

State: Texas **Filing Company:** National Council on Compensation Insurance, Inc.
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: 02-TX-2021 Rules and an Endorsement Related to the Catastrophe (Other Than Certified Acts of Terrorism) Provision in Texas
Project Name/Number: /

Filing at a Glance

Company: National Council on Compensation Insurance, Inc.
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State: Texas
TOI: 16.0 Workers Compensation
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Corresponding Filing Tracking Number: NCCI-132958079
State TOI: Workers Compensation State Sub-TOI: Workers Compensation

Filing Description:

This item revises and establishes rules and an endorsement related to the Catastrophe (other than Certified Acts of Terrorism) Provision in Texas. The following NCCI manuals are impacted:

- Basic Manual for Workers Compensation and Employers Liability Insurance (Basic Manual)
- Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Retrospective Rating Plan Manual)
- Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)
- Forms Manual of Workers Compensation and Employers Liability Insurance (Forms Manual)

Company and Contact

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Filing Company Information

National Council on Compensation Insurance, Inc. CoCode: State of Domicile: Florida
901 Peninsula Corporate Circle Group Code: Company Type:
Boca Raton, FL 33487 Group Name: State ID Number:
(561) 893-3186 ext. [Phone] FEIN Number: 65-0439698

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Filing Fees

State Fees

Fee Required? Yes
Fee Amount: \$20.50
Retaliatory? No
Fee Explanation:

State Specific

- [PII] Does this filing contain any personally identifiable information (PII)? (See SERFF General Instructions for the definition and examples of PII.) Answer either YES or NO:: No
- [Associated filing] Provide the TDI file number or SERFF tracking number for all associated filings:: NCCI-132958079
- [Deemer date] Do you waive the deemer for form, endorsement, and certificate of insurance filings under 28 TAC 5.9325? Answer either YES or NO:: No
- Do you waive the limits on requests for information for rate/rule filings under 28 TAC 5.9336? Answer either YES or NO:: Yes
- [Replacement number] Provide the TDI file number of the previously approved forms and endorsements or accepted rates, rules, or rate/rules that you are replacing:: NA
- [Reference/adopt] Provide the TDI file number that contains approved forms and endorsements or accepted rates, rules, or rate/rules that you are referencing/adopting.: NA
- [Interline] State if this is an interline filing and list all lines of insurance the endorsement or rate/rules applies to.: NA
- [Dual] For dual filings (monoline and multi-peril) state if this is a new program. If not, provide the TDI file number for either the previous dual filing, or the previous monoline and multi-peril filings approved for this program:: NA
- [Policy form] What policy form do these endorsements and forms go with? List the TDI file number where the policy form was approved or referenced:: NA
- [RPG] Will this filing be used for a Risk Purchasing Group? Answer either YES or NO. If yes, provide the name:: No
- [COVID-19] Is this filing related to the COVID-19 pandemic? Answer either YES or NO.: Yes

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Form Schedule

Item No.	Schedule Item Status	Form Name	Form Number	Edition Date	Form Type	Form Action	Action Specific Data	Readability Score	Attachments
1		Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement	WC 00 04 21 F	08-2022	END		New		

Form Type Legend:

ABE	Application/Binder/Enrollment	ADV	Advertising
BND	Bond	CER	Certificate
CNR	Canc/NonRen Notice	DEC	Declarations/Schedule
DSC	Disclosure/Notice	END	Endorsement/Amendment/Conditions
ERS	Election/Rejection/Supplemental Applications	OTH	Other

ITEM 02-TX-2021—RULES AND AN ENDORSEMENT RELATED TO THE CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) PROVISION IN TEXAS

**EXHIBIT 7-FORM
FORMS MANUAL OF WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE
CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) PREMIUM
ENDORSEMENT (WC 00 04 21 F)**

Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 F)

This endorsement is notification that we are charging premium to cover the losses that may occur in the event of a Catastrophe (Other Than Certified Acts of Terrorism) as that term is defined below. Your policy provides coverage for workers compensation losses caused by a Catastrophe (Other Than Certified Acts of Terrorism). Coverage for such losses is subject to all terms, definitions, exclusions, and conditions in your policy, and any applicable federal and/or state laws, rules, or regulations. This premium charge does not provide funding for Certified Acts of Terrorism contemplated under the Terrorism Risk Insurance Program Reauthorization Act Disclosure Endorsement attached to this policy.

For purposes of this endorsement, Catastrophe (Other Than Certified Acts of Terrorism) is defined as: A single event or peril resulting in a group of claims with aggregate workers compensation losses in excess of \$50 million. This \$50 million threshold applies per occurrence, across all states for which claims arise from a single event or peril.

The premium charge for the coverage your policy provides for workers compensation losses caused by a Catastrophe (Other Than Certified Acts of Terrorism) is shown in Item 4 of the Information Page or in the Schedule below.

