

No. 2017- 4959

OFFICIAL ORDER
of the
TEXAS COMMISSIONER OF INSURANCE

Date: FEB 23 2017

Subject Considered:

REVISED WORKERS' COMPENSATION CLASSIFICATION RELATIVITIES

The commissioner of insurance considered workers' compensation classification relativities to replace those adopted under Commissioner's Order No. 4337, dated March 3, 2016.

The commissioner held a hearing on staff's proposed revised classification relativities under Docket No. 2794 on December 16, 2016, 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 on November 23, 2016, on the Secretary of State's website as an open meeting. TDI also provided notice on the TDI website and by electronic news. At the hearing, staff explained the recommended revisions.

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 23, 2016. Comments on the proposed revised classification relativities were due by 5 p.m., Central time, on January 9, 2017. TDI received one comment.

The commenter asserted that the proposed 10 percent reduction was insufficient and that relativities could be reduced by a minimum of 15 percent. The commenter stated that the 2015 combined ratio of 83 percent indicates an astronomical level of profitability; the ten-year average after-tax profit of 16.6 percent is excessive by any reasonable standard and more than double the national average; the cumulative relativity adjustments appear to be more conservative than the loss cost reductions made by the National Council on Compensation Insurance (NCCI) since 2011; and NCCI selected conservative loss trends when developing its loss cost reductions.

The commissioner considered the comment and found that staff's proposed 10 percent reduction to the overall relativities is reasonable. TDI and NCCI have responded appropriately to the decreasing combined ratios and loss ratios by reducing the relativities and the loss costs in each of the last three years. Finally, reducing the relativities by 10 percent, but not more, balances

recognition of the continued improvement in loss experience with the possibility of rate shock or overcorrection, either of which could result in future rate increases.

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 July 1, 2016, are based on experience data reflecting workers' compensation experience from policies with effective dates from 2008 through 2012.
2. The proposed revised classification relativities are based on experience data reflecting workers' compensation experience from policies with effective dates from 2009 through 2013.

Methodology

3. Staff used the same methodology as in previous years to calculate the revised classification relativities.
4. Staff's analysis used the five most recent policy years' loss experience from the *Workers' Compensation Statistical Plan* data, which is summarized by and obtained from NCCI, TDI's statistical agent. Staff reviewed NCCI's data for reasonableness and consistency.
5. Staff developed a revenue-neutral set of relativities in relation to the current relativities, and limited the change to +/-25 percent for any one class in order to minimize possible rate shock due to any large indicated changes in the relativities. Staff then multiplied the revenue-neutral set of relativities by an adjustment factor of 0.9.
6. This adjustment will decrease the classification relativities by an average of 10 percent overall. With this overall reduction, the change for any given classification will range from -32.5 percent to 12.5 percent of the current classification relativities.
7. Staff incorporated recent changes in the classification system resulting from the approval of two NCCI filings, both effective July 1, 2017. *Item 01-TX-2016* eliminated the A-rating process for certain classification codes. *Item B-1431* revised, established, and eliminated certain national and state special classifications. In Texas, the filing eliminated some state special classifications with low credibility and reassigned the exposures to other national or

Texas classifications. In order to maintain a uniform class system, these changes made it necessary for TDI to develop relativities for class codes that were previously A-rated or did not exist.

8. Staff estimated the accident year combined ratio for 2015 to be approximately 83 percent, which is just below last year's ratio of 84.6 percent. This ratio has decreased each year since 2011, when it reached a high of 96.5 percent.
9. NCCI's overall average decrease to the loss cost level effective July 1, 2016, was 9.9 percent. Further, NCCI's overall average loss cost level will decrease by 7.8 percent, effective July 1, 2017.

Effective Date

10. TDI staff had requested that the proposed revised classification relativities be available for adoption by insurers immediately, but that their use be mandatory for all policies with effective dates on or after July 1, 2017, unless the insurer files an alternative classification rate basis. But after considering the recent changes to the classification system, which will become effective July 1, 2017, staff instead recommends that the proposed revised classification relativities be available for adoption by insurers for all policies with effective dates on or after July 1, 2017, unless the insurer files an alternative classification rate basis.

