Executive Summary

Alaska Workers' Compensation Cost Trends, 2015–2025

Overview

Alaska's workers' compensation system has experienced a substantial reduction in total industry costs over the past decade. Total cost to industry declined from approximately $680.3 million in 2015 to $479.5 million in 2025, a decrease of $200.8 million, or 29.5%. Total benefit costs for the market-insured segment also declined, while medical and indemnity costs have followed different trajectories.

Although overall costs remain well below their 2015 levels, recent increases in medical spending, indemnity benefits, and employee attorney costs warrant continued attention. These trends highlight the importance of monitoring both total system costs and the individual components driving those costs.

Major Findings

1. Total workers' compensation costs have declined substantially.

Total cost to industry decreased 29.5% between 2015 and 2025. Over the same period, reported premiums declined from approximately $281.7 million to $192.2 million, a reduction of 31.8%. These figures indicate a significant reduction in the overall cost base, although they do not, by themselves, establish why costs declined or whether the system has become more efficient.

2. Medical benefit costs have declined over the decade but are increasing from recent lows.

Medical spending decreased from approximately $186.1 million in 2015 to $126.2 million in 2025, a reduction of 32.2%. Spending reached a low of approximately $107.6 million in 2021 before increasing to $126.2 million in 2025. Medical spending per covered employee rose from approximately $371 in 2021 to $397 in 2025. The recent upward trend warrants monitoring to determine whether it reflects changes in medical prices, utilization, claim severity, or other factors.

3. Indemnity benefit costs have increased.

Indemnity spending increased from approximately $65.5 million in 2015 to $74.1 million in 2025, an increase of 13.2%. This contrasts with the overall decline in medical spending and suggests that wage-replacement and other indemnity benefits deserve closer examination. Further analysis should distinguish changes in claim volume from changes in benefit duration, wage levels, and average claim cost.

4. Legal expenses show a changing cost profile.

Reported legal costs increased from approximately $18.5 million in 2015 to $19.2 million in 2025, a relatively modest increase of 3.7%. However, employee attorney costs rose from approximately $6.4 million to $11.4 million, an increase of 78.7%, while employer attorney costs declined from approximately $11.7 million to $7.1 million. The 2025 increase in employee attorney costs is particularly notable and should be validated against the underlying data and examined for changes in case volume, complexity, and reporting.

5. Revenue and expenses require continued fiscal monitoring.

The WSCAA Fund fiscal-year revenue and expense data show that expenses exceeded revenue in FY2021 and FY2022. In FY2024, revenue was approximately $6.72 million, and expenses were approximately $6.35 million, producing a positive difference of about $372,000. This trend widened in FY2026, with expenses outpacing revenue by just short of $1 million. The injection of General Fund money in FY2027 was necessary to continue operations. Because this series covers a different fiscal measure from total workers' compensation industry costs, it should be evaluated separately and not treated as a direct measure of the system's overall financial performance.

Management Priorities

- **Monitor medical spending:** Track medical costs, cost per covered employee, utilization, and claim-level trends to identify the drivers of recent increases.
- **Evaluate indemnity trends:** Examine benefit duration, claim severity, and wage-replacement costs to understand the increase in indemnity spending.
- **Review legal costs:** Validate the recent increase in employee attorney costs and identify opportunities to improve dispute resolution and reduce avoidable litigation expenses.
- **Strengthen performance reporting:** Track total industry costs, premiums, market-insured benefits, self-insured costs, and program operating revenue and expenses as distinct but related measures.

Conclusion

Alaska's workers' compensation cost data show a substantial long-term decline in total industry costs between 2015 and 2025. However, the overall reduction masks important differences among cost categories. Medical costs remain well below their 2015 level but have risen since 2021, indemnity costs have increased over the decade, and employee attorney costs have risen considerably.

The next step is to identify the factors driving these changes and determine which are within the Division's influence. Consistent trend analysis, validated data, and clearly defined performance measures will help leadership assess program performance, identify emerging cost pressures, and support informed policy and operational decisions.

Data note: *Figures are nominal dollars and have not been adjusted for inflation. The workbook's cost categories should be reconciled before publication to confirm that totals, reporting periods, and market-insured and self-insured measures are comparable. The trends described here are observations from the reported data and do not establish causation.*