

TEXAS WORKERS' COMPENSATION
Education Conference



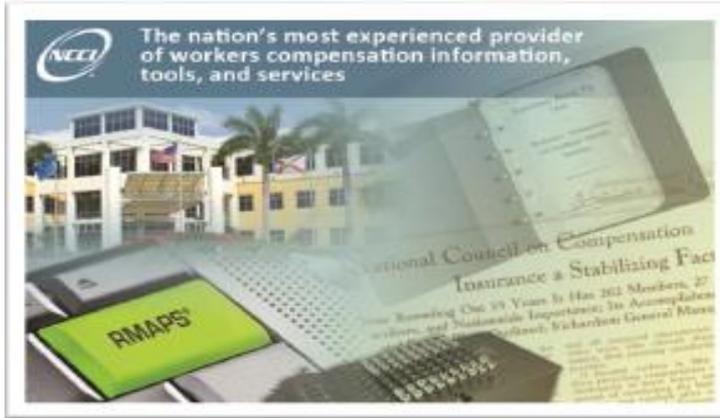


NCCI and the Evolution of the Texas Workers Compensation System

Terri_robinson@ncci.com

Lori_lovgren@ncci.com

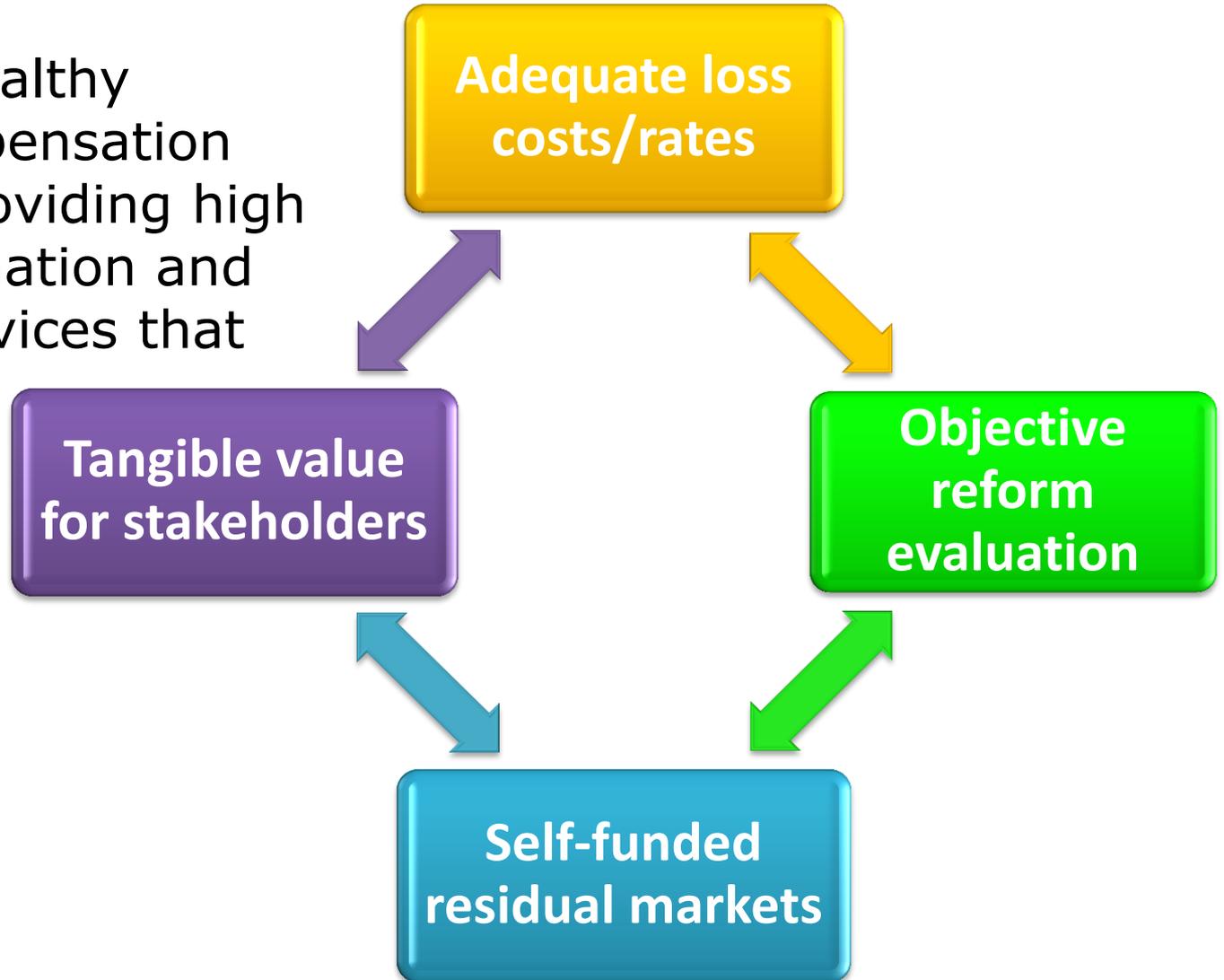
Who We Are



- Established in 1922 to coordinate the interests of insurers with those of regulators and other public policy makers
- Operates under a not-for-profit philosophy
- Guided by the regulatory agencies in the jurisdictions where we are licensed or designated as statistical agent and/or rating/advisory organization (nearly 40)
- Over 900 employees nationwide
- Most experienced provider of workers compensation and employee injury data and statistics in the nation

Our Mission

To foster a healthy workers compensation system by providing high quality information and analytical services that result in:



How Does That Translate into Products and Services?

- Ratemaking –Loss Costs/Rates
- Reform Evaluation—Estimation of Impact
- Reporting—Statistical, Compliance
- Rule Recommendations—Underwriting, Data
- Ratings—Production of Experience Ratings
- Residual Market Administration
- Research—Industry Issues





Texas Transition to an NCCI state

Texas Timeline

- June 1, 2014 (no later than 10/1/2014)
 - NCCI's ***Basic Manual for Workers Compensation and Employers Liability Insurance***
 - NCCI's ***Forms Manual of Workers Compensation and Employers Liability Insurance***

- January 1, 2015
 - NCCI's ***Statistical Plan Manual for Workers Compensation and Employers Liability Insurance***

- July 1, 2015
 - NCCI's ***Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance***

Adoption of NCCI's Basic Manual and Forms Manual



- Manual rules, classifications, forms, and endorsements will apply to new and renewal policies effective on or after June 1, 2014, but no later than October 1, 2014
 - Texas classification system remains the same
 - Majority of rules remain the same
 - Majority of forms and endorsements remain the same
- NCCI to assume certain functions

Adoption of NCCI's Statistical Plan

- NCCI's ***Statistical Plan*** became mandatory for policies effective January 1, 2015, and later. Additionally, this manual is optional for policies effective prior to January 1, 2015.
- Based on the effective dates, the initial units will be valued as of July 2016 and reported from July and September 2016.

Adoption of NCCI's Experience Rating Plan Manual

- NCCI's ***Experience Rating Plan Manual*** became effective July 1, 2015
 - Majority of rules remain the same
 - Impacted Texas experience rating modifications with rating effective dates of July 1, 2015, and after
- No filing required to adopt NCCI's ***Experience Rating Plan Manual***

