

**THE EFFECTS OF THE
2005 LEGISLATIVE REFORMS ON
THE AFFORDABILITY AND AVAILABILITY
OF WORKERS' COMPENSATION INSURANCE
FOR TEXAS EMPLOYERS**

A REPORT TO THE 80TH LEGISLATURE

**Texas Department of Insurance
Workers' Compensation Biennial Report
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EXECUTIVE SUMMARY

In 2005, the 79th Legislature passed House Bill 7 (HB 7) which represents the most comprehensive organizational and policy reforms to the Texas workers' compensation system since 1989. One aspect of the bill required the Texas Department of Insurance (Department) to evaluate the impact of the reforms on the affordability and availability of workers' compensation insurance for Texas employers on a biennial basis and to report the results to the Governor and the Legislature no later than December 1 of each even-numbered year.

To prepare this report, the Department surveyed 2,800 employers regarding the percentage of employers participating in the Texas workers' compensation system and employer's premium experiences, levels of satisfaction, and degree of knowledge about the 2005 workers' compensation reforms. Additionally, the Department issued a data call in September 2006, to 13 of the largest insurance carrier groups that represent almost 85 percent of the current workers' compensation market, regarding their current and expected future use and participation in health care networks, their historical experience regarding workers' compensation claim costs, claim counts, and standard earned premiums. The Department also reviewed various measures of market competition and insurance carrier financial solvency.

Texas is the only state in which workers' compensation coverage is optional. An estimated 37 percent of Texas employers, who employ an estimated 23 percent of Texas employees, do not have workers' compensation coverage. However, the 2006 nonsubscription rate among Texas employers is the second-lowest since the rate was first measured in 1993, while the percentage of employees working for nonsubscribing employers is the second-highest recorded over the same period (though lower than the 2004 percentage). More employers with 500 or more employees are continuing to opt out of the Texas workers' compensation system (14 percent of these employers were nonsubscribers in 1996, compared with 21 percent in 2006), while more small employers with 1-4 employees are choosing to be covered under the Texas workers' compensation system (45 percent of these employers were subscribers in 1995, compared with 57 percent in 2006).

The primary reasons Texas employers opted out of the workers' compensation system varied depending on the employer's size. Most nonsubscribers reported that they opted out of the workers' compensation system because workers' compensation premiums were too high, they had too few employees, and they were not required to have workers' compensation insurance by law. Large nonsubscribers reported that they opted out of the workers' compensation system because they could do a better job at providing injured employees with appropriate medical and wage benefits, workers' compensation premiums were too high, and they needed to reduce costs.

For those employers who purchased workers' compensation coverage, 22 percent reported that they purchased coverage because they thought it was required by law. Other reasons employers reported that they purchased workers' compensation coverage included, because it was provided through health care networks, they were concerned about employee lawsuits, or to qualify for government contracts. Although it is unlikely that a significant number of Texas subscribers are currently participating in a workers' compensation health care network, given the recent implementation of workers' compensation health care networks under HB 7, this indicates a level of interest in participating in these networks. Nonsubscribers continue to report higher satisfaction levels with their occupational benefit plans than employers with workers' compensation coverage which may help explain the increase in the percentage of large employers that continue to opt out of the workers' compensation system.

A year after the 79th Legislature passed HB 7, approximately two-thirds of Texas employers said they had no knowledge of the particular legislation or its key features including the abolishment of the Texas Workers' Compensation Commission, the creation of the Office of Injured Employee Counsel, or the creation and use of workers' compensation networks. However, those employers knowledgeable about the reforms reported positive impacts on their decisions to purchase or maintain workers' compensation coverage, to expand operations in Texas, and to hire more employees.

Under HB 7, workers' compensation insurance carriers may elect to contract with or establish workers' compensation health care networks certified by the Department. The

Department began accepting applications for the certification of workers' compensation networks on January 2, 2006. As of November 1, 2006, the Department has certified 17 workers' compensation networks extending into 164 of Texas' 254 counties. These workers' compensation networks are concentrated in counties primarily located in central, northeast, and southeast Texas. The Beaumont/Port Arthur, College Station/Bryan, and Houston/Sugar Land/Baytown metropolitan areas had the highest concentration of certified workers' compensation networks; while the Wichita Falls and Texarkana metropolitan areas had the lowest concentration of certified workers' compensation networks out of areas with networks.

Out of the 13 workers' compensation insurance carrier groups surveyed, nine reported that they had contracted with or established a Department-certified workers' compensation health care network as of September 1, 2006. Insurance carrier groups were also offering or planned to offer premium credits to their policyholders who agreed to participate in their Department-certified workers' compensation network. The premium credits being offered are generally in the 10 percent to 12 percent range.

At present, little actuarial data exist to evaluate these premium credits. As such, these credits represent the best initial estimates of the impact of networks on costs. As more insurance carrier groups contract with or establish Department-certified networks and offer them to their policyholders (i.e. the employers), employees of employers who agreed to participate in the network are then required to obtain medical care through the network in the event they are injured. Over time, as injuries, or claims, occur, the experience or actuarial data will accumulate. As experience is accumulated, the premium credits can be evaluated to determine whether the savings due to networks are being passed on to Texas policyholders.

The reduction in the workers' compensation premiums resulting from the HB 7 reforms are expected to have a positive impact for employers as well as on market competition and insurance carrier financial solvency. However, the effects of the HB 7 reforms on market competition and carrier financial solvency are not presently known since the implementation of networks is still in its infancy. A review of the market make-up, insurance carrier loss

ratios, combined ratios, and the industry's use of competitive rating tools (which provide for individual risk variations) will be used to benchmark the effects of the reforms in the future.

Today, more than 250 insurance carriers write workers' compensation insurance in Texas. Earlier this decade there were a number of insolvencies, typically involving non-Texas insurance carriers; however, there have been substantially fewer insolvencies in recent years. The Texas Mutual Insurance Company serves as an insurance carrier of last resort by writing involuntary risks in its START program. These writings have remained low relative to the total market, totaling less than 1 percent of direct written premiums in 2005. The workers' compensation market is considered competitive with the top ten insurance carrier groups writing just over 80 percent of the market.

In the past three years both loss ratios and combined ratios have been at very profitable levels, following numerous years of very unprofitable results. In response to this, average premium per \$100 of payroll has declined after reaching a high of \$2.85 in 2003 to \$2.36 in 2005, in parallel with the premium experiences reported by employers in the Department's survey.

Given the relative infancy of these reforms and the very recent implementation of workers' compensation networks, it is not possible to report on the full impact of HB 7 on the affordability and availability of workers' compensation insurance for Texas employers at this time. Rather, this initial report provides important baseline information regarding the relative health of the workers' compensation insurance market prior to the HB 7 reforms, as well as an initial review of workers' compensation network participation for Texas employers and claims and employer participation rates in the Texas workers' compensation system. Future reports will include a more detailed analysis of the effect of HB 7 on workers' compensation insurance rates and premiums.

I. INTRODUCTION

In 2005, the 79th Legislature passed House Bill 7 (HB 7), which represents the most comprehensive organizational and policy reforms to the Texas workers' compensation system since 1989.

Key aspects of these reforms included:

- the abolishment of the former Texas Workers' Compensation Commission and transfer of its administrative duties to the Division of Workers' Compensation of the Texas Department of Insurance (Department);
- the creation of the Office of Injured Employee Counsel to serve as a voice for injured workers during rulemaking and assist them during dispute resolution;
- the formation of workers' compensation health care delivery networks approved by the Department to improve the quality of medical care received by injured workers at a reasonable cost for Texas employers;
- the streamlining of medical and income benefit dispute resolution processes to improve the timeliness of dispute resolution; and
- an increased focus on improving return-to-work outcomes in Texas.

HB 7 contained several provisions requiring the Department to evaluate the impact of these reforms on a biennial basis and to report the results to the Governor and the Legislature no later than December 1 of each even-numbered year. One such provision was the addition of Article 5.55 §3(e) to the Insurance Code, requiring the Department to present a report to the Governor, the Lieutenant Governor, and the Speaker of the House of Representatives regarding the impact of HB 7 on the affordability and availability of workers' compensation insurance for Texas employers. The report is to include an analysis of:

- the projected workers' compensation premium savings realized by employers as a result of the reforms;

- the impact of the reforms on employers who provide workers' compensation insurance coverage for their employees;
- the impact of the reforms, to the extent possible, on economic development and job creation;
- the effects of the reforms on market competition and carrier financial solvency, including an analysis of how loss ratios, combined ratios, and the use of individual risk variations have changed since implementation of the reforms; and
- the extent of participation in workers' compensation health care networks by small and medium-sized employers.

The following report represents the first biennial report required under Insurance Code, Article 5.55, §3(e).

Following the introduction, section II of the report provides estimates of overall nonsubscription rates (i.e., the percentage of Texas employers that have chosen not to carry workers' compensation coverage) and the percentage of the Texas workforce employed by nonsubscribers. Section II also includes nonsubscription rates categorized by industry and employer size and explores the reasons both subscribing and nonsubscribing employers gave for their respective workers' compensation coverage decisions. Additionally section II looks at the percentage of Texas employers who are knowledgeable about the HB 7 reforms and how this knowledge is currently impacting their perceptions regarding economic development in Texas.

Section III presents preliminary information regarding workers' compensation network participation in the Texas workers' compensation system. This section includes the number of workers' compensation networks certified as well as the geographic distribution by county of network coverage and the frequency of reportable workers' compensation claims. Additionally, section III summarizes the results of a data call issued to 13 of the largest Texas workers' compensation insurance carrier groups regarding their current or intended use of workers' compensation networks and their estimates of the number of employers (policyholders) that will be participating in

workers' compensation networks in the near future and related workers' compensation claims.

Section IV presents information regarding the types of workers' compensation premium credits that insurance carriers are offering policyholders for participating in workers' compensation networks.

Section V provides an overview of the status of the Texas workers' compensation insurance market prior to the implementation of workers' compensation networks under HB 7, including workers' compensation insurance rates and premiums, market competition, financial solvency, and loss and combined ratios.

Appendix A includes a copy of the telephone survey instrument used to collect the data regarding employer participation in the Texas workers' compensation system presented in section II of this report. Appendix B includes a copy of the data call issued to 13 workers' compensation insurance carrier groups writing in Texas to collect information regarding network participation and historical development of claim costs, claim counts, and premium information presented in section III of this report. Appendix C has a complete listing of all Texas counties and the certified workers' compensation networks that operate within each.

II. Employer Participation in the Texas Workers' Compensation System

Introduction

Since the Texas workers' compensation law was first enacted in 1913, private sector employers have been allowed to either obtain workers' compensation coverage or opt out of the Texas workers' compensation system.¹ Prior to the 1970's, many states had elective workers' compensation laws. Since the 1972 publication of the National Commission on State Workmen's Compensation Laws' essential recommendations, 22 states have made workers' compensation coverage mandatory for most private-sector employers. Several states with mandatory workers' compensation laws provide statutory exemptions to allow small employers or employers from select industries to opt out of their workers' compensation systems.²

Texas is the only state that permits private-sector employers (regardless of employer size or industry) the option of not obtaining workers' compensation coverage and thus, becoming "nonsubscribers" to the workers' compensation system.³ Employers who do not choose to obtain workers' compensation coverage (either through purchasing a commercial policy or becoming a certified self-insured employer or a member of a certified self-insurance group of employers) lose the protection of statutory limits on liability and may be sued for negligence by their injured workers.

Since 1993, the state has periodically monitored the percentage of employers that are nonsubscribers and the percentage of employees employed by nonsubscribers, as well as the types of alternative occupational benefit programs utilized by nonsubscribers and the reasons employers choose or do not choose to participate in the Texas workers'

¹ Texas governmental entities, including the state and its political subdivisions are currently required to provide workers' compensation insurance coverage to their employees.

² Florida, for example, exempts non-construction employers with less than four employees. New Mexico exempts non-construction employers with less than three employees, but allows some service and ranch employers the option to purchase coverage.

³ In New Jersey all employers are required to have coverage or be self-insured. Non-compliant employers are fined and their injured employees receive income and medical benefits through the Uninsured Employers' Fund.

compensation system. Nonsubscription rates remain an important indicator of the relative “health” of the workers’ compensation system since these roughly measure employers’ perspectives regarding whether the benefits of participating in the workers’ compensation system are greater than the costs of obtaining coverage. For this reason, the 79th Legislature required the Department to monitor and report the effect of HB 7 on employer participation in the Texas workers’ compensation system as part of the biennial report.

The first study of employer participation in the Texas workers’ compensation system was published in 1993 by Texas A&M University for the Texas Workers’ Compensation Research Center. In 1996, the Research Center’s successor agency, the Research and Oversight Council on Workers’ Compensation (ROC) assumed the responsibility of calculating nonsubscription rates using the same methods. In 2004, the Department acquired this responsibility and currently manages the survey.

Survey Design and Data Collection

A random probability sample, stratified by industry and employment size, was drawn from all year-round private-sector employers in the state using the Texas Workforce Commission’s Unemployment Insurance database.⁴ To address changing issues in the workers’ compensation system, the original survey instrument designed by the Research Center has been modified slightly over the years. Specifically, the Department’s Workers’ Compensation Research and Evaluation Group (REG) included questions in the 2006 survey to measure employer perceptions of the HB 7 legislative reforms and the impacts of these reforms on business decisions affecting economic development.

⁴ For the purposes of this study, “year-round” employers are employers with reported wages for four consecutive quarters (i.e., the last two quarters of 2004 and the first two quarters of 2005). Employers with only seasonal employees were excluded from this analysis.

During the months of June through August 2006, the Public Policy Research Institute (PPRI) at Texas A&M University, on behalf of the Department, surveyed more than 2,800 Texas employers. The results of the survey serve as the basis for the estimates provided in this report.⁵ This report presents highlights of the findings from this survey, including:⁶

- Overall employer nonsubscription rates and the percentage of Texas employees employed by nonsubscribers;
- The reasons employers gave for purchasing workers' compensation coverage or becoming nonsubscribers to the workers' compensation system;
- Texas employers' recent experiences with workers' compensation premium costs; and
- Employers' knowledge of the HB 7 legislative workers' compensation reforms, including employer perceptions regarding the impact of these reforms on economic development.

It is important to note that the results from this survey serve as a baseline by which to measure the impact of the HB 7 reforms in the future once these reforms have been more fully implemented. See section III of this report for a more detailed discussion regarding the implementation status of a key component of the HB 7 reforms – workers' compensation health care networks.

Employer and Employee Nonsubscription Rates Have Begun to Stabilize

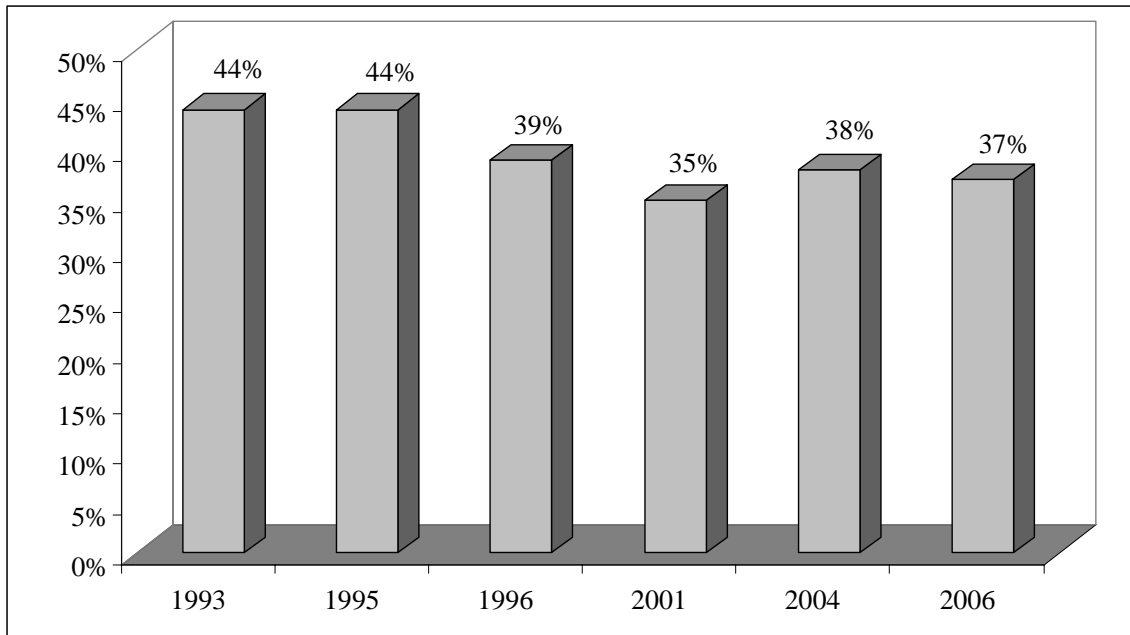
The percentage of Texas employers that are nonsubscribers to the workers' compensation system fell 1 percentage point, from 38 percent in 2004 (an estimated 110,200 employers) to 37 percent in 2006 (an estimated 107,300 employers) (see Figure 1). This represents the second-lowest employer nonsubscription rate since the survey was first conducted in 1993. The 2006 drop, while minimal, is statistically

⁵ The response rate for this survey was 42 percent, representing a slightly higher response rate than the rates from recent years, but still significantly lower than the 1996 response rate of 76 percent.

⁶ Additional findings from this survey, including information regarding the types of alternative occupational benefit programs offered by nonsubscribers, will be included in a comprehensive summary that the REG will post on the Department's website.

significant and may be due to changing factors in the Texas workers' compensation system, such as stabilizing premium costs and reduced concerns about high medical costs.