CONCLUSIONS OF LAW

1. The commissioner has jurisdiction over this matter under Insurance Code §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 TDI revise the classification system at least once every five years.
2. Findings of Fact 8 and 9 demonstrate that the workers' compensation market is profitable. As a result, staff determined that it is reasonable to reduce the average level of the current classification relativities by 10 percent overall, as presented at the hearing.
3. Adopting the revised classification relativities in Exhibit A is reasonable and is consistent with Texas workers' compensation statutes and rules.

The commissioner adopts the revised classification relativities in Exhibit A for policies with effective dates on or after July 1, 2017. Exhibit A is incorporated by reference into this order. The

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revised classification relativities must be used for all policies with effective dates on or after July 1, 2017, unless the insurer files an alternative classification rate basis.



David C. Mattax
Commissioner of Insurance

~~By: Kevin Brady, Deputy Commissioner~~
Delegation Order 4506

EXHIBIT A				
TEXAS WORKERS' COMPENSATION RELATIVITIES				
EFFECTIVE 7/1/2017				
Class	Relativity		Class	Relativity
0005	3.78		4828	0.65
0008	4.53		4829	0.65
0011	9.37		4902	3.33
0016	8.95		4923	1.52
0034	4.18		5022	8.74
0035	5.35		5040	13.33
0037	6.38		5041	9.51
0042	5.80		5057	5.26
0059	0.39		5070	12.33
0065	0.08		5102	6.34
0066	0.08		5160	3.10
0067	0.08		5183	4.27
0079	3.77		5190	4.83
0083	7.09		5191	1.30
0106	9.63		5192	4.35
0113	4.91		5200	5.09
0401	18.83		5203	12.15
0913	302.50		5213	5.82
0923	a		5220	5.27
1165	3.28		5348	3.19
1321	2.13		5403	6.86
1438	6.32		5437	6.14
1463	16.58		5443	2.91
1472	5.86		5462	7.07
1701	6.43		5474	5.57
1747	2.14		5479	6.25
1803	3.91		5491	2.38
1924	3.84		5506	8.81
2003	5.89		5536	4.18
2014	7.16		5538	9.77
2040	4.18		5551	12.95
2041	2.83		5606	1.11
2068	4.84		5701	4.76
2081	4.76		6003	5.74
2095	6.28		6045	4.30
2105	4.71		6202	10.53
2111	6.16		6203	2.06
2114	6.73		6204	9.81
2121	2.69		6205	0.90
2157	5.06		6206	4.18
2172	1.54		6213	2.85
2211	19.51		6216	6.70
2220	2.92		6219	6.11
2260	3.08		6229	3.77
2286	2.66		6233	3.02

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EFFECTIVE 7/1/2017				
Class	Relativity		Class	Relativity
2288	7.44		6237	3.51
2361	1.05		6238	11.12
2380	1.78		6306	10.56
2501	5.19		6319	5.06
2503	0.85		6400	5.97
2532	1.59		6504	4.18
2534	2.36		6823	5.80
2578	5.87		6824	10.25
2581	7.38		6843	8.79
2583	3.55		6872	8.98
2587	4.00		6874	17.38
2670	13.04		7016	2.78
2683	4.85		7024	3.10
2688	6.23		7046	5.15
2702	21.48		7047	4.76
2710	10.92		7098	5.72
2719	9.57		7099	8.80
2731	5.17		7133	4.39
2790	4.09		7134	4.89
2802	6.80		7135	7.53
2835	4.05		7219	10.14
2881	4.62		7230	12.44
2923	1.72		7309	23.05
3004	3.47		7313	6.28
3022	4.19		7317	5.49
3027	1.46		7327	5.04
3028	4.86		7350	20.60
3040	6.31		7360	7.34
3041	4.66		7380	6.36
3042	2.17		7382	8.04
3064	4.95		7390	6.34
3066	4.41		7405	2.78
3081	5.00		7418	5.37
3082	6.85		7421	0.77
3085	3.66		7422	3.11
3110	6.19		7423	6.41
3111	4.19		7502	1.85
3113	3.62		7515	1.74
3114	3.65		7520	3.85
3126	2.69		7538	12.38
3131	2.42		7539	1.57
3132	3.58		7580	3.26
3146	3.48		7590	8.48
3179	2.73		7600	4.30
3220	2.74		7602	5.78

