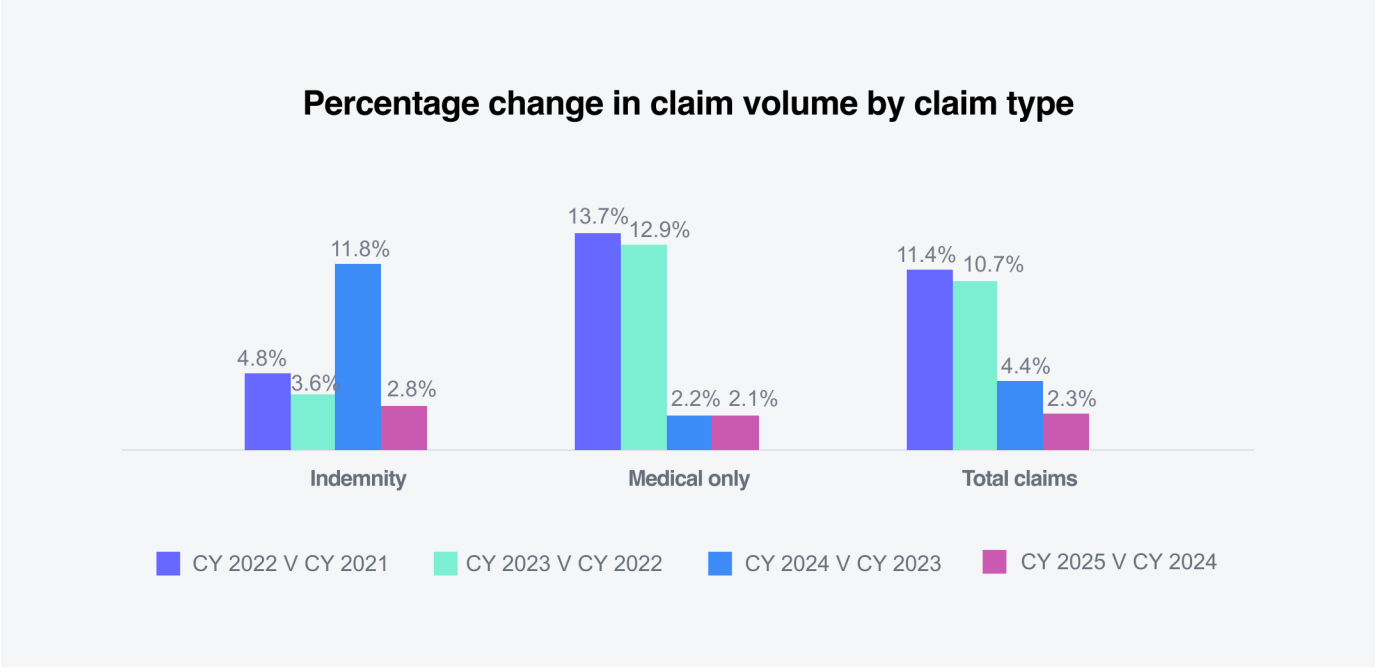
- There are a few emerging headwinds as profit margins tighten, resulting in corresponding loss ratio deterioration. Competition remains intense, with new entrants and excess capacity putting pressure on pricing. Results are increasingly tied to broader economic conditions, including inflation, employment and overall uncertainty.

- Workers' compensation remains highly stable, profitable and foundational to the P&C industry.

AM Best: Market Segment Outlook US Workers' Compensation Outlook – March 2026

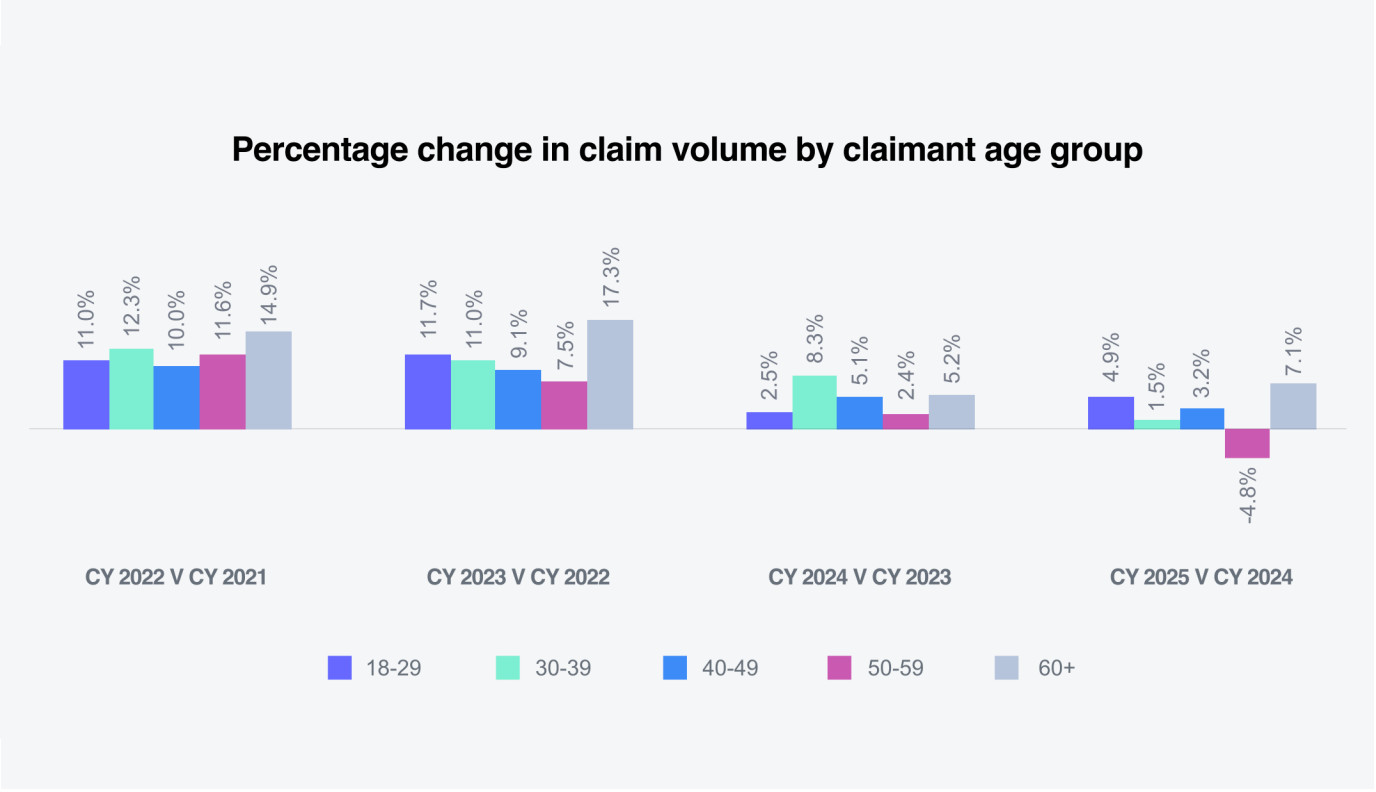
Volume

Across all claim types (Indemnity, Medical Only and Total Claims), the largest year-over-year increases occur in earlier periods — particularly CY 2022 vs. CY 2021 and CY 2023 vs. CY 2022. By CY 2025 vs. CY 2024, growth slows materially to low single digits (around 2%–3%), indicating a broad-based moderation in claim volume growth.

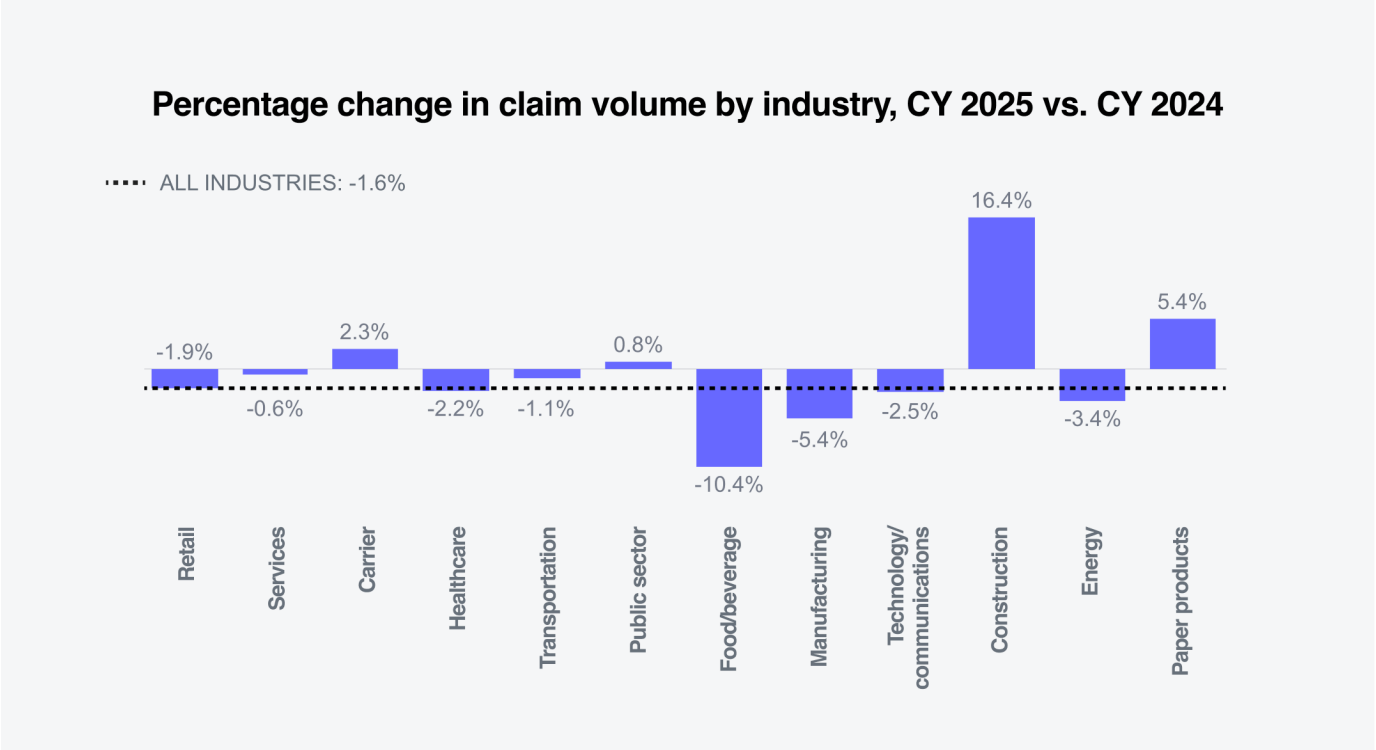


Claim growth has decelerated over time across all age groups.