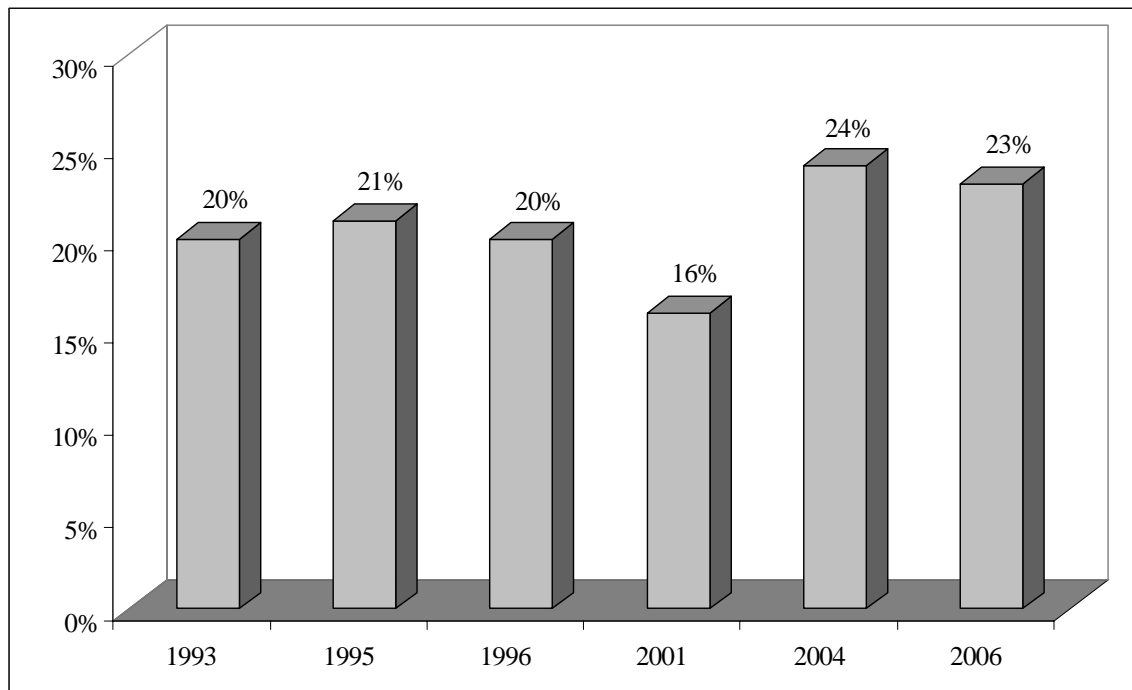
Figure 1: Percentage of Texas Employers that Are Nonsubscribers, 1993-2006



Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, 1993 and 1995 estimates from the Texas Workers' Compensation Research Center and the Public Policy Research Institute (PPRI) at Texas A&M University; 1996 and 2001 estimates from the Research and Oversight Council on Workers' Compensation and PPRI; and 2004 and 2006 estimates from the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group and PPRI.

Approximately 23 percent of Texas employees (representing approximately 1,772,000 employees) worked for nonsubscribers in 2006 (see Figure 2). This represents a one percentage point drop since 2004, but is the second-highest percentage of Texas employees working for nonsubscribers since 1993. The lowest recorded percentage of employees (16 percent) working for nonsubscribers was in 2001 when an estimated 35 percent of Texas employers were nonsubscribers.

Figure 2: Percentage of Texas Employees that Are Employed by Nonsubscribers, 1993-2006



Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, 1993 and 1995 estimates from the Texas Workers' Compensation Research Center and the Public Policy Research Institute (PPRI) at Texas A&M University; 1996 and 2001 estimates from the Research and Oversight Council on Workers' Compensation and PPRI; and 2004 and 2006 estimates from the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group and PPRI.

Large Employers Continue to Opt Out of the System

Results from a 2004 survey highlighted the trend of larger employers choosing to opt out of the Texas workers' compensation system for reasons that centered primarily on high workers' compensation premium costs and the ability to adequately control medical costs for their injured workers. The 2006 results show a slight improvement in the overall percentage of Texas employees who are covered by workers' compensation insurance.

Table 1 shows that an increasing percentage of employers with more than 100 employees chose to opt out of the Texas workers' compensation system while an increasing percentage of the small and mid-sized employers chose to be covered in 2006. Since 1995, the percentage of employers with 1-4 employees who are nonsubscribers has fallen from 55 percent to 43 percent, while the percentage of

nonsubscribers with 500 or more employees has increased from 14 percent in 1996 to 21 percent in 2006.

Table 1: Percentage of Texas Employers that Are Nonsubscribers by Employment Size, 1993-2006

Employment Size	1993*	1995	1996	2001	2004	2006
1-4 Employees	N/A	55%	44%	47%	46%	43%
5-9 Employees	N/A	37%	39%	29%	37%	36%
10-49 Employees	N/A	28%	28%	19%	25%	26%
50-99 Employees	N/A	24%	23%	16%	20%	19%
100-499 Employees	N/A	20%	17%	13%	16%	17%
500 + Employees	N/A	18%	14%	14%	20%	21%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, 1993 and 1995 estimates from the Texas Workers' Compensation Research Center and the Public Policy Research Institute (PPRI) at Texas A&M University; 1996 and 2001 estimates from the Research and Oversight Council on Workers' Compensation and PPRI; and 2004 and 2006 estimates from the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group.

* Nonsubscription estimates for 1993 were based on different employer size categories than were used in later years so they are not directly comparable.

Nonsubscription Rates Vary by Industry

Five of the eight primary industry sectors experienced reductions in their nonsubscription rates in 2006. The Agriculture/Forestry/Fishing/Hunting industry sector had the steepest drop from 39 percent of employers reporting that they were nonsubscribers in 2004 to 25 percent in 2006 (see Table 2). The Mining/Utilities/Construction industry sector continues to have some of the lowest nonsubscription rates of any industry sector. This may be primarily due to the necessity of workers' compensation coverage for most government contracts. While the Arts/Entertainment/Accommodation/Food Services industry sector experienced a slight reduction in its nonsubscription rate from 2004 to 2006, this industry sector continues to have the highest nonsubscription rate (over 50 percent).

**Table 2: Percentage of Texas Employers that Are Nonsubscribers
by Industry, 2004 and 2006 Estimates**

Industry Sectors*	Nonsubscription Rate	Nonsubscription Rate
	2004	2006
Agriculture/Forestry/Fishing/Hunting	39%	25%
Mining/Utilities/Construction	32%	21%
Manufacturing	42%	37%
Wholesale Trade/ Retail Trade/Transportation	40%	37%
Finance/Real Estate/Professional Services	32%	33%
Health Care/Educational Services	41%	44%
Arts/Entertainment/Accommodation/Food Services	54%	52%
Other Services Except Public Administration	39%	42%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2004 and 2006.

*Industry classifications were based on the 2002 North American Industry Classification System (NAICS) developed by the governments of the U.S., Canada and Mexico, which replaced the Standard Industrial Classification (SIC) system previously used in the U.S. As a result of this change in industry classifications, industry nonsubscription rates for 2004 and 2006 cannot be compared to previous years.

Reasons Employers Opt Out of the Workers' Compensation System

The most frequent reasons nonsubscribing employers gave for not purchasing workers' compensation coverage were their perceptions that the cost of workers' compensation premiums was too high (35 percent), followed by the response that they had too few employees (21 percent), and then that they were not required to have workers' compensation insurance by law (9 percent) (see Table 3).

Table 3: Top Five Reasons Employers Said They Did Not Purchase Workers' Compensation Coverage

Primary Reasons Given by Surveyed Employers (All Sizes)	Percentage of Nonsubscribing Employers Surveyed in 2006
Workers' compensation insurance premiums were too high	35.4%
Employer had too few employees	21.3%
Employers not required to have workers' compensation insurance by law	9.0%
Employer had few on-the-job injuries	8.8%
Medical costs in the workers' compensation system were too high	4.1%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

When these reasons were examined by employer size, the importance of the reason varied. Forty-one percent of employers with more than 500 employees reported that the primary reason for opting out of the system was because they felt they could do a better job than the Texas workers' compensation system at providing injured employees with appropriate medical and wage benefits (see Table 4). Twenty-four percent reported that insurance premiums were too high. Other reasons given by those employers included the need for cost reductions to remain competitive, concerns about the administration of the workers' compensation system, low numbers of injuries, and high medical costs in the workers' compensation system.

Table 4: Top Five Reasons Large Employers Said They Did Not Purchase Workers' Compensation Coverage

Primary Reasons Given by Surveyed Employers (Employers with 500+ Employees)	Percentage of Nonsubscribing Employers Surveyed in 2006
Employer felt they could do a better job than the Texas workers' compensation system at providing injured employees with appropriate medical and wage benefits	41%
Workers' compensation insurance premiums were too high	24%
Employer needed to cut costs in order to be competitive	9%
Employer had few on-the-job injuries	8%
Employer had concerns about the administration of the Texas workers' compensation system	7%
Medical costs in the workers' compensation system were too high	5%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

Reasons Employers Gave for Purchasing Workers' Compensation Coverage

Approximately 22 percent of Texas subscribers said they purchased workers' compensation coverage because they believe it is required by law (see Table 5). This may not be surprising since Texas is the only state where workers' compensation coverage is optional. Twenty percent of Texas subscribers said they purchased workers' compensation coverage because it was provided through a health care network. Although it is unlikely that a significant number of Texas subscribers are currently participating in a workers' compensation health care network, given the recent implementation of workers' compensation health care networks under HB 7 (see section III for more information regarding network participation in the Texas workers' compensation system), this finding does indicate a level of interest in participating in these networks that may result in an employer's decision to remain a subscriber, enter, or re-enter the Texas workers' compensation system. Other key reasons subscribers gave for purchasing workers' compensation coverage included concern about lawsuits (20 percent), workers' compensation coverage was required for government contracts

(6 percent), and because they had confidence in the administration of the Texas workers' compensation system (5 percent).

Table 5: Top Five Reasons Subscribing Employers Said They Purchased Workers' Compensation Coverage

Primary Reasons Given	Percentage of Subscribing Employers Surveyed in 2006
Employer thought having workers' compensation was required by law	22%
Employer provided workers' compensation coverage through health care network*	20%
Employer was concerned about lawsuits	20%
Employer needed workers' compensation coverage in order to obtain government contracts	6%
Employer had confidence in the administration of the Texas workers' compensation system	5%

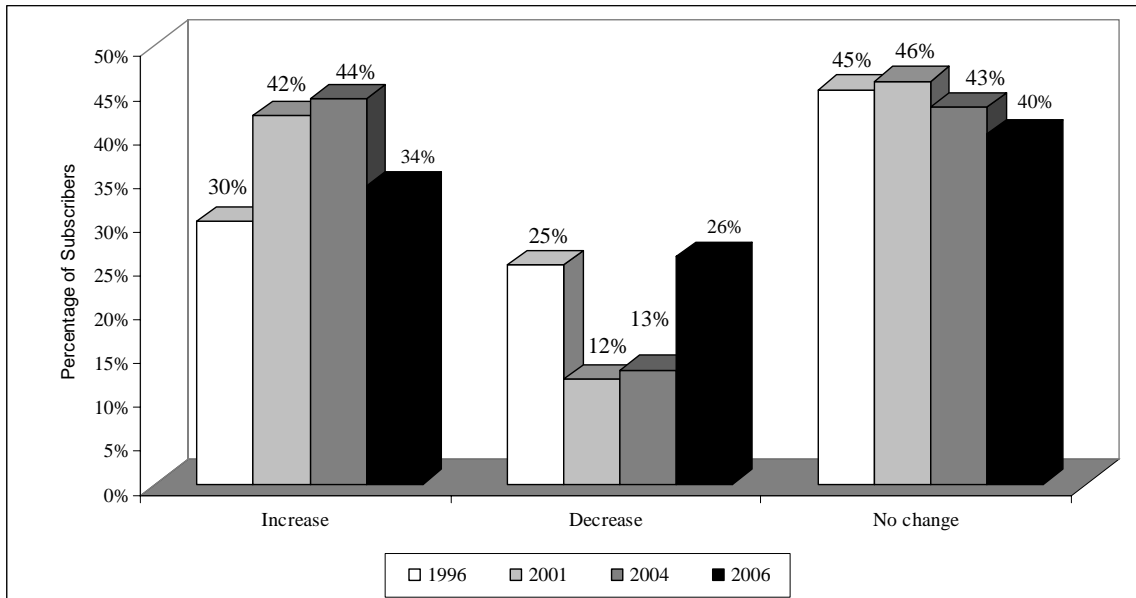
Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

* Although it is unlikely that a significant number of Texas subscribers are currently participating in a workers' compensation health care network, given the recent implementation of workers' compensation health care networks under HB 7 (see section III for more information regarding network participation in the Texas workers' compensation system), this finding does indicate a level of interest in participating in these networks that may result in an employer's decision to remain a subscriber, enter, or re-enter the Texas workers' compensation system.

Subscribing Employers Experience Less Premium Pressure in 2006

There are indications that Texas employers faced fewer premium pressures in 2006 than in earlier years. Approximately 34 percent of subscribing employers in Texas experienced increases in their premiums in 2006, the second-lowest percentage of Texas employers to face premium increases since 1996 (see Figure 3). Conversely, 26 percent of subscribing employers experienced premium decreases in 2006, the highest percentage in ten years and double the percentage that experienced premium decreases in 2004.

Figure 3: Percentage of Subscribing Employers that Experienced a Change in Their Workers' Compensation Insurance Premium Compared to Previous Policy Years



Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, 1996 and 2001 estimates from the Research and Oversight Council on Workers' Compensation and the Public Policy Research Institute (PPRI) at Texas A&M University; and 2004 and 2006 estimates from the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group and PPRI.

The range of average premium increases and decreases also reflected measurable improvements for employers compared to their experience in 2004. Approximately 10 percent of subscribing employers who reported a premium increase in 2006 said their workers' compensation premiums increased more than 20 percent, compared with 24 percent of subscribing employers in 2004 (see Table 6). Eighty percent of employers who reported premium increases said their premiums increased by less than 15 percent compared to 64 percent of employers in 2004. It is important to note that premium increases or decreases can result from a variety of factors, including an increase or decrease in payroll, a change in the employer's loss experience, a change in the filed workers' compensation rates, as well as a change in the use of competitive rating tools (see section V for discussion of premiums and rates).

Table 6: Average Premium Increase for Employers that Reported a Recent Increase in Their Workers' Compensation Premiums in 2004 and 2006

Size of Recent Workers' Compensation Premium Increase	Percentage of Subscribing Employers Surveyed In:	
	2004	2006
Less than 10 percent	50%	50%
10-15 percent	14%	30%
16-20 percent	12%	11%
21-30 percent	8%	6%
31-40 percent	4%	1%
41-50 percent	5%	1%
More than 50 percent	7%	2%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

Starting in late 2006/early 2007, some employers may also have the opportunity to receive a premium credit for participating in their insurance carrier's workers' compensation health care network. See section IV of this report for information regarding the range of premium credits filed by numerous insurance carriers.

There have also been some changes in the percentage of premium decreases reported by subscribing employers in 2006 (see Table 7). Approximately 45 percent of employers who reported premium decreases in 2006 experienced reductions of less than 10 percent, compared with 60 percent of employers who reported premium decreases in 2004. The percentage of employers who reported 11 to 15 percent premium reductions more than doubled from 16 percent in 2004 to 34 percent in 2006. Overall, 55 percent of subscribing employers who reported premium decreases in 2006 had reductions in excess of 10 percent.

Table 7: Average Premium Decrease for Employers that Reported a Recent Decrease in Their Workers' Compensation Premiums in 2004 and 2006

Size of Recent Workers' Compensation Premium Decrease	Percentage of Subscribing Employers Surveyed In:	
	2004	2006
Less than 10 percent	60%	45%
11-15 percent	16%	34%
16-20 percent	5%	8%
21-30 percent	8%	4%
31-40 percent	5%	3%
41-50 percent	6%	6%
More than 50 percent	Less than 1%	Less than 1%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

Few Texas Employers Are Knowledgeable About the HB 7 Reforms

An important component in evaluating the impact of the HB 7 reforms is understanding the level of knowledge Texas employers have regarding these reforms. More than one year after HB 7 was passed, a majority of Texas employers said they had no knowledge of the reforms. When asked about their degree of knowledge regarding the abolishment of the Texas Workers' Compensation Commission and the transfer of its functions to the Department, only 11 percent of employers considered themselves extremely knowledgeable, while 63 percent said they had no knowledge about that reform. Sixty-eight percent of Texas employers reported that they were not aware that HB 7 created a new state agency, the Office of Injured Employee Counsel to advocate for injured workers during rulemaking and to help them resolve their complaints. Additionally, 64 percent were unaware of the most significant aspect of the HB 7 reforms – the creation and use of workers' compensation health care networks (see Table 8).

Table 8: Employer Knowledge About the HB 7 Workers' Compensation Reforms

Main Aspects of the Reforms	Percentage of Employers with Certain Degree of Knowledge About the 2005 Reforms		
	Not at all Knowledgeable	Somewhat Knowledgeable	Extremely Knowledgeable
HB 7 abolished the Texas Workers' Compensation Commission and transferred its functions to the Department.	63%	26%	11%
HB 7 created a new state agency, the Office of Injured Employee Counsel, to assist injured employees with complaints and disputes and advocate for them during rulemaking.	68%	25%	7%
Under HB 7, employers who purchase workers' compensation insurance now have the option to participate in a health care network through their insurance carrier.	64%	26%	10%
Under HB 7, an injured employee who lives in their carrier's network service area and receives a copy of the network requirements must choose a treating doctor from the network.	62%	26%	12%
Under HB 7, small employers who purchase workers' compensation insurance and pay for worksite modifications in order to bring their employees back to work may be eligible for a reimbursement from the Department, up to \$2,500 annually.	75%	19%	6%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research and Evaluation Group, 2006.

Knowledge of HB 7 Reforms Affects Employers' Perceptions on Economic Development in Texas

A required element of the Department's evaluation of the impact of the HB 7 reforms on the affordability and availability of workers' compensation insurance is an analysis of the reforms' effect on economic development. However, given the paucity of employer knowledge about these reforms, and the brief time since its inception, it is not surprising that an overwhelming majority (approximately 90 percent) of Texas employers said (as of September 2006) the reforms had no impact on their business decisions (see Table 9). The Department will continue to monitor the impact of the HB 7 reforms on employers' business decisions in future reports, to see if or how employers' perceptions change once workers' compensation health care network availability increases. However, it should be noted that the recent survey results indicate that expanded employer education efforts about key aspects of the HB 7 reforms are needed.

