FAQ: How Workers' Compensation Insurance Companies Make Money

This page is general information about the insurance industry, based on published industry reports. It is not legal advice, and reading it or contacting us does not create an attorney client relationship. Figures are the most recent available as of October 2026.

How does a workers' compensation insurer make money?

Two ways. First, by collecting more in premiums than it pays out in claims and expenses. That is called an underwriting profit. Second, by investing the premiums it holds before claims are paid. Because workers' compensation claims are often paid out over many years, and medical care on some claims lasts for decades, insurers hold and invest large sums of money for a long time.

What is a “combined ratio”?

It is the industry's main measure of underwriting results: claim costs plus expenses, as a percentage of premiums. A combined ratio under 100 means the insurer made money on its policies before counting any investment income. Over 100 means it paid out more than it took in on those policies, though it may still profit from investments.

Is workers' compensation insurance profitable?

Nationally, very. Workers' compensation had a combined ratio of 91 in 2025, and it has been under 100 for twelve straight years, according to the National Council on Compensation Insurance (NCCI). The property and casualty industry as a whole reported a $60.9 billion underwriting gain and $150.9 billion in net income in 2025 (AM Best, preliminary results).

What are “reserves,” and why do they matter?

Reserves are the insurer's estimate of what it will eventually pay on claims that are still open. If reserves are set higher than needed, the insurer's current results look worse than they really are. When claims later close for less than expected, the extra money is released and becomes profit. NCCI estimates that workers' compensation insurers nationally hold about $14 billion more in reserves than they will need.

California insurers say they are losing money. Are they?

On paper, the numbers look worse in California. The Workers' Compensation Insurance Rating Bureau of California (WCIRB) projects a combined ratio of 127% for claims from 2025, the highest in more than 20 years. But that figure is a projection about claims that are still developing. Looking at what was actually paid and spent during calendar year 2025, losses and expenses were 102% of earned premium, close to break even. Neither figure includes the investment income insurers earn on the money they hold.

Why would the projections be higher than reality?

Projections for recent claims are estimates, and the national track record shows those estimates have tended to run high. That is why the industry is holding billions of dollars in reserves it is not expected to need. High projections also support requests for higher premium rates.

Why are California premiums going up?

California employers paid the lowest workers' compensation rates in more than 50 years in 2025, after years of insurers competing on price. The Insurance Commissioner then approved advisory rate increases of 8.7% effective September 1, 2025, and 6.6% effective September 1, 2026. Insurers point to rising claim costs and to an increase in cumulative trauma claims, which grew from about 18% of indemnity claims in 2022 to more than 25%.

How much do insurers spend fighting claims?

A growing amount. The WCIRB reports that allocated claim expenses, which include defense attorneys and other costs tied to handling specific claims, reached $13,860 per indemnity claim in 2025. That was up 11% from the year before and has risen every year since 2021. Medical legal costs per claim have also risen sharply since 2022. This money does not go to injured workers, but it is counted in the cost figures used to justify higher premiums.

What does all this mean for an injured worker?

The business model rewards paying less and paying later:

- Every dollar paid later stays invested longer.
- Every benefit that is denied or reduced improves the insurer's results.
- Money spent disputing claims is folded into the costs insurers cite when they ask for rate increases.

That is why claims are so often delayed, disputed or denied, and why it matters to understand your rights.

Sources

- AM Best, Best's Special Report on U.S. property/casualty results for 2025 (March 2026).
- National Council on Compensation Insurance, State of the Line report, as reported by Insurance Journal (May 14, 2026).
- Workers' Compensation Insurance Rating Bureau of California, 2025 losses and expenses report, as reported by Insurance Journal (July 10, 2026).
- Workers' Compensation Insurance Rating Bureau of California, Quarterly Experience Report through June 30, 2026, as reported by Insurance Journal (October 8, 2026).