

08-0886

TEXAS DEPARTMENT OF INSURANCE  
EXEMPT FILING NOTIFICATION PURSUANT TO THE INSURANCE CODE  
CHAPTER 5, SUBCHAPTER L, ARTICLE 5.96

**ADOPTION OF AMENDMENTS TO THE TEXAS BASIC MANUAL OF RULES,  
CLASSIFICATIONS AND EXPERIENCE RATING PLAN FOR WORKERS'  
COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE RELATING TO  
ACQUISITION EXPENSE DISCOUNTS**

The Commissioner of Insurance (Commissioner) adopts the amendments proposed by Safeco Insurance Companies (American States Insurance Company, American Economy Insurance Company, American States Insurance Company of Texas, and First National Insurance Company of America) (Safeco) in a petition (Reference No. W-0708-12) filed on July 14, 2008. Notice of the proposal was published in the August 22, 2008 issue of the *Texas Register* (33 TexReg 7003). No comments were received on the proposal and no hearing was requested. The amendments are adopted without changes to the proposed text.

The following amendments to the *Texas Basic Manual of Rules, Classifications and Experience Rating Plan for Workers' Compensation and Employers' Liability Insurance* (Manual) are adopted:

Rule VI of the Manual, titled "Rates and Premium Determination," is amended by adding a new Section L, entitled "Acquisition Expense Discount." The adopted new section defines an acquisition expense discount as a "premium credit given to policyholders written by the same insurance carrier who are members of a

common group or organization.” The acquisition expense discount allows insurers that can identify and document reduced acquisition expenses related to writing members of such a group or organization to pass the savings on to these policyholders. The acquisition expense discount is applied in addition to the premium discount and is applicable to minimum premium policies.

Each insurer electing to offer an acquisition expense discount is required to file the discount with the Texas Department of Insurance (Department) in accordance with the Texas Administrative Code, Title 28, Chapter 5, Subchapter M, Filing Requirements. Each such insurer is required to provide the following information:

- a. The definition of the common group or organization to which the acquisition expense discount will apply;
- b. The acquisition expense discount percentage; and
- c. Documentation supporting the acquisition expense discount.

Rule VI, Section E of the Manual, titled “Minimum Premium,” is amended to state that the minimum premiums filed by the insurers shall be reduced by the acquisition expense discount, if applicable.

The Procedures Appendix, Section A(6) of the Manual, titled “Policy Issuance,” is amended by adding the acquisition expense discount factor, if any is applicable, to the list of items that must be included on the Information Page of the policy.

The acquisition expense discount is added as new subsection (r) and the subsequent subsections are re-designated as (s) through (x). The amount of the premium reduction, if applicable, shall be shown on the Information Page of the policy.

Rule III, Section E of the Manual, titled "Calculation of Total Estimated Policy Cost" is amended by adding to the list of items new item 19 for "Estimated Standard Premium After Premium Discount" and new item 20 for "Acquisition Expense Discount, If Applicable." The subsequent items are re-designated as (21) through (23). If the minimum premium is the total estimated policy cost, the acquisition expense discount shall be applied to the minimum premium.

The Commissioner has jurisdiction over this matter pursuant to the Insurance Code Article 5.96. Article 5.96(a) authorizes the Commissioner to prescribe, promulgate, adopt, approve, amend, or repeal standard and uniform manual rules, rating plans, classification plans, statistical plans, and policy and endorsement forms for workers' compensation insurance.

The Commissioner has determined that the new Manual rule is necessary because acquisition expense discounts would allow insurers that can identify and document reduced acquisition expenses related to writing members of such a group or organization to pass the savings on to these policyholders.

A copy of the full text of Safeco's petition and related exhibits of specific language for the adopted amendments to the Manual have been on file with the Office of the Chief Clerk of the Department since July 14, 2008, and are incorporated by reference into this Commissioner's Order.