Even with the low level of employer knowledge of the HB 7 reforms, there are early indications that the passage of these reforms will have a positive impact on economic development in Texas, including increased willingness of Texas employers to hire more employees and expand business operations in Texas. There are also early indications that the passage of these reforms will have some positive impact on the likelihood of employers to purchase or maintain workers' compensation coverage, but it also appears that some employers will continue to remain nonsubscribers regardless of the HB 7 reforms.

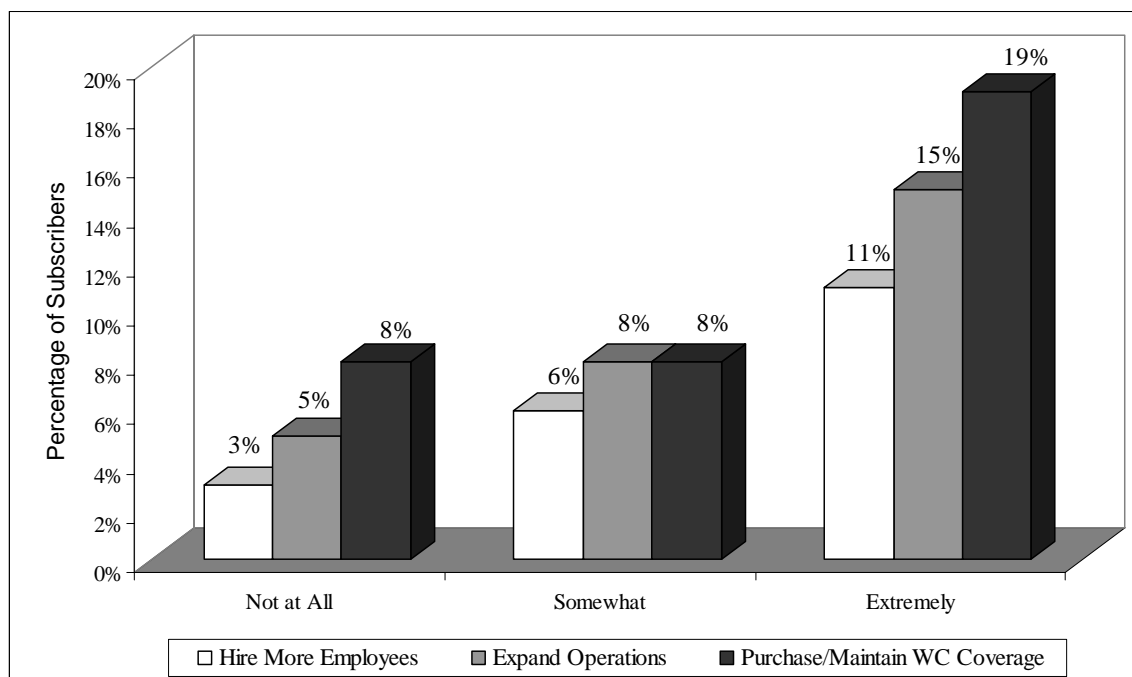
**Table 9: Impact of the 2005 Workers' Compensation Reforms
on Texas Employers' Business Decisions**

Employers' Decisions	Type of Impact and Percentage of all Employers Surveyed in 2006		
	Positive	Negative	No Change
To hire more employees	4.6%	2.6%	92.8%
To expand business operations in Texas	6.8%	2.3%	90.9%
To purchase or maintain workers' compensation coverage	10.4%	2.2%	87.4%
To become or remain a nonsubscriber to the Texas workers' compensation system	5.7%	2.7%	91.6%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

In particular, the economic development impact of the HB 7 reforms appears to be primarily dependent on employer knowledge about the key component of these reforms – workers' compensation health care networks. Employers who reported that they were extremely knowledgeable about the availability of workers' compensation health care networks under HB 7 were much more likely to report that they would be more willing to hire more employees, expand business operations in Texas, and purchase or maintain workers' compensation coverage than employers who were somewhat or not knowledgeable at all about the workers' compensation health care network provisions in HB 7 (see Figure 4).

Figure 4: Employer Knowledge About the HB 7 Reforms and the Impact on Business Decisions



Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

As demonstrated in Table 10, it appears that a slightly higher percentage of employers with 100 or more employees indicated at this early stage that the HB 7 reforms have had a positive effect on their decision to purchase or maintain workers' compensation coverage. However, it should be noted that these employers are more likely to have knowledge of the HB 7 reforms than employers with fewer than 100 employees. Since a significant percentage of Texas employers (64 percent) are not knowledgeable about the availability of workers' compensation health care networks, it is possible that, with increased employer education and greater network availability over time, the HB 7 reforms may improve employers' perceptions about the business climate and economic development opportunities in Texas.

Table 10: Impact of the 2005 Workers' Compensation Reforms on Texas Employers' Decisions to Purchase or Maintain Workers' Compensation Coverage by Employer Size

Employer Size	Type of Impact and Percentage of all Employers Surveyed in 2006		
	Positive	Negative	No Change
Fewer than 50 employees	10.0%	2.5%	87.5%
50-99 employees	12.0%	1.5%	86.5%
100+ employees	15.0%	2.0%	83.0%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

Nonsubscribers Are Generally More Satisfied with Their Programs than Subscribers

Although satisfaction levels have increased for both nonsubscribers and employers with workers' compensation coverage since 2004, nonsubscribing employers continue to report higher satisfaction levels with their programs than employers with workers' compensation coverage (see Table 11). In particular, a significantly higher percentage of nonsubscribing employers (73 percent) reported that they were extremely or somewhat satisfied that their nonsubscription plan for occupational benefits was a good value for their company, compared with only 54 percent of subscribers.

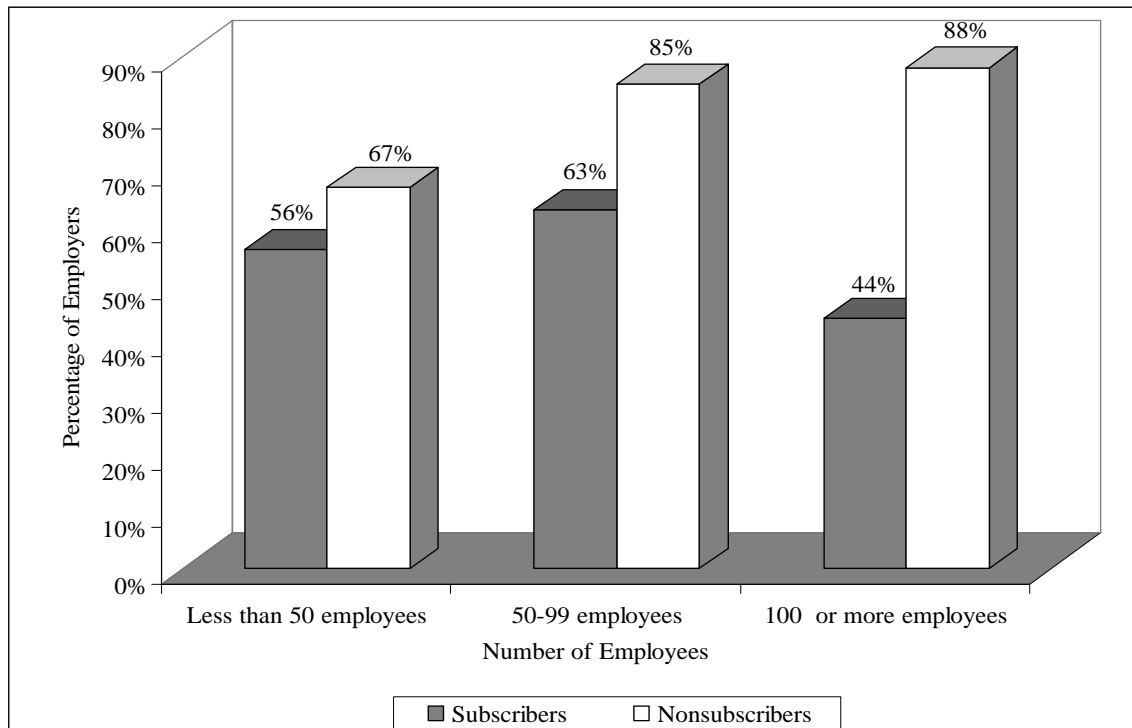
Table 11: Satisfaction Levels of Subscribers and Nonsubscribers

Workers' Compensation Areas	Percentage of Employers Indicating that They Were Extremely or Somewhat Satisfied	
	Subscribers	Nonsubscribers
Overall satisfaction	56.2%	69.5%
Adequacy/equity of occupational benefits paid to workers	53.2%	66.1%
Whether workers' compensation or occupational benefits plan is a good value for company	53.7%	72.6%
Ability to manage medical and wage replacement costs	50.2%	63.1%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

Overall, employer satisfaction levels varied by employer size. Eighty-eight percent of large nonsubscribers indicated that they were extremely or somewhat satisfied with their experience as a nonsubscribing employer, while only 44 percent of large subscribers reported satisfaction with their experience in the workers' compensation system (see Figure 5). The satisfaction gap between large nonsubscribers and large subscribers may explain the increase in the percentage of large employers that have opted out of the workers' compensation system since 2001.

Figure 5: Percent of Employers Indicating that They Were Extremely or Somewhat Satisfied



Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

Summary

The 2006 employer survey revealed early indications that the Texas workers' compensation system is in transition. The percentage of nonsubscribing employers is at its second-lowest level since 1993, while the number of employees employed by nonsubscribers is at its second-highest level over the same period, the result of larger employers leaving the system as some smaller and medium-sized employers are entering. These larger employers report that the main reason for opting out of the system was that they feel they could do a better job providing benefits to the injured workers than the Texas workers' compensation system.

Further, although cost concerns still rank high, premium pressures and concerns about medical costs, are lessening somewhat. Relatively few Texas employers are knowledgeable about the 2005 legislative reforms enacted with HB 7, including the availability of workers' compensation health care networks. There is an early indication

that those employers who are informed, particularly about the availability of workers' compensation health care networks, feel that the reforms will result in positive changes in their likelihood to hire more employees, expand business operations in Texas, and purchase or obtain workers' compensation coverage. It is too early to gauge effectively the success of the recent HB 7 reforms on employer decisions to obtain workers' compensation coverage or opt out of the system, but it is important to note that satisfaction levels among nonsubscribing employers (particularly regarding whether they feel their nonsubscriber occupational benefit plans are a good value for their company) remain very high.

However, it is clear, that in order for the HB 7 reforms to take full effect, more educational outreach on the various aspects of the HB 7 reforms is needed for Texas employers. Some of that outreach will occur over the next year as more workers' compensation insurance carriers begin to offer health care network plans to their policyholders. The Department recently surveyed a group of the largest commercial insurance carriers in Texas to better determine the magnitude of the role that health care networks may play in the future. The following section explores this early implementation phase of health care networks in Texas and provides some baseline information regarding network participation among employers and injured workers.

III. Workers' Compensation Health Care Networks

Introduction

An important component of evaluating the impact of the recent HB 7 reforms on the affordability and availability of workers' compensation insurance is the implementation of the cornerstone of the HB 7 reforms - workers' compensation health care networks. As indicated in the years prior to the adoption of these reforms, rising average medical costs per claim, poor return-to-work outcomes, and high workers' compensation premiums resulted in an increase in the percentage of Texas employers that chose to leave the workers' compensation system.

Research studies published by the former Research and Oversight Council on Workers' Compensation, the Department, and the Workers' Compensation Research Institute highlighted that Texas' high medical costs were being driven primarily by the amount of medical care provided to injured workers (often referred to as "the utilization of medical care"). Despite high medical costs, Texas injured workers were not more satisfied with their medical care compared to workers in other states.⁷

In response to these trends and stakeholders' (e.g. insurance carriers, employers, injured workers, health care providers etc.) concerns, the 79th Legislature introduced a new workers' compensation health care delivery model, which allows insurance carriers to establish or contract with managed care networks that are certified by the Department using a method similar to the certification of health maintenance organizations (HMOs).

⁷ See Research and Oversight Council on Workers' Compensation, *Striking the Balance: An Analysis of the Cost and Quality of Medical Care in the Texas Workers' Compensation System: A Report to the 77th Legislature*, 2001; Research and Oversight Council on Workers' Compensation, *Returning to Work: An Examination of Existing Disability Duration Guidelines and Their Application to the Texas Workers' Compensation System: A Report to the 77th Legislature*, 2001; Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, *Medical Cost and Quality of Care Trends in the Texas Workers' Compensation System*, 2004; and Workers' Compensation Research Institute, *CompScope Benchmarks for Texas*, 6th Edition, 2006.

Overview of the Network Provisions in HB 7

Under HB 7, workers' compensation insurance carriers (including commercial carriers, certified self-insured employers, group self-insured employers, and governmental entities) may elect to contract with or establish workers' compensation health care networks (networks), as long as those networks are certified by the Department. The Department's certification process includes a financial review, validation that the network meets the health care provider credentialing and contracting requirements established in the Department's rules, and a detailed analysis of the adequacy of health care providers available to treat injured workers in each proposed network's service area. If an employer chooses to participate in the insurance carrier's workers' compensation network, the employer's injured workers are required to obtain medical care through the network provided that the injured worker lives in the network's service area and receives notice of the network's requirements from the employer (including a network provider directory).⁸

Employees receiving network notices are asked to sign an acknowledgment form that indicates which certified network the employer is participating in, and acknowledges that the employee understands how to choose a treating doctor, seek medical care within the network or from a network-approved referral provider (with the exception of emergency care), and file a complaint with the network or with the Department.

Health care providers and workers' compensation networks negotiate fees under this new network model rather than utilize the Division of Workers' Compensation's fee guidelines. Additionally, workers' compensation networks may operate under their own treatment guidelines, return-to-work guidelines and preauthorization requirements, although these treatment and return-to-work guidelines must meet minimum statutory criteria.⁹ Under this new model, workers' compensation networks are required to have

⁸ By statute, pharmacy services are exempted from workers' compensation networks. Injured workers will continue to obtain pharmaceuticals from any pharmacist willing to accept workers' compensation patients, regardless of whether the worker is participating in a workers' compensation network or not (see § 1305.101(c), Insurance Code).

⁹ Treatment and return-to-work guidelines utilized by certified workers' compensation networks must be "scientifically valid, evidence-based, and outcome-focused" (see §1305.304, Insurance Code).

case management and return-to-work coordination services, as well as provide annual quality assurance and financial reports to the Department to ensure that certified workers' compensation networks continue to provide high quality medical care to injured workers. Additionally, HB 7 requires the Department to publish and disseminate an annual workers' compensation network report card that evaluates certified networks on measures including medical costs and utilization, return-to-work outcomes, and injured worker satisfaction with and access to medical care.¹⁰

Implementation of Workers' Compensation Networks Has Begun in Texas

The Department began accepting applications for the certification of workers' compensation networks on January 2, 2006. As of November 1, 2006, the Department certified 17 workers' compensation networks extending into 164 counties. The shaded counties shown in Figure 6 are Texas counties included in the service area of a certified workers' compensation network.

Currently, the workers' compensation networks are concentrated in counties primarily located in central, northeast, and southeast Texas. In addition, several Texas panhandle and high plains counties and one west Texas county have also been incorporated into the service areas of a certified workers' compensation network. As can be inferred from Figure 6, the workers' compensation networks that have been certified as of the writing of this report will primarily serve injured workers in the larger metropolitan areas.

¹⁰ In accordance with HB 7, the first workers' compensation network report card is due no later than 18 months from the date the first workers' compensation network was certified by the Department. The Department certified the first workers' compensation network in late March 2006, which means the first network report card will be published no later than September 2007 (see §1305.502, Insurance Code).

Statistical Areas (MSAs)¹¹ within each network's service area. As of November 1, 2006, the three largest workers' compensation networks, in terms of the number of counties in its service area, are Concentra Health Care Network, Texas Star Network/Concentra Health Care Network, and the Zurich Health Care Network. The service area for these networks includes the counties in 20 out of 25 Texas major metropolitan areas and 80 surrounding counties. The metropolitan areas not included in these networks' or any other certified workers' compensation networks' service areas as of November 1, 2006, included Abilene, Laredo, Midland, Odessa, and Sherman/Denison.

Table 12: Department-Certified Workers' Compensation Healthcare Networks' Service Area Information (as of November 1, 2006)

Workers' Compensation Certified Network		Date Certified	Number of Counties in Service Area	Texas MSA Service Area
1.	Concentra Healthcare Network	4/14/2006	149	Amarillo; Austin/Round Rock; parts of Beaumont/Port Arthur; Brownsville/Harlingen; College Station/Bryan; Corpus Christi; Dallas/Fort Worth/Arlington; El Paso; Houston/Sugar Land/Baytown; Killeen/Temple/Fort Hood; Longview; Lubbock; McAllen/Edinburg/Mission; San Angelo; San Antonio; Tyler; Victoria; Waco
2.	Corvel Healthcare Corporation	7/18/2006	37	parts of Beaumont/Port Arthur; McAllen/Edinburg/Mission; Corpus Christi; parts of Dallas/Fort Worth/Arlington; parts of Houston/Sugar Land/Baytown; San Antonio (excluding Bandera)
3.	First Health/AIGCS TX HCN	8/23/2006	30	parts of Beaumont/Port Arthur; College Station/Bryan; Houston/Sugar Land/Baytown (excluding Galveston)

¹¹ The United States Census Bureau defines a Metropolitan Statistical Area (MSA) as a large population nucleus and adjacent communities that have a high degree of social and economic integration with that core. MSAs consist of one or more entire counties.

