

# THE REPORT

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## Workers' Compensation

# Rating Bureau Recommends 11.2% Rate Hike

THE GOVERNING committee of California's workers' compensation rate-making agency on Apr. 16 voted to recommend that the advisory benchmark rate for policies inepting on or after Sept. 1, 2025, should increase an average of 11.2% across all class codes.

The news was a surprise considering that workers' comp rates have been on a downward trend for more than a decade.

The Workers' Compensation Insurance Rating Bureau has forwarded the recommendation to the Department of Insurance, which has rejected its rate hike requests five years in a row. For example, last year's 0.9% rate hike request was rejected in favor of a 2.1% reduction.

### Cost drivers

The rate hike request is largely the result of several factors, according to the Rating Bureau:

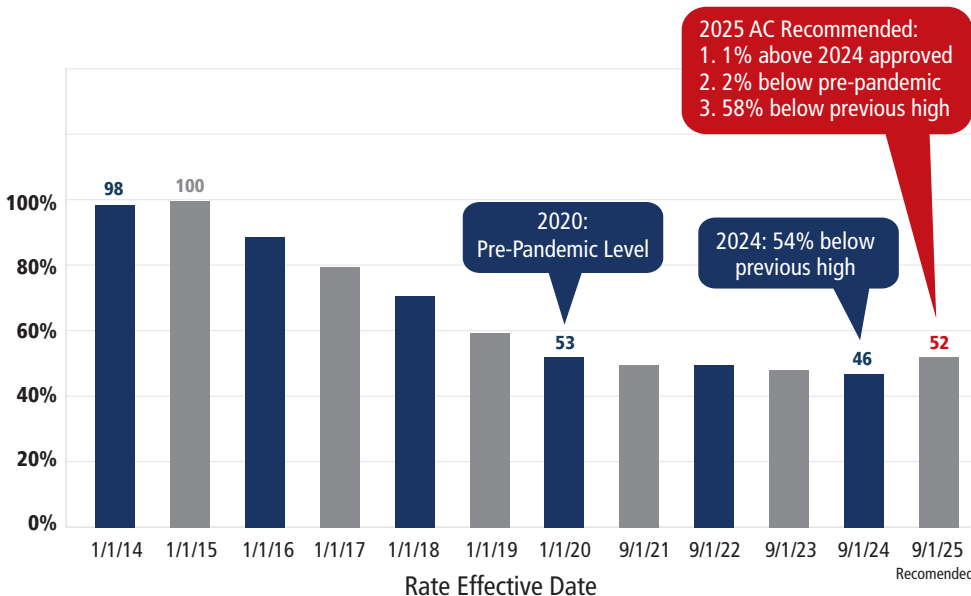
**Rapidly rising medical costs.** The average medical costs per claim rose 12% in 2024 from the year prior. These costs also affect prior year claims if treatment carries over into multiple years.

**Increasing claims frequency.** After a decade of falling claims frequency – the percentage of claims per number of workers – frequency has risen every year since 2021, when it jumped 10%. Last year, it grew 1.7%. According to a presentation at the governing committee meeting, one of the main factors driving frequency was cumulative trauma claims, which accounted for 20% of all claims that had an indemnity component or pay for lost time.

**Claims adjusting costs.** The cost of handling workers' comp claims has also been increasing rapidly over the past few years, driven by increasing claims complexity and wage inflation for adjusters. The average claims adjustment expense increased 9.7% for claims 12 months old or less in 2024, compared to 7.4% in 2023 and 9.2% in 2022. All those costs have been cumulative.

## Rates are still below pre-pandemic levels\*

\* Rates as a percentage of 2015 rates, chosen as the base year as it's the highest in 10 years.



Source: Workers' Compensation Insurance Rating Bureau

### What is the pure premium rate?

The rate request is for the advisory "pure premium" rate, a base rate that only accounts for the cost of claims and claims-adjusting expenses. It does not account for other overhead and insurer profit.

The pure premium is an average across all class codes. Individual employer premiums will vary depending on their industry, claims experience, X-Mod (if they have it) and location.