This adoption is made pursuant to the Insurance Code Article 5.96, which exempts action taken under this article from the requirements of the Administrative Procedure Act (Government Code, Title 10, Chapter 2001).

The Department hereby certifies that the amendments to the Manual have been reviewed by legal counsel and found to be a valid exercise of the Department's authority.

Issued in Austin, Texas, on October 10, 2008.

A handwritten signature in black ink, appearing to read "Gene Jarmon", written over a horizontal line.

Gene Jarmon  
General Counsel and Chief Clerk  
Texas Department of Insurance

**IT IS THEREFORE THE ORDER** of the Commissioner of Insurance that the amendments to the Manual proposed by the Safeco petition (Reference No. W-0708-12) as described herein and set forth in the exhibit attached to this Order

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COMMISSIONER'S ORDER  
ACQUISITION EXPENSE DISCOUNTS  
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and incorporated into this Order by reference, be adopted 15 days after notice of adoption is published in the *Texas Register*.

**AND IT IS SO ORDERED.**

TEXAS DEPARTMENT OF INSURANCE



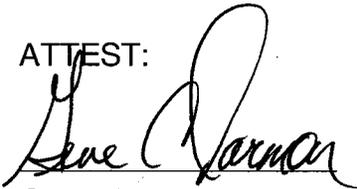
Mike Geeslin  
Commissioner of Insurance

Recommended by:



Nancy Moore  
Deputy Commissioner, WC Classification and Premium Calculation  
Texas Department of Insurance

ATTEST:



Gene Jarmon  
General Counsel and Chief Clerk  
Texas Department of Insurance

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OCT 10 2008

Current PhraseologyNew Phraseology

## RULES

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## RULE VI – RATES AND PREMIUM DETERMINATION

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## L. ACQUISITION EXPENSE DISCOUNT

## 1. Definition

An acquisition expense discount is a premium credit given to policyholders written by the same insurance carrier who are members of a common group or organization. The discount is given to reflect acquisition expense savings, such as a reduction in marketing or sales costs and commission reductions that are identified and documented by the insurance carrier.

## 2. Eligibility

Members of the common group or organization are eligible for an acquisition expense savings in the form of a discount, as filed by the insurance carrier. (Refer to Rule VI. L. 4.)

## 3. Application of Discount

- a. The acquisition expense discount factor is applied to the Estimated Standard Premium After Premium Discount. For example, if the filed acquisition expense discount is 5%, the factor is .95. (Refer to Rule III E.).
- b. This discount is applied in addition to the premium discount.
- c. This discount is applied to minimum premium policies.

## 4. Insurance Carrier Requirements

- a. Each insurance carrier is required to file with TD1 the amount of the acquisition expense discount it proposes to offer to policyholders for each common group or organization. Each carrier must provide the following information:
  - (1) The definition of the common group or organization to which this discount will apply;
  - (2) The acquisition expense discount percentage; and
  - (3) Documentation supporting this discount.
- b. All filings shall be made in accordance with the requirements contained in Texas Administrative Code, Title 28, Chapter 5, Subchapter M, Filing Requirements.

Current PhraseologyNew Phraseology**RULE VI – RATES AND PREMIUM DETERMINATION****E. MINIMUM PREMIUM****1. Explanation**

The minimum premium is the lowest premium required in order to provide insurance under the Standard Policy. The minimum premium shall be stated on the Information Page. It is the lowest total policy premium for a one-year policy period. The minimum premium shall be prorated on policies issued for a period less than one year. For policies issued for a period over one year, refer to Rule III.

Minimum premiums for each classification are filed by the insurance carriers with this department.

**A. POLICY ISSUANCE**

6. The information indicated on the Information Page of the policy shall be complete in all details:

- r) Expense constant.
- s) Terrorism premium, if applicable
- t) Total estimated policy cost.
- u) Minimum premium.
- v) Deposit premium.
- w) Signature or name of authorized Texas agent countersigning policy.