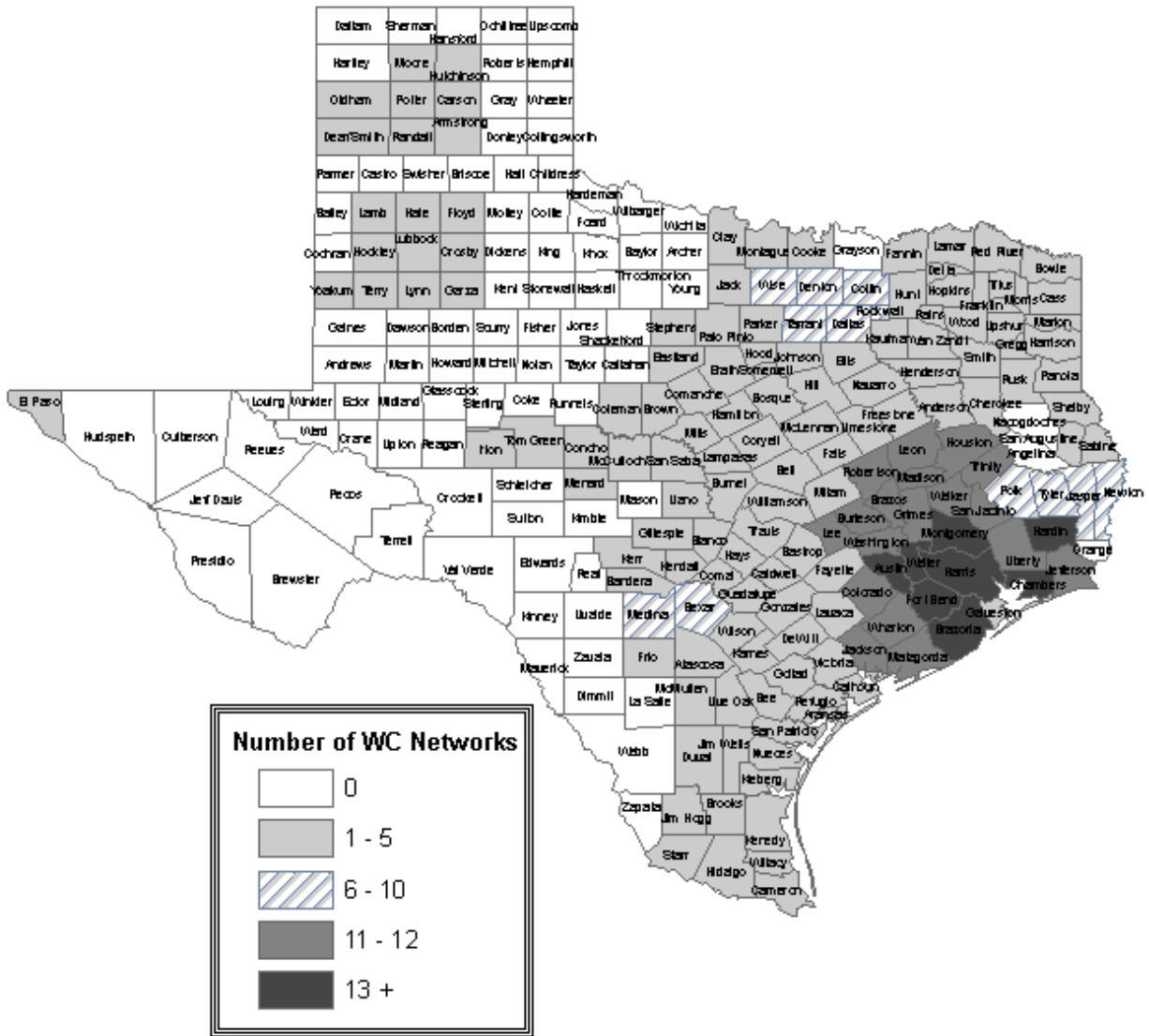
4.	First Health TX HCN	8/15/2006	78	parts of Beaumont/Port Arthur; College Station/Bryan; Dallas/Fort Worth/Arlington; Houston/Sugar Land/Baytown (excluding Galveston); Longview; Texarkana; Tyler; parts of Wichita Falls
5.	First Health/Travelers HCN	8/18/2006	30	parts of Beaumont/Port Arthur; College Station/Bryan; Houston/Sugar Land/Baytown (excluding Galveston)
6.	Forte Inc.	8/28/2006	30	parts of Beaumont/Port Arthur; College Station/Bryan; Houston/Sugar Land/Baytown (excluding Galveston)
7.	Genex Services Inc.	8/18/2006	30	parts of Beaumont/Port Arthur; College Station/Bryan; Houston/Sugar Land/Baytown (excluding Galveston)
8.	The Hartford Workers' Compensation Health Care Network	10/02/2006	30	parts of Beaumont/Port Arthur; College Station/Bryan; Houston/Sugar Land/Baytown (excluding Galveston)
9.	IMO Med/Select Network	10/23/2006	7	parts of Dallas/Fort Worth/Arlington
10.	International Rehabilitation Associates, Inc.	8/21/2006	30	parts of Beaumont/Port Arthur; College Station/Bryan; Houston/Sugar Land/Baytown (excluding Galveston)
11.	Liberty Mutual Managed Care, Inc.	8/22/2006	26	parts of Austin/Round Rock; parts of Beaumont/Port Arthur; parts of Dallas/Fort Worth/Arlington; parts Houston/Sugar Land/Baytown; parts of San Antonio
12.	Memorial Hermann Health Network Providers, Inc.	6/28/2006	11	parts of Houston/Sugar Land/Baytown
13.	Physicians Cooperative of Texas	10/02/2006	11	parts of Austin/Round Rock; parts of Dallas/Fort Worth/Arlington; parts of San Antonio
14.	Sha, LLC	9/14/2006	9	Lubbock
15.	Specialty Risk Services Texas Workers' Compensation Health Care	10/03/2006	30	parts of Beaumont/Port Arthur; College Station/Bryan; Houston/Sugar Land/Baytown

	Network			(excluding Galveston)
16.	Texas Star Network/Concentra	3/29/2006	149	Amarillo; Austin/Round Rock; parts of Beaumont/Port Arthur; Brownsville/Harlingen; College Station/Bryan; Corpus Christi; Dallas/Fort Worth/Arlington; El Paso; Houston/Sugar Land/Baytown; Killeen/Temple/Fort Hood; Longview; Lubbock; McAllen/Edinburg/Mission; San Angelo; San Antonio; Tyler; Victoria; Waco
17.	Zurich Services Corporation Healthcare Network	10/26/2006	149	Amarillo; Austin/Round Rock; parts of Beaumont/Port Arthur; Brownsville/Harlingen; College Station/Bryan; Corpus Christi; Dallas/Fort Worth/Arlington; El Paso; Houston/Sugar Land/Baytown; Killeen/Temple/Fort Hood; Longview; Lubbock; McAllen/Edinburg/Mission; San Angelo; San Antonio; Tyler; Victoria; Waco

Source: Texas Department of Insurance, Health and Workers' Compensation Network Certification and Quality Assurance Division and the Workers' Compensation Research and Evaluation Group, 2006.

In contrast, the smaller networks' service areas consist of several counties within a major metropolitan area or a metropolitan area without adjacent metropolitan areas. For example, IMO Med/Select Network's and Liberty Mutual Managed Care's service areas include a select number of counties in larger metropolitan areas. The Sha, LLC network, however, was established to target the stand-alone Lubbock metropolitan area. Corvel Healthcare Corporation's network service area includes both a select number of counties within major metropolitan areas and metropolitan areas without adjacent metropolitan areas (e.g. Corpus Christi).

Figure 7: Number of Department-Certified Workers' Compensation Networks per Texas County (as of November 1, 2006)



Source: Texas Department of Insurance, Health and Workers' Compensation Network Certification and Quality Assurance Division, 2006.

As Figure 7 indicates, 164 Texas counties have some form of certified workers' compensation network coverage. Appendix C has a complete listing of all Texas counties and the certified workers' compensation networks that operate within each. It is important to note that certain counties currently have coverage from a single certified workers' compensation network, while other counties are covered by multiple certified workers' compensation networks. The concentration of certified workers' compensation

networks varies significantly by county and metropolitan area. As of November 1, 2006, the Beaumont/Port Arthur, College Station/Bryan, and Houston/Sugar Land/Baytown metropolitan areas had the highest concentration of certified workers' compensation networks. The Wichita Falls and Texarkana metropolitan areas had the lowest concentration of certified workers' compensation networks, in areas with networks (see Table 13).

Additionally, there are differences in network concentration even within certain metropolitan areas. For example, there are several certified workers' compensation networks concentrated in the Houston/Sugar Land/Baytown metropolitan area. Seven of the 10 counties that make up this metropolitan area contain 14 certified workers' compensation networks, while the remaining three counties contain slightly fewer networks. A similar trend can be observed in the Dallas/Fort Worth/Arlington and San Antonio metropolitan areas.

The Majority of Workers' Compensation Reportable Claims Are Filed in Geographic Areas with Certified Networks¹²

Although more than one-third of Texas counties do not currently have coverage from a certified workers' compensation network, the concentration of workers' compensation networks in selected Texas metropolitan areas is not surprising given the distribution of workers' compensation reportable claims by the injured worker's residence county. Figure 8 and Table 13 show the distribution of 2004 workers' compensation reportable claims by the injured worker's county of residence and metropolitan area of residence.¹³ In 2004, as is shown in Table 13, 86 percent of workers' compensation reportable claims were filed by injured workers living in a major Texas metropolitan area. Figure 8 shows that the areas with the largest number of reportable claims were filed by injured workers living in counties surrounding the Dallas/Fort Worth/Arlington, Houston/Sugar

¹² Texas employers are required to report to their insurance carriers all workers' compensation claims with at least one day of lost time. In turn, insurance carriers are required to report these claims to the Department, Division of Workers' Compensation (see §§409.001-409.005, Labor Code). A reportable claim is defined as an injury that resulted in one or more days of lost time.

¹³ 2004 claim data were used for this report since it represents the most current and complete year in which claim data can be analyzed as of November 1, 2006.

Land/Baytown, San Antonio, El Paso, and Austin/Round Rock metropolitan areas. The counties with the least number of reportable claims are located in west Texas and the Texas Panhandle.

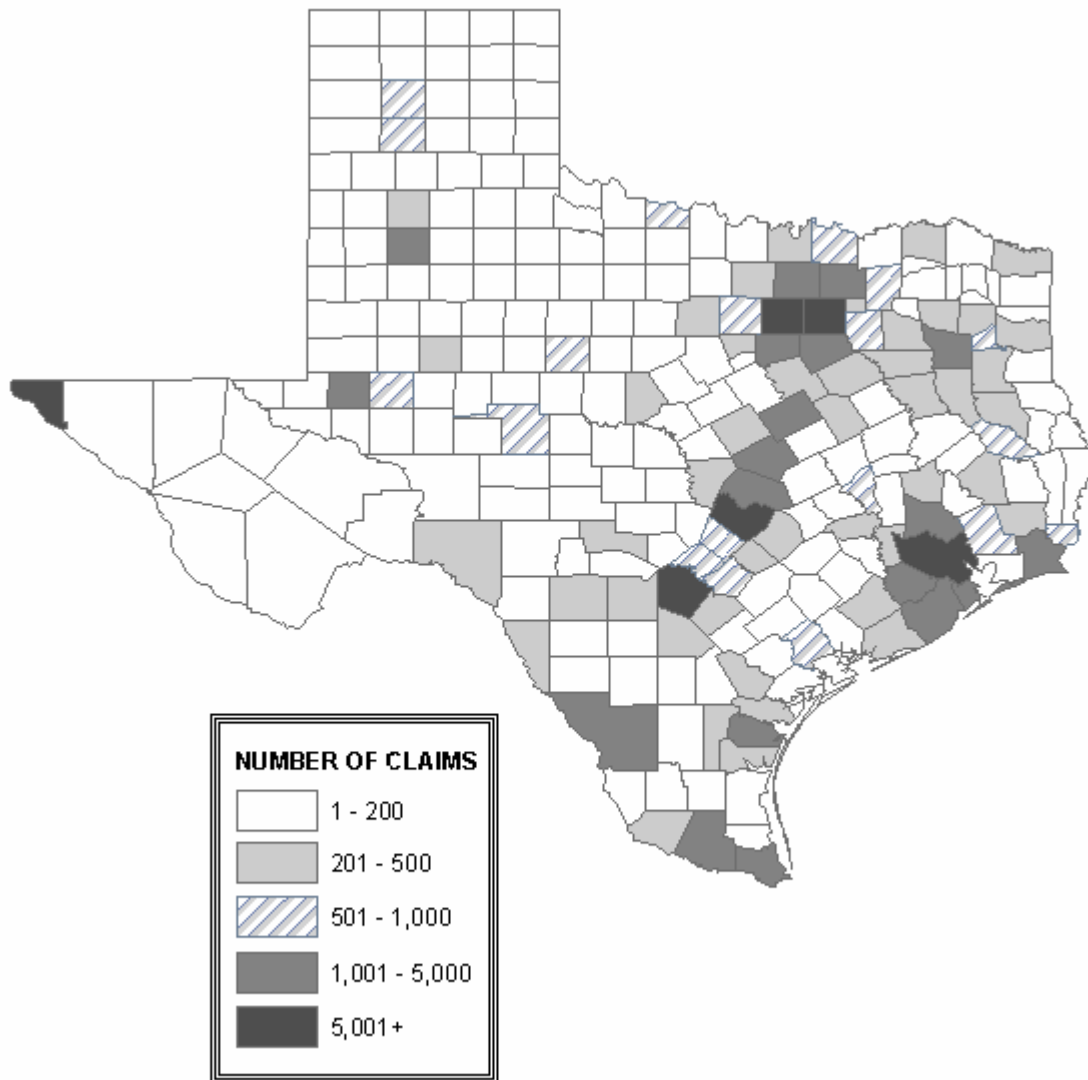
Table 13: Distribution of Workers' Compensation Reportable Claims by Major Metropolitan Statistical Areas of Residence for Workers Injured in 2004*

Texas MSAs	Percentage of Reportable Claims	Number of Reportable Claims	Number of Networks in MSA
Dallas/Fort Worth/Arlington	26.6%	41,558	8
Houston/Sugar Land/Baytown	21.1%	33,084	14
San Antonio	8.7%	13,640	6
Austin/Round Rock	5.6%	8,762	5
El Paso	3.7%	5,746	3
McAllen/Edinburg/Mission	2.9%	4,467	4
Corpus Christi	1.8%	2,778	4
Beaumont/Port Arthur	1.7%	2,623	13
Brownsville/Harlingen	1.7%	2,637	3
Killeen/Temple/Fort Hood	1.4%	2,168	3
Lubbock	1.4%	2,163	4
Waco	1.1%	1,670	3
Amarillo	1.0%	1,508	3
Laredo	0.9%	1,472	0
Tyler	0.9%	1,445	4
College Station/Bryan	0.8%	1,176	11
Longview	0.8%	1,324	4
Odessa	0.7%	1,048	0
Abilene	0.6%	990	0
Wichita Falls	0.6%	936	1
Midland	0.5%	758	0
Sherman/Denison	0.5%	768	0
Victoria	0.5%	838	3
San Angelo	0.4%	639	3
Texarkana	0.3%	474	1
Total	86.2%	134,672	17

Source: Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

* Approximately 2,336 (2 percent) claims were missing information on the injured worker's county of residence.

Figure 8: Distribution of Workers' Compensation Reportable Claims by County of Residence for Workers Injured in 2004



Source: Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2006.

The metropolitan area with the highest number of reportable claims is the Dallas/Fort Worth/Arlington area (26.6 percent). Eight of the 17 certified workers' compensation networks include the Dallas/Fort Worth/Arlington metropolitan area in their service area.

The Houston/Sugar Land/Baytown metropolitan area contains the second highest number of reportable claims (21.1 percent). All but three of the currently certified workers' compensation networks include the Houston/Sugar Land/Baytown metropolitan area in their service area. The San Antonio metropolitan area contains the third-highest number of workers' compensation reportable claims (8.7 percent). Six of the 17 certified workers' compensation networks cover the San Antonio metropolitan area. Together these three metropolitan areas made up approximately 56 percent of the workers' compensation reportable claims in 2004. Overall, the distribution of certified workers' compensation networks is primarily concentrated in the metropolitan areas and surrounding counties with the highest concentration of reportable workers' compensation claims.

Recent Data Call Results Show Insurance Carriers are Interested in Using Certified Networks, Although Actual Use is Currently Limited

Data Call Elements

To gather information regarding the current usage of certified workers' compensation networks by insurance carriers in Texas and the availability of these network plans to Texas employers, the Department issued a data call in September 2006 to 13 of the largest workers' compensation insurance carrier groups(carrier). Overall, these 13 insurance carrier groups represent nearly 85 percent of the current Texas workers' compensation market. The purpose of this data call was to collect some initial estimates regarding the percentage of insurance carriers who have contracted with or established a certified workers' compensation network, as well as initial estimates regarding the number and percentage of Texas policyholders (employers) and workers' compensation claims (injured workers) that are currently participating or will likely participate in a certified workers' compensation network during 2007 and 2008. Additionally, the data call requested information on historical development of claim costs, claim counts, and premium information that will serve as a base for future actuarial projections of cost savings arising from HB 7. Since only three networks were certified in the first half of 2006, there is currently insufficient experience to make accurate projections of likely cost savings.

Given the infancy of the implementation of workers' compensation networks, the network participation estimates reported here should be viewed as preliminary and subject to change. The Department intends to periodically repeat this data call to update this information. Updates will also supplement the historical development of claim costs, claim counts, and premium information permitting continuing assessments of loss cost savings and their impact on premiums.

Specifically, as part of this data call insurance carriers were asked:

- if they had contracted with or established a certified workers' compensation network, and if not, the likelihood of establishing a certified workers' compensation network in the immediate future;
- whether their certified workers' compensation network was already being offered to policyholders and under what circumstances;
- the type of premium credit being offered to policyholders and the criteria under which premium credits are being offered;
- to estimate the number and percentage of policyholders who have agreed or will agree to participate in a certified workers' compensation network;
- to estimate the number of workers' compensation claims that have been treated or will be treated in a certified workers' compensation network;
- to report loss and claim count experience by accident half year beginning with the first half of 2002 through the first half of 2006 at six month evaluations; and
- to provide standard earned premiums by calendar half year beginning with the first half of 2002 through the first half of 2006.