Schedule

State

Rate

Premium

State: Texas
TOI/Sub-TOI: 16.0 Workers Compensation/16.0004 Standard WC
Product Name: 02-TX-2021 Rules and an Endorsement Related to the Catastrophe (Other Than Certified Acts of Terrorism) Provision in Texas
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Project Name/Number: /

Supporting Document Schedules

Satisfied - Item:	Does this filing contain confidential information?
Comments:	No
Attachment(s):	
Item Status:	
Status Date:	

Bypassed - Item:	Coverage Evaluation
Bypass Reason:	NA
Attachment(s):	
Item Status:	
Status Date:	

Bypassed - Item:	Department Toll-Free Number For Information and Complaints
Bypass Reason:	NA
Attachment(s):	
Item Status:	
Status Date:	

Satisfied - Item:	Explanatory Memorandum
Comments:	
Attachment(s):	02-TX-2021 Filing Memorandum.pdf
Item Status:	
Status Date:	

Bypassed - Item:	Form Usage Table
Bypass Reason:	NA
Attachment(s):	
Item Status:	
Status Date:	

Bypassed - Item:	Insurer's Toll-Free Information and Complaint Number
Bypass Reason:	NA
Attachment(s):	
Item Status:	
Status Date:	

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Bypassed - Item:	Notice to Accompany Policy
Bypass Reason:	NA
Attachment(s):	
Item Status:	
Status Date:	

Bypassed - Item:	Texas Laws Govern Policies
Bypass Reason:	NA
Attachment(s):	
Item Status:	
Status Date:	

Satisfied - Item:	Informational Exhibit
Comments:	
Attachment(s):	02-TX-2021 Informational Exhibit.pdf
Item Status:	
Status Date:	

FILING MEMORANDUM

ITEM 02-TX-2021—RULES AND AN ENDORSEMENT RELATED TO THE CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM) PROVISION IN TEXAS

PURPOSE

This item revises and establishes rules and an endorsement related to the Catastrophe (other than Certified Acts of Terrorism) Provision in Texas. The following NCCI manuals are impacted:

- ***Basic Manual for Workers Compensation and Employers Liability Insurance (Basic Manual)***
- ***Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Retrospective Rating Plan Manual)***
- ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***
- ***Forms Manual of Workers Compensation and Employers Liability Insurance (Forms Manual)***

BACKGROUND

NCCI currently categorizes catastrophic events as earthquakes, noncertified acts of terrorism, or catastrophic industrial accidents that result in aggregate workers compensation losses in excess of \$50 million. Under NCCI's actuarial catastrophe methodology, data from catastrophes is excluded in the calculation of loss costs/rates because these events are not considered to be predictive of future experience. NCCI's Catastrophe (other than Certified Acts of Terrorism) Provision is used to contemplate exposure to catastrophic occurrences.

Both the definition of catastrophe and the treatment of catastrophe losses in property and casualty ratemaking are addressed in the Actuarial Standards of Practice (ASOP). As defined in ASOP 39, Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking, a catastrophe is "a relatively infrequent event or phenomenon that produces unusually large aggregate losses." ASOP 39 also states that "consideration should be given to the impact of catastrophes and that procedures should be developed to include an allowance for catastrophe exposure in the rate."

The exposure to catastrophic workers compensation losses exists in Texas. In 2004, NCCI filed a similar provision in most states. Item B-1393—Miscellaneous Values for Domestic Terrorism, Earthquakes, and Catastrophic Industrial Accidents was filed to address certain catastrophic occurrences; this item was not filed in Texas because NCCI was not authorized to file in Texas. Since there is not currently a provision to account for any events that may result in aggregate workers compensation losses in excess of \$50 million, the current loss cost structure in Texas does not sufficiently account for these risks. The COVID-19 pandemic is the most recent catastrophic event impacting the workers compensation system. NCCI estimates that COVID-19 pandemic claims, excluding self-insureds, have the potential to ultimately result in workers compensation losses exceeding \$500 million over the entire duration of the pandemic across jurisdictions where NCCI provides ratemaking services.

This filing proposes to implement NCCI's actuarial catastrophe methodology in Texas. This methodology would treat a single event or peril that results in aggregate workers compensation losses in excess of \$50 million per occurrence as a catastrophe and thus exclude reported data from such an event from ratemaking. It would also establish the Catastrophe (other than Certified Acts of Terrorism) Provision in Texas, which includes a ***Basic Manual*** rule, endorsement, and statistical code, consistent with other NCCI states. The Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement defines "Catastrophe (Other Than Certified Acts of Terrorism)" as "A single event or peril resulting in a group of claims with aggregate

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workers compensation losses in excess of \$50 million. This \$50 million threshold applies per occurrence, across all states for which claims arise from a single event or peril.” In adherence with the ASOPs, this treatment recognizes that there are multiple potentially catastrophic perils with exposure on workers compensation system costs.