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EFFECTIVE 7/1/2017				
Class	Relativity		Class	Relativity
3223	3.33		7610	0.53
3224	5.99		7704	5.18
3227	6.05		7720	3.17
3255	4.51		7855	5.96
3257	6.50		8002	2.80
3300	8.08		8006	3.64
3316	1.11		8008	2.04
3331	5.83		8013	0.94
3365	4.93		8017	2.47
3372	4.30		8018	5.26
3383	1.44		8032	4.81
3507	3.69		8033	4.39
3548	2.40		8034	5.00
3574	0.85		8039	3.38
3620	4.57		8044	5.99
3629	2.38		8045	0.75
3632	3.65		8047	1.09
3639	8.03		8058	3.43
3642	3.77		8102	9.96
3643	3.39		8103	5.32
3647	2.42		8106	7.15
3648	2.94		8107	4.16
3681	1.15		8113	5.98
3685	1.48		8209	7.36
3719	2.14		8215	4.99
3724	3.88		8227	3.76
3726	4.31		8231	7.79
3805	1.25		8234	7.90
3807	5.26		8264	6.67
3808	6.14		8265	8.36
3821	6.72		8288	6.95
3822	3.87		8292	6.12
3823	5.80		8293	14.38
3824	4.89		8304	10.87
3830	2.70		8350	8.57
3865	5.14		8385	4.30
3881	5.50		8387	3.12
4000	4.98		8391	2.93
4021	7.60		8601	0.37
4024	2.31		8606	2.47
4034	8.14		8607	2.94
4036	2.29		8709	2.65
4038	5.33		8726	1.12
4045	4.81		8742	0.37
4062	3.64		8748	0.56

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EFFECTIVE 7/1/2017				
Class	Relativity		Class	Relativity
4101	5.39		8752	4.11
4112	0.61		8754	1.27
4114	3.42		8755	0.35
4130	6.98		8803	0.13
4150	1.25		8809	0.28
4206	5.83		8810	0.19
4207	1.05		8820	0.16
4239	2.18		8828	3.54
4243	5.62		8829	4.31
4244	3.09		8831	1.78
4250	2.33		8832	0.40
4273	2.32		8833	0.93
4279	3.70		8837	a
4282	1.38		8838	0.78
4283	2.76		8858	0.35
4299	2.59		8868	0.76
4304	5.78		8901	0.29
4307	2.78		9014	4.70
4351	1.04		9015	4.09
4360	5.06		9016	4.07
4361	3.22		9019	3.13
4362	0.94		9032	6.23
4410	5.27		9033	3.95
4417	3.52		9040	4.46
4420	6.82		9052	3.94
4431	4.34		9058	2.69
4432	2.59		9060	2.57
4439	1.67		9061	1.90
4452	3.47		9063	1.47
4459	2.79		9079	2.04
4470	3.86		9080	1.70
4484	3.71		9089	1.05
4511	1.05		9093	1.75
4519	4.35		9101	5.19
4558	2.32		9102	4.79
4568	6.23		9154	2.50
4583	5.57		9156	2.46
4611	1.36		9170	20.44
4635	2.52		9178	13.62
4653	5.19		9179	14.61
4665	12.36		9182	3.53
4670	6.95		9186	15.08
4683	5.77		9220	11.23
4692	0.79		9402	8.28
4693	1.93		9501	3.17

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TEXAS WORKERS' COMPENSATION RELATIVITIES				
EFFECTIVE 7/1/2017				
Class	Relativity		Class	Relativity
4703	5.14		9522	7.70
4712	3.01		9529	4.30
4717	4.19		9552	9.03
4720	2.67		9586	1.33
4740	0.90		9600	2.11
4743	2.59		9620	1.58
4751	1.45		9984	a
4766	4.56		9985	a
4777	11.78			