The pure premium rate varies from class code to class code, and it's not mandatory for insurers to set their rates based on it. Instead, they use the pure premium as a guidepost for pricing their own policies.

# FAIR Plan Property Coverage Limits to Increase

CALIFORNIA INSURANCE Commissioner Ricardo Lara has approved a request by the FAIR Plan to increase commercial property coverage limits.

The move is aimed at ensuring that commercial facilities with FAIR Plan coverage are not underinsured, which can be devastating if they suffer a total loss. Under the new limit, the FAIR Plan will have a new “high-value” property coverage option for housing developments under construction, farms and businesses with multiple buildings at one location.

## New commercial property limit

**Per building:** \$20 million  
**Total maximum:** \$100 million per location  
**Current limit:** \$20 million per location

The FAIR Plan must make these new coverage limits available to all eligible applicants for both new and renewal policies before July 26.

FAIR Plan policies are not a complete replacement for a commercial property insurance policy. They only cover damage from fire, lightning and internal explosion.

Optional coverages are available at an additional cost, such as for vandalism and malicious mischief.

Private insurer policies cover more. There are two types:

**Basic form policies.** They provide the least coverage and usually cover damage caused by fire, windstorms, hail, lightning, explosions,

smoke, vandalism, sprinkler leakage, aircraft and vehicle collisions, riots and civil commotion, sinkholes and volcano eruptions.

**Broad form policies.** These policies usually cover the causes of loss named in the basic form, as well as damage from leaking appliances, structural collapses, falling objects and the weight of ice, sleet or snow.

If you must go to the FAIR Plan, we can arrange for a “differences in conditions” policy that will cover the areas in which the plan is deficient compared to a commercial property policy.

## Types of buildings covered

The FAIR Plan will cover the following types of commercial buildings:  
**Habitational buildings** – Buildings with five or more habitational units, such as apartment buildings, hotels or motels.

**Retail establishments** – Shops such as boutiques, salons, bakeries and convenience stores.

**Manufacturing** – Companies that manufacture most types of products.

**Office buildings** – Offices for professionals such as design firms, doctors, lawyers, architects, consultants or other office-based functions.

**Buildings under construction** – Residential and commercial buildings under construction from the ground up.

**Farms and wineries** – Basic property insurance for commercial farms, wineries and ranches, not including coverage for crops and livestock.

## Another option

Besides the FAIR Plan, there is another option if you can't find coverage. We can try to find coverage in the “non-admitted” market, which consists of global insurance giants like Lloyd's of London.

These entities are not licensed in California, but they can still cover properties in the state, which we can access through a surplus lines broker.



# Retirement Strategy After a Job Loss

FEW EVENTS are more stressful and disruptive than an unexpected job loss or layoff. For many, it's a hit not just to finances but also to confidence and sense of self.

You're not alone if you've been laid off — or if the idea is a concern. According to a November 2024 MarketWatch survey, 70% of workers have taken steps to prepare for a layoff, and about six million Americans “lose or leave” their jobs each month.<sup>1,2</sup>

Whether a job loss comes unexpectedly or not, you may have more choices than you think. Here are a few things to consider.

## Emergency fund

Financial professionals suggest that individuals set aside three to six months of living expenses to help through tough times. It can be emotionally challenging to tap into these hard-earned funds, but using these funds can be an option rather than taking on debt.

## Family budget

If your income has changed, your budget may need to change, too. Expenses like housing, utilities, groceries, and health care may have fixed payment schedules, but you can manage dining out, entertainment subscriptions, and personal travel.

## Health insurance

For some, one of the most critical benefits of employment is health insurance. COBRA “continuation coverage” can help you temporarily maintain your existing coverage, but the cost may be higher than you expect. Review your options. Health insurance often has a significant impact on personal finances, so financial professionals encourage individuals to address it promptly.

## Unemployment benefits

You may be eligible for unemployment benefits. This financial support is designed to help while you're looking for new employment. Make sure you understand and follow unemployment benefit requirements, which can be complex.