Results of the Data Call

- Nine out of the 13 insurance carrier groups surveyed reported that they had contracted with or established a certified workers' compensation network as of September 1, 2006.

- Of the four insurance carriers that had not contracted with or established a certified workers' compensation network as of September 1, 2006:
 - Two companies reported being in the final stages of the certification process or waiting for approval;
 - One company reported that it was very likely that their group as a whole or some of their companies would contract with or establish a certified workers' compensation network within the next six months; and
 - One company reported that they were not sure if their group or any of their member companies would contract with or establish a certified workers' compensation network.

- Six out of the nine insurance carriers with a certified workers' compensation network had already begun offering their workers' compensation networks to policyholders.

- Eight out of the nine insurance carriers with a certified workers' compensation network were offering or planned to offer a premium credit to policyholders who agreed to participate in their workers' compensation network.

- Of those who reported the amount of premium credit they were offering to their policyholders:
 - Three carriers reported a 12 percent premium credit;
 - Two carriers reported a 10 percent premium credit;
 - One carrier reported that it plans to compare its policyholder exposure to the network coverage and will then give a proportional premium credit to policyholders; and
 - Two carriers reported that they were still in the process of determining premium credits.

- All of the insurance carriers with a certified workers' compensation network (or near certification) reported that they were offering or planned to offer their

workers' compensation network to both new and existing policyholders and during the middle of the policy period. This is an area that the Department intends to monitor further since workers' compensation policies are typically renewed annually and any reluctance on behalf of an insurance carrier to initially offer its network plan to policyholders during the middle of the policy period will delay the implementation of networks.

- A majority of the insurance carriers with a certified workers' compensation health care network (or near certification) reported that they were offering or planned to offer their certified workers' compensation health care network to all workers' compensation policyholders with employees who live in their network's service area, regardless of premium size, employee classifications, experience modifier, and size of deductible. Two insurance carriers included stipulations:
 - One insurance carrier reported that it would only offer their workers' compensation network to employers who had most of their employees located within the network's service area.
 - Another insurance carrier reported that it would not offer its workers' compensation network to minimum premium policies.

- Only three insurance carriers reported that they had policyholders who had agreed to participate in their certified workers' compensation networks as of September 1, 2006 (see Table 14 for details). According to their responses, it was determined that:
 - Two of these three insurance carriers reported to have approximately 9-16 percent of their Texas policyholders participating in their workers' compensation network as of September 1, 2006. The third insurance carrier reported that 63 percent of its policyholders agreed to participate in the network. It should be noted that the insurance carrier that reported 63 percent of its policyholders participating in networks had significantly fewer Texas policyholders than the other two insurance carriers that reported policyholder participation as of September 1, 2006.

- For carriers A and B in Table 14, a majority of participating policyholders are associated with an annual premium size of less than \$25,000, indicating that these policyholders are mostly small to mid-sized employers. Seventy percent of participating policyholders for Carrier C fall into the more costly premium category, indicating that most of these policyholders are large employers.
- A vast majority of policyholders participating in the workers' compensation networks for carriers A and B are located in the Dallas/Fort Worth/Arlington and the Houston/Sugar Land/Baytown metropolitan areas. Carrier C did not provide geographic policyholder estimates due to its size.

Table 14: Percentage of Policyholders Participating in a Department-Certified Workers' Compensation Network Overall, and by Premium Size, (as of September 1, 2006)

	Carrier A	Carrier B	Carrier C
A. Overall estimate	16%	9%	63%
B. By Premium Size* : (Texas only premium)			
Less than \$5,000 in premium	45%	78%	0%
\$5,000 - \$24,999 in premium	34%	17%	10%
\$25,000 - \$100,000 in premium	16%	4%	20%
More than \$100,000 in premium	5%	1%	70%

Source: Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, Workers' Compensation Network Participation Data Call, 2006.

* Part B is the percentage of the network claims only. For each carrier the sum of the percentages listed in Part B should equal 100%.

- Seven of the nine insurance carrier groups who reported that they had already contracted with or established a workers' compensation network projected that the participation of their policyholders in their certified workers' compensation network would increase significantly by the end of 2007.¹⁴
 - One insurance carrier estimated policyholder participation by the end of 2007 to be less than 10 percent;
 - Two insurance carriers estimated policyholder participation by the end of 2007 to be between 10 and 30 percent;
 - Three insurance carriers estimated policyholder participation by the end of 2007 to be between 31 and 50 percent; and
 - One insurance carrier estimated policyholder participation by the end of 2007 to be more than 50 percent.

¹⁴ Two insurance carriers who had reported that they had contracted with or established a Department-certified workers' compensation network did not provide policyholder projections for 2007. Follow-up

- According to the estimates given by the above-mentioned insurance carriers, two insurance carriers reported that injured workers were being treated in a certified workers' compensation network as of September 1, 2006.
 - As of September 1, 2006, one carrier reported approximately 2,520 injured workers were being treated by certified workers' compensation networks. The second carrier reported that seven injured workers were being treated by certified workers' compensation networks.
 - Approximately 12 percent of these 2,520 injured workers had a "legacy" claim, meaning that they were injured prior to the implementation of HB 7 in September 2005.¹⁵
 - The vast majority (more than 62 percent) of these injured workers were in the Dallas/Fort Worth/Arlington and the Houston/Sugar Land/Baytown metropolitan areas.

- The insurance carriers with a certified workers' compensation network (or near certification) also estimated that the number of injured workers with reportable claims treated in certified workers' compensation networks will also significantly increase by the end of 2007 and 2008 (see Table 15).
 - Nine of the insurance carriers surveyed estimated that by the end of 2007, 29,634 claims would be treated by certified workers' compensation networks;
 - Nine of the insurance carriers surveyed estimated that by the end of 2008, 50,840 claims would be treated by certified workers' compensation networks; and
 - The estimated number of injured workers expected to be treated in a certified workers' compensation network is higher in the Dallas/Fort

requests for these projections were sent to these carriers, but the information had not been provided as of November 1, 2006.

¹⁵ HB 7 allows insurance carriers to directly enroll injured workers with "legacy" claims into workers' compensation networks. These injured workers must still live in the network's service area and receive a copy of the network's notice from the insurance carrier.

Worth/Arlington, Houston/Sugar Land/Baytown, and San Antonio metropolitan areas when compared to other metropolitan areas in Texas.

Table 15: Estimated Number of Reportable Workers' Compensation Claims to be Treated in a Department-Certified Workers' Compensation Network in 2007 and 2008

	2007*	2008*
A. Overall estimate	29,634	50,840
B. By Geographic Area:(only for Texas policyholders):		
Amarillo MSA	201	605
Austin/Round Rock MSA	1,979	3481
Brownsville/Harlingen MSA	349	608
Dallas/Fort Worth/Arlington MSA	9,458	14,149
El Paso MSA	425	1,444
Houston/Sugar Land/Baytown MSA	6,283	13,379
Lubbock MSA	166	475
San Antonio MSA	4,708	6,285

Source: Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, Workers' Compensation Network Participation Data Call, 2006.

* The numbers reported across the metropolitan areas will not add up to the overall numbers for 2007 and 2008 because not all carriers offered estimates by metropolitan area and the service areas of certified networks can fall outside the metropolitan areas listed above.

Summary

HB 7 introduced a new workers' compensation health care delivery model which allows insurance carriers to establish or contract with managed care networks that are certified by the Department using a method similar to the certification of HMOs. Under this new system, injured workers whose employers have contracted with a certified network are required to obtain medical care through the network, provided that the injured worker lives in the network's service area and receives notice of the network's requirements from the employer. The Department began accepting applications for the certification of workers' compensation networks on January 2, 2006, and has certified 17 workers' compensation networks as of November 1, 2006, extending over 164 counties primarily located in central, northeast, and southeast Texas.

The workers' compensation networks that have been certified as of the writing of this report will primarily serve injured workers in the larger metropolitan areas. The Beaumont/Port Arthur and Houston/Sugar Land/ Baytown metropolitan areas had the highest concentration of certified workers' compensation networks, while the Texarkana and Wichita Falls metropolitan areas had the lowest concentration of certified workers' compensation networks, for those areas with networks. The concentration of workers' compensation networks in selected Texas metropolitan areas is not surprising because these metropolitan areas also contain the largest concentration of reportable workers' compensation claims. The metropolitan areas not included in any workers' compensation networks' service areas as of November 1, 2006, include Abilene, Laredo, Midland, Odessa, and Sherman/Denison.

According to the information gathered by the data call issued in September 2006, six out of the nine insurance carriers with a certified workers' compensation network had already begun offering their workers' compensation networks to policyholders. A majority of these carriers indicated that they were offering or planned to offer a premium credit to policyholders who agreed to participate in their certified workers' compensation network. Although few insurance carriers reported that they had policyholders who have agreed to participate or treated injured workers in their certified workers' compensation networks as of September 1, 2006, almost all carriers indicated that network participation will increase significantly during 2007 and 2008. This projected increase is estimated to be the greatest in the major metropolitan areas in Texas.

The estimates described in this section are preliminary. As the Department continues to monitor the diffusion of networks and their impact on the Texas workers' compensation system, the outcomes examined here are expected to continue to show improvements.

IV. Premium Savings Resulting from Reforms

Before an insurance carrier begins using a certified network, the Department requires that the insurance carrier provide notification of the level of premium credits that will be granted for employer network participation. As carriers begin using the network system and loss experience emerges, the filed premium credits can be evaluated to determine whether the savings due to networks are being passed through to policyholders. However, at present, little experience or actuarial data exist, so these premium credits represent the best initial estimates, as determined by carriers, of the impact of networks on costs. The table below summarizes the amount or ranges of premium credits that have been filed with the Department.

**Table 16. Insurance Carriers' Filed Network Premium Credits
(as of October 9, 2006)**

Group Name	Network	Credit
America First Ins Grp	Network Not Given	10%
American International Grp	AIIGCS/ First Texas Healthcare Network	0-5%
Amerisure Co	Aetna Workers' Compensation Access, L.L.C.	12%
Bituminous Insurance Companies	Corvel Healthcare Corporation	10%
Combined Safeco Ins Co Grp	Texas Star Network/Concentra	10%
Employers Mut Co Of Des Moines	Network Not Given	12%
Liberty Mutual Ins Grp	Liberty Health Care Network	0-10%
Lumbermens Underwriting Alliance	Corvel Healthcare Corporation	10%
SeaBright Ins Co	Network Not Given	7.5%
Service Lloyds Grp	Corvel Healthcare Corporation	12%
St Paul Travelers Companies and Affiliates	Travelers First Healthcare Network	12%
Texas Alliance of Energy Producers	Network Not Given	5%
Texas Mut Ins Co	Concentra Healthcare Network	12%
Unitrin Prop & Cas Ins Grp	Concentra Healthcare Network	8.5%
Utica Natl Ins Grp	Aetna AWCA	7.5%
Wausau Ins Grp	Liberty Health Care Network	0-12%
Zurich Ins Co Grp	Zurich Services Corporation Healthcare Network	8%

Source: Correspondence from insurance carriers to the Texas Department of Insurance, Property and Casualty Actuarial Division.

* Not all health care networks listed above are approved or contracted with the insurance carrier.

V. Effects of Reforms on Market Competition and Insurance

Carrier Financial Solvency

Another component of the recent HB 7 reforms focuses on the rates and premiums charged by carriers. In particular, HB 7 requires insurance carriers to consider the effect of individual risk variations based on loss or expense considerations when evaluating workers' compensation insurance rates. Additionally, HB 7 states that workers' compensation rates *and premiums* may not be "excessive, inadequate, or unfairly discriminatory." Prior to HB 7, these standards applied only to workers' compensation insurance rates. If carriers' workers' compensation rate filings or premium levels do not appropriately reflect the savings associated with the HB 7 reforms, the bill requires the Commissioner of Insurance to make recommendations, including any legislative changes that would be necessary for the Department to more effectively regulate workers' compensation rates. Additionally, HB 7 requires the Commissioner of Insurance to conduct a hearing every biennium to review the rates charged for workers' compensation insurance written in Texas and to determine the impact of the reforms enacted by HB 7. For this biennium, the hearing must be held no later than December 1, 2008.

At this time, it is too early to identify the effects of the HB 7 reforms on market competition and carrier financial solvency. An analysis of the workers' compensation market and how carrier loss ratios, combined ratios, and use of individual risk variations have changed historically provide a basis of comparison for future analysis.

The current workers' compensation market is healthy with substantial capacity. Approximately 250 carriers write workers' compensation in Texas along with Texas Mutual Insurance Company(the Mutual), formerly The Texas Workers' Compensation Fund. The Texas Workers' Compensation Fund was created by the Legislature in 1991 to serve as a competitive force in the marketplace, guarantee the availability of workers' compensation insurance in Texas, and serve as an insurance carrier of last resort. The vast majority of insurance carriers writing workers' compensation coverage are now

financially healthy and profitable. Today's profits are in sharp contrast to the results of 1999-2001, when many carriers were unprofitable. Losses from that time-frame resulted in a renewed focus on more conservative underwriting and ensuring premium adequacy for individual risks; these actions set the stage for the industry's return to today's profitability. These results are discussed in more detail below.

Table 17 shows the market share for the top ten carrier groups that write over 80 percent of the workers' compensation business. Texas Mutual Insurance Company's market share for 2005 was 26 percent and has remained relatively stable since 2003. In 2000, the company's market share was 15 percent. While the Mutual is the insurance carrier of last resort, it predominately writes voluntary business, competing with the rest of the workers' compensation market. Less than one percent of the market is written in the involuntary market, which is referred to as the START program at the Mutual.

Table 17. 2005 Calendar Year Direct Written Workers' Compensation Premium and Market Share by Insurance Carrier Group

Rank	Group Name	Direct Written Premium	Market Share	Cumulative Market Share
1	Texas Mutual Ins Co	\$701,956,102	26.0%	26.0%
2	American International Grp Inc	\$369,592,390	13.7%	39.6%
3	Liberty Mutual Grp	\$242,511,647	9.0%	48.6%
4	Hartford Fire Grp	\$222,482,563	8.2%	56.8%
5	Zurich Ins Co Grp	\$212,728,881	7.9%	64.7%
6	St Paul Travelers Companies	\$156,500,087	5.8%	70.5%
7	Ace American Ins Co	\$130,720,685	4.8%	75.3%
8	Continental Casualty Grp	\$95,648,146	3.5%	78.9%
9	Old Republic Ins Grp	\$59,082,297	2.2%	81.1%
10	Combined Federal Ins Co & Affiliates	\$53,296,550	2.0%	83.0%
	Industry Total	\$2,703,125,184	100.0%	100.0%

Source: The Department's compilation of the Texas Statutory Page 14 of the NAIC Annual Statement for Calendar Year Ending December 31, 2005.

Two important measures of the financial health of the Texas workers' compensation insurance market are the loss ratio and the combined ratio. The loss ratio is the relationship between premium collected and the losses paid out or amounts set aside to

pay losses by the insurance carriers. The combined ratio is similar to the loss ratio, except that it compares the premiums collected with both the losses and expenses incurred by the carrier.

Each year the Department analyzes historical loss ratios and combined ratios on an accident year basis. In an accident year analysis, the losses are tied back to the year in which the accident occurred, regardless of when they are reported or actually paid. For example, accident year 1999 would reflect claims or losses from all accidents that happened in 1999 even if, for example, a loss was initially reported in 2000 and/or paid at a later date. In other words, all payments associated with a particular accident are associated with the year in which the accident occurred, in this case 1999, regardless of when the loss payments are remitted.

The loss ratio used in the following discussion equals the direct ultimate incurred losses divided by the direct earned premium. This ratio is a widely accepted useful tool that gauges underwriting results by comparing losses to premium. Ultimate incurred losses are used in the Department's analysis and are the estimate of what claims from a given accident year may cost when finally settled. It may take several years or more for a claim to be settled because there may be ongoing payments for medical treatment or income benefits. As the name implies, loss ratios focus on the impact of losses; accordingly, it is necessary to factor in other types of expenses to ascertain overall profitability.

The combined ratio literally combines the loss ratio with the expense ratios to gauge overall profitability, before consideration of the investment earnings of insurance carriers. The expense ratio includes the impact from loss adjustment expenses, other types of expenses, and policyholder dividends. Loss adjustment expenses are those costs incurred in investigating and settling claims. Other types of expenses include commissions, general expenses, taxes, licenses, and fees. Policyholder dividends may be thought of as profit-sharing in the form of a return of a percentage of the premiums to policyholders.

A combined ratio of less than 100 percent indicates that the carrier earned a profit on its insurance operations (also called an underwriting profit). A ratio greater than 100 percent indicates a loss on insurance operations. For example, in Table 18, the ultimate projected combined ratio for 2001 is 120.5 percent. This means that for every \$1.00 in premium that is collected by the carrier, it is projected that \$1.205 will be used to pay losses and expenses incurred by the carrier. In 2005, the projected combined ratio is 90.3 percent. This means that for every dollar collected by the carrier, it is estimated that they will pay 90.3 cents to cover losses and expenses. The carrier then gets to keep the remaining approximately 10 cents as profit.

The combined ratio reflects only the results on the insurance operations. It does not reflect profits or losses on investments. Table 18 (and Figure 9) shows that in 1999-2001, carriers experienced huge underwriting losses that often were not offset by gains in investment income. However, insurance carriers are projected to have earned underwriting profits in the last four years.

