

Workers' Compensation

Dept. of Insurance Orders Benchmark Rate Hike

CALIFORNIA INSURANCE Commissioner Ricardo Lara has ordered an 8.7% average advisory pure premium rate hike for policies incepting on or after Sept. 1, 2025.

The rate follows a substantial uptick in claims and claims adjustment costs over the past four years, resulting in a \$1.3 billion underwriting loss for the industry in 2024, the first since 2014. However the market is still competitive and carriers may price their policies as they see fit.

The 8.7% increase is an average across nearly 500 class codes, and according to the Workers' Compensation Insurance Rating Bureau (WCIRB), employers in several industries may see premiums begin to rise after hitting a 10-year low last year.

The pure premium rate is a benchmark insurers use to price policies. It only accounts for the cost of claims and adjusting those claims, not expenses such as office operations, personnel costs outside of claims representatives, marketing or other overhead.

What's driving costs

The main drivers of the rate increase, according to the California Department of Insurance and the WCIRB – which had recommended an 11.2% hike – include:

Rising medical costs. The average medical cost per claim has been steadily climbing since 2016 (see chart below).

Rising costs for medical-legal reports. These are prepared by a qualified physician to assess an injured worker's condition and its relationship to their workplace injury. This report is crucial for determining eligibility for benefits. As medical costs have increased, there has been a corresponding increase in requests for these reports, which adds to the cost of a claim.

Growing effects of cumulative trauma claims. These are injuries that develop over time, typically from repetitive motions. The WCIRB now estimates that over one-fifth of indemnity claims involve cumulative trauma.

Rising claims adjusting costs. The average cost of adjusting claims rose to \$12,600 in 2024 from \$9,800 in 2021. The Rating Bureau projects it will reach \$14,300 in 2027.

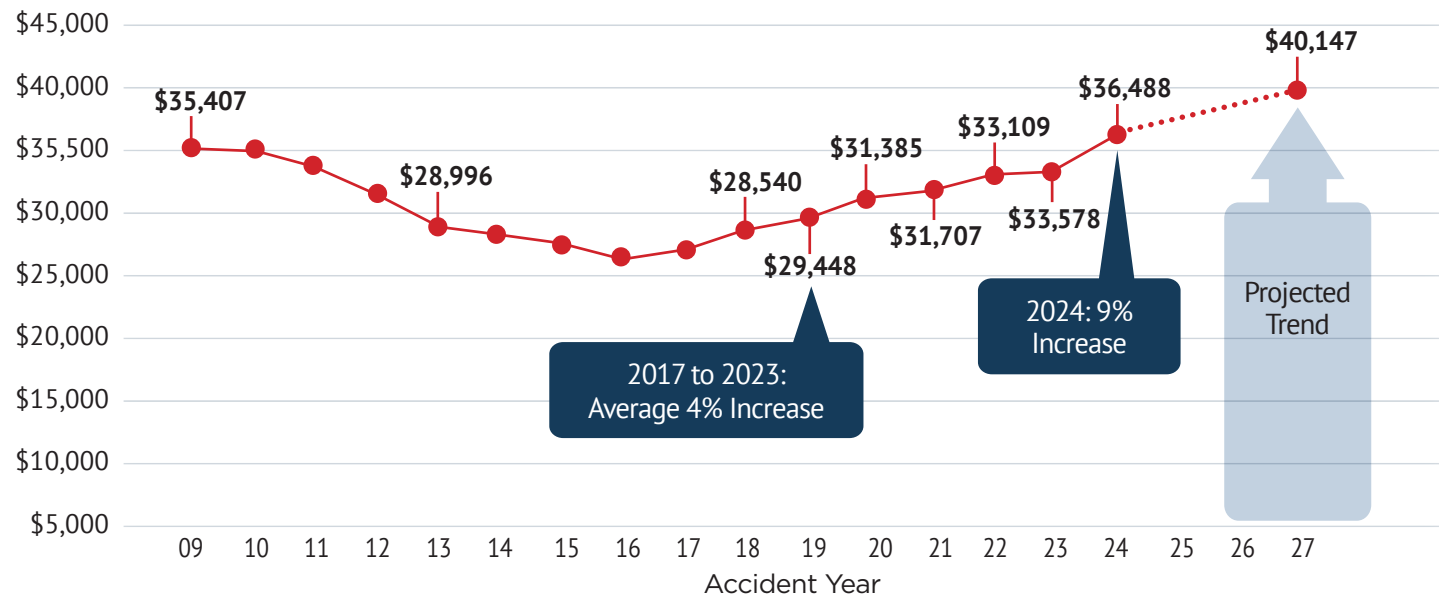
The effects

The premium an employer pays depends on their claims experience.