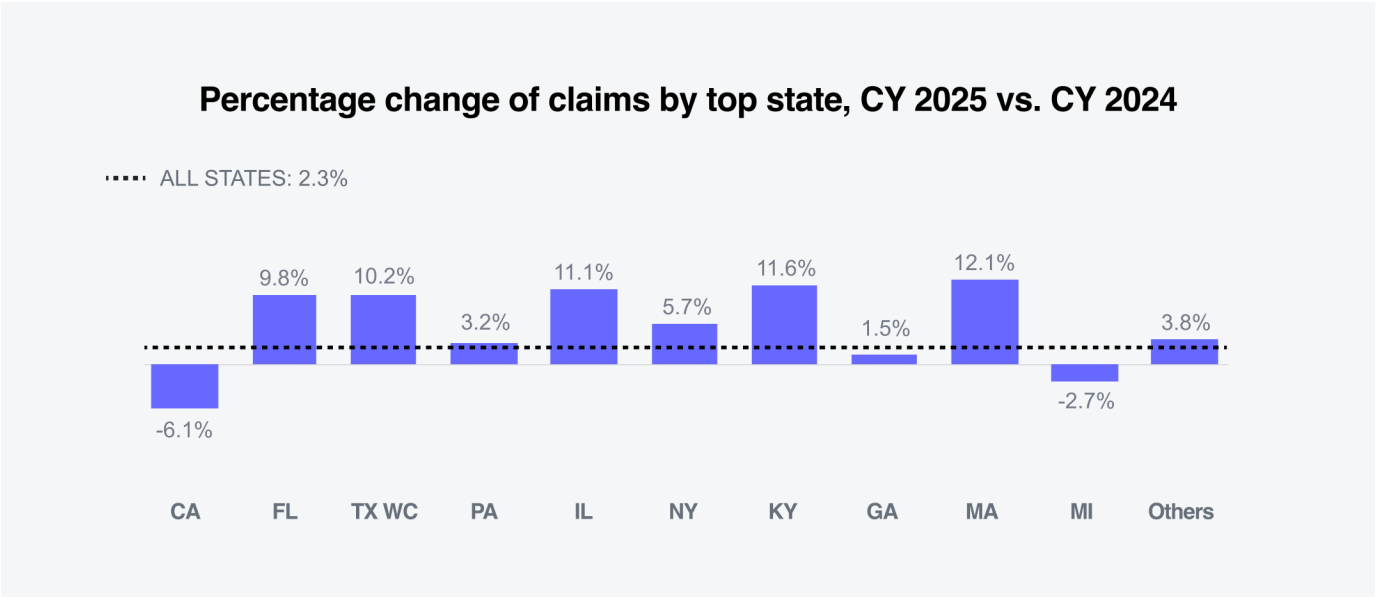
Growth moderates considerably in CY 2024 vs. CY 2023 and becomes mixed in CY 2025 vs. CY 2024, with noticeably smaller gains and even a decline for the 50–59 age group (−4.8%). This pattern points to sustained cooling in overall claim volume momentum. The 60+ age group is emerging as the most resilient driver of growth. The 60+ cohort consistently exhibits the highest claim volume in later periods, posting the highest increase in CY 2023 vs. CY 2022 (+17.3%), remaining among the strongest in CY 2024 vs. CY 2023 (+5.2%) and leading again in CY 2025 vs. CY 2024 (+7.1%). This suggests a structural shift toward older claimants contributing to a larger share of claim volume as other age segments soften.



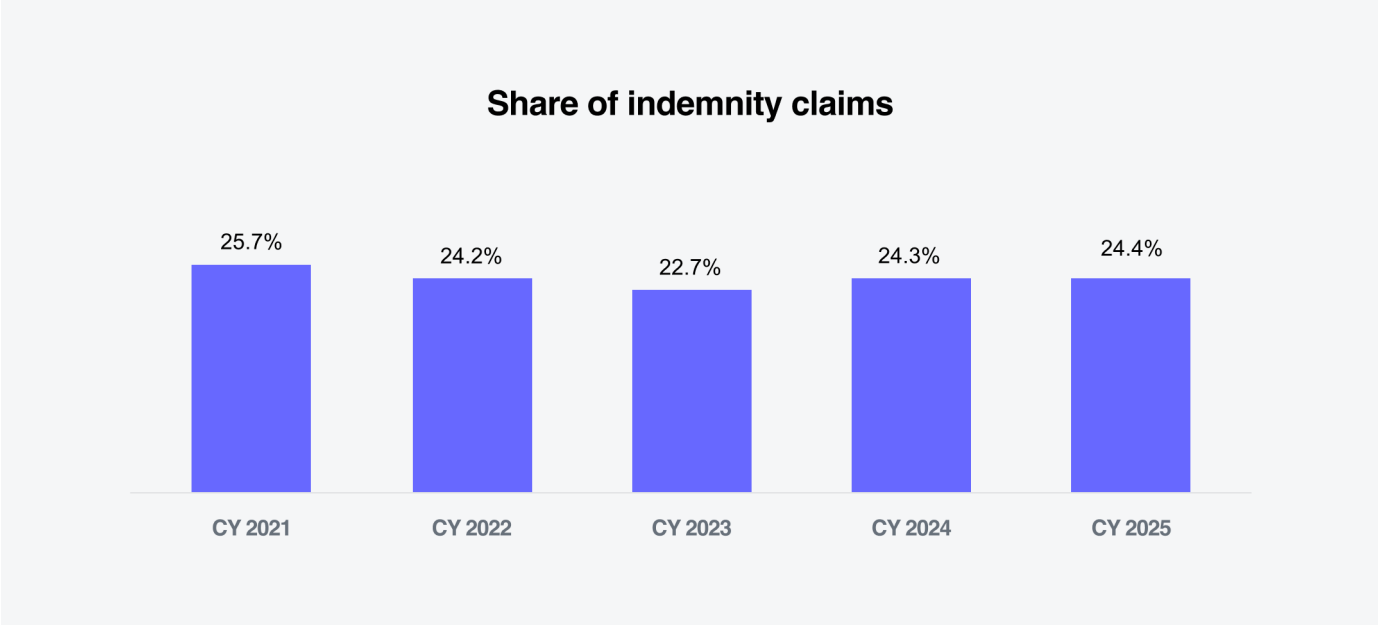
Across all industries groups claim volume results varied — most sectors experienced declines (for example, Food & Beverage −10.4%, Manufacturing −5.4%, Energy −3.4%), while a small number posted increases. This highlights a broadly contracting environment with isolated pockets of increase. Construction is a clear outlier, driving increased claim activity far above peers.



Most top states experienced claim increases above the overall average, but performance is highly uneven. Several major states significantly exceeded the average — most notably Massachusetts (+12.1%), Kentucky (+11.6%), Illinois (+11.1%), Texas WC (+10.2%) and Florida (+9.8%).

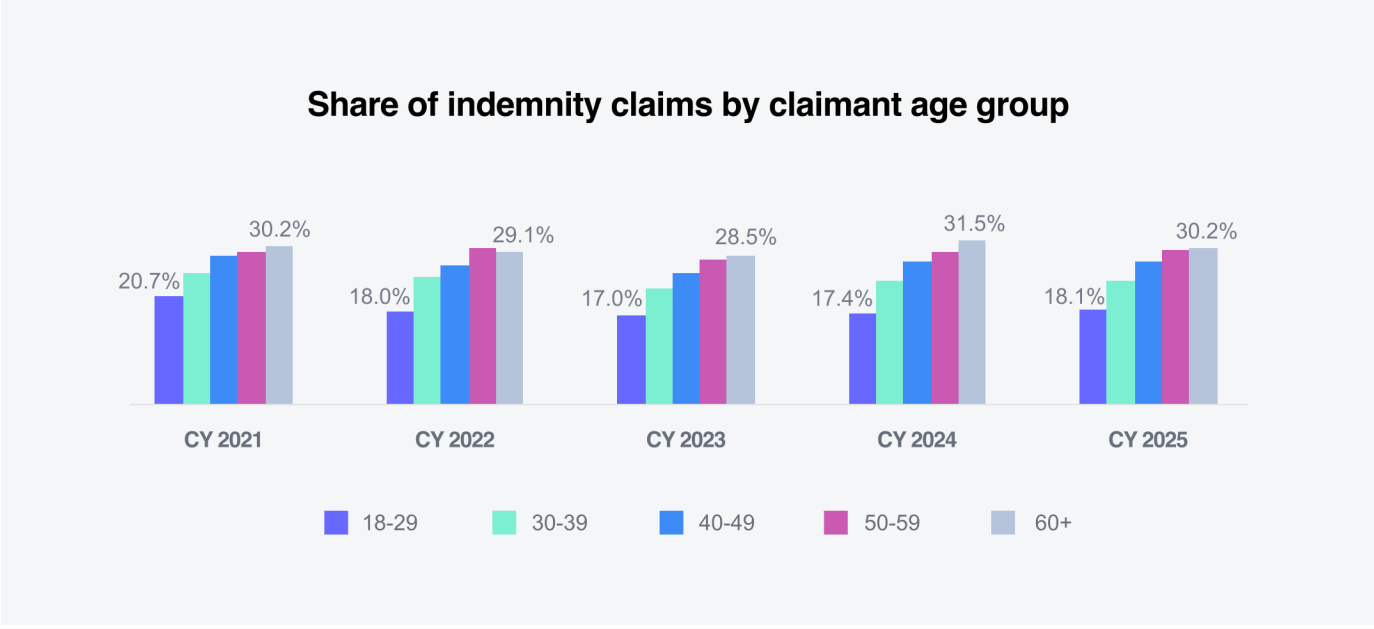


Indemnity claims decreased steadily from in CY 2021 to CY 2023. Since then, the share rebounded slightly and leveled off again in CY 2024 and CY 2025. As such, indemnity claims continue to represent a static component of the overall claim mix.



Older claimants consistently account for a higher share of indemnity claims than younger groups. Across all years shown (CY 2021–CY 2025), the 50–59 and 60+ age groups have the highest indemnity claim shares, typically near or above 28%–32%, while the 18–29 group remains the lowest (roughly 17%–21%).