Why Is This Change Good for Workers Compensation in Texas?

- Retains TDI's ultimate regulatory authority
- Leverages NCCI's proven expertise in workers compensation infrastructure maintenance
- Provides lower overall costs through economies of scale, which benefits all constituents
- Enhances efficiency through a centralized point of service for information
- Increases consistency through use of national rules and forms
- Includes NCCI's Customer Service Center—weekdays, 7 a.m. to 7 p.m. CST
- Access to **ncci.com** increases educational opportunities and available resources
 - Online manuals
 - Webinars on Demand



NCCI Filing Activity:

- **Plan Premium Eligibility Threshold**
- **Elimination of Low Credibility Classifications**
- **Elimination of A-Rating Process**

Premium Eligibility Threshold (PET)

- Experience rating premium eligibility levels have not increased in many years
- NCCI's research has shown that the Experience Rating Plan's PETs are too low in most states
- Under the current PETs, risks that are too small to expect even one claim could receive a credit for being claim-free
- Generating credits for very small claim-free risks results in higher debit modifications for these risks for having just one claim

NCCI's PET Proposal

- Annually index the state PET for wage inflation
- Base the wage inflation index on the state average weekly wage as determined and published in the Quarterly Census of Employment and Wages (QCEW) by the US Bureau of Labor Statistics
- Round the indexed PET up or down to the nearest \$250

Implementation

Proposal will establish a change in PET six months after a state's loss cost/rate filing effective date

- For example, July 1 for states with January 1 loss cost effective dates
- The extra lead time between the loss cost/rate filing effective date and PET effective date allows for the smooth production of experience rating modifications
- This avoids an extra item filing each year

PET Impact

- Increasing the PET will only change the population of experience-rated risks. It will:
 - Not affect the calculation of the experience rating modification
 - Have no impact for the vast majority of employers
- A risk that is currently not eligible for experience rating would continue to not be eligible

PET Impact (cont'd)

- An experience-rated risk whose premium is near the PET may fall below the revised PET. Potentially, this risk:
 - Would no longer be experience-rated, and a unity factor of 1.00 would apply
 - May become experience-rated again, if its premium increases to meet or exceed the new eligibility levels
- A risk that is currently experience rated and remains eligible based on the revised PETs will not be affected.

