

No. 2019 - 5949

**Official Order  
of the  
Texas Commissioner of Insurance**

**Date:** APR 26 2019

**Subject Considered:**

Revised Workers' Compensation Classification Relativities

**General remarks and official action taken:**

The subject of this order is revised workers' compensation classification relativities. The revised classification relativities would replace those adopted under Commissioner's Order No. 2018-5427, dated March 13, 2018, and would decrease the classification relativities by an average of 15 percent overall.

Workers' compensation classification relativities represent the relationship between classifications—how risky the activities in a given classification are compared to other classifications. They are established by classification code. Classification codes are used to identify specific categories of work to effectively estimate workers' compensation costs for the risk associated with the work being performed.

TDI must establish classification relativities applicable to an employer's payroll in each of the classes at levels adequate to the risks to which the relativities apply, and to revise the classification system at least once every five years. Insurance Code Section 2053.051. Workers' compensation insurers must use the classifications TDI establishes. Insurance Code Section 2053.053.

TDI published notice of the proposed revised classification relativities in the February 8, 2019, issue of the *Texas Register* at 44 TexReg 630. TDI also provided notice on the TDI website and through electronic news on January 30, 2019.

A copy of the full text of the notice and Exhibit A, which contains the proposed revised classification relativities, have been on file with the TDI chief clerk since January 29, 2019. Exhibit A is incorporated by reference into this order. Hearing requests were due by 5 p.m.,

Central time, on February 15, 2019. Comments were due by 5 p.m., Central time, on March 4, 2019. TDI received one comment.

The commenter requested that TDI "not lower Workmen's Compensation. Employees that are injured should not be penalized for an injury." The commenter also stated that "billion dollar companies should be made to carry Workmen's Compensation." TDI appreciates the comment, but the commenter's requests are beyond the scope of the proposed action. Staff's recommendation to reduce the classification relativities does not affect benefits of workers' compensation insurance coverage under the Labor Code or the option for a company to subscribe to the workers' compensation system. Instead, reducing the classification relativities would reduce the cost of workers' compensation insurance for companies that choose to buy it.

The following findings of fact and conclusions of law are adopted:

### **Findings of Fact**

1. TDI incorporated recent changes in the classification system resulting from the approval of NCCI's *Item B-1436—Revisions to Basic Manual Classifications and Appendix E - Classifications by Hazard Group*, for new and renewal policies effective on and after July 1, 2019. *Item B-1436* alters the classification system by eliminating, revising, and establishing classification codes. To maintain a uniform class system, these changes made it necessary for TDI to develop relativities for class codes that were revised or established.
2. TDI used the same methodology as in previous years to calculate the revised classification relativities.
3. TDI's analysis used the five most recent policy years' loss experience (2011 – 2015) from the Workers' Compensation Statistical Plan data, which is summarized and obtained from the National Council on Compensation Insurance (NCCI), TDI's statistical agent. TDI reviewed NCCI's data for reasonableness and consistency.
4. TDI developed a revenue-neutral set of relativities in relation to the current relativities, and limited the change to +/-25 percent for any one class to minimize possible rate shock due to any large indicated changes in the relativities. A revenue-neutral change in relativities only updates the relationship between classes.

5. To reflect changes in industry loss experience, the overall level of the relativities must be changed. Therefore, TDI multiplied the revenue-neutral set of relativities by an adjustment factor of 0.85.
6. This adjustment will decrease the classification relativities by an average of 15 percent overall. With this overall reduction, the change for any given classification will range from -36.3 percent to 6.3 percent of the current classification relativities.
7. To determine the adjustment factor of 0.85, or -15 percent, TDI considered market indicators, such as return on net worth and combined ratios, as well as changes in NCCI's loss costs, which represents changes in industry loss experience.
8. The return on net worth for Texas workers' compensation insurers has averaged 10.1 percent for the past 10 years, compared with 6.6 percent countrywide. The accident year combined ratio has averaged 87 percent in Texas for the past five years, compared with 92 percent countrywide.
9. NCCI's loss costs have been an alternative rate basis available in Texas since 2011. Loss costs represent the portion of an insurance rate used to cover claims and the cost of adjusting claims. NCCI's overall average decrease to the loss cost level effective July 1, 2018, was 13.7 percent. NCCI has proposed a 12.4 percent decrease effective July 1, 2019.
10. Reducing the overall level of the relativities by 15 percent from their current level would bring the relativities to an overall decrease of 44 percent since 2011, which would be close to the overall decrease in NCCI's loss costs for the same period, as well as represent the favorable market indicators.

