TEXAS
INITIAL LOSS COST FILING

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Background

- NCCI serves as a statistical agent in Texas, which includes collecting and validating data
- NCCI produces
  - Experience Modification Factors
  - Financial Data Package
- Texas Department of Insurance (TDI) produces relativities
- TDI produces the experience rating values used in the calculation of the experience modification factors

Current Texas Statutes

- Require TDI to establish relativities
- Allow for advisory organizations to file loss costs, supplemental rating information, and forms
  - NCCI has an advisory organization license in Texas; before now, NCCI has not made any filings pursuant to its license
- Require a uniform class and experience rating system to be promulgated by TDI

Proposed Plan

- NCCI proposed to provide additional option for carriers
  - Use TDI relativities and/or retro plan or
  - Use carrier-specific relativities and/or retro plan or
  - **Use NCCI loss costs and/or retro plan**
- Current TX Class system will remain in place
- There will continue to be a single set of experience rating values promulgated by TDI

Study of TDI Relativities vs. NCCI Loss Costs

- Stage 1 – comparison of current TDI methodology with indicated pure premiums based on NCCI's prior class ratemaking methodology
- Stage 2 – discussion of NCCI's aggregate ratemaking and full class ratemaking methodology
- Stage 3 – additional research
  - F-class and maritime ratemaking
  - Financial data reporting
  - Experience rating

Results of Study

- TDI method is similar to NCCI's prior class ratemaking methodology
  - One exception is ultimate development factors
    - NCCI uses a factor based on aggregate data and then distributes the impact of that development to serious losses
- Experience modification factors are not unduly impacted by the two separate rate bases
- Carriers will report the financial data using their selected rate base, and NCCI will make any necessary adjustments

What are the Pros of Adding the Option of Loss Costs?

- Loss costs give insurers an added piece of information. Unlike relativities, the level of loss costs represents average statewide Texas loss experience plus loss adjustment expense (expenses associated with adjusting claims). Knowing this piece of information is particularly helpful for the following:
  - New writers in Texas with no data to establish initial rate level
  - Small to medium writers with insufficient data to establish appropriate rate level
- Texas is the only state where a relativity is produced. An NCCI produced Texas loss cost will be produced in much the same way as it is in other NCCI states. It will be a familiar benchmark for those regional/national carriers that are used to working with NCCI loss costs in other NCCI states.

What are the Cons of Adding the Option of Loss Costs?

None

- No change for carriers that want to continue using TDI relativities
- Carriers control final rate regardless of the rate base chosen
- No impact to NCCI's financial data reporting requirements, as the Designated Statistical Reporting Level premium will be reported based on what each carrier chooses as its rate base

Note

- Loss costs will show the ups and downs of the workers comp rate cycle. In other words, if experience deteriorates, loss costs will increase. Relativities do not track experience.

Communication Efforts

- NCCI has made a concerted effort to communicate to and obtain feedback from all interested parties
  - NCCI's Actuarial Committee
  - Teleconferences with individual carriers
  - Presentations made to trades, agents, legislative staff, etc.
  - Public information presentation made at the request of TDI in September of 2010

NCCI 6/1/11 Texas Loss Cost Filing Summary

Effective Date	**6/1/2011**
Experience Period	**2 Policy Years 2007 and 2008**
Loss Methodology	**Average of Paid and Paid+Case**
Loss Adjustment Expense	**23%**
Indemnity Trend	**0.960**
Medical Trend	**0.980**
Loss Development Method (1st - 14th)	**2 Yr Pd/5 Yr P+C**

In February 2011, NCCI was directed by TDI to amend the filing.
The change was incorporated as a flat factor decrease of 6%.

Methodology

- Utilizes NCCI's previous class ratemaking methodology that relies on 'serious' and 'non-serious' categories
  - URE reporting for unit statistical data has not been adopted
- Nationals are not utilized for credibility weighting
- Off-balance factor will be used to adjust for any changes in TDI's experience rating values
  - Expected average overall experience modification factor of 0.893 was calculated based on TDI experience rating values effective 6/1/2011

Transition Plan

- NCCI and TDI class ratemaking approaches are similar, but minor differences could potentially show in some classes after adjusting for the overall difference in the rate bases
- To help mitigate the impact to individual classes, NCCI is using the following transition plan when calculating loss costs for the industrial and federal classes:
  - Year 1, filing effective 6/1/2011, swing limits of +/- 15% that will apply around the 6/1/2011 TDI Relativities after they have been adjusted to reflect the overall difference in the rate base
  - Year 2, filing effective 6/1/2012, swing limits of +/- 20% that will apply around NCCI's loss costs effective 6/1/2011, after adjusting for the overall change in the loss cost level for each industry group
  - Year 3, filing effective 6/1/2013, and subsequent filings, swing limits of +/- 25% that will apply around NCCI's prior set of loss costs, after adjusting for the overall change in the loss cost level for each industry group

Texas Recent Reforms

- There have been two major reforms in Texas in the past decade
  - House Bill 2600 in 2001 and House Bill 7 in 2005
- Focus of the reforms has included:
  - Use of networks
  - Focus on medical utilization
  - Improved return-to-work outcomes
  - Use of treatment guidelines
- These are likely to have contributed to the significant downward trends seen in recent history

TX Healthcare Certified Networks

- House Bill 7 (HB 7) required any current healthcare network that provides healthcare services to injured workers to be certified by the Texas Department of Insurance
- House Bill 473 states that as of January 1, 2011, informal or voluntary networks may no longer be used
- Two considerations
  - How is the data for the certified networks reflected in NCCI's filed loss costs?
  - What impact on medical costs is expected with the elimination of the informal networks?

Certified Network Data Underlying NCCI Loss Costs

- Premium credits associated with the use of a certified network are not reported in ratemaking premium used to establish the overall loss cost level
- Losses reported reflect the use of a network provider
- Since NCCI has not included a statewide factor to reflect the average network credit, this is an area in which a company-specific analysis may need to be performed

Elimination of Informal or Voluntary Networks

- Employers currently using an informal or voluntary network could choose one of two options going forward
  - Use a certified network – which may result in lower costs
  - Do not use any network – which may result in higher costs
- The long-term impact on Texas system costs is unclear at this point and NCCI will continue to monitor
- The impact in the short-run is likely to be some upward pressure on medical costs, which NCCI considered when selecting its medical trend factor in the 6/1/2011 loss cost filing

Questions?

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