According to WCIRB, more than 280 classes are projected to face a higher-than-average pure premium increase next year. Conversely, some sectors will see lower pure premium hikes, while others may see decreases.

But thanks to a robust workers' comp market, employers with strong safety records and low X-Mods are likely to continue receiving favorable pricing.

AVERAGE MEDICAL COST PER INDEMNITY CLAIM



Review Your Policy Limits as Building Costs Rise

RAPIDLY RISING commercial building construction costs could result in your facility being underinsured if you suffer a major loss and haven't increased your insurance policy replacement cost limits lately.

Your policy has a maximum amount it will pay to rebuild your building, and that limit should reflect current construction costs. Otherwise, the policy may not be enough to pay for rebuilding after a total loss like a fire razing your business. And whatever the insurance doesn't cover, you would have to pay out of pocket.

Construction costs

According to a report by Verisk, reconstruction costs in the U.S. increased by 5.2% from April 2024 to April 2025.

Those rising costs come on the heels of massive material price increases of 40% from 2020 to 2023 when supply chains were snarled.

Some prices have come down a little, but they are still mostly higher than before the pandemic.

With tariffs coming on many goods used in construction, we could be in for another round of construction cost increases.

Also, the construction industry faces a labor shortage, which has added to the cost of rebuilding and the time it takes to complete a project.

Escalating construction costs can extend rebuilding and repair timelines for properties.

Longer waits for materials or workforce can also increase compensation periods and can be a serious burden for a business that has lost access to its facility.

Many policies will also cover business interruption costs, which can be exacerbated by increased downtime at the damaged or destroyed facility.

Revisit your replacement cost

One of the critical parts of the claims settlement process is determining the cost to reconstruct a building to its original state with new materials and current labor rates. When these costs rise, so should your policy limits.

For example, a property owner bought insurance five years prior with a coverage cap of \$1.5 million.

With escalating material and labor expenses, the present reconstruction price has soared to \$1.8 million. Should a total loss occur, the insurance compensation would fall \$300,000 short, forcing the owner to pay the rest out of pocket.

What you can do

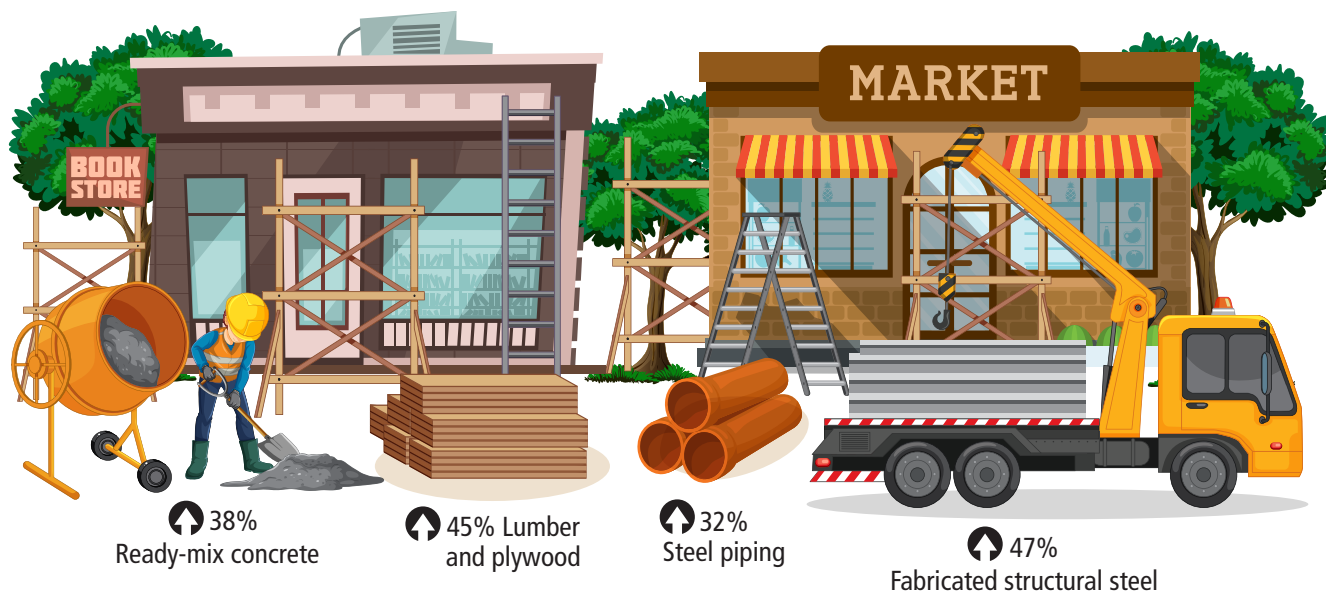
Proactive management of your insurance coverage ensures you have the necessary resources to recover from unforeseen events.