#### Effective Date

11. TDI proposes that the revised classification relativities be mandatory for all policies with effective dates on or after July 1, 2019, unless the insurer files an alternative classification rate basis.

#### **Conclusions of Law**

1. The Commissioner has jurisdiction over this matter under Insurance Code Section 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 must revise the classification system at least once every five years.

- 2. Adopting the revised classification relativities in Exhibit A is consistent with Texas workers' compensation statutes and rules, and with the improvement in loss experience.

**Order**

It is ordered that the revised classification relativities in Exhibit A are adopted for policies with effective dates on or after July 1, 2019. Each insurer writing workers' compensation insurance in Texas must use the revised classification relativities for all policies with effective dates on or after July 1, 2019, unless the insurer files an alternative classification rate basis.

Kent C. Sullivan  
Commissioner of Insurance

By: \_\_\_\_\_

  
Doug Slape  
Chief Deputy Commissioner  
Commissioner's Order No. 2018-5528

Recommended by:



Mark Worman, Deputy Commissioner

Reviewed by:

  
Marion Grant, Staff Attorney

EXHIBIT A  
TEXAS WORKERS' COMPENSATION RELATIVITIES  
EFFECTIVE 7/1/2019

<b>Class</b>	<b>Relativity</b>	<b>Class</b>	<b>Relativity</b>	<b>Class</b>	<b>Relativity</b>
0005	3.29	2105	5.05	3004	3.21
0008	2.99	2111	2.64	3022	4.49
0011	6.69	2114	3.56	3027	1.56
0016	6.99	2121	2.14	3028	3.16
0034	3.38	2157	3.42	3040	4.54
0035	4.02	2172	1.33	3041	3.58
0037	4.03	2211	17.40	3042	1.56
0042	4.58	2220	1.55	3064	4.14
0059	0.30	2260	2.25	3066	3.48
0065	0.08	2286	1.87	3081	3.78
0066	0.08	2288	8.40	3082	4.91
0067	0.08	2361	0.74	3085	2.71
0079	2.40	2380	1.83	3110	3.86
0083	4.99	2501	2.81	3111	2.65
0106	6.63	2503	0.50	3113	2.34
0113	2.73	2532	1.15	3114	2.64
0401	14.21	2534	2.04	3126	1.94
0908	231.00	2560	-	3131	2.53
0913	231.00	2576	-	3132	2.62
0923	-	2578	3.85	3146	2.69
1165	1.70	2581	4.59	3179	1.92
1321	1.43	2583	2.37	3220	2.11
1438	5.01	2587	2.34	3223	-
1463	14.88	2670	9.51	3224	4.37
1472	3.28	2683	4.59	3227	5.35
1701	4.62	2688	4.79	3255	2.88
1747	1.57	2702	15.26	3257	5.06
1803	3.50	2705	-	3300	4.70
1924	2.50	2710	6.92	3316	0.92
2003	3.69	2719	7.09	3331	4.02
2014	5.39	2731	4.21	3365	3.85
2040	4.05	2790	3.59	3372	3.74
2041	2.15	2802	4.71	3383	1.06
2068	3.54	2835	2.49	3507	2.66
2081	2.79	2881	3.87	3548	1.28
2095	4.95	2923	1.10	3574	0.52

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Class	Relativity	Class	Relativity	Class	Relativity
3620	3.17	4206	4.21	4670	5.25
3629	1.49	4207	0.92	4683	5.74
3632	2.79	4239	1.63	4692	0.60
3639	-	4243	3.16	4693	1.56
3642	2.29	4244	2.57	4703	5.62
3643	2.38	4250	1.90	4712	2.51
3647	1.89	4273	1.83	4716	-
3648	2.05	4279	3.02	4717	2.30
3681	0.85	4282	-	4720	2.39
3685	0.88	4283	1.75	4740	0.72
3719	1.30	4299	2.06	4743	-
3724	2.90	4304	4.14	4751	1.02
3726	3.03	4307	2.01	4766	4.25
3805	1.13	4351	0.67	4777	9.67
3807	3.16	4360	3.46	4800	-
3808	4.50	4361	1.98	4801	-
3821	5.24	4362	0.68	4802	-
3822	2.71	4410	3.86	4803	-
3823	3.49	4417	3.86	4804	-
3824	4.31	4420	3.81	4805	-
3830	2.11	4431	2.70	4806	-
3865	3.54	4432	1.80	4807	-
3881	3.50	4439	1.77	4808	-
4000	4.25	4452	2.14	4809	-
4021	5.33	4459	2.13	4810	-
4024	1.37	4470	3.06	4811	-
4034	5.51	4484	2.66	4812	-
4036	1.42	4511	0.79	4813	-
4038	3.17	4519	4.49	4814	-
4045	3.70	4558	1.77	4815	-
4062	3.00	4568	5.28	4816	-
4101	3.38	4583	5.29	4817	-
4112	0.37	4611	1.04	4818	-
4114	2.20	4635	1.58	4819	-
4130	4.34	4653	2.69	4820	-
4150	1.04	4665	9.97	4821	-