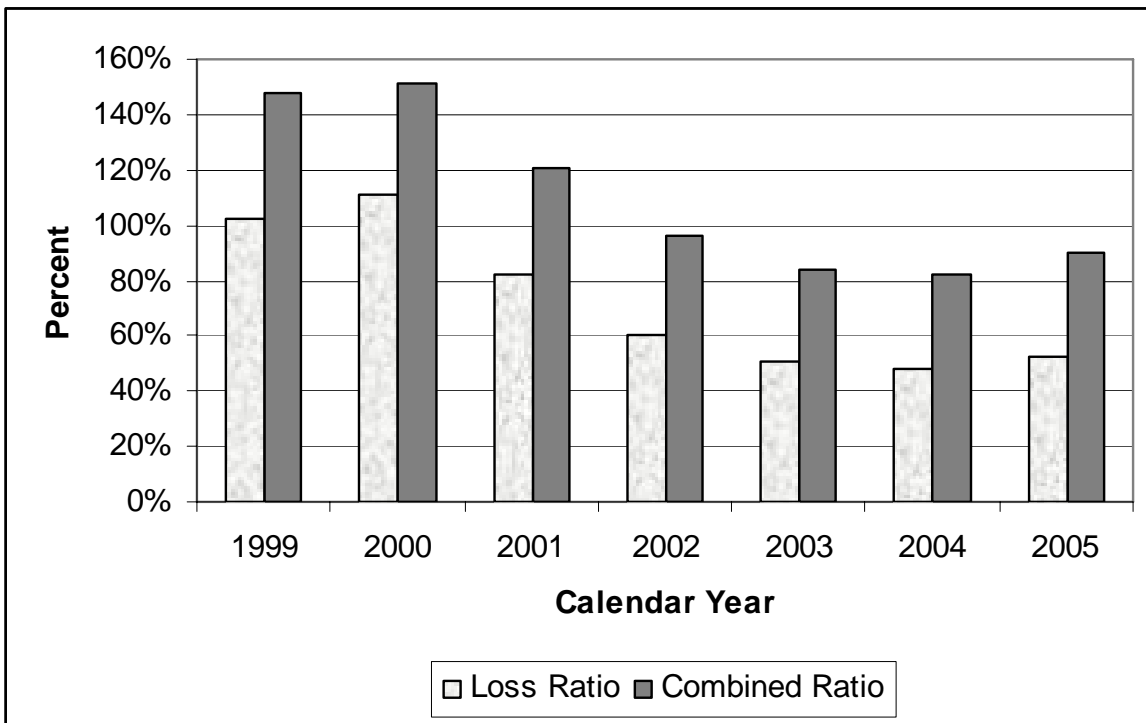
Table 18: Projected Calendar/Accident Year Loss and Combined Ratios*

Accident Year	Direct Earned Premium	Projected Incurred Loss Ratio	Projected Combined Ratio
1999	1,384,402,435	102.30%	147.9%
2000	1,394,260,909	111.33%	151.1%
2001	1,753,392,074	81.75%	120.5%
2002	1,988,864,575	59.96%	96.3%
2003	2,121,939,253	50.85%	83.5%
2004	2,101,421,724	48.38%	81.8%
2005	2,133,190,442	52.72%	90.3%

Source: Texas Workers' Compensation Financial Data Call, Texas Compilation of Statutory Page 14, Texas Compilation of the Insurance Expense Exhibit. Loss development factors used in determining the ultimate losses are from the Financial Data Package as of December 2004.

* Large deductible policies are excluded from the Texas Workers' Compensation Financial Data Call. Losses for all other deductible policies are reported on a gross basis. That is, if the total loss is \$20,000 and the employer has a deductible of \$5,000, the amount reported in the Department's Financial Data call is \$20,000, even though the carrier ultimately pays only \$15,000 of the loss. The direct earned premium is the amount of premium actually earned prior to the payment of policyholder dividends and the application of credits for deductible policies.

Figure 9. Projected Calendar/Accident Year Loss and Combined Ratios



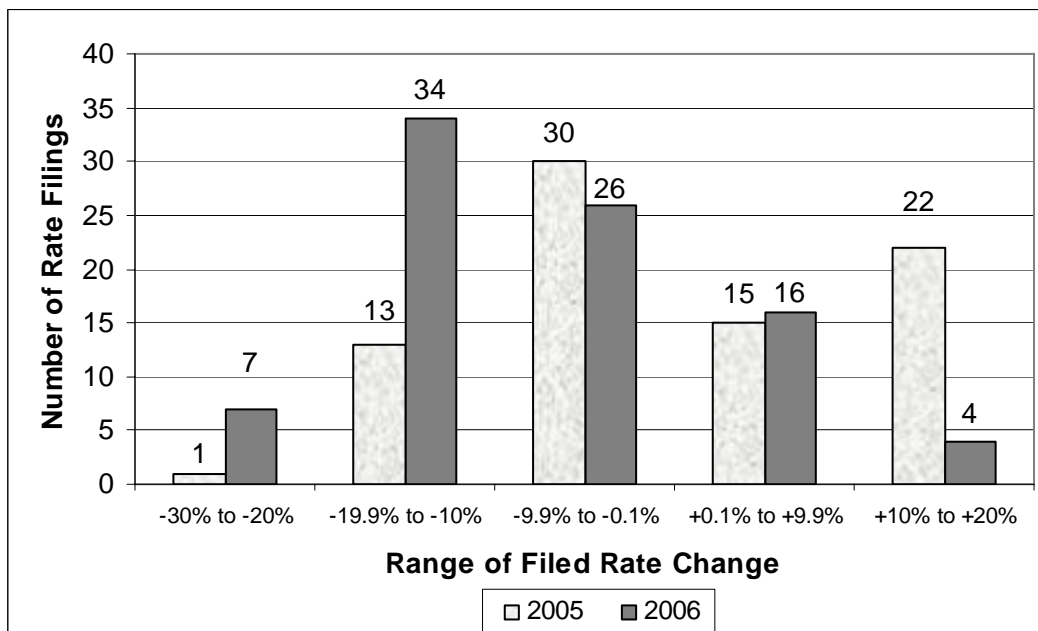
Source: Texas Workers' Compensation Financial Data Call, Texas Compilation of Statutory Page 14, Texas Compilation of the Insurance Expense Exhibit. Loss development factors used in determining the ultimate losses are from the Financial Data Package as of December 2004.

It is important to note that rate changes taken in the recent past are not yet reflected in the ratios shown in Table 18 and Figure 9. In the last two-year period, carriers have reduced their average rate levels by over 20 percent. This would push the loss ratios and combined ratios upward, closer to 100 percent, assuming the losses stay about the same.

Figure 10 shows the number of workers' compensation rate filings with rate changes that were received in 2005 and 2006 by ranges of the average rate changes filed. There have been far fewer rate increases filed in 2006 than in 2005. The vast majority of the workers' compensation rate filings made were for rate decreases. There were also 313 revenue neutral workers' compensation rate filings in 2006, compared with 214 in 2005. These are mostly due to carriers adopting the Department's promulgated classification relativities which are used by carriers in determining the rates to be

charged for each classification and filings of notice for the implementation of network premium credits.

**Figure 10. Range of Filed Rate Changes* in 2005 and 2006
(as of October 2006)**



Source: Carrier rate filings received by the Texas Department of Insurance in 2005 and 2006 as of October 2006.

* Does not include filings that were revenue neutral.

One of the revisions made to the workers' compensation statutes as a result of the enactment of HB 7 was that insurance carriers shall consider the effect on premiums of individual risk variations based on loss or expense considerations when setting rates. Additionally, the revisions to the statutes state that neither rates, nor premiums, may be excessive, inadequate, or unfairly discriminatory.

Once a carrier determines an employer's rate based on its classification (which depends on the type of business such as office, construction, manufacturing, etc.), and the employer's loss experience and selection of deductibles, the carrier can further modify the policy's premium through the use of competitive rating tools such as schedule rating, negotiated experience modifiers, and negotiated deductibles.

Schedule rating reflects characteristics of the policyholder (i.e., the employer) which may not be fully reflected in the employer's actual past experience. The general categories that are often used in schedule rating include: the care and condition of the premises; classification peculiarities; medical facilities; safety devices; selection, training, and supervision of employees; and management's cooperation with the insurance carrier and safety organization. A credit or debit can be applied to the premium based on these categories (or other categories in the carrier's schedule rating plan which is filed with the Department) up to an aggregate maximum modification of plus or minus 40 percent.¹⁶ Application of schedule rating to an employer can result in significant changes in premiums charged even though there has been no change in the carrier's rate filed with the Department.

Negotiated experience modifiers, while used less extensively than schedule rating, reduce the employer's experience modifier. The experience modifier reflects the employer's past losses. The more losses, the higher the employer's experience modifier will be, thus producing a higher charged premium, and vice versa. Employers can negotiate with their carriers for a lower experience modifier which will result in premiums that are lower than they otherwise would be.

Negotiated deductibles are available to carriers when the employer selects a deductible amount in excess of \$25,000 per accident and/or \$100,000 per annual aggregate or when the employer's estimated annual policy premium exceeds \$100,000 prior to the application of any deductible credit. Table 19 shows that the average premium credit for these risks has been approximately 75 percent in 2003 and 2004, and 78 percent in 2005. Note that, while less than 2.5 percent of the policies written have a negotiated deductible, these policies represent approximately half the statewide premium prior to the application of their deductible credits.

¹⁶ In the case of The Mutual's START program, the aggregate maximum modification is plus 75 percent.

Table 19. Average Negotiated Deductible Plan

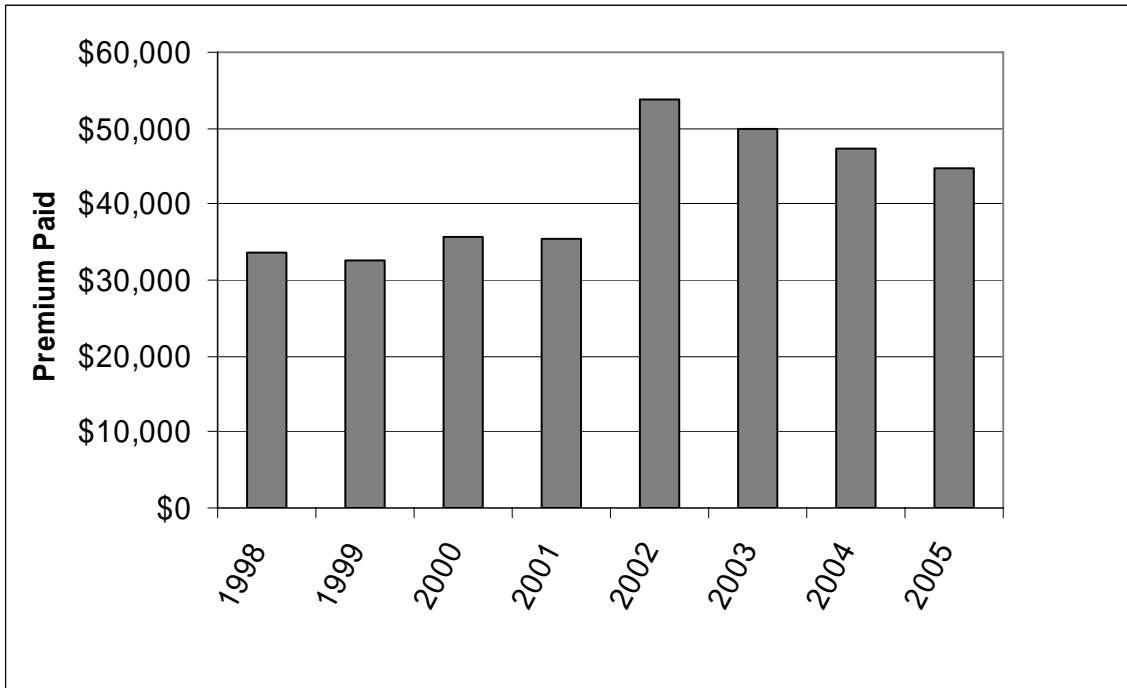
Calendar Year	Average Premium after Deductible Credit*	Percent Change in Actual Premium	Average Premium Credit
1998	\$33,515		83%
1999	\$32,630	-2.6%	84%
2000	\$35,817	9.8%	82%
2001	\$35,450	-1.0%	82%
2002	\$53,878	52.0%	73%
2003	\$49,928	-7.3%	75%
2004	\$47,332	-5.2%	76%
2005	\$44,685	-5.6%	78%

Source: Texas Department of Insurance, *Quarterly Legislative Report on Market Conditions*.

*Hypothetical policy with \$200,000 in premium before application of deductible credit.

Table 19 and Figure 11 also show how the premium has changed each year due to the use of negotiated deductibles. In 2002, the average premium after the negotiated deductible credit increased by over 50 percent. The average premium has since started to decline but has not reached the levels experienced during 1998 through 2001. The deductible credit for the negotiated deductibles is agreed upon by both the insurance carrier and the policyholder and is not filed with the Department.

Figure 11. Average Premium after Deductible Credit



Source: Texas Department of Insurance, *Quarterly Legislative Report on Market Conditions*

* Hypothetical policy with \$200,000 in premium before application of deductible credit.

Table 20 shows the average premium per \$100 of payroll for years 1996 through 2005, reflecting year-to-year changes in premiums charged. This is different from the rates that are filed. The change in premiums charged is not always easily discernible in carrier rate filings because of the competitive pricing tools discussed above, although the Department now requires that information on the effect of schedule rating be included with rate filings. Premium is the amount charged to the policyholder, including the application of experience and retrospective rating plans, discounts, surcharges, and competitive rating tools, whereas a rate is defined as the cost per \$100 of payroll, prior to the application of these items.

Table 20. Average Premium per \$100 of Payroll by Policy Year

Policy Year	Average Premium per \$100 of Payroll Including All Premium Adjustments Except Deductibles
1996	\$2.72
1997	\$2.36
1998	\$2.10
1999	\$1.87
2000	\$2.07
2001	\$2.45
2002	\$2.79
2003	\$2.85
2004	\$2.71
2005	\$2.36

Source: The Texas Workers' Compensation Financial Data Call and the Department's 2005 Classification Relativity Study.

Note: The average premiums reflect carriers' manual rate deviations, experience rating, schedule rating, expense and loss constants, the effect of retrospective rating and premium discounts. They do not reflect network premium credits, the effect of discounts due to deductible policies, or policyholder dividends. Additionally, since workers' compensation is an audit line, that is, premiums are based on audited payrolls, the average premiums may change over time, especially for the most recent years.

The average premium per \$100 of payroll decreased each year until 2000 when average premiums started to rise in response to the underwriting losses that occurred in the late 1990s, 2000, and 2001. Furthermore, the events of September 11, 2001, triggered rate and premium increases due to increased costs for reinsurance and greater scrutiny of individual risk characteristics. Even in the absence of rate increases, carriers could reduce or eliminate the percentage credit applied through their schedule rating plans and the negotiated experience modifiers. However, it did not take long before combined ratios were again profitable and the average premium per \$100 of payroll began to decrease as insurance carriers lowered their rates and increased the usage of their competitive rating tools.

The affordability of workers' compensation coverage is based in part on the rate filings made by the carriers, and, equally important, on the use of available competitive tools. Since the effects of competitive rating tools have not historically been filed with carriers' rate filings, the Department has utilized periodic data calls to gather information on the use of these tools. The Texas Workers' Compensation Financial Data Call also provides information which the Department uses in gauging the effect of these tools.

The workers' compensation market looks stable and financially healthy. Loss ratios and combined ratios have improved dramatically since 2000 and carriers are writing profitably in the market, which allows them to file more rate reductions and to once again make more use of competitive pricing tools to further reduce employers' premiums. The effects of the HB 7 reforms will become more apparent after accident years 2006 and 2007 data become available. Even so, it will be difficult to isolate the effects of the reforms on the loss ratios and combined ratios given the wide range of other economic factors that will influence insurance costs. Additionally, the implementation of networks and the rest of the reforms from HB 7 should further improve the market by providing additional cost savings for employers.

APPENDIX A

NONSUBSCRIPTION SURVEY INSTRUMENT

NONSUBSCRIPTION SURVEY INSTRUMENT

Opening: Hello, My name is _____ and I am calling on behalf of the Texas Department of Insurance. We are currently conducting a study of employer participation in the Texas workers' compensation system. The survey will be approximately **20** minutes long, and all your responses will be kept strictly confidential. May we begin?

(Please ask to speak to the person in the company who is responsible for workers' compensation claims or is the most knowledgeable about the company's benefit plan for occupational injuries. This may be the company's risk manager, human resources administrator, or company owner.)

Q1. Does (company name)_____ have workers' compensation insurance?

(If respondent answers NO – don't probe, just mark answer as NO and go to Q13).

If respondent volunteers that they are self-insured, ask if they are a certified self-insured employer through the Texas Department of Insurance Certified Self-Insurance or Group Self-Insurance program. If they answer YES THEY ARE A CERTIFIED SELF INSURED EMPLOYER, count this as a YES response and continue survey at Q2. If they answer NO THEY ARE NOT A CERTIFIED SELF INSURED EMPLOYER, count this as a NO response and go to Q13.)

1..Yes

2..No (**GO TO Q13**)

99..Dk/Rf (Don't Know/Refused to Answer) (ASK FOR REFERRAL)

Q2. Has your company always had workers' compensation insurance coverage?

1..Yes (**GO TO Q5**)

2..No

99..Dk/Rf (GO TO Q5)

Q3. Please rate the degree to which each of the following reasons influenced your company's decision to not purchase workers' compensation coverage in the past? **Use a scale of 1 to 5, where 1 means *Not at all Important* and 5 means *Extremely Important*.** (Only one numeric response allowed for each reason listed) (RANDOMIZE LIST).

1..Workers' compensation insurance premiums were too high

- 2..Medical costs in the workers' compensation system were too high
- 3..You had concerns about the administration of the Texas workers' compensation system
- 4..You were not required to have workers' compensation coverage by law
- 5.. You had trouble finding health care providers who would treat injured workers under the workers' compensation system
- 6..Your company had too few employees
- 7..You feel your company could do a better job than the Texas workers' compensation system at ensuring that employees injured on the job receive appropriate benefits (medical and wage loss)
- 8..Your company had few on-the-job injuries
- 9..You had concerns about workers' compensation fraud
- 10..Other reason (please specify)

99.. Dk/Rf (GO TO Q5)

Q4. Which was the *primary* reason why your company decided to not purchase workers' compensation coverage in the past? (**SELECT ONLY ONE**) (RANDOMIZE LIST) (**MAKE SURE THAT ONLY RESPONSES SELECTED IN Q3 ARE GIVEN AS OPTIONS IN Q4**).