**RULE VI – RATES AND PREMIUM DETERMINATION****E. MINIMUM PREMIUM****1. Explanation**

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Minimum premiums for each classification are filed by the insurance carriers with this department.

Minimum premiums filed by the insurance carriers shall be reduced by the acquisition expense discount, if applicable (Refer to Rule VI. L.)

**A. POLICY ISSUANCE**

6. The information indicated on the Information Page of the policy shall be complete in all details:

- r) Acquisition Expense Discount, if applicable.
- s) Expense constant.
- t) Terrorism premium, if applicable
- u) Total estimated policy cost.
- v) Minimum premium.
- w) Deposit premium.
- x) Signature or name of authorized Texas agent countersigning policy.

c. All Manual rules and procedures apply to each unit as if a separate policy had been issued.

D. STATE LAWS DESIGNATED IN THE POLICY - ITEM 3.A.

Coverage for operations conducted in a state is provided by listing the state in Item 3.A. of the Information Page.

E. CALCULATION OF TOTAL ESTIMATED POLICY COST\*\*-ITEM 4

1. ESTIMATED PAYROLL X RATE = ESTIMATED ANNUAL PREMIUM FOR CLASSIFICATION
2. + ESTIMATED PAYROLL X RATE = ESTIMATED ANNUAL PREMIUM FOR CLASSIFICATION
3. + ESTIMATED PAYROLL X RATE = ESTIMATED ANNUAL PREMIUM FOR CLASSIFICATION
4. + AIRCRAFT PASSENGER SEAT SURCHARGE, IF APPLICABLE
5. + PREMIUM CHARGE FOR WAIVER OF SUBROGATION, IF APPLICABLE
6. + PREMIUM FOR INCREASED LIMITS FOR EMPLOYERS' LIABILITY, IF APPLICABLE
7. ± PREMIUM INCENTIVE FOR SMALL EMPLOYERS, IF APPLICABLE
8. = ESTIMATED PREMIUM SUBJECT TO EXPERIENCE MODIFIER (1+2+3+4+5+6±7)
9. x EXPERIENCE MODIFIER (OR NEGOTIATED MODIFIER), IF APPLICABLE
10. = ESTIMATED MODIFIED PREMIUM (8x9)
11. x SCHEDULE RATING PLAN FACTOR, IF APPLICABLE
12. = ESTIMATED MODIFIED/SCHEDULE RATING PREMIUM (10x11)
13. x NETWORK CREDIT FACTOR, if applicable
14. = ESTIMATED MODIFIED/SCHEDULE RATING/NETWORK PREMIUM
15. - DEDUCTIBLE CREDIT, IF APPLICABLE Based on Estimated Modified/Schedule Rating Premium
16. + MINIMUM PREMIUM FOR L. & H.W., ADMIRALTY OR F.E.L.A. OPERATIONS, IF APPLICABLE
17. = ESTIMATED STANDARD PREMIUM (14-15+16)
18. - PREMIUM DISCOUNT, IF APPLICABLE Based on Estimated Standard Premium
19. = ESTIMATED STANDARD PREMIUM AFTER PREMIUM DISCOUNT
20. x ACQUISITION EXPENSE DISCOUNT FACTOR, IF APPLICABLE
21. + EXPENSE CONSTANT
22. + TERRORISM PREMIUM (TOTAL PAYROLL / 100 x TERRORISM RATE), IF APPLICABLE
23. = TOTAL ESTIMATED POLICY COST Excluding premium adjustments for retrospective rating plan and/or reimbursements for deductibles, if applicable ((19x20) +21+22).

If the minimum premium is the total estimated policy cost, the acquisition expense discount shall be applied to the minimum premium.

\*\*All workers' compensation policies are subject to a final payroll audit that reflects the actual payroll and the actual premium developed on the policy in comparison to the estimated payrolls and the estimated premium and estimated policy cost calculated at the time the policy is issued.