

Texas Workers' Compensation Relativities

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History of Relativities/Rates

The Rating System Prior to 1992

- All rates and rating plans promulgated by the Board of Insurance, with very little opportunity for deviations
- Rates high and increasing, and loss experience poor
- Assigned risk plan represented approximately 25% of the total market
- Largest WC carrier withdrew in 1989, and was declared insolvent in 1991
- Other carriers withdrew or limited writings

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History of Relativities/Rates

1992 WC benefit structure changed to reduce costs

- The Texas Workers' Compensation Insurance Fund (now the Texas Mutual) created to promote competition and serve as the insurer of last resort
- Insurers allowed to establish own rate levels on a file-and-use basis
- Rating programs such as schedule rating and deductibles allowed to promote safety and to provide for enhanced competition
- The structure of the market changed from a closely state-administered system to open competition

Relativities

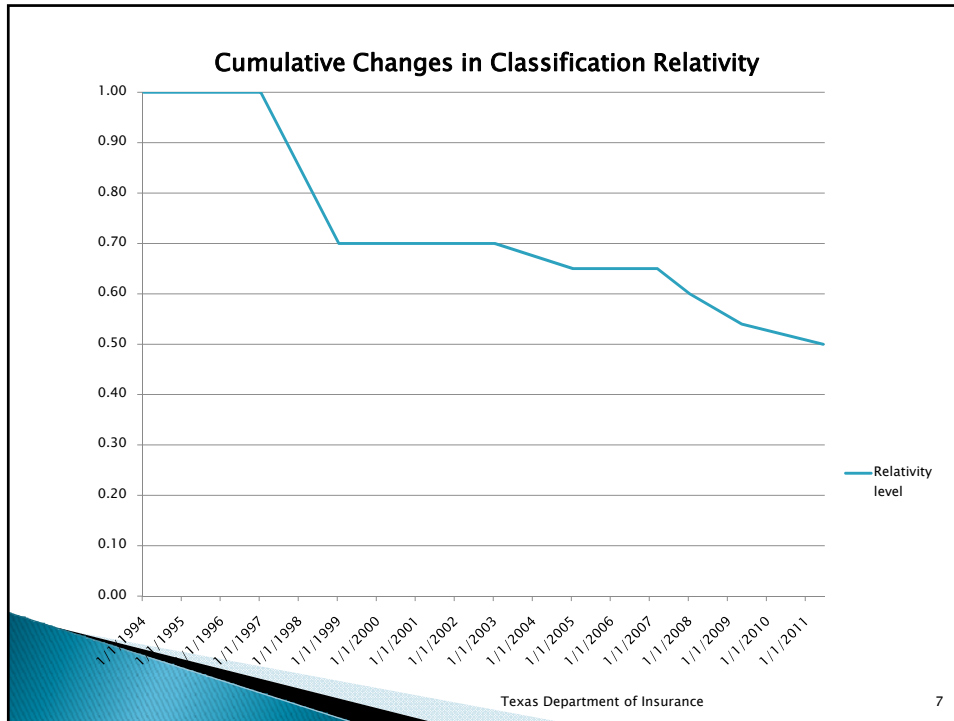
- ▶ Created out of last set of rates
- ▶ Meant strictly to be a measure of one class code to the next
- ▶ Individual companies file deviations to bring relativities to appropriate rate level
- ▶ Statute requires that the relationships revised every 5 years, but revisions are usually done more frequently

Relativities Study

- ▶ Data used
 - 5 years of statistical data
 - Losses limited
 - Full study available on website
<http://www.tdi.state.tx.us/reports/report9.html#wcrelative>

Relativities Study (cont'd)

- ▶ Credibility weighted with previous relativity
- ▶ Balancing factors used to balance back to existing level
- ▶ Changes capped at +/-25%
- ▶ Overall level adjusted some years to reflect experience that emerged over time
- ▶ 6/1/2011 relativities will have a -10% change



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Relativities Study

- ▶ Expected loss rates for experience rating plan changed in conjunction with relativities
- ▶ Overall level is changed, ELR's effective 6/1/2011 will have a -16.7% change
- ▶ Expected loss rates at class code level are capped at +/-25%

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Company filings

- ▶ Companies file own deviations to get to an appropriate rate level
- ▶ Permissible for companies to file their own relativities, although rare
- ▶ Several companies do have different deviations for different class codes, but splitting a class code is not permissible