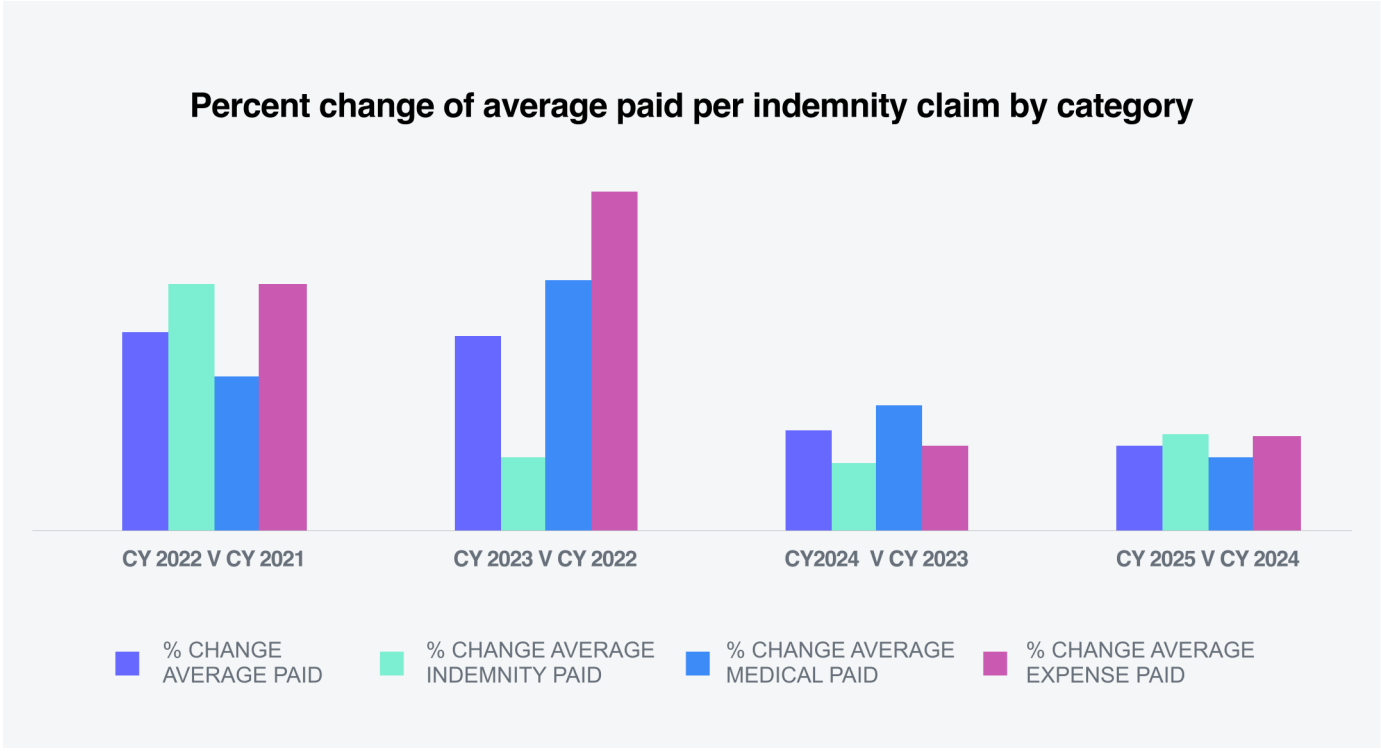
This highlights a clear age-related gradient: indemnity claims are disproportionately concentrated among older workers suggesting that the relationship between claimant age and likelihood of lost time is structural rather than cyclical.



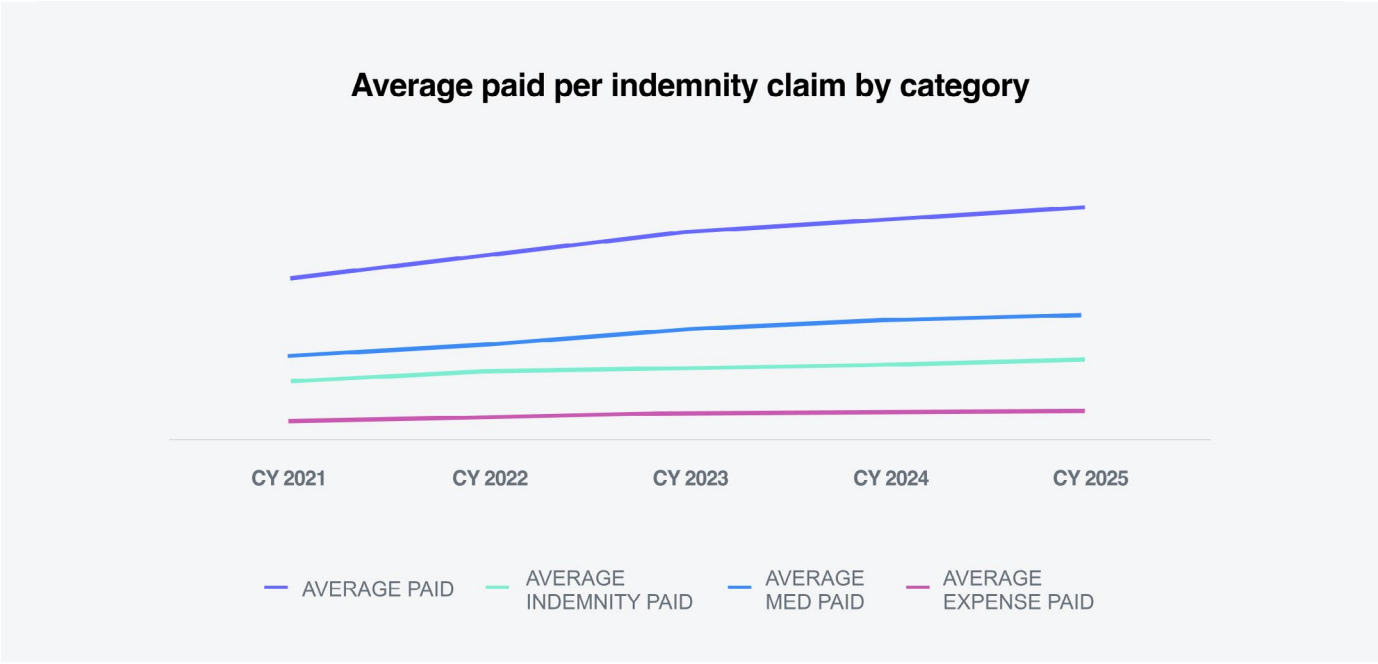
Costs

Claim costs slowed materially in CY 2024 and CY 2025, when overall increases fell into the middle, single digits, signaling easing claim severity. Cost pressures have shifted from expenses and medical toward more normalized growth across categories. Earlier periods show volatility, particularly in expense paid, which was the largest driver of severity growth.

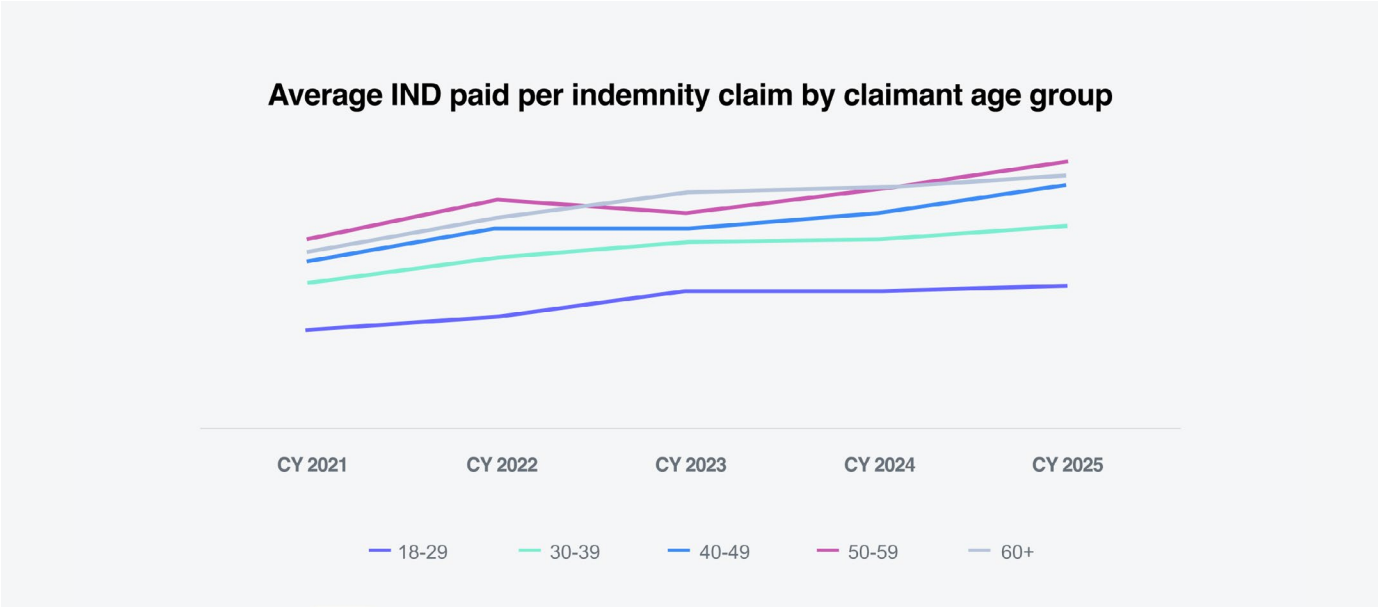
In the most recent period (CY 2025 vs. CY 2024), all components (indemnity, medical, expense) cluster tightly around 5%–6% growth, suggesting a more balanced and stable cost environment rather than one dominated by a single cost driver.



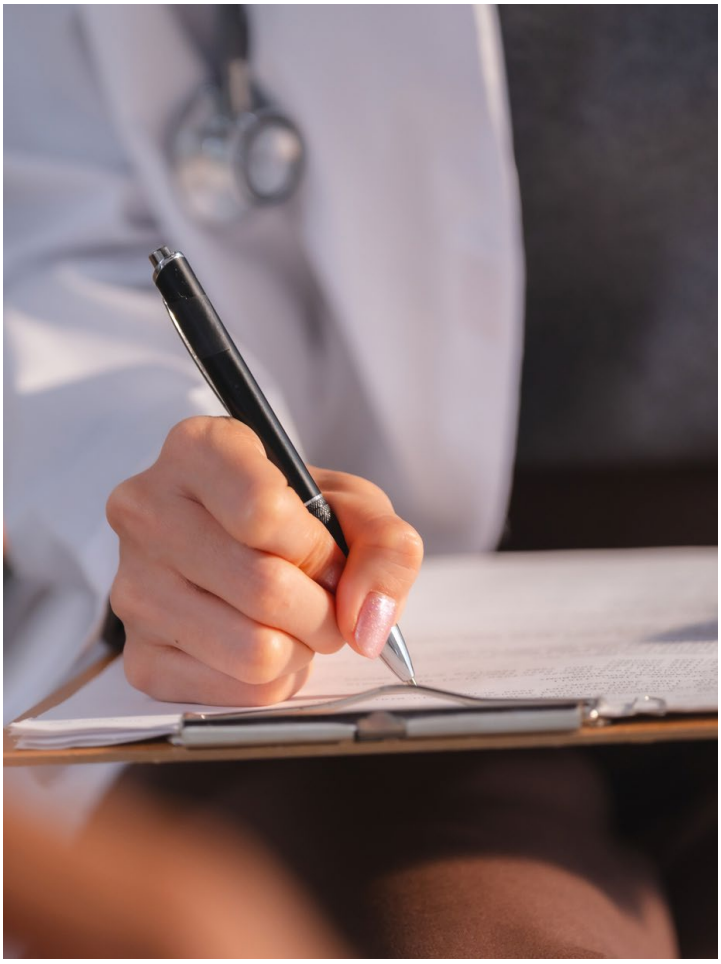
From CY 2021 to CY 2025, total average paid has risen. This upward trend is mirrored in all components — indemnity, medical and expense, reflecting broad-based cost pressures. Medical paid increased by 5% in CY 2025 while indemnity paid increased by 6.5%.