Since pandemics have not previously been contemplated as a catastrophic event and the COVID-19 pandemic resulted in losses in excess of \$50 million, NCCI recently consulted with an expert catastrophe loss modeling firm to model the impact of pandemics on workers compensation system costs. No other perils were recently modeled but should still be contemplated as possible catastrophic events with exposure to workers compensation system costs.

NCCI will not be proposing a Miscellaneous Value advisory loss cost in Texas for Catastrophe (other than Certified Acts of Terrorism). At the direction of the Texas Department of Insurance (TDI), if carriers plan to apply the Catastrophe (other than Certified Acts of Terrorism) premium, they must file their Catastrophe (other than Certified Acts of Terrorism) rate with the TDI.

Pandemic Modeling

The COVID-19 pandemic has shown that pandemics have the potential to be a catastrophic peril on workers compensation system costs. To understand the risk that future pandemics could have on workers compensation system costs beyond COVID-19, NCCI recently engaged with AIR Worldwide (AIR), an expert catastrophe loss modeling firm and subsidiary of Verisk Analytics. After an extended joint project with AIR, NCCI has concluded that:

- Pandemics may have a significant impact on the workers compensation system.
- The expected average annual pandemic loss is not directly quantifiable for workers compensation insurance exposure.
- It is appropriate to define Catastrophe (other than Certified Acts of Terrorism) as a single event or peril resulting in a group of claims with aggregate workers compensation losses in excess of \$50 million. This \$50 million threshold applies per occurrence, across all states for which claims arise from a single event or peril.

AIR uses a global catastrophe pandemic model to assess the potential impact of pandemics.

This model considers a collection of risk parameters including, but not limited to, pathogen type; start location; transmission rate; virulence; local, national, and international response mechanisms; time of year; and travel patterns. The included pathogens are influenza, coronaviruses, filoviruses, cholera, Rift Valley fever, Crimean-Congo hemorrhagic fever, bubonic plague, Lassa fever, and bacterial meningitis. Using employees as the unit of exposure, the model estimates the probability of a physician visit, hospitalization, or death, along with the associated costs.

In accordance with ASOP 38, Using Models Outside the Actuary’s Area of Expertise (Property and Casualty), NCCI reviewed the appropriateness of the pandemic model for its intended use. AIR’s model produced estimates of the average medical losses per worker resulting from pandemics, regardless of whether the claim originated from the workplace or was otherwise compensable. To focus AIR’s model framework on workers compensation, NCCI applied several adjustments to the AIR-provided values: (1) converted the

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estimates to account for lifetime medical costs, (2) added expected indemnity losses, (3) applied a factor for compensability, and (4) limited all events to \$100 billion to account for insurer insolvency and to recognize preventative measures that could be taken at more severe event levels.

NCCI discovered a number of challenges in quantifying the impact of pandemics on workers compensation system costs:

- Uncertainty in quantifying the share of pandemic illnesses that were transmitted at work or are otherwise compensable
- Uncertainty of how occupation exposure risk could vary depending on the severity of the pandemic
- Uncertainty in human behavior by state that could impact the transmissibility of a future pandemic
- Possible inverse correlation of pandemic losses with nonpandemic losses

Basic Manual Rule 3-A-24-c—Terrorism

This filing proposes that the language provided in **Basic Manual** Rule 3-A-24-c “added to the Total Standard Premium” be revised to “applied after standard premium” to accurately provide direction related to the calculation of premium. This revision is consistent with the language provided in other NCCI states.

Additionally, this item proposes that the sentence related to per capita classifications be revised to be accurate and consistent with the language provided in other NCCI states.

PROPOSAL

To reflect the newly established Catastrophe (other than Certified Acts of Terrorism) Provision in Texas, this item proposes to:

1. Revise rules related to the catastrophe provisions in NCCI’s **Basic Manual** to:
 - Include Catastrophe (other than Certified Acts of Terrorism)
 - Update information related to the premium calculation for Terrorism and per capita classifications
2. Revise the Texas Workers Compensation Premium Algorithm in NCCI’s **Basic Manual** to include Catastrophe (other than Certified Acts of Terrorism) and revise the word “healthcare” in line 18
3. Establish an entry in the Texas Miscellaneous Values to state that if a carrier plans to apply the Catastrophe (other than Certified Acts of Terrorism) premium, it must file its Catastrophe (other than Certified Acts of Terrorism) rate with the Texas Department of Insurance

In accordance with NCCI’s Catastrophe Methodology, NCCI would exclude from ratemaking all reported claims resulting from a single event or peril that results in a group of claims with aggregate workers compensation losses in excess of \$50 million per occurrence, across all states for which claims arise from a single event or peril.

