

## Definitions and Instructions for Rate Filing and Data Request

### PART 1: DEFINITIONS

**Calculated Experience Modifier:** The experience modifier calculated under the rules in the Experience Rating Plan of the Texas Basic Manual of Rules, Classifications and Experience Rating Plan for Workers' Compensation and Employers' Liability Insurance.

**Excluded Experience:** The data used to calculate the rate indications must exclude the following:

- Excess workers' compensation policies
- National Defense Projects
- Underground coal mines
- Reinsurance assumed or ceded (the experience must be on a direct basis only)
- "F" Classifications

**Incurred Losses:** Paid losses plus outstanding losses excluding IBNR and other bulk reserves.

**Indemnity Claim:** A claim that, at the time of the valuation, is other than a medical only claim.

**Large Deductible Policies:** Policies with deductibles in excess of \$100,000 aggregate or \$25,000 per accident.

**Manual Premium:** Texas earned premium *before* the application of:

- Experience rating plan adjustments
- Expense constants
- Loss constants
- Retrospective rating plan adjustments
- Premium discounts
- Premium credits for deductible policies

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- Other individual risk rating plan adjustments (including schedule rating plan adjustments)
- Policyholder dividends
- Catastrophe premium (terrorism premium in Texas)
- Network credits

**Medical Only Claim:** A claim for which, at the time of the valuation of the experience, only medical treatment costs have been paid or reserved.

**Negotiated Experience Modifier:** An experience modifier that reflects a reduction in the calculated experience modifier for an insured and that is used to calculate that insured's workers' compensation premium for the applicable period.

**Net Premium:** Consistent with the Texas Financial Call, Texas earned premium *after* the application of:

- Experience rating plan adjustments
- Expense constants
- Loss constants
- Retrospective rating plan adjustments
- Premium discounts
- Premium credits for deductible policies
- Other individual risk rating plan adjustments (including schedule rating plan adjustments)

*But before* the application of:

- Policyholder dividends
- Catastrophe premium (terrorism premium in Texas)
- Network credits

**Network:** A workers' compensation health care network established under Chapter 1305, Insurance Code and certified by TDI.

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**Other than Large Deductible Policies:** Policies that are not large deductible policies.

**Standard Premium:** Consistent with the Texas Financial Call, Texas earned premium *after* the application of:

- Experience rating plan adjustments
- Expense constants
- Loss constants

*But before* the application of:

- Retrospective rating plan adjustments
- Premium discounts
- Premium credits for deductible policies
- Other individual risk rating plan adjustments (including schedule rating plan adjustments)
- Policyholder dividends
- Catastrophe premium (terrorism premium in Texas)
- Network credits

## **PART 2: RATE FILINGS; MINIMUM REQUIRED SUPPORTING INFORMATION**

This part describes the rate filing requirements and procedures and the minimum supporting information that must accompany each rate filing. TDI reserves the right to request any additional supporting information related to the filing that it feels is necessary to support the rate indications and to complete the filing. We will consider such additional supporting information to be a part of the rate filing.

Pursuant to §2053.004, rate filings, including any supporting information filed, are open to public inspection as of the date the filing is made.

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You may view the on-line version of the Filings Made Easy Guide for guidance and complete the interactive PDF forms at TDI's website at <http://www.tdi.texas.gov/pubs/pc/rspceasy.html>.

### **SECTION A. RATE INDICATIONS**

You must submit rate filings and include rate indications based on experience through December 31, 2011, valued no earlier than December 31, 2011. You must base rate indications on other than large deductible data. Rate indications at the group level are acceptable if the companies in the group normally make rate filings on a group basis. However, if you provide rate indications at the group level, you must also provide actuarial justification for individual company rate level differences within the group.

### **SECTION B. PREMIUM AND CURRENT LEVEL FACTORS**

Provide earned premiums by calendar year. The premiums used must be those for other than large deductible policies.

Provide the current rate level factors that apply to the earned premiums for each experience year used in developing the rate indications, as well as a detailed explanation of how these were calculated. The submitted information should include

1. all rate changes (including the impact of relativity changes), and their effective dates, that occurred during the experience period through the present date, as well as in the previous calendar year
2. a description of the methodology used to calculate the current level factors
3. the effect of any changes in average overall adjustments to premiums based on individual risk characteristics including schedule rating and negotiated experience modifiers (excluding the effect of calculated experience modifiers) and how these changes are reflected in the on-level premium calculations (see also Sections D and E below), and

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4. any additional assumptions made.

### **SECTION C. LOSS EXPERIENCE**

Experience period losses used to calculate the rate indications should be on an accident year basis developed to ultimate. The losses must be for other than large deductible policies. Accident year loss development triangles and the associated link ratios, based on other than large deductible policy experience, must be provided; these must be specific to the company or the group making the filing. If the company or group feels that its own loss development experience is not credible or sufficient to develop its experience to ultimate, it must still provide its own loss development triangles to the extent it has data, as well as any other data it used to develop its losses to ultimate.

### **SECTION D. SCHEDULE RATING FACTORS**

This section applies only to other than large deductible policies. The submitted information should include

1. Average schedule rating factors for policy years 2006 through 2011. Average schedule rating factors should be weighted using standard premium.
2. A copy of each company's schedule rating plan and maximum and minimum schedule rating credits/debits. If a company does not use a schedule rating plan, please clearly indicate this in the submission.