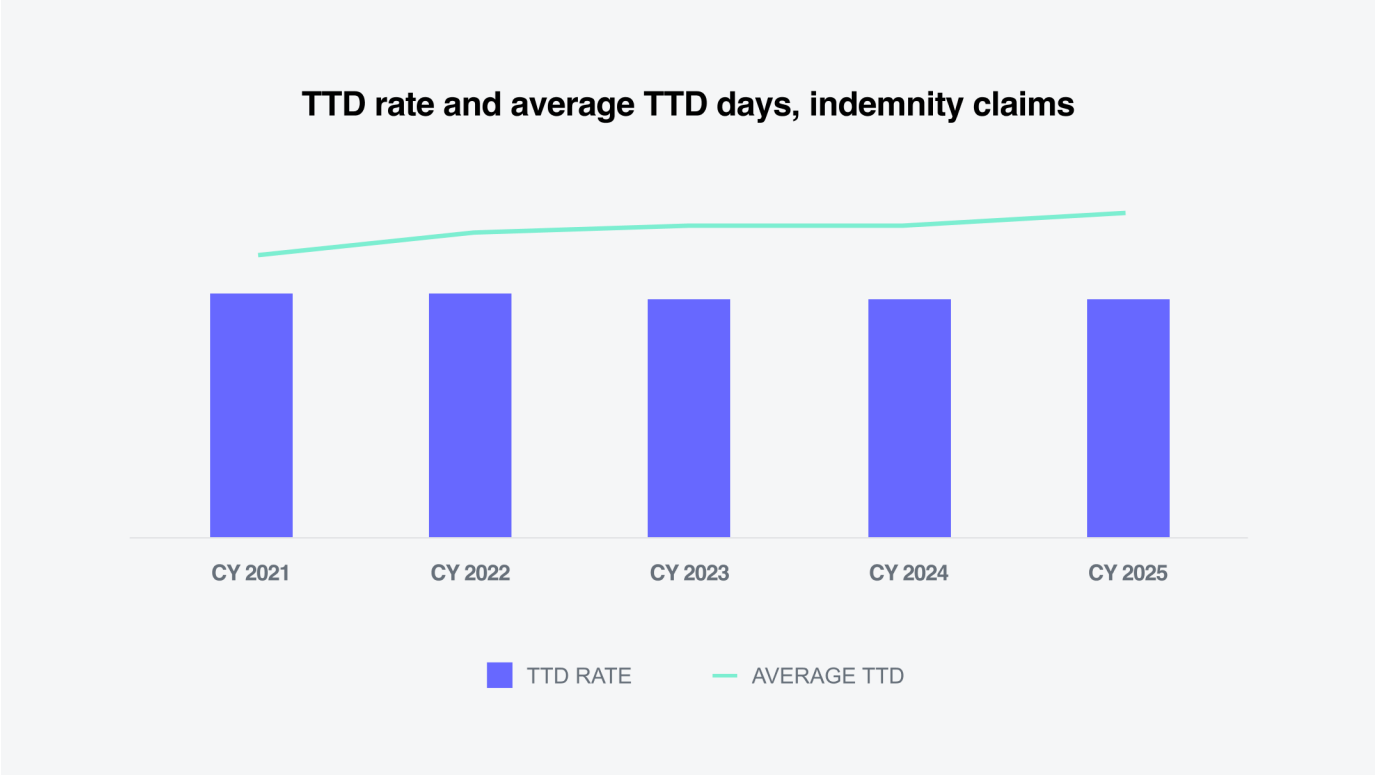


Across all years, older age groups consistently have a higher average indemnity paid per claim than younger groups. From CY 2021 to CY 2025, every age cohort shows an upward trend, indicating ongoing severity regardless of age, with the highest absolute dollar growth occurring among older claimants. The 18–29 age group remains the lowest-cost cohort throughout the period, while the 50–59 and 60+ groups remain the highest.

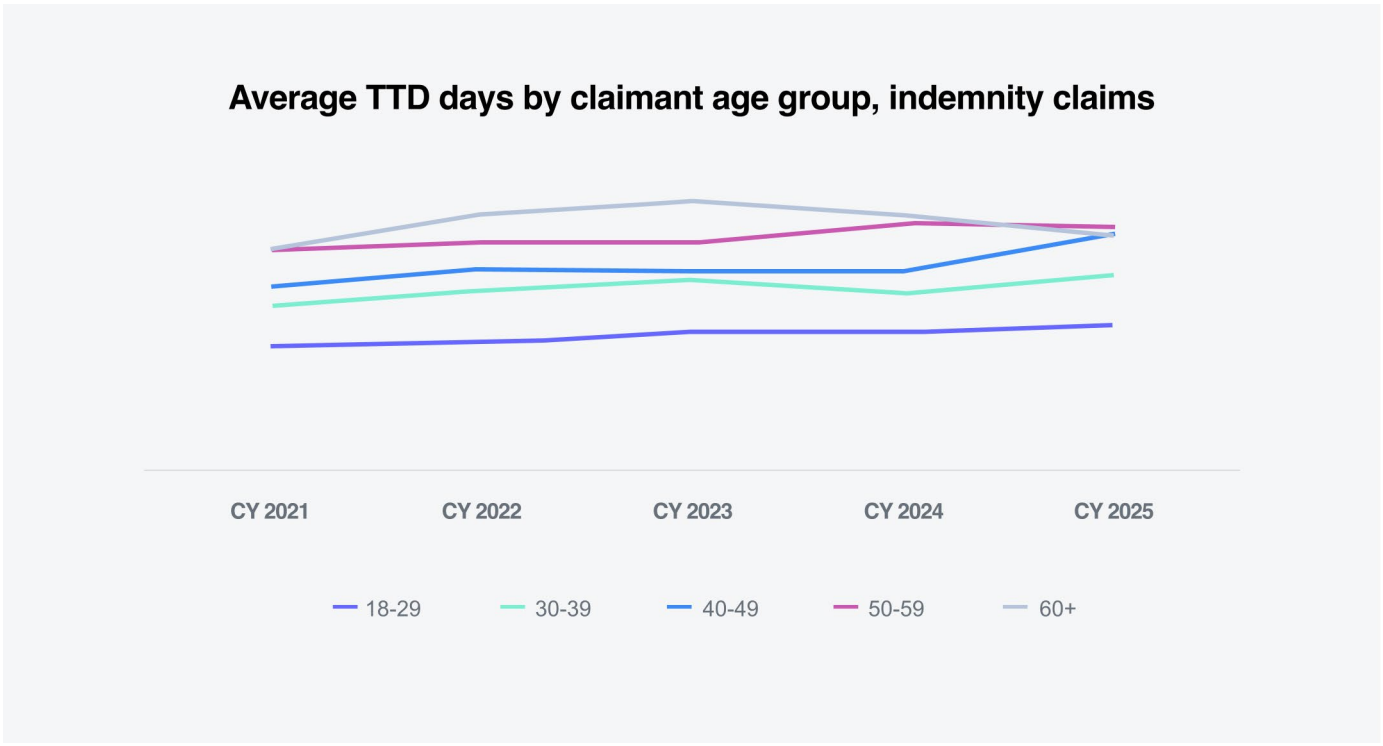


The temporary total disability (TTD rate) decreased from 74.6% in CY 2021 to around 72.9% in CY 2025, indicating a slightly smaller proportion of indemnity claims involving temporary total disability. At the same time, average TTD days increased 5 days, suggesting that although fewer claims involve TTD, those that do tend to last longer. The combination of a lower TTD rate and longer average TTD duration points to rising severity.



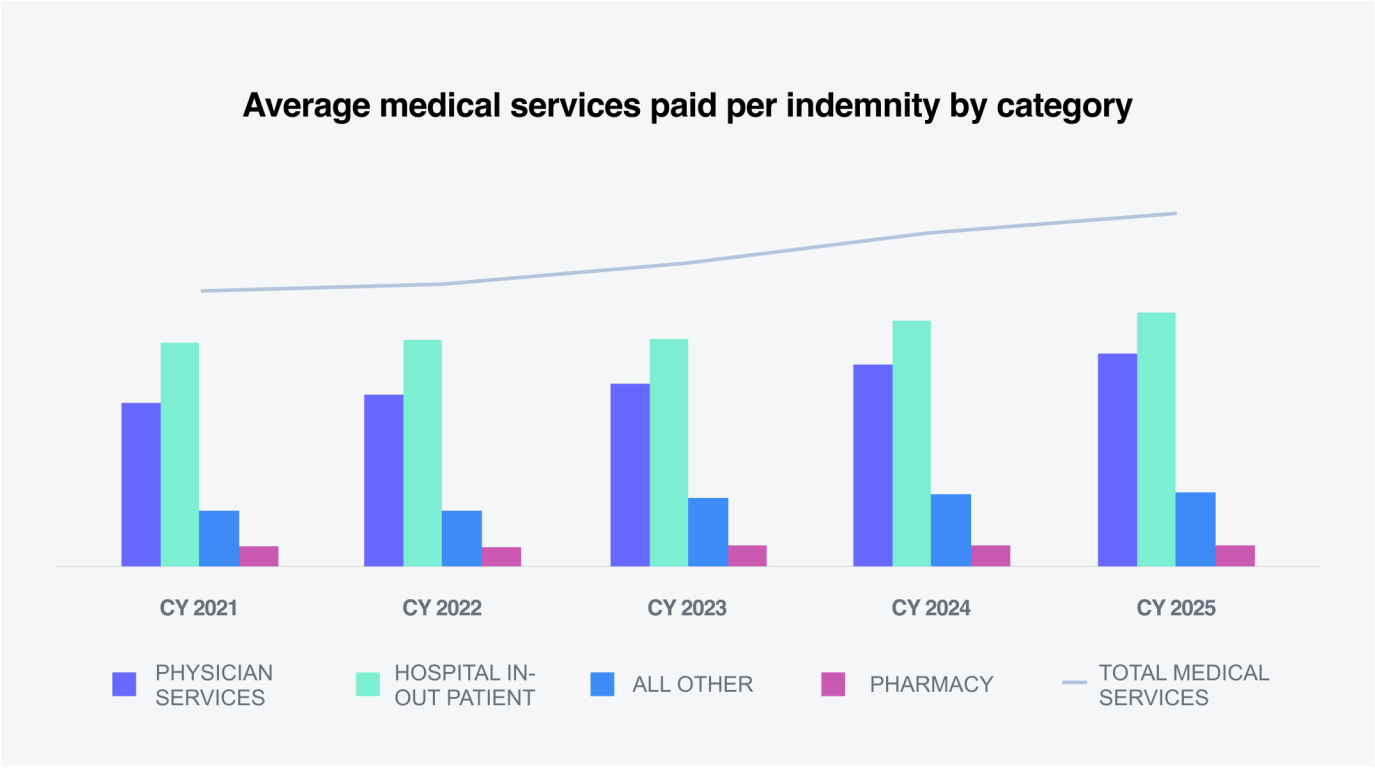


Average TTD duration increases steadily with claimant age, indicating longer periods of disability among older workers. Overall TTD days have trended upward over time, though more recent years show signs of leveling off within the older age cohorts.

