

No. **4337**

OFFICIAL ORDER
of the
TEXAS COMMISSIONER OF INSURANCE

Date: March 3, 2016

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. 3848, dated March 5, 2015.

The commissioner held a hearing on staff's proposed revised classification relativities under Docket No. 2784 on December 16, 2015, 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 30, 2015, 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 24, 2015. Comments on the proposed revised classification relativities were due by 5 p.m., Central time, on January 4, 2016. TDI received one comment.

The commenter asserted that the proposed 10 percent reduction was insufficient, and concluded that the loss costs and relativities could easily be reduced by 20 percent. The commenter stated that the 2014 combined ratio of 84 percent indicates an astronomical level of profitability; the National Council on Compensation Insurance (NCCI) selected conservative loss trends when developing its loss cost reductions; and the loss ratio for workers' compensation insurance has not exceeded 48 percent since 2010.

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 two years. Also, TDI staff's analysis of the loss trends selected by NCCI shows that the selections were reasonable. 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, 2015, are based on experience data reflecting workers' compensation experience from policies with effective dates from 2007 through 2011.
2. The proposed revised classification relativities are based on experience data reflecting workers' compensation experience from policies with effective dates from 2008 through 2012.

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 estimated the accident year combined ratio for 2014 to be approximately 84 percent, which is four points below last year's ratio of 88 percent. This ratio has decreased each year since 2011, when it reached a high of 96 percent.

8. NCCI's overall average decrease to the loss cost level effective July 1, 2015, was 10.9 percent. Further, NCCI has proposed a 9.9 percent decrease in the overall average loss cost level effective July 1, 2016.
9. Findings of Fact 7 and 8 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.

Effective Date

10. TDI staff 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, 2016, 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 the classification system must be revised at least once every five years.
2. 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, 2016. Exhibit A 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, 2016, unless the insurer files an alternative classification rate basis.



David C. Mattax
Commissioner of Insurance