To safeguard your assets, it's crucial to annually review and update your property's replacement cost valuations.

If you are concerned about being underinsured and haven't revisited your replacement costs for some time, please give us a call. Insurance brokers often use up-to-date third-party tools, such as Marshall & Swift, to provide guidance on estimated replacement costs.

These tools consider factors like location, construction type, square footage and additional details of your property to offer accurate valuations.

MATERIAL PRICES SURGE 2020-2024



Source: Construction analytics website [edzarenski.com](https://www.edzarenski.com)

It Was the Best of Times, It Was the Worst of Times

Key takeaways

- **Diversification can help manage investment risk, but it doesn't eliminate it.** The "don't put all your eggs in one basket" approach may help reduce pressure when certain asset classes experience volatility.
- **Asset allocation strategies consider your individual circumstances.** Financial professionals assess your goals, time horizon and risk tolerance to help determine what asset classes may be appropriate for your situation.
- **Consistent investing through dollar-cost averaging may help build wealth over time.** Most people invest regularly within their budget, understanding that markets fluctuate and focusing on long-term potential rather than short-term opportunities.

REGARDLESS OF how the markets may perform, consider making the following part of your investment philosophy:

The saying "Don't put all your eggs in one basket" has some application to investing. Over time, certain asset classes may perform better than others. If your assets are mostly held in one kind of investment, you could find yourself under a bit of pressure if that asset class experiences some volatility.

Keep in mind that diversification is an approach to helping manage investment risk. It does not eliminate the risk of loss if an investment's price declines.

Asset allocation strategies also are used in portfolio management. When financial professionals ask you questions about your goals, time horizon and tolerance for risk, they get a better idea about what asset classes may be appropriate for your situation. But like diversification, asset allocation is an approach to help manage investment risk. It does not eliminate the risk of loss if an investment sees a decline in price.

Impatient investors can get too focused on the day-to-day doings of the financial markets. They can be looking for short-term opportunities rather than longer-term potential. A patient investor understands that markets fluctuate, and has built a portfolio based on their time horizon, risk tolerance, and goals. A short-term focus may add stress and anxiety to your life and could lead to frustration with the investing process.

Most people invest a little at a time, within their budget, and with regularity. They invest \$50 or \$100 or more per month in their retirement account or similar investments. They are investing on

"autopilot" to help themselves attempt to build wealth over time.

Consistent investing does not protect against a loss in a declining market or guarantee a profit in a rising market. Consistent investing, sometimes referred to as dollar-cost averaging, is the process of investing a fixed amount of money in an investment vehicle at regular intervals, usually monthly, for an extended period of time, regardless of price.

Investors should evaluate their financial ability to continue making purchases through periods of declining and rising prices. The return and principal value of stock prices will fluctuate as market conditions change. Shares, when sold, may be worth more or less than their original cost.

If you don't have an investment strategy, consider talking to a qualified financial professional today.

