

No. **3848**

OFFICIAL ORDER
of the
TEXAS COMMISSIONER OF INSURANCE

Date: March 5, 2015

Subject Considered:

REVISED WORKERS' COMPENSATION CLASSIFICATION RELATIVITIES

The commissioner of insurance considers workers' compensation classification relativities to replace those adopted under Commissioner's Order No. 2312, dated February 25, 2013.

The commissioner held a hearing on staff's proposed revised classification relativities under Docket No. 2774 on December 12, 2014, in Room 100 of the William P. Hobby Jr. State Office Building, 333 Guadalupe Street in Austin, Texas. TDI published notice of staff's proposed revised classification relativities and of the hearing in the December 5, 2014, issue of the *Texas Register* at 39 TexReg 9625, and on the TDI website and by electronic news on November 25, 2014.

A copy of the full text of the notice and Exhibit A, the proposed revised classification relativities, has been on file with the TDI chief clerk since November 25, 2014. Comments on the proposed revised classification relativities were due by 5 p.m., Central time, on January 5, 2015. At the hearing, staff presented testimony and recommendations regarding the proposed revised classification relativities. TDI received no comments.

After considering the proposed revised classification relativities, the commissioner adopts the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. The current classification relativities, which were effective on June 1, 2013, are based on experience data reflecting workers' compensation experience from policies with effective dates from 2005 through 2009.
2. The proposed revised classification relativities are based on experience data reflecting workers' compensation experience from policies with effective dates from 2007 through 2011.

Methodology

3. Staff used the same methodology as in previous years to calculate the revised classification relativities.
4. The National Council on Compensation Insurance (NCCI), TDI's statistical agent, summarized data from the Texas Workers' Compensation Statistical Plan for the five most recent policy years of actual loss experience (2007 at the fifth report, 2008 at the fourth report, 2009 at the third report, 2010 at the second report, and 2011 at the first report) by type of injury within each class.
5. Staff reviewed NCCI's data for reasonableness and consistency. NCCI provided unlimited and limited data for the five most recent policy years. Individual losses in the experience base were limited in order to reduce possible distortions in individual classification indications due to unusually costly claims.
6. Staff then calculated the ratios of unlimited to limited losses by type of injury separately for all state classifications combined and for all federal classifications combined. Staff applied the ratios to the limited losses by type of injury for each classification within the respective state or federal group in order to spread the excess costs over all classes.
7. Staff developed the serious medical, serious indemnity, nonserious medical, and nonserious indemnity losses separately to an ultimate cost level. Staff adjusted the developed losses to account for changes in the maximum benefits payable to an injured worker and changes in the medical fee schedule.
8. Staff divided the resulting losses by payroll to produce the experience pure premiums, which staff then balanced to the overall average level of the current relativities using off-balance factors. This calculation provided a revenue-neutral set of relativities in relation to the current relativities.
9. Staff then credibility-weighted the experience pure premiums with the pure premiums underlying the current relativities. Staff again balanced the resulting relativities to the overall average level of the current relativities so that the indications would be revenue neutral relative to the current relativities.
10. Staff limited changes in the classification relativities to +25 percent and -25 percent to minimize rate shock due to large indicated changes in the relativities.

11. Staff balanced the resulting limited relativities to the overall average level of the current relativities to produce a set of relativities that was revenue neutral in relation to the current relativities. Staff submitted this set of revised revenue-neutral relativities, which was based on the updated experience, with the notice of the December 12, 2014, hearing.
12. Staff also presented information on the profitability of the workers' compensation market at the hearing.
13. Staff projected the 2013 accident year combined ratio at just below 90 percent, which indicates an estimated 10 percent underwriting profit. The combined ratio has averaged about 90 percent for the past six accident years.
14. Insurance companies' rate indications filed for the 2014 biennial rate hearing, based on data through 2013, indicate that there could be an estimated 3.5 percent decrease in premium levels, which would still cover losses and expenses while producing the targeted profit.
15. Findings of Fact 13 and 14 demonstrate that the workers' compensation market is profitable. As a result, staff determined that it is reasonable to reduce the revised classification relativities by 5 percent.
16. Staff recommends an overall 5 percent decrease in the average level of the relativities from the June 1, 2013, level rather than the revenue-neutral set of relativities submitted with the notice of the December 12, 2014, hearing. With this overall reduction, the change for any given classification is between +19 percent and -29 percent.

Experience Rating Values

17. In the past, modifications to the classification relativities required concurrent changes in the expected loss rates and discount ratios. However, the adoption of the *National Council on Compensation Insurance Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance* for experience rating modifications effective on or after July 1, 2015, made those changes unnecessary.
18. NCCI will update the expected loss rates and discount ratios each year as part of its annual loss cost filing. For July 1, 2015, NCCI provided updated expected loss rates and discount ratios in a separate experience rating value filing.

Effective Date

19. TDI staff requests that the revised classification relativities described in Finding of Fact 16 be available for adoption by insurers immediately, but that their use be mandatory for all policies with effective dates on or after July 1, 2015, unless the insurer files an alternative classification rate basis.

CONCLUSIONS OF LAW

1. The commissioner has jurisdiction over this matter under Insurance Code Section 2053.051. Section 2053.051 requires TDI to determine hazards by class and establish classification relativities applicable to the payroll in each classification for workers' compensation insurance. It further provides that the classification system must be revised at least once every five years.
2. Adopting the revised classification relativities in Exhibit A, amended to include the 5 percent overall reduction, is reasonable and is consistent with Texas workers' compensation statutes and rules.

The commissioner adopts the revised classification relativities in Exhibit A, as amended, for policies with an effective date on or after July 1, 2015. Exhibit A, as amended, is incorporated by reference into this order. Insurers may use the revised classification relativities immediately. However, the revised classification relativities must be used for all policies with effective dates on or after July 1, 2015, unless the insurer files an alternative classification rate basis.



David C. Mattax

Commissioner of Insurance