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MARKET AND RATE OUTLOOK

Workers' Compensation in the Home Care Industry

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TAKING CONTROL OF EXPENSES AND RISK IN THE HOME CARE INDUSTRY

Typically, the three largest expenses for the home care industry are payroll, workers' compensation, and employee benefits.

Home care agencies can control and plan for payroll expenses, but workers' compensation costs constantly fluctuate. This reality has a direct impact on an agency's top-line expenses and future growth potential.

For over a decade, home care agencies have reaped the benefits of the longest soft market cycle in history, enjoying lower workers' compensation rates and lower premiums.

WHAT'S NEXT? THE BIG QUESTIONS FOR HOME CARE PROVIDERS MOVING FORWARD ARE:

Where are we in the hard/soft insurance market cycle, and what's the future outlook?

How has COVID-19 impacted the insurance marketplace?

How can home care agencies protect their organization from the inevitable hard market insurance cycle?

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How Are Hard and Soft Insurance Market Cycles Defined?

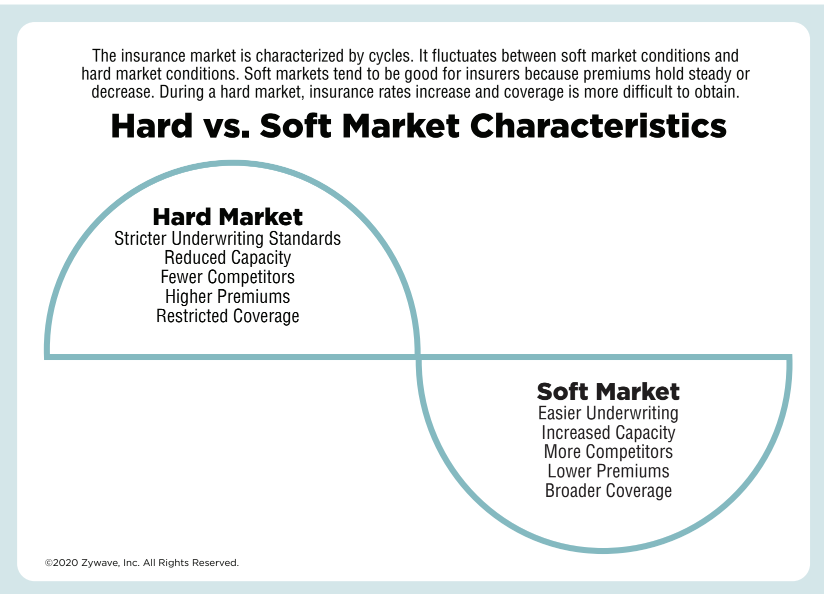
HARD MARKET CYCLE:

A hard market cycle occurs when insurance carriers tighten underwriting standards and place restrictions on the class of businesses they can write, therefore leading to reduced capacity and coverage limitations. Fewer carriers compete for business during a hard market cycle, leading to increased rates and premiums.

SOFT MARKET CYCLE:

Conversely, a soft market cycle consists of carriers easing underwriting restrictions on classes they can write and increased capacity, which can allow for broader coverages. Increased competition among carriers leads to lower rates and premiums as carriers vie for business.

Historically, we endure a 6-year soft market cycle where carriers see opportunities to grow profit margins and compete with lower rates, followed by a 6-year hard market where rates are too low. Carriers become less profitable as claims activity outweighs the low rates/premiums they collect. This is when we see carriers cycle out of an industry, and the hard market ensues.



Where Are We in the Hard/Soft Market Cycle Now?

Starting in June 2019, we saw a rapid hardening of the insurance marketplace for all lines of coverage except workers' compensation. This hardening was due to many factors, including:

1. *Record-breaking natural disasters (hurricanes, wildfires, tornadoes, floods, etc.) leading to carriers paying out substantially for claims related to these disasters.*
2. *Nuclear court verdicts leading to large payouts from defendants and setting precedent for future litigation.*
3. *Increased auto accident frequency due to distracted driving and higher claims costs associated with technology in vehicles.*
4. *Low interest rates reducing ROI for carrier premium investments.*

WHAT IS THE FUTURE OUTLOOK FOR INSURANCE RATES?