PET Example

\$8,000/\$4,000				
Current State PET	Example 1	Example 2	Example 3	Example 4
Indexed State PET	\$4,327	\$4,377	\$4,001	\$3,400
New State PET	\$8,500/\$4,250	\$9,000/\$4,500	\$8,000/\$4,000	\$8,000/\$4,000



Elimination of Low Credibility Classifications

Elimination of Low Credibility Classifications

- This is a national classification item, focused on these areas:
 - Eliminating low credibility classifications
 - Mapping eliminated classifications
- To become effective concurrent with each state's approved loss cost/rate filing effective on and after October 1, 2016, unless otherwise noted (7/1/2017 for Texas)
- Applicable to new and renewal policies

Credibility

- NCCI applies credibility in its classification ratemaking methodology.
- A classification with low credibility has limited premium volume; therefore, it is too small to develop meaningful data for ratemaking purposes even with the use of national experience.
- Because of the limited premium volume, a large loss in a classification with low credibility adversely affects the volatility of the loss cost or rate for the classification.
- Classifications with a high degree of credibility are more stable from a ratemaking perspective.
- Low credibility classifications are recommended for elimination because there are very few employers, if any, assigned to the code. In all cases, alternate codes in the classification system contemplate the same or similar exposure as the classification being eliminated.

Eliminating Classifications

- No national classifications to be eliminated are currently in use in Texas
- 5 Texas state special classifications to be eliminated:
 - 2560—Parachute Mfg. and Servicing
 - Umbrella
 - 2705—Logging or Lumbering—Pulpwood Only & Drivers
 - 4716—Grease Processing Plant—For Restaurant Grease Exclusively
 - Lard Refining
 - 8295—Cotton Compressing & Drivers
 - Cotton Merchant & Drivers
 - Cotton Storage & Drivers
 - 2576—Awning or Tent Mfg.—Fabric—Shop
 - Canvas Goods Mfg. NOC—Shop
 - Sail Making
 - Tent or Awning Mfg.—Shop

Mapping Classifications

- Eliminated classifications may have a small amount of remaining exposure or the possibility of generating exposure in the future
- In these cases, NCCI recommends where that exposure should be classified
- This is referred to as mapping, for example:

State	State Special Classification to be Eliminated	Proposed National Classification
TX	4716—Grease Processing Plant—For Restaurant Grease Exclusively 4716—Lard Refining	4683—Grease Processing Plant—For Restaurant Grease Exclusively* 4683—Lard Refining*

* A state special phraseology and note is proposed for approval in this state.



Elimination of A-Rating Process

Elimination of A-Rating Process

- A-rating applies to certain classifications for which NCCI does not produce advisory loss costs and TDI does not produce relativities.
- The rates used for A-rated risks are specific to an individual employer and are based on the insurance carrier's evaluation of the employer.
- NCCI has proposed the following changes, to be effective 7/1/2017:
 - produce advisory loss costs and thereby eliminate the A-rating process for certain classifications
 - eliminate certain Texas special classifications and reassign any exposure to existing non A-rated classifications

Elimination of A-Rating Process

- The availability of advisory loss costs for these classifications will ensure consistency in the loss costs used by carriers in Texas.
- Advisory loss costs will be produced for the following classifications.