### **SECTION E. EXPERIENCE MODIFICATION FACTORS**

This section applies only to other than large deductible policies. The submitted information should include

1. the average calculated experience modifiers for policy years 2006 through 2011,  
and

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- the average experience modifiers used to rate the policy for policy years 2006 through 2011.

Average calculated experience modifiers and average experience modifiers used to rate the policy should be calculated using manual premium as the weight.

The average calculated experience modifier is the weighted average of all calculated experience modifiers including those for policies that are ultimately rated using a negotiated experience modifier.

The average experience modifier used to rate the policy is the weighted average of all experience modifiers actually used to rate policies. This would be the calculated experience modifier where a negotiated experience modifier did not apply and the negotiated experience modifier where such a modifier did apply.

The following table illustrates the above:

	Calculated Modifier	Negotiated Modifier	Modifier Used to Rate Policy	Manual Premium
Policy 1	0.900	N/A	0.900	\$100,000
Policy 2	0.800	0.700	0.700	\$200,000
Average	0.833		0.767	

The average calculated experience modifier equals 0.833  
 $((0.900*100,000+0.800*200,000)/300,000)$ .

The average experience modifier used to rate the policy equals 0.767  
 $((0.900*100,000+0.700*200,000)/300,000)$ .

For policies not subject to experience rating (including small premium incentive plans), use an experience modifier of 1.000 in calculating the averages.

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### **SECTION F. EXPENSES**

Provide the expense provisions underlying the rate indications based on the company's or group's expense experience for at least the calendar years 2009 through 2011. The calendar year expense experience should include expense information from the Insurance Expense Exhibit and the Statutory Page 14 of the Annual Statement. These expenses and the associated premiums include the impact of large deductibles and discounts based on policy size. Since the indications are based on other than large deductible data, explain how you derived the selected expense provisions from the Annual Statement information.

### **SECTION G. PROFIT AND CONTINGENCIES**

Describe the methodology and assumptions used to arrive at the profit and contingencies provision in the rates.

### **PART 3: ADDITIONAL DATA REQUEST**

This part requests data and information relating to networks that the company or group may be using. The information requested includes general overall information, such as networks used and the rate credits given to participating employers, as well as premium and loss information relating to network experience. It also requests information on other cost-containment strategies employed by the company or group.

#### **SECTION A. NETWORKS**

This section applies only to other than large deductible policies.

Provide the following information regarding each company's network credit(s) as of the most recently available point in time, but no earlier than December 31, 2011,

1. the filed credit or range of credits

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2. the name of the network or networks used
3. the average actual percentage credit for policies subject to a credit
4. the average actual percentage credit for all policies including those policies not subject to a credit
5. average dollar savings per policy subject to a network credit
6. total number of policies subject to a network credit
7. total number of policies, and
8. if the company uses a range of credits, provide an explanation of how the network credit is determined for an employer.

### SECTION B. PREMIUM

Provide calendar year earned premiums for 2006 through 2011. Show premiums prior to the application of the current level factors. Report for large deductible policies and other than large deductible policies separately, and within each category separately for policies participating in a TDI-certified network and those not participating in a TDI-certified network (for applicable calendar years). For large deductible policies, report standard and net premiums, and for other than large deductible policies, report manual, standard, and net premiums.

Use the attached sample worksheet to report the data or provide it in an analogous format. The worksheet is also available on our website.

### SECTION C. LOSS EXPERIENCE

Provide accident year losses for 2006 through 2011, valued at December 31, 2011. For other than large deductible policies, report

1. separately for policies participating in a TDI-certified network and those not participating in a TDI-certified network (for applicable accident years), and
2. separately for indemnity claims and for medical only claims.

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- a. In the case of indemnity claims, report indemnity incurred, indemnity paid, medical incurred, and medical paid losses.
- b. In the case of medical only claims, report medical incurred and medical paid losses.

Use the attached sample worksheet to report the data or provide it in an analogous format. The worksheet is also available on our website.

### **SECTION D. LOSS DEVELOPMENT**

Provide accident year loss development triangles, and the associated link ratios, for other than large deductible policies specific to the company or group separately for medical losses (including medical on both medical only and indemnity claims) and indemnity losses (losses on indemnity claims excluding medical costs). Experience should be valued at 12-month intervals for up to a minimum of 120 months.

### **SECTION E. COST-CONTAINMENT STRATEGIES**

Please list and comment on cost-containment strategies used by the company (for example, certified networks, strategies to encourage return to work, usage of informal or voluntary network discounts, usage of bill review services, usage of utilization review services, usage of pharmacy benefit management services, subrogation activities, anti-fraud activities, enhanced efforts to review extent of injury or compensability). Please provide the estimated amount of cost reductions resulting from these strategies since the enactment of legislative reforms in 2005.

For strategies specifically geared towards medical cost containment, please provide an estimated percentage of the company's medical cost containment expenses each strategy represents (for example, certified network fees represent approximately 10% of medical cost containment expenses, utilization review services represent approximately 25% of medical cost containment expenses, and so forth).