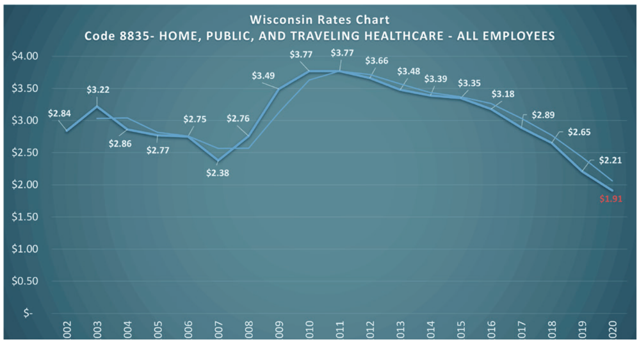
Unfortunately, 2021 is shaping up to be similar to 2020, with substantial rate increases across all lines of coverage. Here is what we are anticipating according to 2021 P&C Market Outlook:

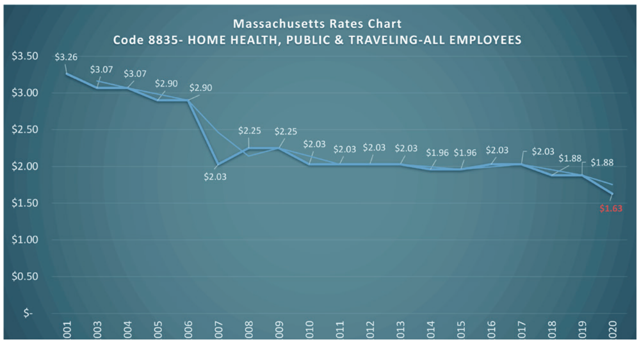
LINE OF COVERAGE	PRICE FORECAST
Commercial property	**Overall:** +5% to +25% **High risk/CAT exposed/poor loss history:** +25%
General liability	**Overall:** +5% to +15%
Excess and umbrella liability	**High risk**: +50% or more **Low to moderate risk:** +30% or more
Commercial auto	**Overall**: +5% to +25%
Workers' compensation	**Overall:** Flat to +5%
Cyber liability	**Overall:** +10% to +30%
Directors and officers liability	**Public entities:** +20% to +70% or more **Private/nonprofit entities:** +10% to +50%
Employment practices liability	**Overall:** +10% to +30%

Home Care Industry Workers' Compensation Rates Expected to Rise.

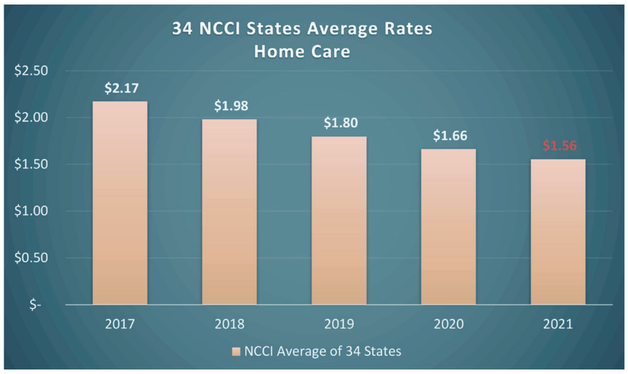
While insurance rates for non-workers' compensation lines have dramatically increased for the last two years, rates for the home care industry have been on a steep decline over the past decade.

For some states, such as Wisconsin and Massachusetts, rates are at their lowest point since first recording rates in 2001. We anticipate the home care workers' compensation marketplace to rapidly harden in the coming years.





The anticipated hardening is a combination of rates at their lowest levels in over a decade, coupled with a significant increase in payroll (and therefore claims activity) from an aging population choosing home care services over nursing facilities.



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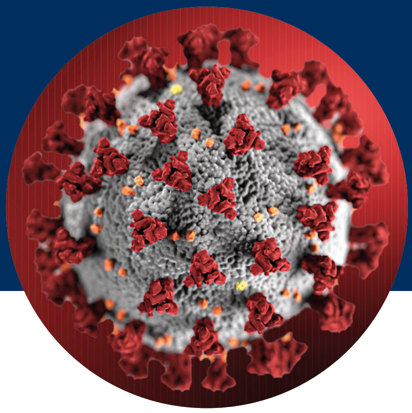


What Is The Impact Of COVID-19 On The Insurance Marketplace?