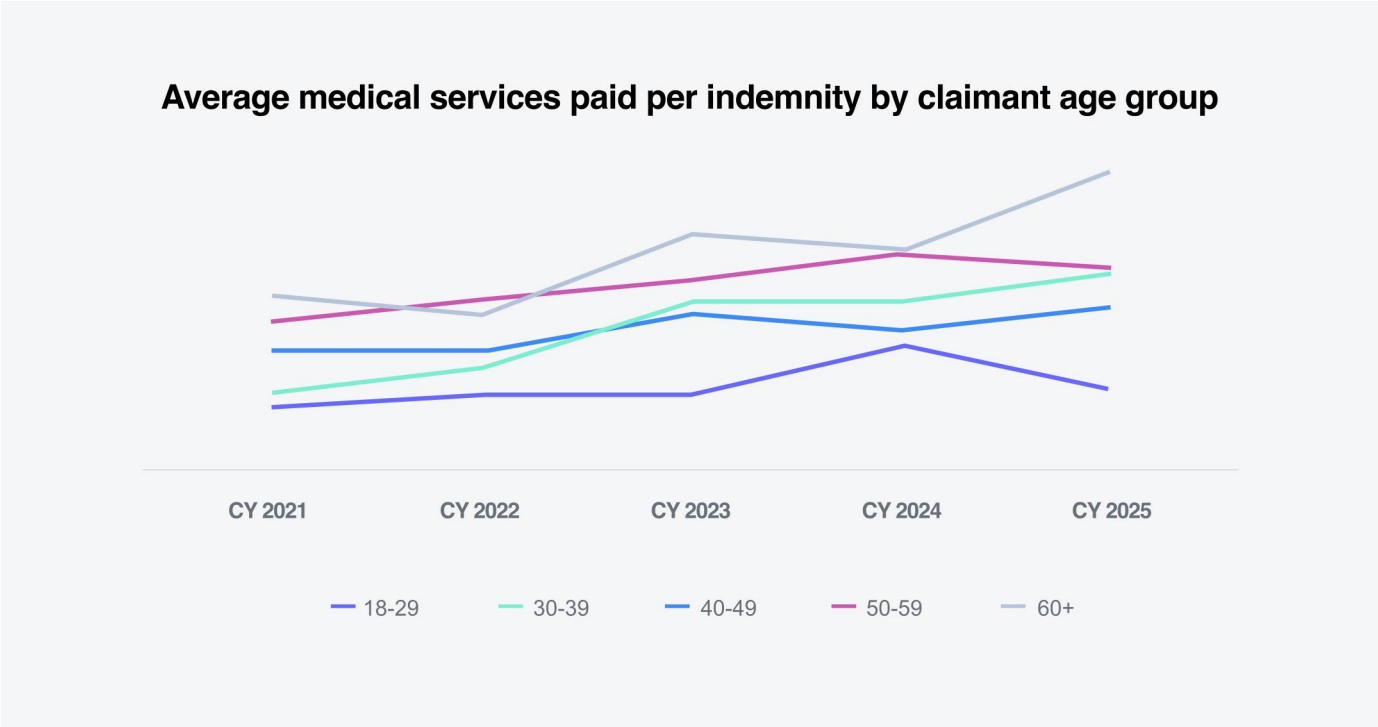


Medical costs

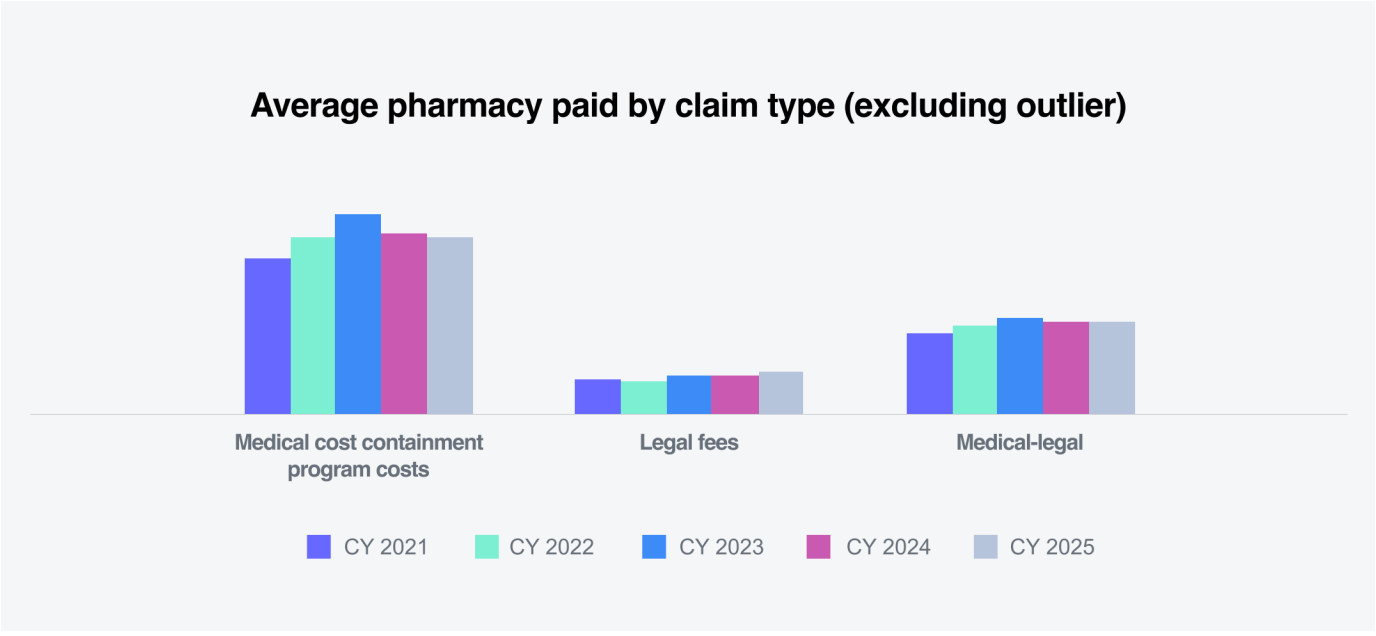
Total medical paid per indemnity claim increased by 31% between CY 2021 and CY 2025 (+2% in CY 2025 vs. CY 2024), reflecting sustained medical costs increases, with hospital inpatient and outpatient services driving most of that increase.



Medical costs per indemnity claim increased with claimant age and over time. Across all years, older age groups — particularly 50–59 and 60+ — consistently incur higher average medical services paid than younger group. The 60+ group had the highest average increase at +24% in CY 2025 compared to CY 2024.



Pharmacy costs are consistently much higher for indemnity claims than for medical only claims. After rising through CY 2023, pharmacy severity has stabilized at slightly lower levels in CY 2024 and CY 2025.



Facility charges, including hospital inpatient, hospital outpatient and ambulatory surgical center services — are a primary driver of workers' compensation claim costs. Pharmacy costs have remained relatively stable; however, without proactive management and targeted intervention, they can escalate quickly. Pharmacy spend is often concentrated in specific categories such as topicals, compound kits, specialty medications and physician dispensed drugs. Sedgwick's specialized pharmacy utilization review team is well positioned to address these drivers effectively while promoting clinically appropriate and cost-efficient alternatives.

Medical utilization

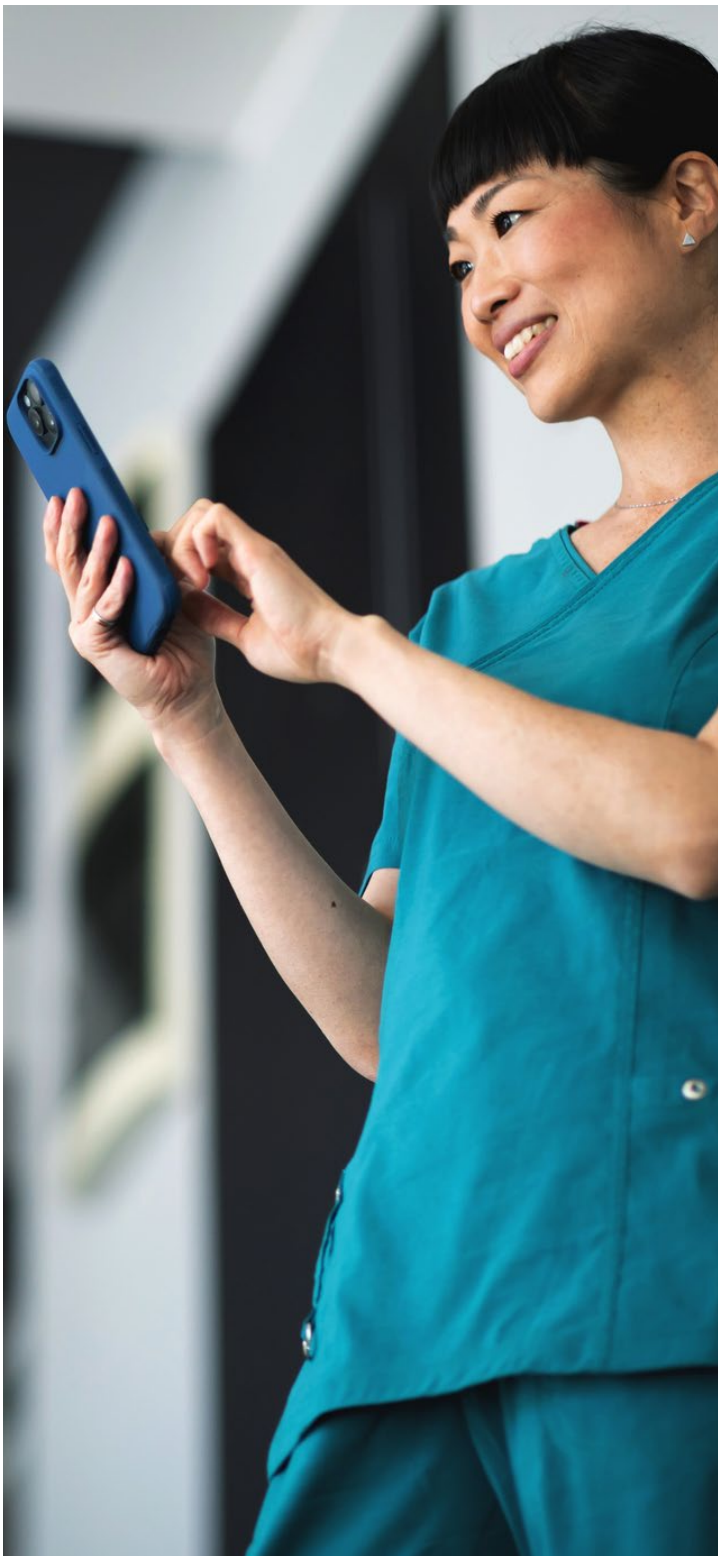
Medical utilization is a key driver of workers' compensation medical costs, and states employ a range of regulatory tools to promote timely, medically necessary care. These tools vary significantly by jurisdiction and can materially influence service utilization, including:

- Utilization review (UR): Required in many states, though the scope, timing (prospective vs. retrospective), standards and decision timeframes vary widely.

- Medical treatment guidelines: Adopted in approximately 23 states, using a mix of national and state-specific guidelines, with differing levels of enforceability.