0913—Domestic Workers—Residences—Per Capita Basis

1165—Coal Mining & Drivers

4766—Dynamite Mfg. & Drivers

4777—Blasting Agents—Preparation or Distribution & Drivers

6205—Sulphur Producing—All Employees & Drivers

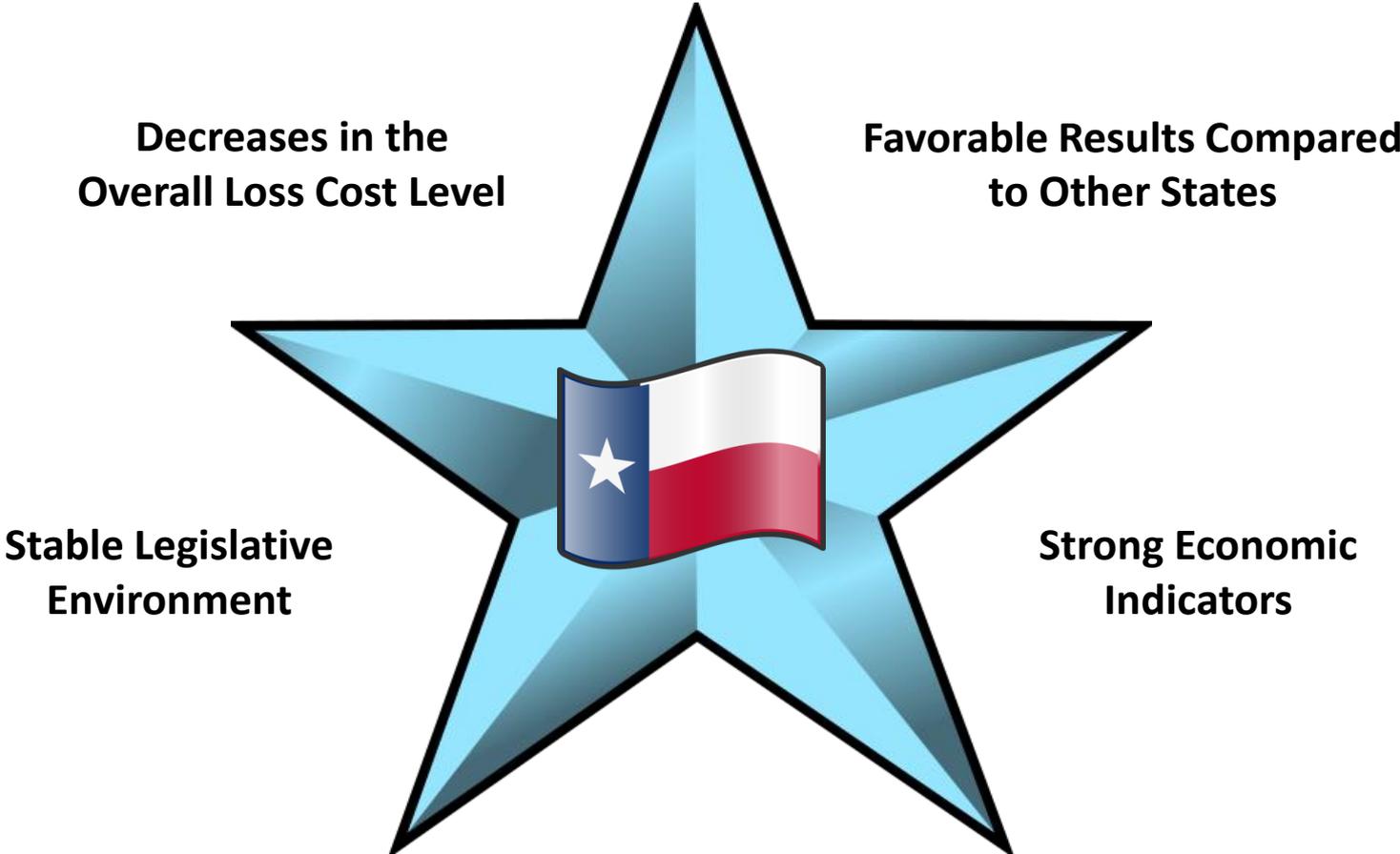
Elimination of A-Rating Process

- Elimination of the following A-rated classification codes will provide consistency with the national treatment:
 - Chemical Manufacturing Classification Codes 4800-4823 (exposure reassigned to 4828 and 4829)
 - Code 0923—Domestic Workers—Residences—Payroll Basis (exposure reassigned to 0913)
- No impact to overall statewide premium is expected as a result of these proposed changes.