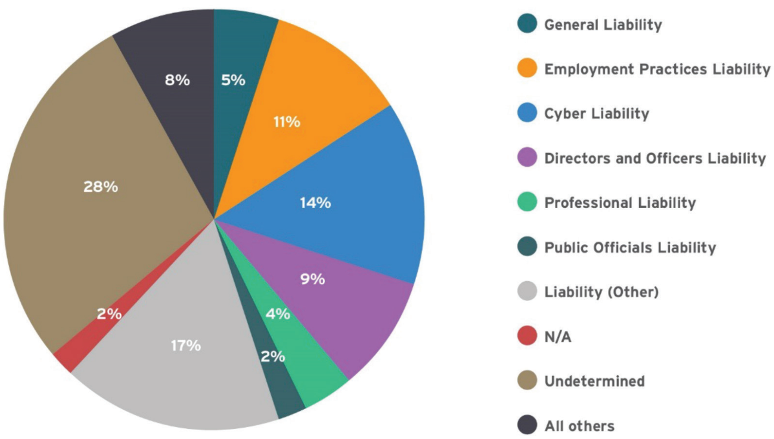
The COVID-19 pandemic has only accelerated hardening. Insurance carriers and reinsurance markets have seen an onslaught of business income lawsuits. In addition, many states have passed legislature mandating that workers' compensation carriers cover COVID-19-related claims.

In April 2020, the House passed resolution HF4537, which afforded essential employees, including home care providers, "workers' compensation benefits without having to provide proof that they contracted COVID-19 from a particular patient on a particular day" (Hubbard).

Some states, such as California, have determined the cost of such presumption would cost insurance carriers millions, stating, "the annual cost of COVID-19 claims on ECI workers under a conclusive presumption ranges from $2.2 billion to $33.6 billion with an approximate mid-range estimate of $11.2 billion, or 61 percent of the annual estimated cost of the total workers' compensation system prior to the impact of the pandemic" (WCIRB).

The cost of these presumptions to the insurance and reinsurance world would be staggering. Since home care providers are deemed essential, this change would hit the home care industry especially hard as carriers have already placed moratoriums on writing new business in the sector or fleeing the industry altogether.

Percentage of Pandemic-related Losses by Line of Business



Source: Advisen/Zywave Loss Data

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How Can I Protect My Home Care Organization From Hard Market Cycles?

1. PARTNER WITH A SPECIALIZED BROKER AND CARRIER.

An insurance broker who understands the intricacies of the home care industry is vital when navigating a hardening marketplace. They build national relationships with workers' compensation carriers who understand the nuances of the industry and are less likely to cycle out during hard and soft market cycles. Having a close broker and carrier long-term relationship provides the opportunity to help focus on safety, loss control, aggressive claims handling, and proper risk management that can save you time, energy, and significant premium dollars.

2. LOOK INTO SELF-INSURANCE GROUPS (SIG'S) OR CAPTIVES TO SEE IF YOU QUALIFY.

Unlike Fortune 500 companies, middle-market organizations cannot be single self-insured, but can be group self-insured. Self-insurance can isolate agencies from hard and soft market cycles and give more control over their insurance destiny.

Insureds have more control from a claims handling standpoint rather than the insurance carrier dictating to insureds how the claims will be handled or settled.

In addition, in the self-insurance world there are opportunities for you to receive surplus returns and investment income rather than the insurance carrier pocketing the surplus and investments. These types of nuanced programs require a broker who understands the intricacies of the self-insurance world and how to best position your agency for success.

Regardless of rate cycles, lower claims + safe working culture = lower premiums.

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Learn How We Can Help...

If you would like to consult with one of our home care specialists to learn how we can help you be proactive in your insurance and risk management strategies, please feel free to contact me directly.

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2021 P&C Market Outlook, *Zywave*

"For the past decade, employers enjoyed the advantages of a soft market...This marketplace reversal presents distinct challenges to employers unable to absorb the higher cost of workers' compensation insurance. Higher insurance rates will hammer companies that have long-term, fixed-price contracts or that operate in markets with cutthroat competitive pricing such as service-based businesses, construction and government contracting."

Jon Wroten, Insurance Thought Leadership