

## **BILL ANALYSIS**

Senate Research Center

S.B. 1336  
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Business & Commerce  
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Enrolled

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

Classification relativities establish the relative risk of job classifications in terms of workers' compensation costs. Workers' compensation insurers can use this information to help set rates for an insured business. Loss costs, however, are a better measure of the portion of an insurance rate needed to cover claims and the cost of adjusting claims. Almost 97 percent of workers' compensation premiums in Texas are based on loss costs filed by the National Council on Compensation Insurance (NCCI). NCCI files updated loss costs annually that are subject to Texas Department of Insurance's (TDI) review.

Currently, a workers' compensation insurer must choose one of three rate bases: TDI-developed relativities; the insurer's own independent, company-specific relativities, of which none are on file with TDI currently; or NCCI loss costs. Texas is the only state that includes classification relativities as an alternative rate basis, and statute requires TDI to revise the classification system at least once every five years. More frequent updates are needed, however, to keep the relativities in line with the NCCI loss costs. Updating the relativities is time consuming and used to set rates for only three percent of the market.

At the recommendation of TDI, S.B. 1336 would eliminate TDI's statutory obligation to develop workers' compensation classification relativities. These rate setting mechanisms are obsolete, only statutorily obligated in Texas, and currently serve only three percent of the market, which should have no difficulty fully adjusting to NCCI loss costs. In the process, TDI should save numerous hours of labor in developing, evaluating, and approving classification relativities, improving the agency's overall efficiency. (Original Author's/Sponsor's Statement of Intent)

S.B. 1336 amends current law relating to the workers' compensation classification system and rate filings.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 2051.157, Insurance Code, to delete Section 2053.053 (Use of Hazard Classifications Required) from a list of provisions a violation of which subjects an officer or other representative of an insurance company to a fine.

SECTION 2. Amends Section 2053.001(5), Insurance Code, to delete existing text including classification relativities in the meaning of "supplementary rating information."

SECTION 3. Amends Section 2053.051, Insurance Code, as follows:

Section 2053.051. HAZARD CLASSIFICATION SYSTEM. (a) Requires the Texas Department of Insurance (TDI), for workers' compensation insurance, to determine hazards by class and revise the classification system as necessary to carry out the purpose of this chapter (Rates For Workers' Compensation Insurance), rather than revise the classification system at least once every five years. Deletes existing text relating to the

establishment by TDI of certain classification relativities, deletes existing Subsection (b) and the designation of Subsection (c), and makes nonsubstantive changes.

(b) Prohibits a stock company, mutual insurance company, reciprocal or interinsurance exchange, or Lloyd's plan authorized to engage in the business of workers' compensation insurance in this state from using hazard classifications other than the classifications established by TDI.

SECTION 4. Amends Section 2053.056(c), Insurance Code, to authorize the commissioner of insurance (commissioner) to consider other factors in determining whether a change in rates has impacted the premium charged to policyholders, rather than consider other factors, including relativities under Section 2053.051 (Hazard Classification System), in determining whether a change in rates has impacted the premium charged to policyholders.

SECTION 5. Amends Sections 407A.351(a) and (b), Labor Code, as follows:

(a) Requires each group, except as provided by Subsection (b), to use the uniform classification system and experience rating plan of TDI, rather than requiring each group, except as provided by Subsection (b), to use the uniform classification system, experience rating plan, and rate relativities of TDI.

(b) Authorizes a group to file rates with TDI, including any reasonable and supporting information required by the commissioner, rather than authorizing a group to use certain relativities or file its own rates with TDI, including any reasonable and supporting information required by the commissioner. Deletes existing Subdivision (1) and the designation of Subdivision (2) and makes nonsubstantive changes.

SECTION 6. Repealer, effective July 1, 2020: Section 2053.053 (Use of Hazard Classifications Required), Insurance Code.

Repealer, effective July 1, 2020: Section 2054.354(b) (relating to a requirement that TDI develop and publish classification relativities specifically designed for certain risks insured by the Texas Mutual Insurance Company), Insurance Code.

SECTION 7. Makes application of Sections 2051.157, 2053.001(5), 2053.051, and 2053.056(c), Insurance Code, and Sections 407A.351(a) and (b), Labor Code, as amended by this Act, prospective to July 1, 2020.

SECTION 8. Effective date: September 1, 2019.