Texas Workers Compensation System Overview

Texas Is a Shining Star



Texas Workers Compensation Premium Volume

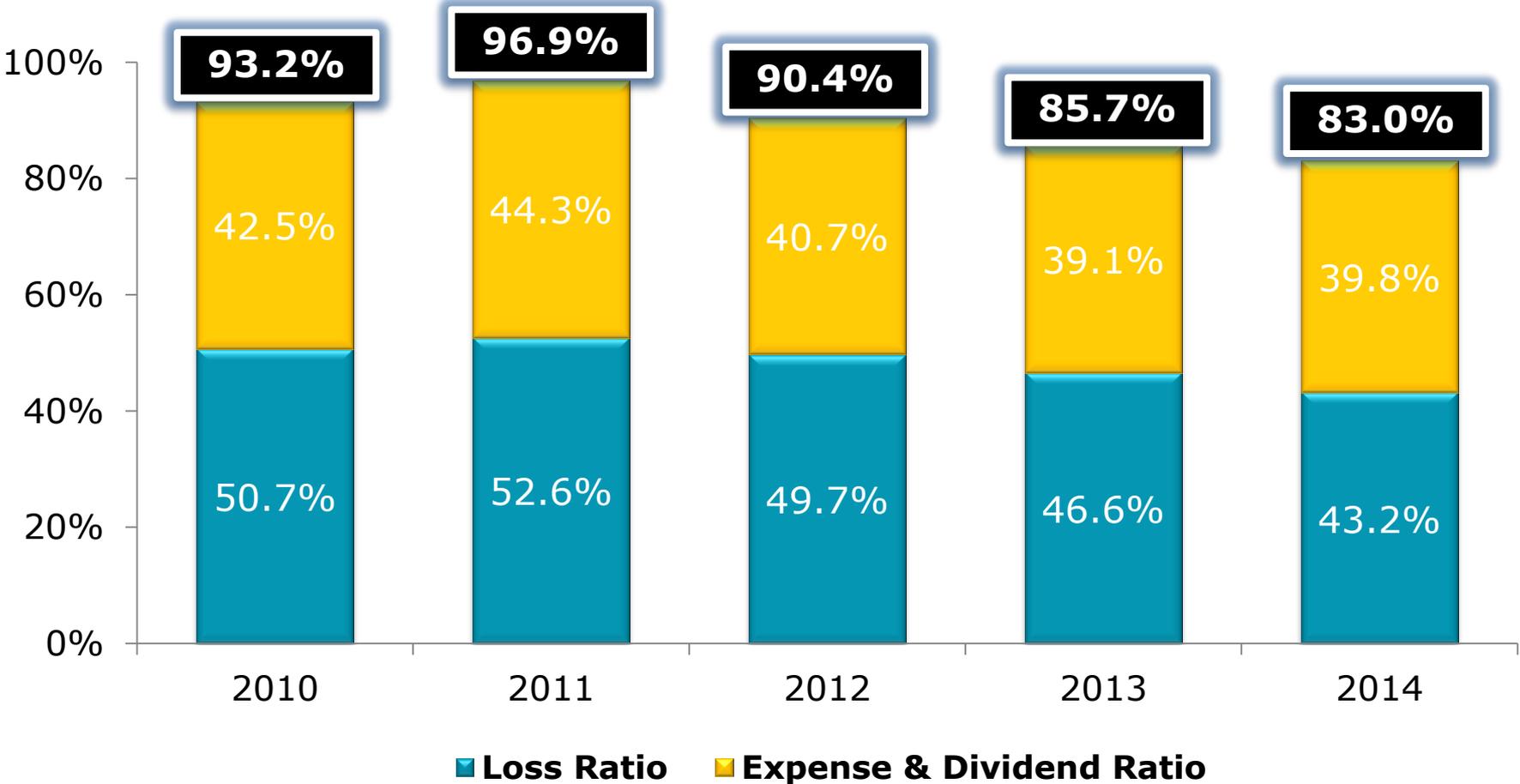
Direct Written Premium in \$ Billions