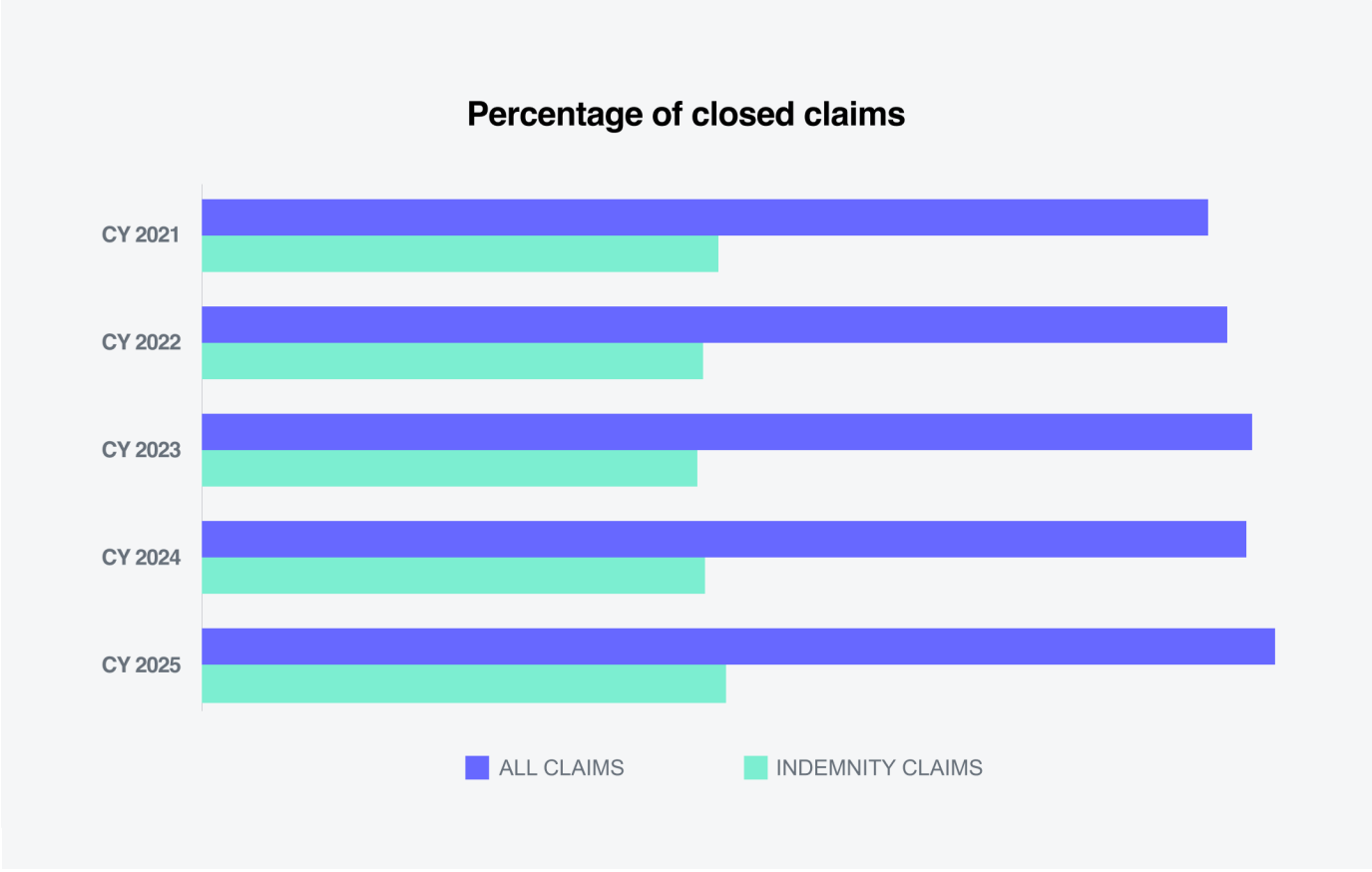
- Dispute resolution frameworks: State specific regulatory structures govern how medical necessity disputes are reviewed and resolved, further influencing utilization patterns.

Sedgwick incorporates automated decision triggers that prompt timely, action-oriented interventions and facilitate coordinated collaboration between claims professionals and managed care specialists.



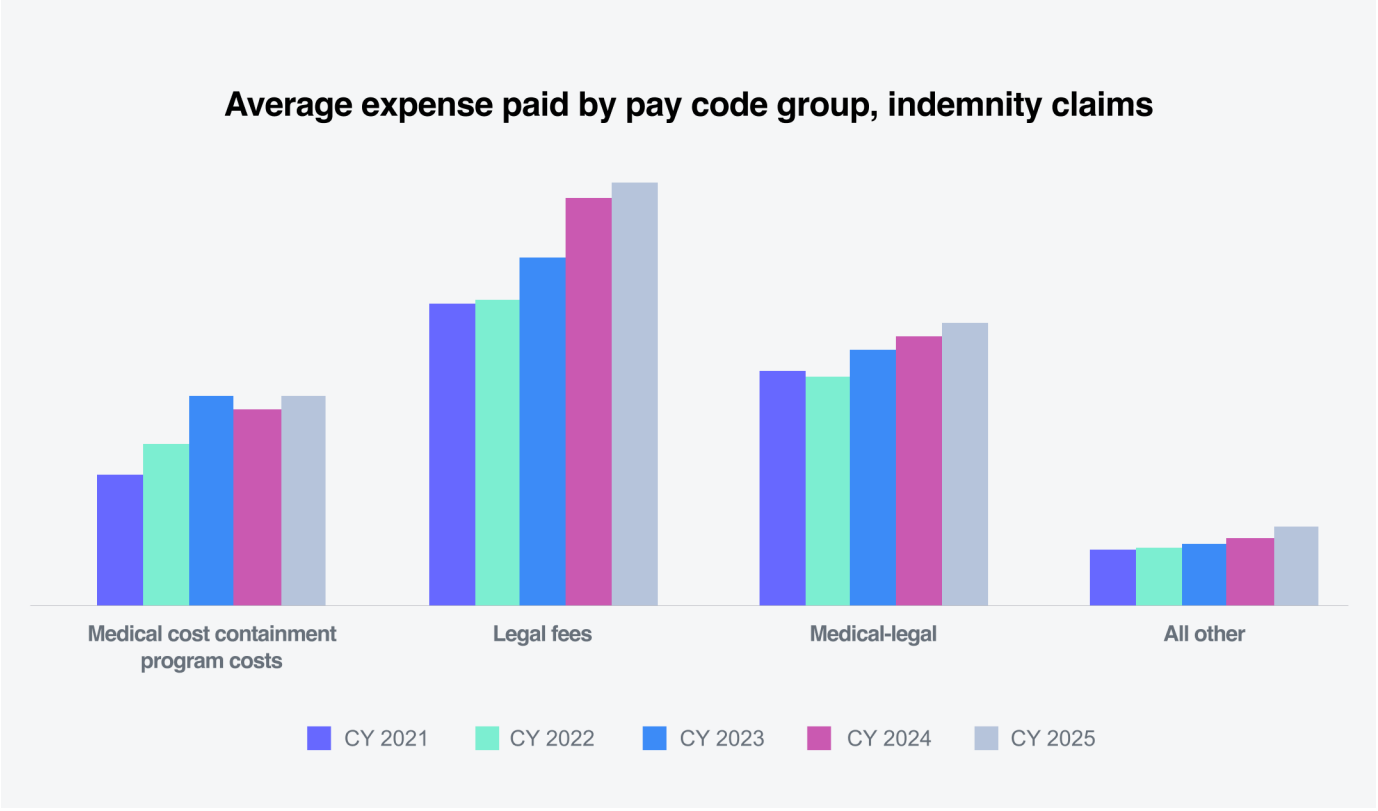
Closures

The percentage of all claims closed increased 5 points from CY 2021 to CY 2025 (+2 points in CY 2025), indicating progressively faster or more effective claim resolution across the portfolio with indemnity closure rates increasing moderately. This highlights the greater complexity and longer lifecycle of indemnity claims compared to the broader claim population.



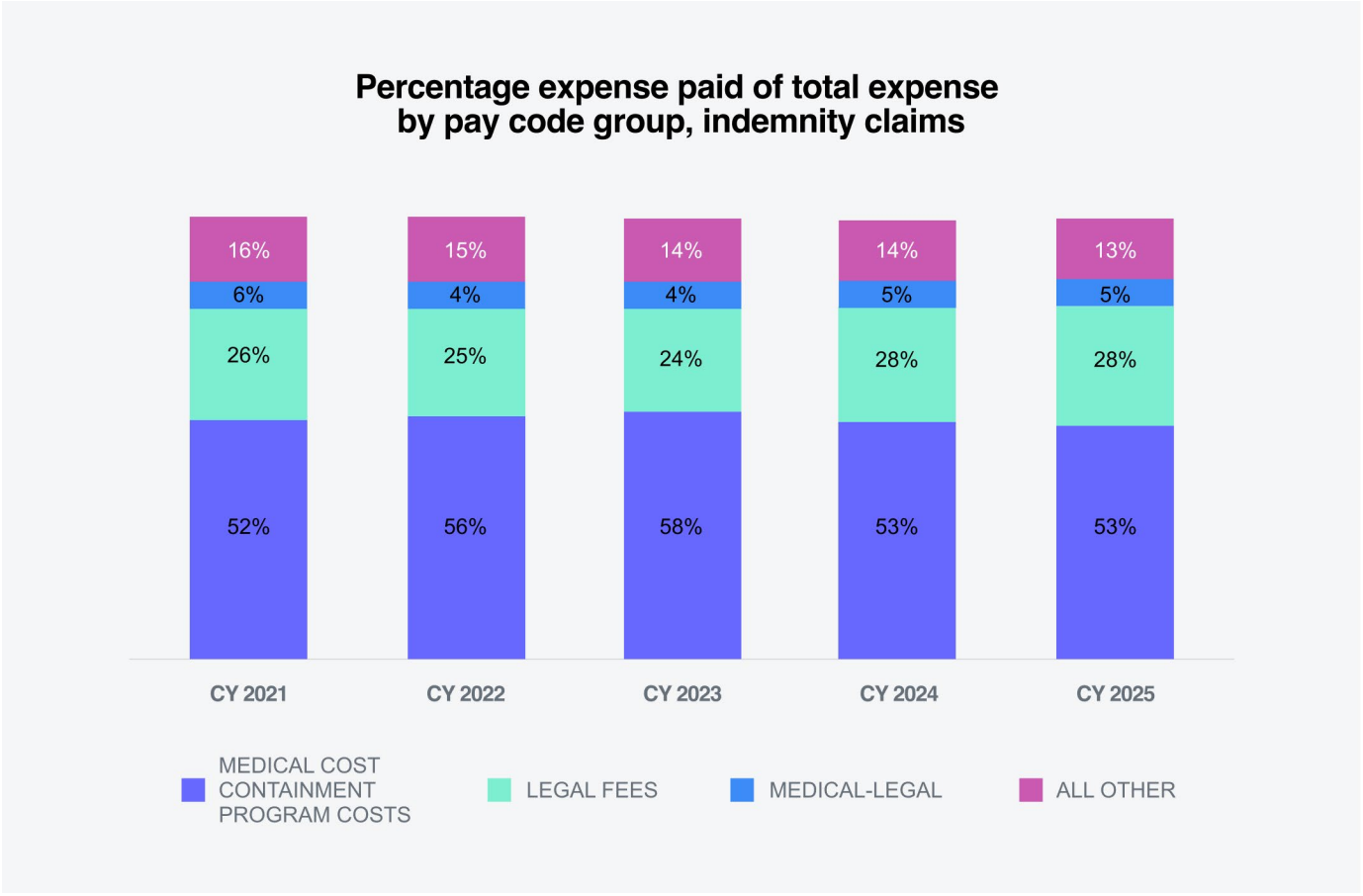
Expense costs

Legal fees increased from CY 2021 to CY 2025, rising 41% and becoming the primary driver of indemnity claim expenses. Medical legal, cost containment and other expenses also increased over the period but at a much lower magnitude.