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4822	-	6045	2.76	7317	5.51
4823	-	6202	7.62	7327	4.70
4828	0.46	6203	1.41	7350	10.94
4829	0.46	6204	6.63	7360	4.73
4902	2.54	6205	0.72	7380	4.49
4923	1.28	6206	3.09	7382	6.37
5022	5.92	6213	1.98	7390	4.58
5040	8.12	6216	4.99	7405	1.75
5041	6.89	6219	5.05	7418	5.68
5057	3.21	6229	2.97	7421	0.43
5070	8.23	6233	2.47	7422	2.27
5102	4.81	6237	2.38	7423	4.26
5160	2.94	6238	8.17	7502	1.49
5183	3.00	6306	6.85	7515	1.17
5190	3.45	6319	4.89	7520	2.53
5191	0.89	6400	5.27	7538	8.23
5192	3.39	6504	3.11	7539	1.18
5200	4.50	6823	4.86	7580	2.28
5203	8.70	6824	10.11	7590	7.46
5213	4.44	6843	7.51	7600	3.42
5220	5.43	6872	7.01	7602	4.38
5348	2.32	6874	11.95	7610	0.45
5403	5.84	7016	1.70	7704	4.02
5437	4.57	7024	1.90	7720	2.27
5443	1.94	7046	3.85	7855	4.66
5462	6.29	7047	2.92	8002	2.07
5474	3.33	7098	4.28	8006	2.46
5479	4.77	7099	6.59	8008	1.43
5491	1.54	7133	2.76	8013	0.66
5506	6.40	7134	3.06	8015	2.06
5536	3.16	7135	4.71	8017	1.76
5538	7.97	7219	7.96	8018	3.76
5551	10.88	7225	7.96	8032	3.05
5606	0.71	7230	9.80	8033	2.67
5701	5.37	7309	24.04	8034	3.85
6003	3.62	7313	3.86	8039	2.49

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Class	Relativity	Class	Relativity	Class	Relativity
8044	3.77	8803	0.08	9170	17.22
8045	0.71	8809	0.20	9178	9.77
8047	0.96	8810	0.12	9179	16.49
8058	2.05	8820	0.09	9182	2.03
8102	5.09	8824	2.97	9186	14.51
8103	3.49	8826	2.41	9220	6.93
8106	6.66	8828	2.38	9402	7.28
8107	3.34	8829	-	9501	2.51
8113	4.99	8831	1.36	9522	4.32
8209	5.99	8832	0.28	9529	2.23
8215	3.63	8833	0.60	9552	-
8227	2.73	8837	a	9554	7.39
8231	5.35	8838	0.58	9586	0.88
8234	6.15	8858	0.26	9600	1.66
8264	5.18	8868	0.50	9620	1.65
8265	6.87	8901	0.22	9984	a
8288	5.31	9014	3.22	9985	a
8292	4.27	9015	2.86		
8293	10.42	9016	2.76		
8295	-	9019	1.72		
8304	9.99	9032	4.25		
8350	6.46	9033	2.94		
8385	2.52	9040	3.28		
8387	2.21	9052	2.54		
8391	2.11	9058	1.97		
8601	0.30	9060	1.74		
8606	1.92	9061	1.68		
8607	3.32	9063	0.94		
8709	2.14	9079	1.42		
8720	0.26	9080	1.13		
8726	0.88	9089	0.69		
8742	0.26	9093	1.21		
8748	0.39	9101	3.57		
8752	3.38	9102	2.86		
8754	0.87	9154	1.73		
8755	0.25	9156	1.74		