Source: NAIC's Annual Statement data



Texas Accident Year Combined Ratios



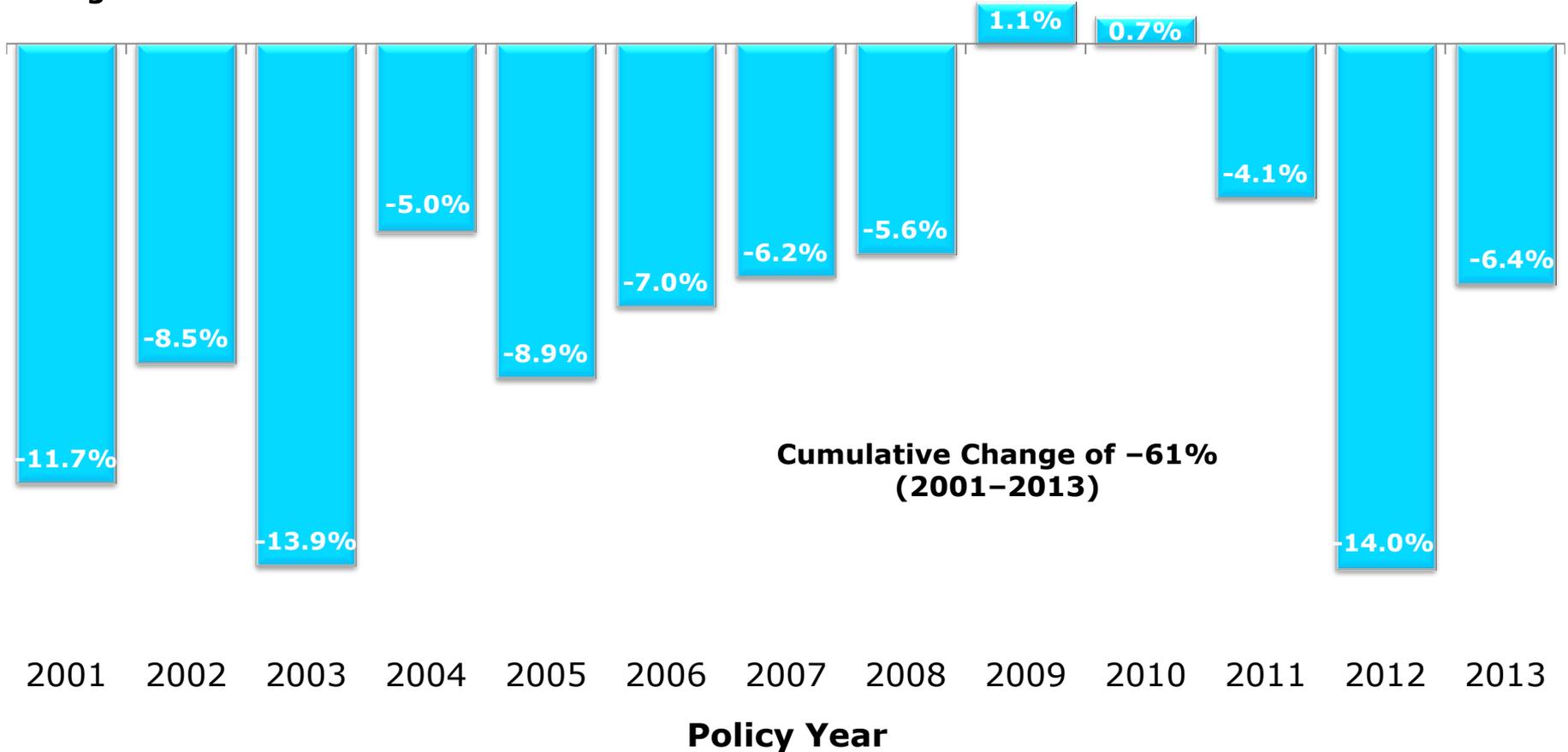
Sources: NCCI's financial data evaluated as of 12/31/2014; NAIC's Annual Statement data