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New Wildfire Defensible Space Rules in the Works

THE STATE is working on new regulations that will toughen enforcement of defensible space around commercial and personal properties in areas at risk of wildfires.

The current round of rulemaking by the Board of Forestry and Fire Protection is on Zone 0 – the area that stretches from the physical building out to five feet. The new rulemaking will add to the steps commercial property owners in high-risk areas are required to take.

The proposed rule for Zone 0 (up to 5')

The Zone 0 rule would bar grass, ornamental or native plants, shrubs, branches, fallen leaves and tree needles, weeds and combustible mulches including bark and woodchips from Zone 0.

Some wildfire specialists say the proposal is flawed and that adequately watered grass and shrubs can help protect the building in case of a wildfire.

If well watered, they can reduce the temperature around the structure, catch embers and keep them from starting a fire. The rule makes an exception for potted plants.

Most trees would be barred from the zone, although mature trees without low-hanging branches may be allowed.

No items that are likely to be ignited by embers would be allowed, including:

- Timbers,
- Firewood,
- Synthetic lawn, and
- Trellises.

The roof and rain gutters must be kept clear of leaves and needles.

Areas under decks, balconies and stairs must be kept free of vegetative material and combustible items.

Any gates or fencing constructed from combustible materials may not be attached to the home or other structures.

Zone 1 (5'-30')

Under current Board rules, at-risk building owners must:

- Remove dead leaves, pine needles and debris.
- Trim overhanging branches to at least 10 feet away from chimneys.
- Keep trees pruned to maintain spacing.
- Maintain space between trees and shrubs.

Zone 2 (30'-100')

Under current Board rules, at-risk building owners must:

- Let grass grow no more than four inches tall.
- Maintain clear spacing between shrubs and trees.
- Remove dead vegetation and fallen leaves.
- Prune lower branches of trees.
- Ensure outbuildings and propane tanks have 10 feet of clearance and no flammable vegetation nearby.

Is your commercial property affected?

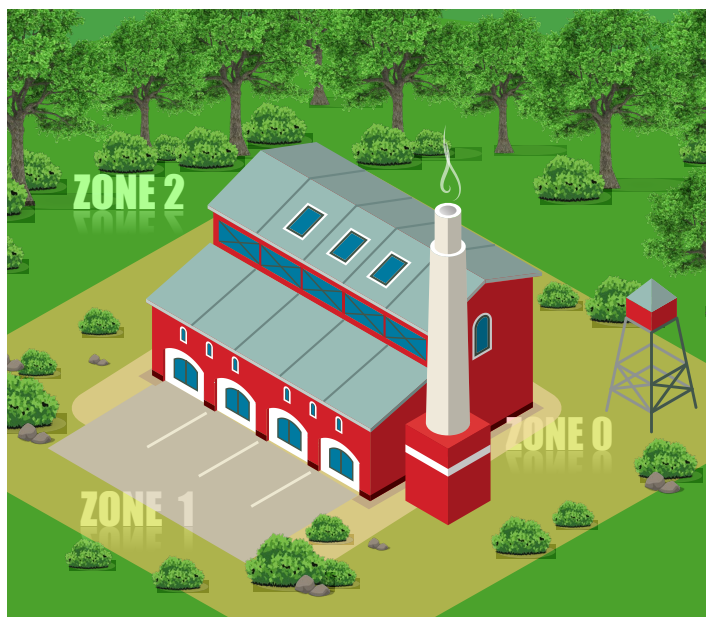
Properties in these areas are required to comply with the rule:

State Responsibility Areas – The state is financially responsible for preventing and suppressing wildfires in these areas. SRAs do not include land within city or certain county boundaries. You can check if your property is in an SRA [here](#).

Very High Fire Hazard Severity Zones in Local

Responsibility Areas – These are areas at high risk of wildfire where local agencies, like city or county fire departments, are primarily responsible for wildfire protection and emergency response. You can check if your home is in a high fire hazard zone [here](#).

Once finalized, the rules will apply immediately to new construction, with existing properties receiving a three-year phase-in period. If you have questions or concerns about about these proposed rules, give us a call.



If you have any questions regarding any of these articles or have a coverage question, please contact your broker at:

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