## Networking and upskilling

You may never have a better time to explore career possibilities and develop both new and old skills. Consider attending industry events, joining online forums, and reconnecting with former colleagues. Online and in-person courses can be a great way to add certifications and other highly desirable capabilities to your resume. Don't forget to brush up on interviewing skills, too!

## Employer-sponsored retirement accounts

After a job loss, you may need to choose what to do with your retirement plan. Generally, you have four options. You can:

- Leave the assets in the old plan (if the plan permits it).
- Roll the assets over into your new employer's plan (if one is available and the plan permits it).
- Roll assets into an Individual Retirement Account (IRA).
- Take a cash distribution (with potential tax consequences).

Each of these options has advantages and disadvantages. You may want to discuss your situation with a financial professional or a human resources professional so you can explore your options.

If you roll over your account into an IRA, remember that in most circumstances, you must begin taking the required minimum distributions when you reach age 73. Withdrawals from traditional IRAs are taxed as ordinary income and, if taken before age 59 ½, may be subject to a 10% federal income tax penalty.

## Reassess your goals

When your life changes, your goals and strategies may, too. A job loss may temporarily change your financial situation, but may also open new opportunities. Your retirement timeline and savings target may change, but keeping up with your long-term commitments can help you stay focused and motivated in the short term.

1. *Marketwatch.com, November 11, 2024*
2. *Center for Economic and Policy Research, March 4, 2022*

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# Cal/OSHA Making Changes to Heat Illness Rules

CAL/OSHA has released draft language that would require employers of outside workers to take additional steps to ensure their safety when working in high heat conditions.

The proposed rules were written to implement legislation – AB 2243 – signed into law in 2022 to address heat and wildfire smoke protections for workers. The draft rules, which address only heat, will complement existing heat illness prevention regulations that employers of outdoor workers are already required to follow.

The draft would require some employers to implement extra high heat illness prevention steps when temperatures reach 80 degrees for both indoor and outdoor employers. Under current rules, employers must provide shade for outdoor workers when temperatures reach 80 degrees, but additional high heat protections aren't required until the mercury reaches 95 degrees.

## Acclimatization

One part of the draft heat rules revises acclimatization procedures. Under current rules, a supervisor or designee must closely observe all employees during a heat wave, and workers who are newly assigned to a high-heat area must be closely observed during their first 14 days on the job. The draft language changes the term “high heat area” with “an area where the temperature equals or exceeds 95 degrees Fahrenheit.”

The draft also would require employers to either implement high-heat procedures for five working days or adopt a proposed work schedule for new and returning employees assigned to an area where the temperature is at least 80 degrees.

If an employer chooses the work schedule option, an employee's heat exposure would be restricted for the first four days.

## Work schedule option

Under this option, an employee's heat exposure would be restricted for the first four days, as follows:

- 20% on day one,
- 40% on day two,
- 60% on day three, and
- 80% on day four.

Employers would not need to implement these acclimatization procedures if they can prove that the new employee has consistently worked under the same or similar conditions in the prior 14 days.

Additionally, the proposed rules would require employers to distribute a copy of their heat illness prevention plan:

- To new employees upon hire,
- During heat illness prevention training, and
- To every employee at least once a year.

An employer is not required to furnish a copy of the HIPP more than twice a year.

## Current rules refresher

For outdoor workplaces, shade must be present when temperatures are greater than 80°F. When temperatures are less than 80°F, shade must be available upon request.

Shade and cool-down areas must be:

- Blocked from direct sunlight.
- Large enough to accommodate the number of workers on rest breaks so they can sit comfortably without touching each other.
- As close as possible to the work areas.

Encourage workers to take preventive cool-down rest periods and allow those who ask for one to take it.

When the temperature reaches 95°F, employers are required to implement high-heat procedures which must include:

- Observing and communicating effectively with workers.
- Reminding workers to drink water and take breaks.

Employers are also required to:

- Establish, implement and maintain an HIPP.
- Provide first aid or emergency response to any worker showing signs or symptoms of heat illness.
- Closely observe new workers and newly assigned workers in hot areas during a 14-day acclimatization period, as well as all employees working during a heat wave.
- Provide training on the HIPP to both workers and supervisors.



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

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