Texas Workers Compensation Lost-Time Claim Frequency

Lost-Time Claims

Percent
Change

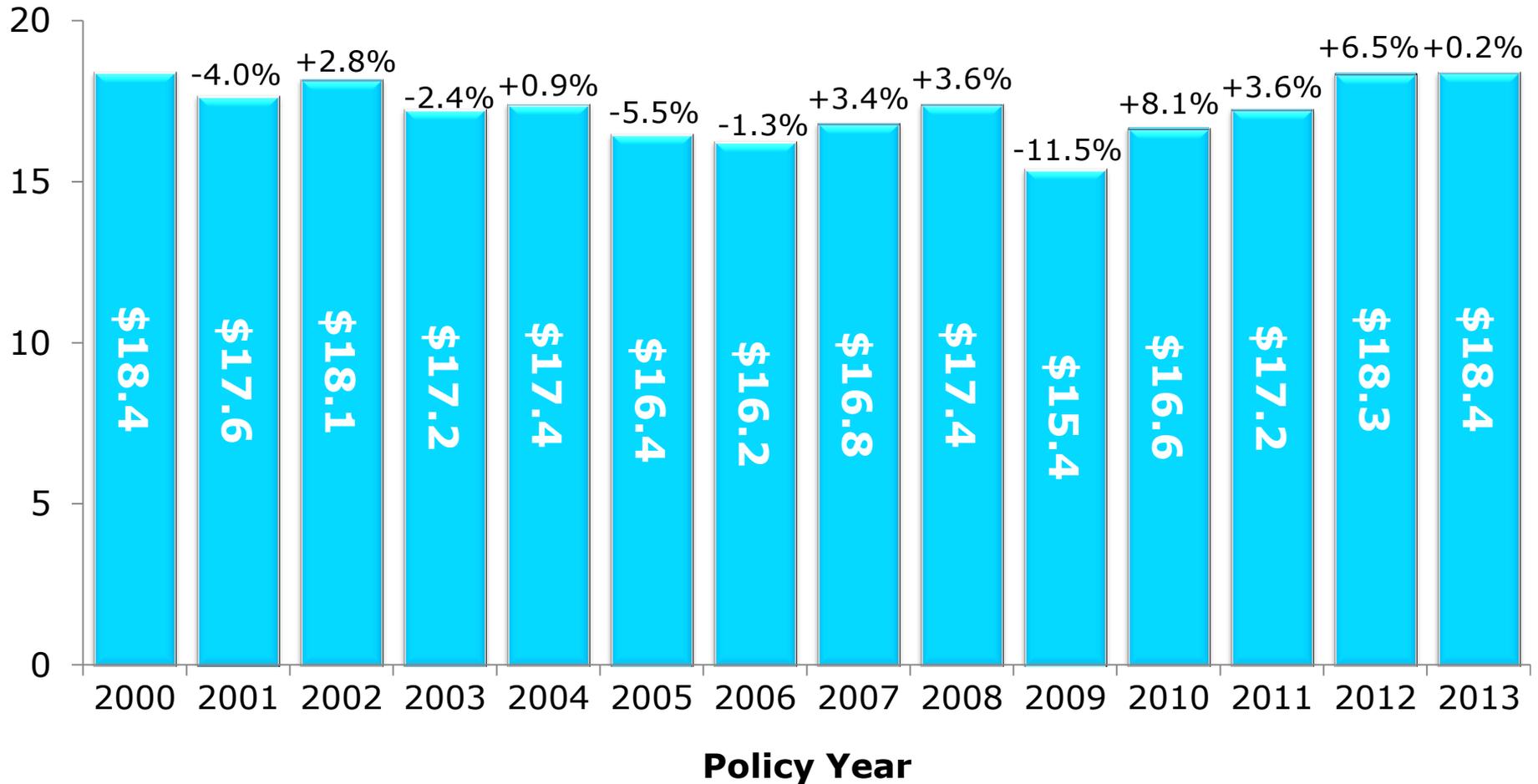


Based on data through 12/31/2014, developed to ultimate



Texas Average Indemnity Claim Severity

Lost-Time Claim Severity in \$ Thousands

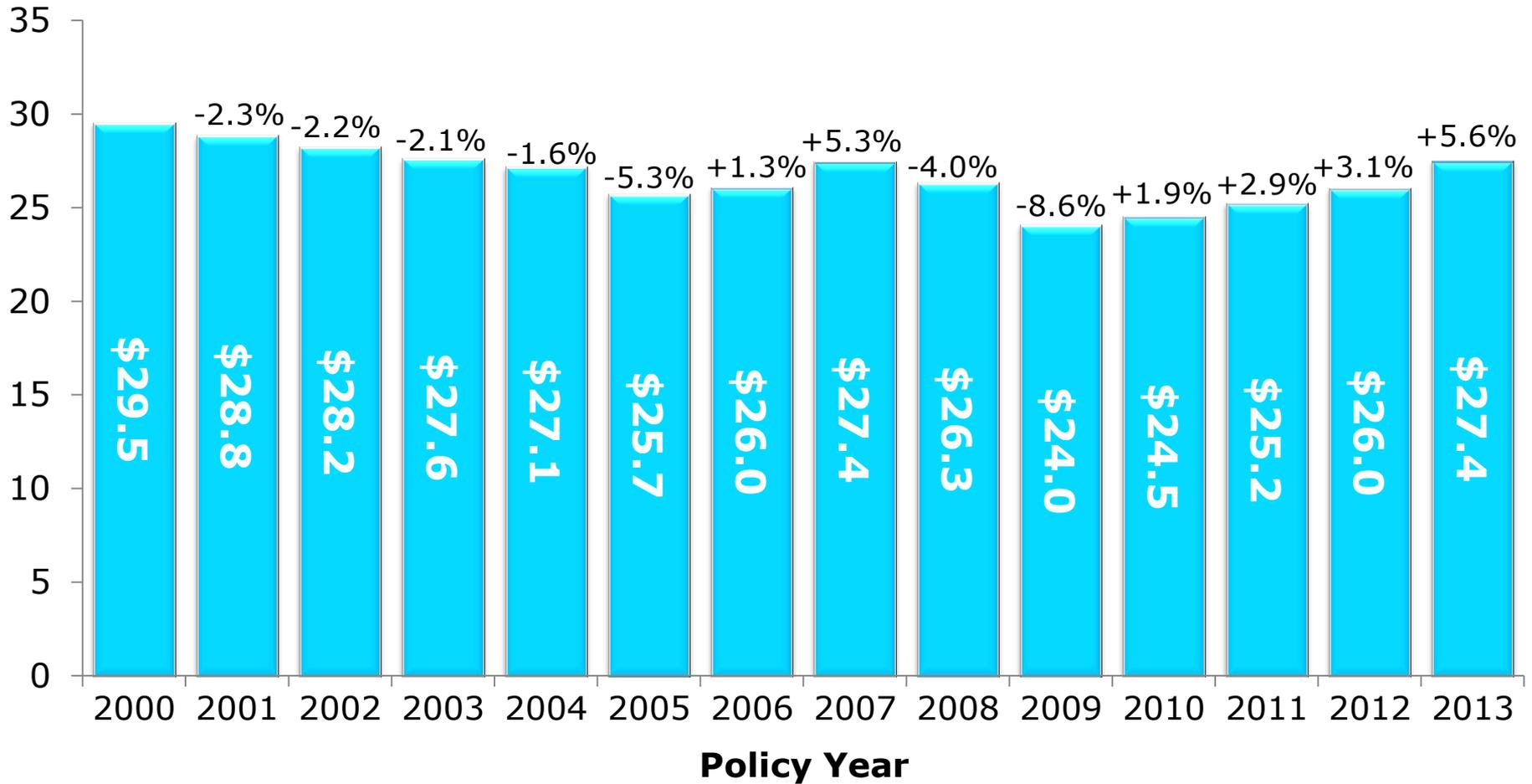


Based on data through 12/31/2014, on-leveled and developed to ultimate



Texas Average Medical Claim Severity

Lost-Time Claim Severity in \$ Thousands



Based on data through 12/31/2014, on-leveled and developed to ultimate



Medical Benefits Constitute the Majority of Total Benefit Costs in Texas

Texas



Region



Countrywide



Regional states are AR, LA, NM, and OK
Based on NCCI's financial data

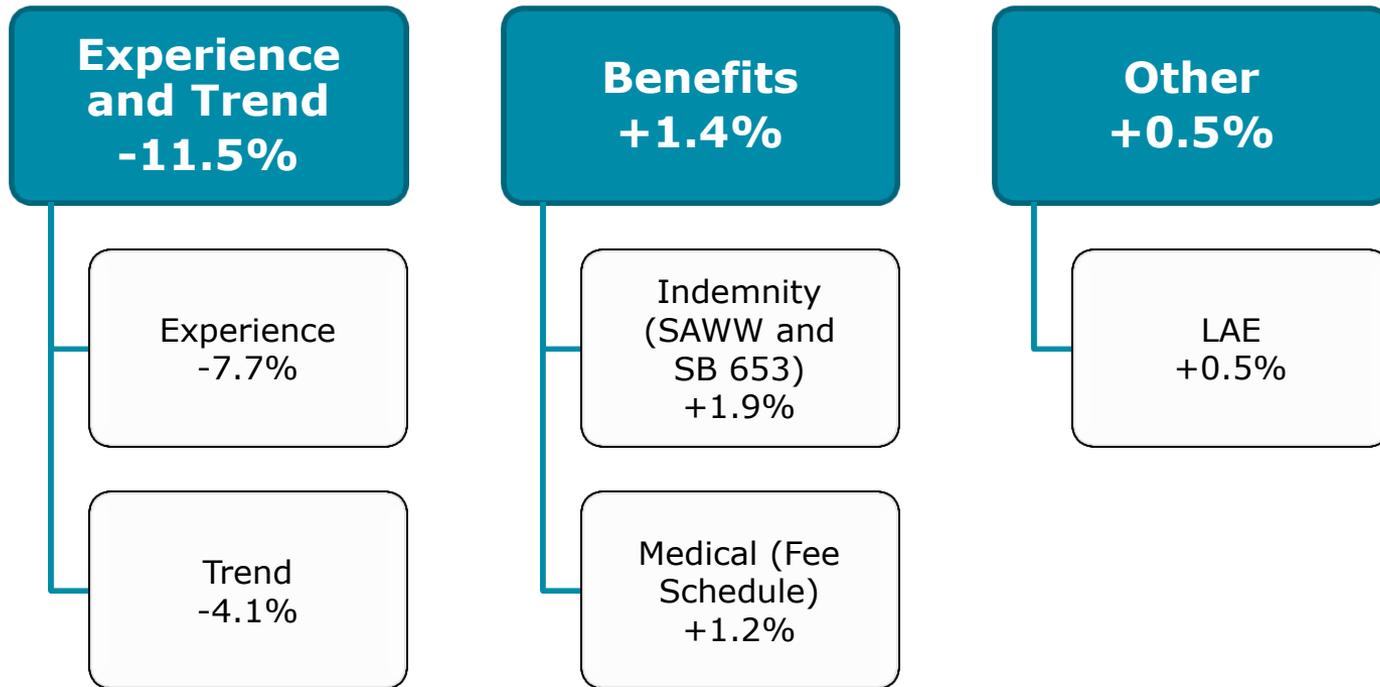


Texas

July 1, 2016 Loss Cost Filing

Overall Loss Cost Level Change: -9.9%

Changes due to:



Texas July 1, 2016 Filing— Average Changes by Industry Group



Manufacturing
-13.1%



Contracting
-5.8%



**Office and
Clerical**
-9.2%



**Goods and
Services**
-10.7%



Miscellaneous
-13.1%

Overall -9.9%

Texas Workers Compensation System— An Overview

Premium
continues to
increase

Combined
ratios remain
favorable

Lost-time
frequency
decreased
again in the
latest year

Claim severity
has stabilized
recently

Upcoming NCCI Events

Texas State Advisory Forum

Nov. 2, 2016

Austin Marriott South

4415 South IH-35

Austin TX 76744

512-441-7900

Texas State Advisory Forum takes place from 9-12,
with a continental breakfast at 8:30 am.

Register online at NCCI.com or call NCCI customer
service for assistance.

1-800-6222-4123