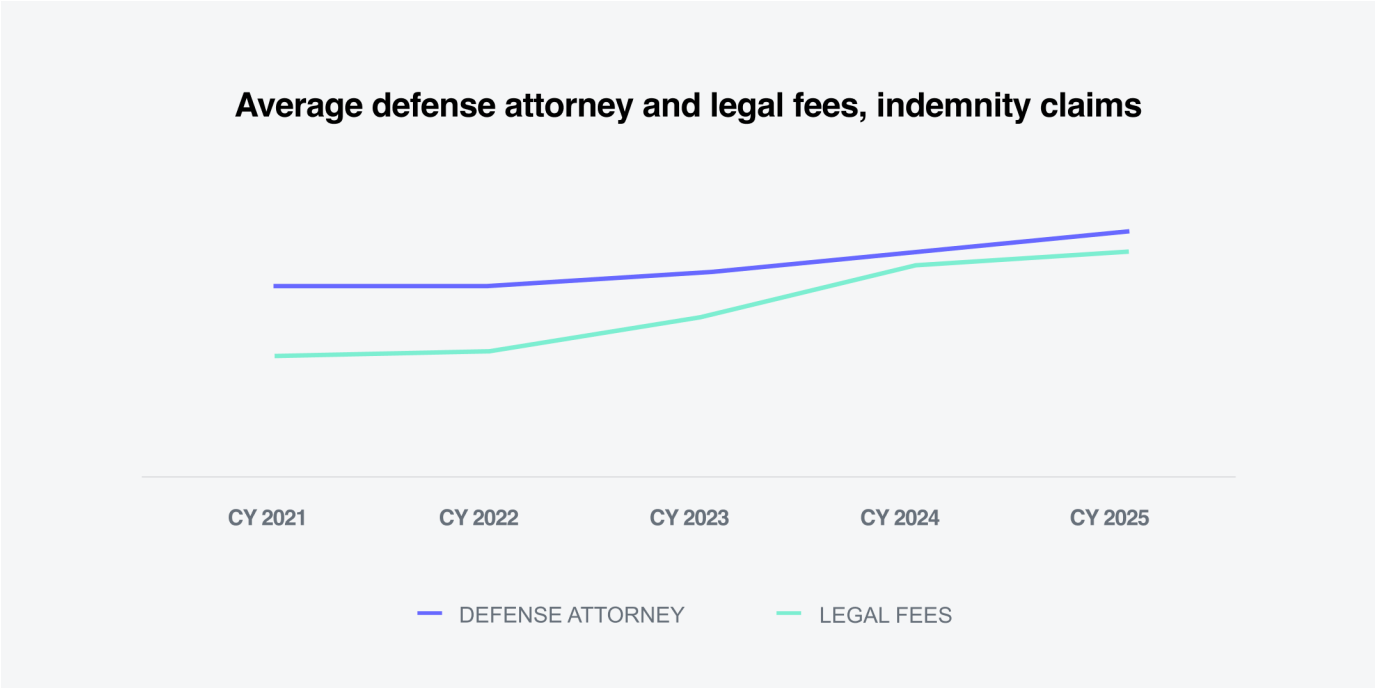
Across all years, these costs account for just over half of total expenses (ranging from 52% to 58%), indicating that cost containment activities remain the primary expense component in indemnity claims.

Legal fees dip through CY 2023 but rise to 28% in CY 2024 and CY 2025, signaling a growing share of total expenses. Conversely, the “all other” category steadily declines from 16% in CY 2021 to 13% in CY 2025, suggesting a shift in expense mix toward more legally driven costs.



Litigation

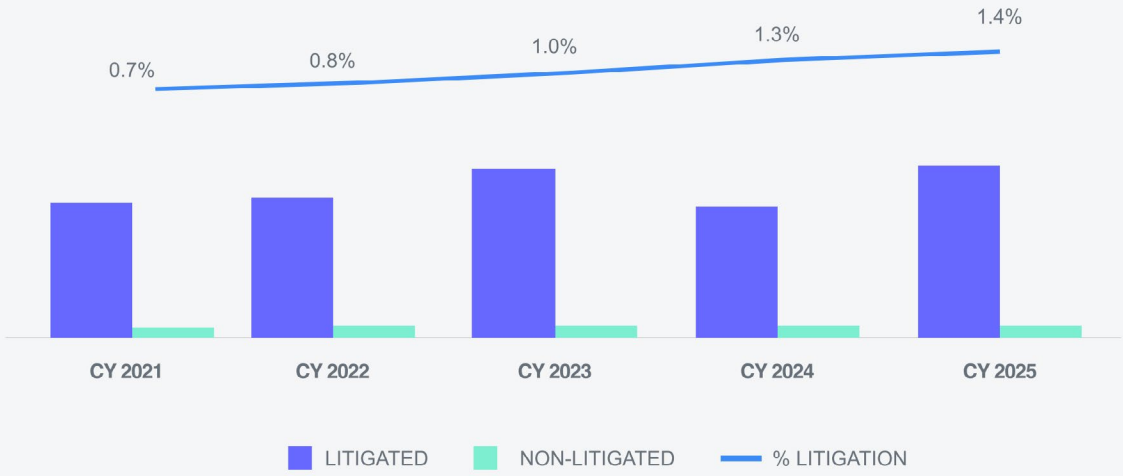
From CY 2021 to CY 2025, legal costs associated with indemnity claims increased steadily. During that period, Average Defense Attorney expenses rose 18%, while Legal Fees increased by 41%. While Defense Attorney costs remain higher throughout the period, Legal Fees are growing at a faster pace, especially between CY 2022 and CY 2024. By CY 2025, the gap between the two narrowed significantly — Defense Costs = +6% and Legal Fees +4% in CY 2025 vs. CY 2024.



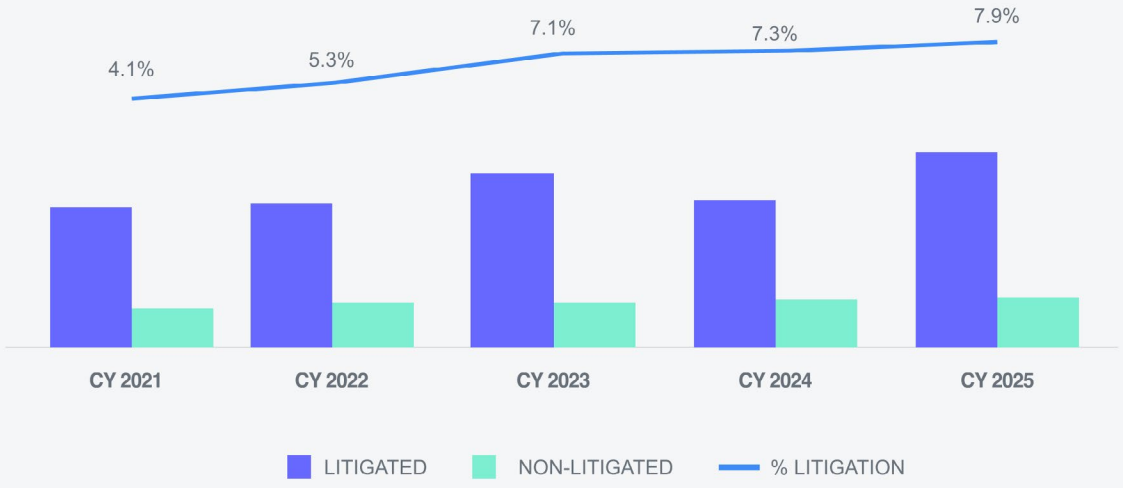
For all new WC closed claims, the litigation rate rises gradually from 0.7% in CY 2021 to 1.4% in CY 2025, effectively doubling over the period. While overall penetration is low, the consistent upward trend indicates a growing exposure to litigated claims over time. Across all years, litigated claims incur an order of magnitude higher costs (10X) than non-litigated claims..

Analyzing only indemnity claims, the volume of closed litigation is increasing. The share of litigated claims nearly doubled, rising from 4.1% in CY 2021 to 7.9% in CY 2025, and is closely associated with higher average incurred costs. Litigated claims consistently cost three to four times more than non-litigated claims, reinforcing litigation as a critical focus area for cost management and early intervention.

Litigation rate and average incurred per new closed claims



Litigation rate and average incurred per new closed indemnity claims



Outlook and emerging risk

We offer a forward-looking view on the developments we anticipate will continue to emerge across the industry. At a minimum, we see regulatory pressures evolving, especially around cumulative trauma and mental health claims. Regulatory pressure coupled with rising medical costs and litigation trends may drive higher claim severity in certain areas. Additionally, the impact of AI and automation on employment could affect payroll exposure over time — though new job creation may offset this.

AM Best: Market Segment Outlook US Workers' Compensation Outlook – March 2026

Litigation, social inflation and cumulative trauma claims

Litigation trends continue to drive higher indemnity and expense costs across the industry. This increase is fueled by growth in cumulative trauma and repetitive stress claims, which are more subjective. As a result, carriers and TPAs face increasing urgency to strengthen early intervention efforts, leverage predictive analytics and implement a disciplined, front-loaded causation strategy built on early medical control, strong factual development and rapid legal action.

WCRI: Impact of Attorney Representation on Workers' Compensation Payments – September 2024.
Risk & Insurance: Half of Litigated Workers' Comp Claims are Cumulative Trauma: Study – March 2024

Medical inflation and claim severity growth

Workers' compensation medical costs continue to outpace general CPI, driven by rising hospital pricing, greater use of outpatient surgeries, advanced diagnostics and increased reliance on specialty pharmaceuticals. While claim frequency continues to decline, rising severity — driven by high-cost, long-duration claims associated with medical advances and longer life expectancy — is putting sustained pressure on loss ratios. In response, carriers are actively reassessing reserving adequacy, pricing assumptions and utilization management practices to adapt to these evolving cost dynamics.

Work Comp Academy: Medical inflation insights report – November 2025
Risk & Insurance: The current state of complex claims in workers' compensation: Understanding the drivers of rising costs and duration – November 2025

Expansion of mental health and presumptive coverage

Workers' compensation programs are seeing broader coverage applied for PTSD and mental-only claims, with some states expanding benefits beyond first responders and introducing presumption laws for healthcare workers and other similar occupations. At the same time, mental health conditions are increasingly intersecting with physical injury claims, extending claim duration, increasing overall costs and creating longer tailed cases that are more complex to resolve and, due to limited legal precedent, more difficult to predict. As these trends accelerate, carriers and TPAs must adapt by redesigning claims models to more effectively integrate behavioral health resources, return to work strategies and compliance with rapidly evolving statutory requirements.