1..Workers' compensation insurance premiums were too high

- 2..Medical costs in the workers' compensation system were too high
- 3..You had concerns about the administration of the Texas workers' compensation system
- 4..You were not required to have workers' compensation coverage by law
- 5..You had trouble finding health care providers who would treat injured workers under the workers' compensation system
- 6..Your company had too few employees
- 7..You feel your company could do a better job than the Texas workers' compensation system at ensuring that employees injured on the job receive appropriate benefits (medical and wage loss)
- 8..Your company had few on-the-job injuries
- 9..You had concerns about workers' compensation fraud
- 10..Other reason (please specify)

99.. Dk/Rf

Q5. Please rate the degree to which each of the following reasons influenced your company's decision to purchase workers' compensation coverage. **Use a scale of 1 to 5, where 1 means *Not at all Important* and 5 means *Extremely Important*.** (Only one numeric response allowed for each reason listed) (RANDOMIZE LIST). ALLOW "Don't Know" and "not applicable" OPTIONS.

- 1..Workers' compensation insurance rates were lower
- 2..You were concerned about lawsuits
- 3..You thought having workers' compensation coverage was required by law
- 4..You were able to provide your injured employees with medical care through a workers' compensation health care network
- 5..You were dissatisfied with your nonsubscriber program or your insurance rates for your nonsubscriber program were too high
- 6..Your industry is considered high risk
- 7..You were able to reduce your workers' compensation insurance costs through deductibles or other premium discounts
- 8..You were able to self-insure through the Texas Department of Insurance Certified Self-Insurance or Group Self-Insurance program?
- 9..You needed to have workers' compensation coverage to obtain government contracts
- 10..You had confidence in the administration of the workers' compensation system
- 11..Other reason (please specify)

99..Dk/Rf (GO TO Q7)

Q6. Which is the *primary* reason why your company purchased workers' compensation coverage? **(SELECT ONLY ONE) (ROTATE LIST) (MAKE SURE THAT ONLY RESPONSES SELECTED IN Q5 ARE GIVEN AS OPTIONS IN Q6).**

- 1..Workers' compensation insurance rates were lower
- 2..You were concerned about lawsuits
- 3..You thought having workers' compensation coverage was required by law
- 4..You were able to provide your injured employees with medical care through a workers' compensation health care network
- 5..You were dissatisfied with your nonsubscriber program or your insurance rates for your nonsubscriber program were too high
- 6..Your industry is considered high risk
- 7..You were able to reduce your workers' compensation insurance costs through deductibles or other premium discounts
- 8..You were able to self-insure through the Texas Department of Insurance Certified Self-Insurance program?
- 9..You needed to have workers' compensation coverage to obtain government contracts
- 10..You had confidence in the administration of the workers' compensation system
- 11..Other reason (please specify)

99..Dk/Rf

Q7. Has your company seen an increase, decrease or no change in the premium paid for your most recent workers' compensation policy? **(SELECT ONLY ONE)**

- 1..Increase

2..Decrease

3..No Change (GO TO Q10)

4..Your company is a Certified Self-Insured or Group Self-Insured Employer (GO TO Q10)

5..Your company has only just recently returned to the workers' compensation system and has not had an insurance policy renewal yet (GO TO Q10)

99..Dk/Rf (GO TO Q10)

Q8. Please indicate the approximate percentage change in the premium paid for your most recent policy? _____

(PLEASE BE SURE TO INDICATE WHETHER IT WAS AN INCREASE OR

DECREASE IN THE PERCENTAGE WITH A PLUS OR MINUS)

Q9. Was this change in your workers' compensation insurance premium because: (SELECT ONLY ONE)

- 1..your company's payroll increased or decreased compared to the last policy period
- 2..your workers' compensation rates increased or decreased compared to the last policy period
- 3..a combination of changes to your company's payroll and workers' compensation rates
- 4. you company added or increased its deductible
- 5..some other reason (please specify)_____

99.. Dk/Rf

Now I am going to ask you a short series of questions related to your satisfaction with various aspects of the Texas workers' compensation system.

Q10. On a scale of 1 to 5, where 1 means *Not At All Satisfied* and 5 means *Extremely Satisfied*, please rate your overall level of satisfaction with your experience in the Texas workers' compensation system.

Not At All Satisfied

Extremely Satisfied Dk/Rf

1

2

3

4

5

99

Q11. Please use the same scale of 1 to 5, where 1 means *Not at all Satisfied* and 5 means *Extremely Satisfied* to rate your satisfaction with the following factors related to workers' compensation coverage in Texas. (SELECT ONLY ONE NUMERIC RESPONSE PER ROW) (RANDOMIZE LIST).

	1	2	3	4	5	99
	Not at all Satisfied				Extremely Satisfied	Don't Know or Refused
a. Adequacy and equity of benefits paid to injured workers through the Texas						

WC System						
b. Degree to which WC insurance coverage is a good value for your company						
c. Service provided by your WC insurance carrier (or third party administrator if self insured)						
d. The ability to effectively manage costs, both medical and wage replacement costs, related to on-the-job injuries						

Q12. If workers' compensation insurance premiums increased by any of the following increments, would you seriously consider not purchasing WC coverage and become a non-subscriber to the Texas WC system? *Please say yes or no to the corresponding increase in WC premiums.* **(NOTE TO INTERVIEWER & PROGRAMMER: STOP AT RANGE THEY WOULD BE WILLING TO DROP OUT AND RECORD THAT AS THE RESPONSE)**

- 1..Less than 10%
- 2..10 to 15%
- 3..16 to 20%
- 4..21 to 30%
- 5..31 to 40%
- 6..41 to 50%
- 7..More than 50%
- 8..Would never drop my WC coverage to become a non-subscriber
- 99..Dk/Rf**

(GO TO Q38)

Q13. Has your company *ever* had workers' compensation insurance coverage in the past?

- 1..Yes
- 2..No
- 99..Dk/Rf (ASK FOR REFERRAL)**

Q14. Please rate the degree to which each of the following reasons influenced your company's decision not to purchase workers' compensation coverage. Use a scale of 1 to 5, where 1 means *Not at all Important* and 5 means *Extremely Important*. **(Only one numeric response allowed for each reason listed) (ROTATE LIST).**

1..Workers' compensation insurance premiums were too high

- 2..Medical costs in the workers' compensation system were too high
- 3..You had concerns about the administration of the Texas workers' compensation system
- 4..You were not required to have workers' compensation coverage by law
 - 5.. You had trouble finding health care providers who would treat injured workers under the workers' compensation system
- 6..Your company had too few employees
- 7..You feel your company could do a better job than the Texas workers' compensation system at ensuring that employees injured on the job receive appropriate benefits (medical and wage loss)
- 8..Your company had few on-the-job injuries
- 9..You had concerns about workers' compensation fraud
- 10..Other reason (please specify)

99.. Dk/Rf (GO TO Q16)

Q15. Which was the *primary* reason why your company does not have workers' compensation coverage? **(SELECT ONLY ONE) (ROTATE LIST) (MAKE SURE THAT ONLY RESPONSES SELECTED IN Q14 ARE GIVEN AS OPTIONS IN Q15)**

1..Workers' compensation insurance premiums were too high

- 2..Medical costs in the workers' compensation system were too high
- 3..You had concerns about the administration of the Texas workers' compensation system
- 4..You were not required to have workers' compensation coverage by law
 - 5.. You had trouble finding health care providers who would treat injured workers under the workers' compensation system
- 6..Your company had too few employees
- 7..You feel your company could do a better job than the Texas workers' compensation system at ensuring that employees injured on the job receive appropriate benefits (medical and wage loss)
- 8..Your company had few on-the-job injuries
- 9..You had concerns about workers' compensation fraud
- 10..Other reason (please specify)

99.. Dk/Rf

Q16. Approximately what % of decrease in premiums, if any, would it take for your business to purchase workers' compensation insurance? **(SELECT ONLY ONE)**

- 1..Less than 10%
- 2..10 to 15%
- 3..16 to 20%
- 4..21 to 30%
- 5..31 to 40%

6..41 to 50%

7..More than 50%

8..Would never purchase workers' compensation insurance

99..Dk/Rf

Now I would like to ask you some questions about your company's policies relating to on-the-job injuries.

Q17. Does your business pay medical and/or wage replacement benefits to employees injured on-the-job?

1..Yes

2..No (**GO TO Q34**)

99..Dk/Rf (GO TO Q34)

Q18. How soon after an employee has been injured must he or she report the injury to be eligible for benefits? (**SELECT ONLY ONE**)

1..Immediately/same day

2..Within 24 hours/next day

3..Other (please specify) _____

99..Dk/Rf

Q19. How does your company finance medical and/or wage replacement benefits: (**SELECT ALL THAT APPLY**)

1..Through a special account that is self-funded and supplemented with nonsubscriber insurance, including excess indemnity insurance, standard occupational accident insurance or some other alternative occupational benefits insurance (NOT WORKERS' COMPENSATION INSURANCE, coverage for injuries suffered by employees while on the job)

2..Using the company's group health insurance

3..Through a special account that is self-funded exclusively by your company

4..Some other way (please specify) _____

99..Dk/Rf

Q20. How long must employees be on the job before they are eligible to receive medical and/or wage replacement benefits related to an on-the-job injury? (**SELECT ONE**)

1..Immediately after hire

2..Less than one month

3..1 to 3 months

4..3 to 6 months

5..6 to 12 months

6..More than one year
99..Dk/Rf

Q21. Does your nonsubscriber plan cover medical costs for injured employees?

- 1..Yes
- 2..No (**GO TO Q27**)
- 99..Dk/Rf (GO TO Q27)**

Q22. Is the injured employee responsible for paying any medical expenses related to an on-the-job injury, through arrangements such as co-payment or deductibles?

- 1..Yes
- 2..No
- 99..Dk/Rf**

Q23. Does the injured employee receive medical benefits, for as long as medically necessary, or are these benefits capped? (**SELECT ONLY ONE**)

- 1..Employee receives medical benefits for as long as medically necessary (**GO TO Q27**)
- 2..Employee benefits are capped**
- 99..Dk/Rf (GO TO Q27)**

Q24. Are these medical benefits generally capped: (**SELECT ONLY ONE**)

- 1..by the length of medical treatment received by the injured employee (**GO TO Q25**)
- 2..by the \$ spent on medical treatment received by the injured employee (**GO TO Q26**)
- 3..by both the length and \$ spent on medical treatment received by the injured employee (**GO TO Q25**)
- 4..Some other way (please specify) _____ (**GO TO Q27**)
- 99..Dk/Rf (GO TO Q27)**

Q25. What is the maximum number of weeks allowed for medical treatment to one employee for an on-the-job injury? (**SELECT ONLY ONE**)

- # of weeks _____ (**GO TO Q27, unless respondent answers #3 on Q24, then GO TO Q26**)
- Established on a case by case basis (**GO TO Q27, unless respondent answers #3 on Q24, then GO TO Q26**)
- 99..Dk/Rf(GO TO Q27, unless respondent answers #3 on Q24, then GO TO Q26)**

Q26. What is the maximum dollar amount that is allowed for medical treatments to one employee for an on-the-job injury?(**SELECT ONLY ONE**)

- # of dollars _____
- Established on a case by case basis
- 99..Dk/Rf**

Q27. Does your company policy cover the replacement of lost wages for injured employees?

- 1..Yes
- 2..No (GO TO Q34)
- 99..Dk/Rf (GO TO Q34)**

Q28. If an employee misses work as a result of an on-the-job injury, is he/she *immediately* compensated for any lost wages or is there a *waiting period* before lost wage payments begin? (SELECT ONLY ONE)

- 1..Employee is immediately compensated for lost wages (GO TO Q30)
- 2..There is a waiting period before lost wage payments begin
- 99..Dk/Rf (GO TO Q30)**

Q29. What is the waiting period before lost wage benefit payments begin? (SELECT ONLY ONE)

of days_____

Established on a case by case basis

99..Dk/Rf

Q30. Are wage replacement benefits paid for the entire duration of the worker's lost time or are they capped? (SELECT ONLY ONE)

- 1..Employee benefits paid for the duration of worker's lost time (GO TO Q34)
- 2..Employee benefits are capped**
- 99..Dk/Rf (GO TO Q34)**

Q31. Are these wage replacement benefits generally capped by: (SELECT ONLY ONE)

- 1..A certain amount of time, specified in your company plan
- 2..By the \$ of benefits paid to the worker (GO TO Q33)
- 3. By both a certain amount of time specified in your company plan and by the \$ of benefits paid to the worker (GO TO Q32)
- 4..Some other way (please specify)_____ (GO TO Q34)
- 99..Dk/Rf (GO TO Q34)**

Q32. What is the maximum number of weeks an injured employee can receive wage replacement benefits for an on-the-job injury? (SELECT ONLY ONE)

of weeks_____ (GO TO Q34, unless respondent answers #3 on Q31, then GO TO Q33)

Established on a case by case basis (GO TO Q34, unless respondent answers #3 on Q31, then GO TO Q33)

99..Dk/Rf (GO TO Q34, unless respondent answers #3 on Q31, then GO TO Q33)

Q33. What is the maximum dollar amount of wage replacement benefits that an injured employee can receive for an on-the-job injury? **(SELECT ONLY ONE)**

of dollars_____

Established on a case by case basis

99..Dk/Rf

Q34. Please rate your overall level of satisfaction with your experience as a non-subscriber to the Texas WC system, on a scale of 1 to 5 where 1 means *Not at all Satisfied* and 5 means *Extremely Satisfied*?

Not At All Satisfied					Extremely Satisfied	Dk/Rf
1	2	3	4	5	99	

Q35. Please use a scale of 1 to 5 where 1 means *Not at all satisfied* and 5 means *Extremely Satisfied* to rate the following specific factors related to your company’s experience as a non-subscriber to the Texas workers’ compensation system. **(SELECT ONLY ONE NUMERIC RESPONSE PER ROW) (RANDOMIZE LIST).**

	1	2	3	4	5	99
	Not at all Satisfied				Extremely Satisfied	Don’t Know or Refused
a. Adequacy and equity of benefits paid to injured workers through your company’s nonsubscriber plan						
b. Degree to which you feel your nonsubscriber plan is a good value for your company						
c. The ability to effectively manage costs, both medical and wage replacement costs, related to on-the-job injuries						

Q36. Overall, what impact, if any, has your company’s decision to become a nonsubscriber to the Texas workers’ compensation system had on:

	1	2	3	4	99
	Positive Impact	No Change	Negative Impact	Does Not Apply	Don’t Know or Refused
a. Your company’s plans to hire more employees in Texas					
b. Your company’s plans to expand business operations in Texas					

	Positive Impact	No Change	Negative Impact	Does Not Apply	Don't Know or Refused
a. Your company's plans to hire more employees in Texas					
b. Your company's plans to expand business operations in Texas					
c. Your company's decision to purchase or maintain its workers' compensation coverage					
d. Your company's decision to become or remain a nonsubscriber to the Texas workers' compensation system					

Now, I would like to ask you a few questions regarding safety initiatives and return-to-work programs.

Q40. Does your company have a written return-to-work or modified duty policy in case of a work-related injury?

- 1..Yes
- 2..No
- 99..Dk/Rf**

Q41. Rate your level of agreement with the following statements related to workplace safety. Please use of a scale of 1 to 5, where 1 means *Strongly Disagree* and 5 means *Strongly Agree*. (SELECT ONLY ONE NUMERIC RESPONSE PER ROW) (RANDOMIZE LIST).

	1	2	3	4	5	99
	Strongly Disagree				Strongly Agree	Don't Know or Refused
a. Employees of my company would agree that workplace safety is a top priority						
b. My company conducts workplace safety training on a regular basis.						
c. Senior management is actively involved in developing policies designed to maintain a safe workplace.						

I appreciate your patience, the survey is almost over. Finally, I would like to ask you some demographic questions about your business. Remember, all your responses will be kept strictly confidential.

Q42. Does your company currently provide its employees with a health care plan for non-occupational injuries?

1..Yes

2..No

99..Dk/Rf

Q43. Please answer yes or no to each of the following. Are:

1..your business headquarters in Texas?

2..all or most of your employees are principally employed in the State of Texas?

99..Dk/Rf

Q44. How many years has your business been in operation? _____

(please specify approximate # of years) _____

99..Dk/Rf

This concludes our study. We greatly appreciate your participation. Thank you for your time and patience. Have a good day.

APPENDIX B

DATA CALL ON NETWORK PARTICIPATION AND HISTORICAL LOSS, CLAIM, AND PREMIUM INFORMATION



Texas Department of Insurance
Property & Casualty Program – Actuarial Division, Mail Code 105-5F
333 Guadalupe • P. O. Box 149104, Austin, Texas 78714-9104
512-475-3017 telephone • 512-463-6122 fax

September 5, 2006

Via Fax:

Name
Company
Address 1
Address 2

Re: Request for Workers' Compensation and Employers' Liability Data

Dear Ms. X,

This call for workers' compensation data and information is being issued to you as part of a number of selected insurer groups. This data and information is necessary for the Commissioner to prepare and provide the reports required by TIC Article 5.55 §3(e) to the Governor, Lieutenant Governor, and Speaker of the House of Representatives. This call is issued under the provisions of TIC Article 5.55 §3(g).

The call has two separate parts, Part A and Part B. **It is important to note that there are different response due dates to the two parts.** The two parts are as follows:

Part A. This part concerns data (if any) and information on the use and participation in medical care networks established under the provisions of HB 7, 79th Regular Session of the Texas Legislature. It also includes questions on anticipated future usage and participation in networks. The response for this part is due **October 2, 2006.**

Part B. This part concerns the historic development of workers' compensation claims costs and claim counts by accident half year. The response to this part is due **November 15, 2006.**

Each part is more fully described in the attachments.

A transmittal letter is also required; if the sections are turned in separately a separate transmittal should be submitted for each part, otherwise one transmittal is required for each group. Each transmittal should include the following:

- Organizations(companies) involved
- Person or persons responsible for the data
- Contact information for any questions that may arise

- Statement that data has been checked and the person responsible for the submission believes it to be correct

Reporting may be made at the group level or by individual company within the group. If reporting is done at the group level, this must be clearly indicated in the response. If reporting is done at the individual company level, the identity of each individual company must be clearly identified on its portion of the response.