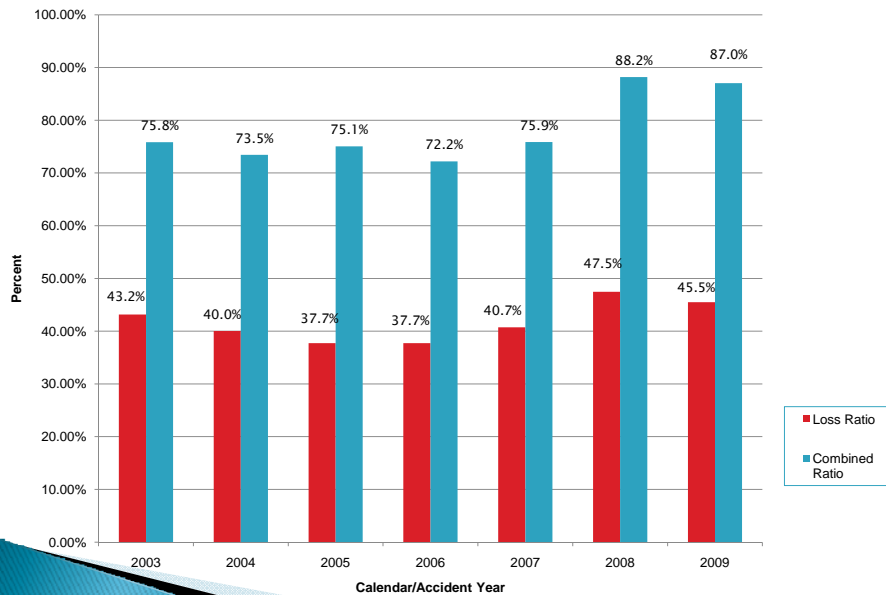
Legislative changes

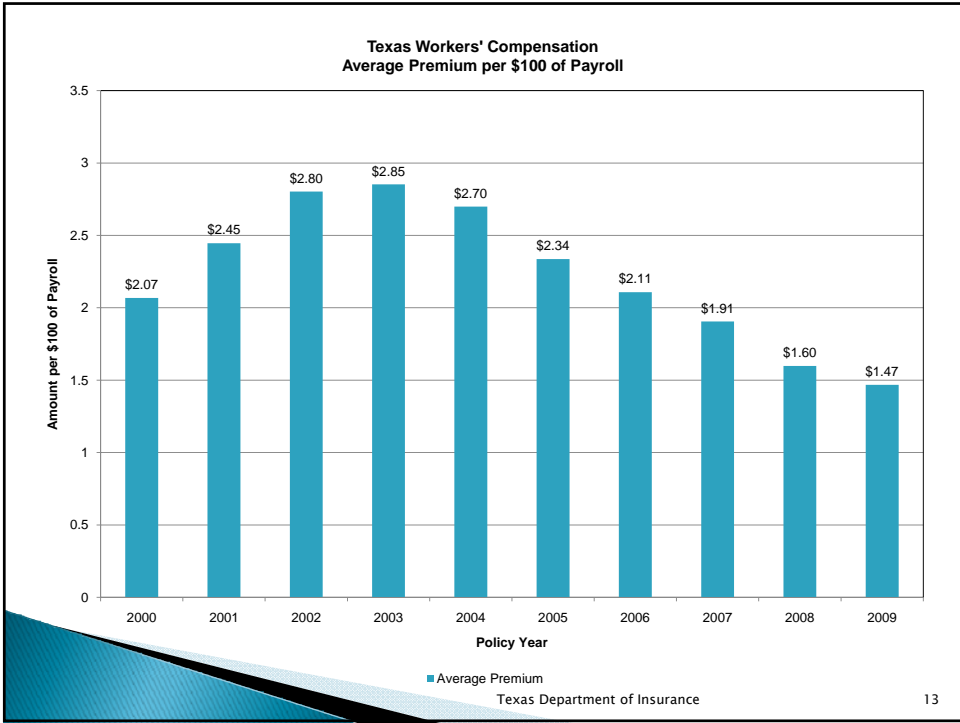
- ▶ HB 2600(2001)
 - Significant changes to medical and income benefits
- ▶ HB 7(2005)
 - Enacted to reform the administration of the workers' compensation system and to implement changes in the delivery of benefits to injured workers
 - Certified Networks
 - Networks file with the department for certification
 - companies file credits or a range of credits with the department
 - Data on network effectiveness is still new, but appears that networks are saving money in most cases

Legislative changes

- ▶ HB 7 (cont'd)
 - requires insurance companies to consider the effect of individual risk variations when evaluating workers' compensation insurance rates
 - requires the Commissioner of Insurance to conduct biennial hearings to review the rates to be charged for workers' compensation insurance and to determine the impact of HB 7 on rates and premiums

Texas Workers' Compensation
Projected Ultimate Loss and Combined Ratios





Questions?

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