4. Establish Rules 1-B-1-c and 1-B-1-f and eliminate the Texas exceptions to Rules 1-B-1-c and 1-B-1-f in NCCI’s **Retrospective Rating Plan Manual**

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5. Establish Statistical Code 9741—Catastrophe Provisions for Catastrophe (Other Than Certified Acts of Terrorism) in NCCI’s **Statistical Plan** for use in Texas
6. Establish the Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 F) in NCCI’s **Forms Manual**

IMPACT

Catastrophic data would be excluded in the calculation of loss costs.

Upon carriers’ approval of their Catastrophe (other than Certified Acts of Terrorism) rate from the Texas Department of Insurance, carriers charging their Catastrophe (other than Certified Acts of Terrorism) rate per \$100 of payroll would collect additional premium to account for exposure to catastrophic risks.

EXHIBIT COMMENTS AND IMPLEMENTATION SUMMARY

Exhibit	Exhibit Comments	Implementation Summary
1A-RULE	Details the revisions to Rules 3-A-24-b and 3-A-24-c in the currently approved 2001 edition of NCCI’s Basic Manual .	To become effective for new and renewal voluntary policies only, with effective dates on and after 12:01 a.m. on July 1, 2022.*
1B-RULE	Details the revisions to the rule, Catastrophe provisions, in the pending revisions to NCCI’s Basic Manual , as filed in Item B-1444—NCCI’s Basic Manual for Workers Compensation and Employers Liability Insurance and Item 02-TX-2021.	
2A-RULE	Details the revisions to the Texas Workers Compensation Premium Algorithm in the currently approved 2001 edition of NCCI’s Basic Manual .	
2B-RULE	Details the revisions to the Texas Workers Compensation Premium Algorithm in NCCI’s Basic Manual , as filed in Item B-1444—NCCI’s Basic Manual for Workers Compensation and Employers Liability Insurance and Item 02-TX-2021.	
3A-RULE	Details the establishment of an entry in the Texas Miscellaneous Values for Catastrophe (other than Certified Acts of Terrorism) in the currently approved 2001 Edition of NCCI’s Basic Manual .	
3B-RULE	Details the establishment of an entry in the Texas Miscellaneous Values for Catastrophe (other than Certified Acts of Terrorism) in the pending revisions to NCCI’s Basic Manual , as filed in Item B-1444—NCCI’s Basic Manual for Workers Compensation and Employers Liability Insurance.	

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(OTHER THAN CERTIFIED ACTS OF TERRORISM) PROVISION IN TEXAS

Exhibit	Exhibit Comments	Implementation Summary
4-RULE	Details the establishment of national Rule 1-B-1-c and the elimination of the Texas exception to Rule 1-B-1-c in NCCI's <i>Retrospective Rating Plan Manual</i> .	
5-RULE	Details the establishment of national Rule 1-B-1-f and the elimination of the Texas exception to Rule 1-B-1-f in NCCI's <i>Retrospective Rating Plan Manual</i> .	
6-RULE	Details the establishment of Statistical Code 9741 in NCCI's <i>Statistical Plan</i> for use in Texas.	
7-FORM	Details the establishment of the Catastrophe (Other Than Certified Acts of Terrorism) Premium Endorsement (WC 00 04 21 F) in NCCI's <i>Forms Manual</i> .	

Note: Rule and form filings must be filed separately in Texas. For filing purposes, this memorandum is being provided for both the rule and form exhibits. The rule exhibits are filed with the regulatory authority as Item 02-TX-2021-RULE. The form exhibit is filed with the regulatory authority as Item 02-TX-2021-FORM.

*This lead time will provide insurance companies with ample time to incorporate the rule revisions and the new endorsement into their processes.

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**INFORMATIONAL EXHIBIT
CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM)
VOLUNTARY LOSS COST CALCULATION**

	Countrywide Average Annual \$ Loss Per Worker (1)	Average Weekly Wage (2)	Average Annual Salary = (2) x 52 (3)	Indicated \$ Loss Per \$100 Payroll = (1)/ [(3) /100] (4)	Loss- Based Expense Provision (5)	Indicated Pandemic Loss Cost = (4) x (5) (6)	Proposed Selected Catastrophe Loss Cost (7)
Texas	8.43	1,045	54,340	0.016	1.211	0.019	0.01

Column Sources/Notes:

- (1) Modeled Countrywide Workers Compensation Pandemic losses above \$50M per occurrence
- (2) U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, NCCI weighted state average weekly wage for 2019
- (5) Exhibit II of the 7/1/2021 approved Texas Loss Cost Filing
- (7) Selection based on actuarial judgement