Sedgwick | Max Koonce: Unveiling the hidden struggles: mental health in workers' compensation – February 2025

Workforce, technology and claims expertise gaps

Operational risk is increasingly emerging as both a financial and regulatory concern. Pressures such as the rapid retirement of experienced adjusters and nurses, ongoing challenges in attracting and retaining skilled professionals and the accelerated adoption of artificial intelligence, predictive analytics and automation are often advancing faster than the development of effective governance frameworks. This imbalance is creating uncertainty and operational instability, resulting in inconsistent claims handling and heightened litigation and compliance risk. As regulatory expectations evolve, organizations will be required to demonstrate mature AI governance, model transparency and clear segregation of duties with appropriate oversight. Industry service leaders must therefore balance efficiency gains from technology with strong controls, workforce training and measurable quality outcomes.

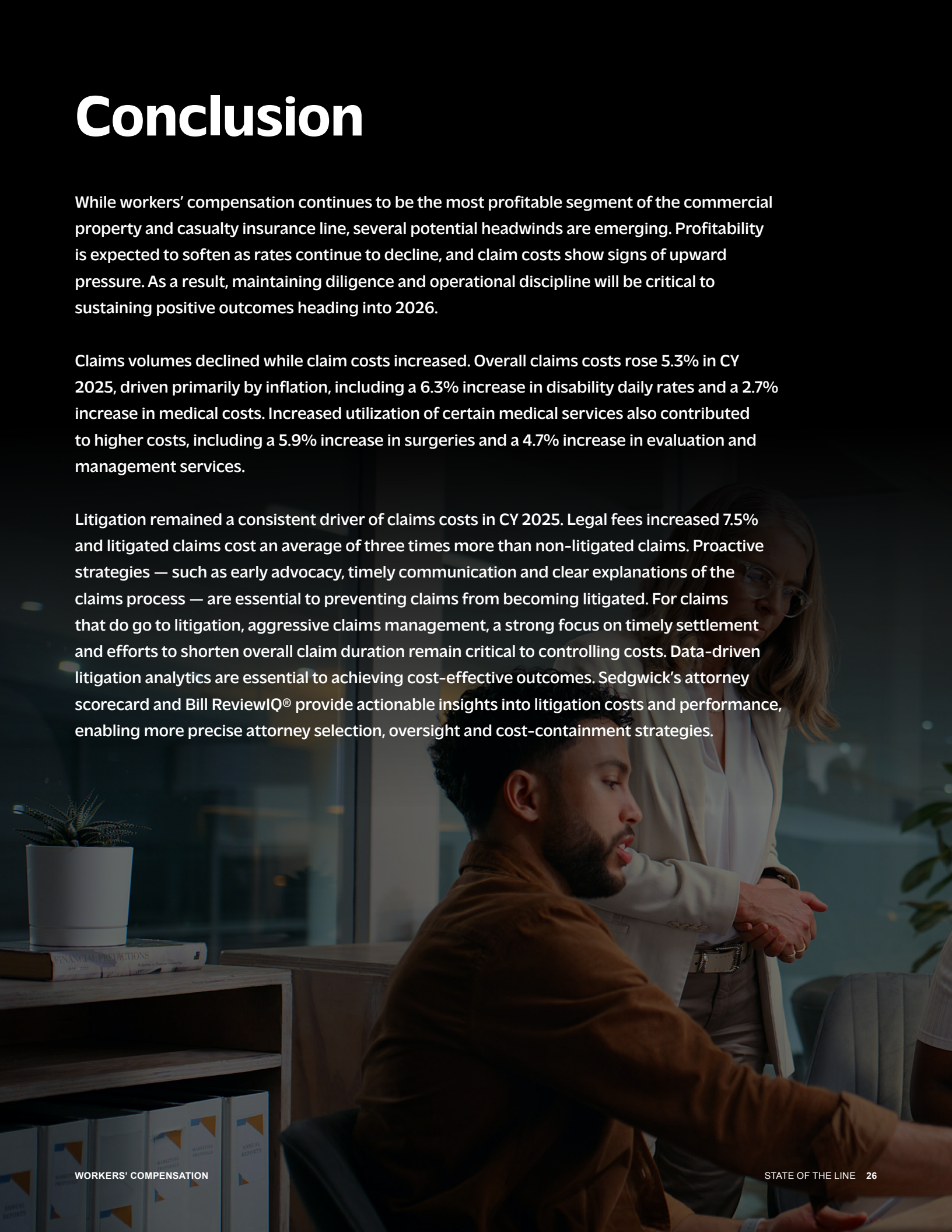
Claims Journal: Solving the talent gap in insurance claims: acquiring, retaining and empowering talent – September 2025
EY: How AI operations and strong AI governance boost insurer confidence – February 2026

Conclusion

While workers' compensation continues to be the most profitable segment of the commercial property and casualty insurance line, several potential headwinds are emerging. Profitability is expected to soften as rates continue to decline, and claim costs show signs of upward pressure. As a result, maintaining diligence and operational discipline will be critical to sustaining positive outcomes heading into 2026.

Claims volumes declined while claim costs increased. Overall claims costs rose 5.3% in CY 2025, driven primarily by inflation, including a 6.3% increase in disability daily rates and a 2.7% increase in medical costs. Increased utilization of certain medical services also contributed to higher costs, including a 5.9% increase in surgeries and a 4.7% increase in evaluation and management services.

Litigation remained a consistent driver of claims costs in CY 2025. Legal fees increased 7.5% and litigated claims cost an average of three times more than non-litigated claims. Proactive strategies — such as early advocacy, timely communication and clear explanations of the claims process — are essential to preventing claims from becoming litigated. For claims that do go to litigation, aggressive claims management, a strong focus on timely settlement and efforts to shorten overall claim duration remain critical to controlling costs. Data-driven litigation analytics are essential to achieving cost-effective outcomes. Sedgwick's attorney scorecard and Bill ReviewIQ® provide actionable insights into litigation costs and performance, enabling more precise attorney selection, oversight and cost-containment strategies.

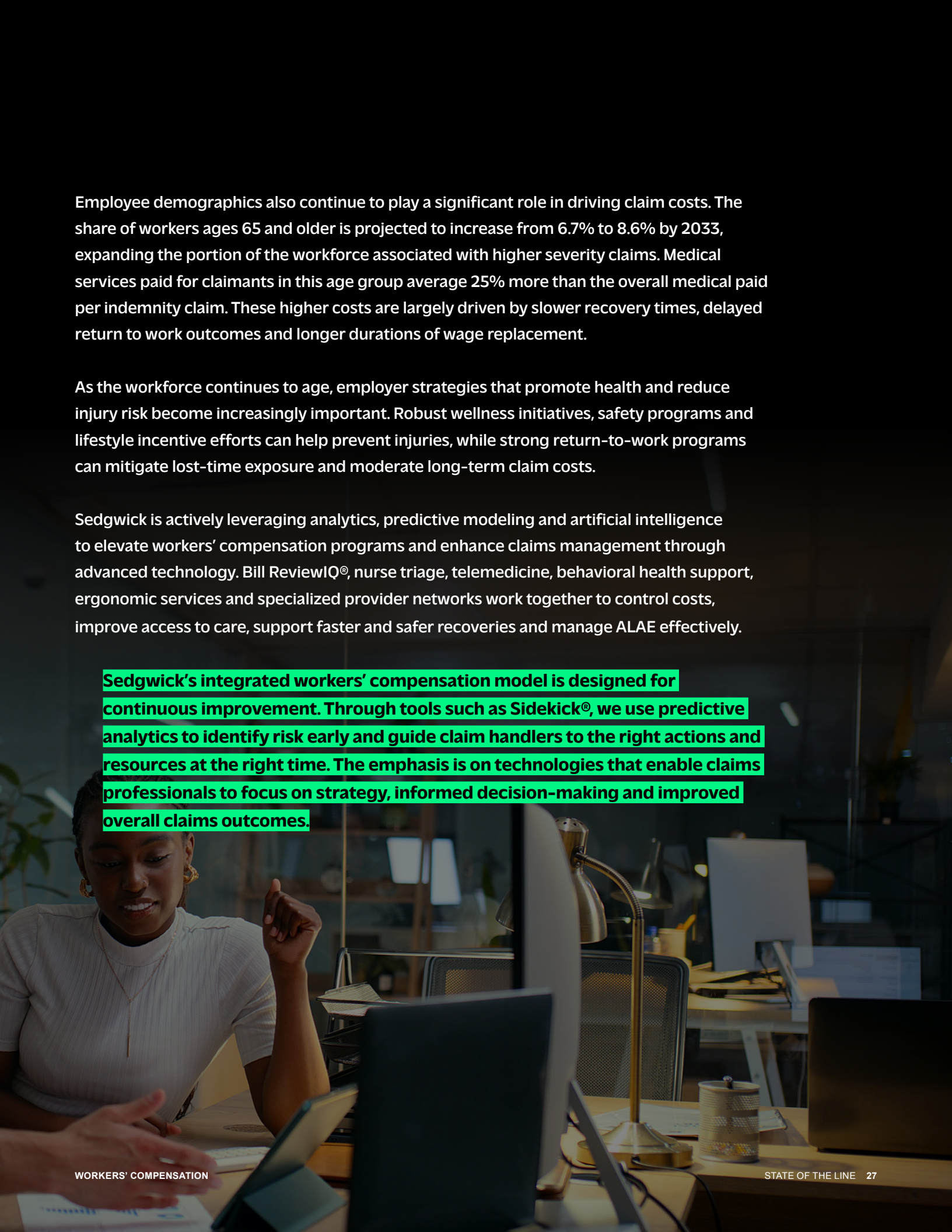


Employee demographics also continue to play a significant role in driving claim costs. The share of workers ages 65 and older is projected to increase from 6.7% to 8.6% by 2033, expanding the portion of the workforce associated with higher severity claims. Medical services paid for claimants in this age group average 25% more than the overall medical paid per indemnity claim. These higher costs are largely driven by slower recovery times, delayed return to work outcomes and longer durations of wage replacement.

As the workforce continues to age, employer strategies that promote health and reduce injury risk become increasingly important. Robust wellness initiatives, safety programs and lifestyle incentive efforts can help prevent injuries, while strong return-to-work programs can mitigate lost-time exposure and moderate long-term claim costs.

Sedgwick is actively leveraging analytics, predictive modeling and artificial intelligence to elevate workers' compensation programs and enhance claims management through advanced technology. Bill ReviewIQ®, nurse triage, telemedicine, behavioral health support, ergonomic services and specialized provider networks work together to control costs, improve access to care, support faster and safer recoveries and manage ALAE effectively.

Sedgwick's integrated workers' compensation model is designed for continuous improvement. Through tools such as Sidekick®, we use predictive analytics to identify risk early and guide claim handlers to the right actions and resources at the right time. The emphasis is on technologies that enable claims professionals to focus on strategy, informed decision-making and improved overall claims outcomes.



sedgwick

TOGETHER WE *THRIVE*

SEDGWICK.COM