It is anticipated that a similar call will be issued in early 2007, and thereafter for the immediate future. These future calls will likely differ to some extent from this call. For example, in the case of Part B, only the most recent valuation of past and the most recent accident half years will be requested. Also, experience may be requested separately for network and non-network claims. In the case of Part A, the questions regarding networks may differ as actual experience emerges.

If you have any questions concerning Part A of the call, please contact Amy Lee by telephone at 512-322-3461 or by e-mail at WCResearch@tdi.state.tx.us. If you have any questions concerning Part B of the call, please contact Elizabeth Buhro by telephone at 512-475-3017 or by e-mail at Elizabeth.buhro@tdi.state.tx.us.

Sincerely,

Philip O. Presley
Chief Property and Casualty Actuary

Attachments:

Part A

Part B

Exhibit C

Part A
Data and Information Concerning the Use of and Participation in
Health Care Networks

Note: The responses to this part of the call are due on **October 2, 2006**.

Any questions concerning Part A of the call should be addressed to Amy Lee by telephone at 512-322-3461 or by e-mail at WCResearch@tdi.state.tx.us.

Definitions:

Network: A workers' compensation health care network established under Chapter 1305, Insurance Code and approved by the Texas Department of Insurance (TDI).

Large Deductible Policy: Workers' compensation insurance policies with deductibles in excess of \$100,000 per claim or per accident.

Note: Please provide all information requested in this data call as of 9/1/06 unless otherwise specifically noted.

1. Has your insurance group or any of your member companies established or contracted with a Texas Department of Insurance (TDI) -certified workers' compensation (WC) health care network?

_____ **Y** _____ **N** (please mark one)

2. How likely is it that your group or any of your member companies will establish or contract with one or more TDI-certified workers' compensation health care networks? (please mark one answer per row)

	Very Likely	Somewhat	Not Sure	Somewhat	Very
--	-------------	----------	----------	----------	------

		Likely		Unlikely	Unlikely
In the next month					
In the next six months					
In the next year					
In the next two years					

3. If you responded “somewhat unlikely” or “very unlikely” on any part of question #2, please explain why (be specific as possible).

4. If “Y” on question #1, please list all of the TDI-certified networks that your group has established or contracted with, along with the individual company members who are using each network (if all of your member companies are using each of these networks, please write “entire group”):

TDI certified WC health care network	Member companies using TDI certified
--------------------------------------	--------------------------------------

	WC network in Texas
Example: Network ABC	Carrier A, Carrier B
Example: Network 123	Entire group
1.	
2.	
3.	
4.	
5.	

5. If you answered "Y" on question #1, have you begun offering your TDI-certified WC networks to policyholders (either Texas policyholders or policyholders with Texas employees)? **Y** **N** (please mark one)

6. If you answered "Y" on question #1, are you offering a network credit to policyholders who agree to participate in your TDI-certified WC network? **Y** **N** (please mark one)

If so, what was the average network credit per policyholder as of 9/1/06? What was the lowest (minimum) and the highest (maximum) premium discount offered to a policyholder as of 9/1/06?

Average network credit per policyholder: _____%

Lowest (minimum) network credit issued: _____%

Highest (maximum) network credit issued: _____%

7. Please briefly describe the criteria you are currently using to determine the network credits offered to policyholders:

8. If "Y" on question #1, are you offering or do you plan to offer your TDI-certified WC networks (please check one answer per row):

	Yes	No	If no, please explain
A. During the middle of the policy period for WC policies that have not yet expired or been renewed?			
B. To new WC policyholders who have employees in your network's service areas?			
C. To existing WC policyholders who have employees in your network's service areas upon policy renewal?			

9. If "Y" on question #1, are you offering or do you plan to offer your TDI-certified WC networks (please check one answer per row):

	Yes	No	If no, please explain
A. To all WC policyholders with employees who live in your network's service area, regardless of premium size?			
B. To all WC policyholders with employees who live in your network's service area, regardless of employee classifications?			
C. To all WC policyholders with employees who live in your network's service area, regardless of the policyholder's experience modifier?			
D. To all WC policyholders with employees who live in your network's service area, including large deductible policies?			

10. Do you use any other criteria to determine whether to offer a network plan to a WC policyholder? **Y** **N** (please mark one)

If “Y”, please briefly describe this additional criteria?

11. Please estimate the # and % of your policyholders (both Texas policyholders and policyholders with Texas employees) who have agreed or will agree to participate in one (or more) of your TDI-certified WC networks.

Note: Please use the table below and provide your estimates overall, by premium size and by major geographic area. Please insert “N/A” in those geographic areas that you do not have either policyholders or network coverage or do not estimate network coverage by the end of CY 2008.

	Estimated # and % of policyholders as of 9/1/06	Estimated # and % of policyholders by end of CY 2007	Estimated # and % of policyholders by end of CY 2008
A. Overall			
B. By Premium Size: (Texas only premium)			
Less than \$5,000 in premium			
\$5,000- \$24,999 in premium			
\$25,000 - \$100,000 in premium			

More than \$100,000 in premium			
C. By Geographic Area: (only for Texas policyholders):			
Amarillo MSA			
Austin/Round Rock MSA			
Brownsville/Harlingen MSA			
Dallas/Fort Worth/Arlington MSA			
El Paso MSA			
Houston/Sugar Land/Baytown MSA			
Lubbock MSA			
San Antonio MSA			

Note: MSA or metropolitan statistical areas as defined by the United States Census Bureau.

12. Please estimate the # of injured workers (both newly injured workers and injured workers with existing injuries) who have been treated or will be treated in one of your TDI-certified WC networks.

Note: Please use the table below and provide your estimates overall and by major geographic area. Please insert “N/A” in those geographic areas that you do not have either policyholders or network coverage or do not estimate network coverage by the end of CY 2008.

	Estimated # of injured workers as of 9/1/06	Estimated # of injured workers by end of CY 2007	Estimated # of injured workers by end of CY 2008
A. Overall			
B. By Geographic Area: (only for Texas policyholders):			
Amarillo MSA			
Austin/Round Rock MSA			
Brownsville/Harlingen MSA			
Dallas/Fort Worth/Arlington MSA			
El Paso MSA			
Houston/Sugar Land/Baytown MSA			
Lubbock MSA			
San Antonio MSA			

13. Please estimate the # of WC claims (both new WC claims and existing WC claims) that have been treated or will be treated in one of your TDI-certified WC networks?

Note: Please use the table below and provide your estimates overall and by major geographic area. Please insert “N/A” in those geographic areas that you do not have either policyholders or network coverage or do not estimate network coverage by the end of CY 2008.

	Estimated # of WC claims of 9/1/06	Estimated # of WC claims by end of CY 2007	Estimated # of WC claims by end of CY 2008
A. Overall			
B. By Geographic Area: (only for Texas policyholders):			
Amarillo MSA			
Austin/Round Rock MSA			
Brownsville/Harlingen MSA			
Dallas/Fort Worth/Arlington MSA			
El Paso MSA			
Houston/Sugar Land/Baytown MSA			

Lubbock MSA			
San Antonio MSA			

14. House Bill (HB) 7 allows insurance carriers to directly enroll claims with dates of injury prior to 9/1/05 into a TDI-certified WC network as long as the worker lives in the network's service area and receives a notice of the network's requirements from the carrier. These claims are referred to as "legacy" claims.

As of 9/1/06, what % of the injured workers who have been treated by your TDI-certified WC network had a "legacy" claim? _____

As of 9/1/06, what % of the claims that had been treated by a TDI-certified WC network were "legacy" claims? _____

Part B
Historic Loss and Claim Count Development

Note: The responses to this part of the call are due on **November 15, 2006**

Any questions concerning Part B of the call should be addressed to Elizabeth Buhro by telephone at 512-475-3017 or by e-mail at Elizabeth.buhro@tdi.state.tx.us.

1. Definitions

Claim Count: Count claims according to the following criteria:

- Count only claims where a payment has been made and/or a reserve established; do not count claims closed with no payments
- Where an accident or occurrence results in two or more reported claims, count each claim separately (e.g., if an event results in three injured workers, each worker must be counted separately, producing three claims)
- Where an injury results in payments and/or reserves under different coverages of the policy (e.g., workers' compensation and employers' liability), count as a single claim

Network: A workers' compensation health care network established under Chapter 1305, Insurance Code and approved by the Texas Department of Insurance (TDI).

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

Indemnity Claim: A claim, that at the time of the valuation, is other than a medical only claim or a claim closed with no payment.

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

Small Deductible Policies: Deductible policies that are not large deductible policies.

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

Standard Premium: Texas Earned Premium after application of:

- Experience rating plan adjustments
- Expense constants
- Loss constants

But before application of:

- Retrospective rating plan adjustments
- Premium discounts
- Premium credits for deductible policies
- Other individual risk rating plan adjustments (including schedule rating plan adjustments)
- Payment of policyholder dividends

Excluded Experience: The data reported must exclude the following:

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

Losses and Claim Counts on Deductible Policies: Losses on Large and Small Deductible Policies must be reported on a gross basis, prior to any reimbursement under the deductible policy by the insured. Claims, other than claims that are closed with no payment, must be counted even if the entire amount of the claim is reimbursed by the insured under the deductible policy.

2. Loss and Claim Count Experience to Be Reported

Loss and claim count experience by Accident Half Year (AHY) beginning with the first half of 2002 (02:1) through the first half of 2006 (06:1), valued at successive six (6) month intervals. For example, experience for AHY 02:1 must be valued at June 30, 2002, December 31, 2002, June 30, 2003, ..., and June 30, 2006, a total of nine (9) valuations; experience for AHY 02:2 must be valued at December 31, 2002, June 30, 2003, December 31, 2003, ..., and June 30, 2006, a total of eight (8) valuations; ...; and AHY 06:1 at June 30, 2006, a single valuation.

Loss experience must be reported separately according to the following categories:

- Separately for Large Deductible Policies and for all other policies
- Separately for Indemnity Claims and for Medical Only Claims
- In the case of Indemnity Claims, separately for indemnity incurred, indemnity paid, medical incurred, and medical paid
- In the case of Medical Only Claims, separately for medical incurred and medical paid

Claim Counts must be reported separately according to the following categories:

- Separately for Large Deductible Policies and for all other policies
- Separately for Indemnity Claims and for Medical Only Claims

Attached is a sample worksheet on which the necessary data can be entered, or the data can be provided electronically in an analogous format.

3. Premium Data to Be Reported

Provide standard earned premiums by calendar half year beginning with the first half of 2002 through the first half of 2006. Premiums must be shown separately for Large Deductible Policies and for all other policies. In the case of Large Deductible Policies, the premiums must be those prior to the application of the deductible discount.

Texas Department of Insurance
**Exhibit C - Workers' Compensation and
Employers' Liability
Sample**

Group Name _____
Group NAIC Number _____
Company Name _____
Company NAIC Number _____

Description: _____

Valuation in months

Accident Half Year	6	12	18	24	30	36	42	48	54
2002:01									
2002:02									
2003:01									
2003:02									
2004:01									
2004:02									
2005:01									
2005:02									
2006:01									

Description: _____

Valuation in months

Accident Half Year	6	12	18	24	30	36	42	48	54
2002:01									
2002:02									
2003:01									
2003:02									
2004:01									
2004:02									
2005:01									
2005:02									
2006:01									

APPENDIX C

ALPHABETICAL LISTING OF TEXAS COUNTIES AND WORKERS' COMPENSATION HEALTH CARE NETWORKS WITHIN EACH COUNTY

**Number of Workers' Compensation Networks by Texas County
(as of November 1, 2006)**

County	Number of WC Networks	Networks in County*
Anderson	3	1,16,17
Andrews	0	
Angelina	0	
Aransas	4	1,2,16,17
Archer	0	
Armstrong	3	1,16,17
Atascosa	5	1,2,11,16,17
Austin	14	1,2,3,4,5,6,7,8,10,11,12,15,16,17
Bailey	0	
Bandera	4	1,11,16,17
Bastrop	3	1,16,17
Baylor	0	
Bee	4	1,2,16,17
Bell	3	1,16,17
Bexar	6	1,2,11,13,16,17
Blanco	4	1,11,16,17
Borden	0	
Bosque	3	1,16,17
Bowie	1	4
Brazoria	13	1,3,4,5,6,7,8,10,11,12,15,16,17
Brazos	11	1,3,4,5,6,7,8,10,15,16,17
Brewster	0	
Briscoe	0	
Brooks	4	1,2,16,17
Brown	3	1,16,17
Burleson	11	1,3,4,5,6,7,8,10,15,16,17
Burnet	3	1,16,17
Caldwell	5	1,11,13,16,17
Calhoun	3	1,16,17
Callahan	0	
Cameron	3	1,16,17
Camp	4	1,4,16,17
Carson	3	1,16,17
Cass	1	4
Castro	0	
Chambers	13	1,2,3,4,5,6,7,8,10,11,15,16,17
Cherokee	4	1,4,16,17
Childress	0	

* Note: 1=Concentra; 2=Corvel; 3= First Health/AIGCS; 4= First Health; 5= First Health/Travelers; 6= Forte Inc; 7= Genex; 8= Hartford; 9= IMO Med/Select; 10= International Rehabilitation Associates; 11= Liberty Mutual; 12= Memorial Hermann; 13= Physicians Cooperative of Texas; 14= Sha; 15= Specialty Risk Services; 16= Texas Star Network/Concentra; 17= Zurich Services

County	Number of WC Networks	Networks in County*
Clay	1	4
Cochran	0	
Coke	0	
Coleman	3	1,16,17
Collin	8	1,2,4,9,11,13,16,17
Collingsworth	0	
Colorado	12	1,3,4,5,6,7,8,10,12,15,16,17
Comal	4	1,2,16,17
Comanche	3	1,16,17
Concho	3	1,16,17
Cooke	5	1,2,4,16,17
Coryell	3	1,16,17
Cottle	0	
Crane	0	
Crockett	0	
Crosby	4	1,14,16,17
Culberson	0	
Dallam	0	
Dallas	8	1,2,4,9,11,13,16,17
Dawson	0	
Deaf Smith	3	1,16,17
Delta	4	1,4,16,17
Denton	8	1,2,4,9,11,13,16,17
DeWitt	3	1,16,17
Dickens	0	
Dimmit	0	
Donley	0	
Duval	3	1,16,17
Eastland	3	1,16,17
Ector	0	
Edwards	0	
El Paso	3	1,16,17
Ellis	4	1,4,16,17
Erath	4	1,4,16,17
Falls	3	1,16,17
Fannin	5	1,2,4,16,17
Fayette	3	1,16,17
Fisher	0	
Floyd	1	14
Foard	0	
Fort Bend	14	1,2,3,4,5,6,7,8,10,11,12,15,16,17

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County	Number of WC Networks	Networks in County*
Franklin	4	1,4,16,17
Freestone	4	1,4,16,17
Frio	4	1,11,16,17
Gaines	0	
Galveston	5	1,2,12,16,17
Garza	1	14
Gillespie	3	1,16,17
Glasscock	0	
Goliad	3	1,16,17
Gonzales	3	1,16,17
Gray	0	
Grayson	0	
Gregg	4	1,4,16,17
Grimes	11	1,3,4,5,6,7,8,10,15,16,17
Guadalupe	4	1,2,16,17
Hale	4	1,14,16,17
Hall	0	
Hamilton	3	1,16,17
Hansford	0	
Hardeman	0	
Hardin	13	1,2,3,4,5,6,7,8,10,11,15,16,17
Harris	14	1,2,3,4,5,6,7,8,10,11,12,15,16,17
Harrison	3	1,16,17
Hartley	0	
Haskell	0	
Hays	3	1,16,17
Hemphill	0	
Henderson	4	1,4,16,17
Hidalgo	4	1,2,16,17
Hill	5	1,4,11,16,17
Hockley	4	1,14,16,17
Hood	5	1,4,9,16,17
Hopkins	4	1,4,16,17
Houston	11	1,3,4,5,6,7,8,10,15,16,17
Howard	0	
Hudspeth	0	
Hunt	4	1,4,16,17
Hutchinson	3	1,16,17
Irion	3	1,16,17
Jack	4	1,4,16,17
Jackson	11	1,3,4,5,6,7,8,10,15,16,17

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County	Number of WC Networks	Networks in County*
Jasper	8	3,4,5,6,7,8,10,15
Jeff Davis	0	
Jefferson	12	1,2,3,4,5,6,7,8,10,15,16,17
Jim Hogg	3	1,16,17
Jim Wells	4	1,2,16,17
Johnson	4	1,4,16,17
Jones	0	
Karnes	3	1,16,17
Kaufman	5	1,2,4,16,17
Kendall	5	1,2,11,16,17
Kenedy	4	1,2,16,17
Kent	0	
Kerr	3	1,16,17
Kimble	0	
King	0	
Kinney	0	
Kleberg	4	1,2,16,17
Knox	0	
La Salle	0	
Lamar	1	4
Lamb	4	1,14,16,17
Lampasas	3	1,16,17
Lavaca	3	1,16,17
Lee	12	1,3,4,5,6,7,8,10,13,15,16,17
Leon	11	1,3,4,5,6,7,8,10,15,16,17
Liberty	12	1,3,4,5,6,7,8,10,12,15,16,17
Limestone	4	1,4,16,17
Lipscomb	0	
Live Oak	3	1,16,17
Llano	3	1,16,17
Loving	0	
Lubbock	4	1,14,16,17
Lynn	4	1,14,16,17
Madison	11	1,3,4,5,6,7,8,10,15,16,17
Marion	1	4
Martin	0	
Mason	0	
Matagorda	11	1,3,4,5,6,7,8,10,15,16,17
Maverick	0	
McCulloch	3	1,16,17
McLennan	3	1,16,17

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County	Number of WC Networks	Networks in County*
McMullen	3	1,16,17
Medina	6	1,2,11,13,16,17
Menard	3	1,16,17
Midland	0	
Milam	3	1,16,17
Mills	3	1,16,17
Mitchell	0	
Montague	4	1,4,16,17
Montgomery	14	1,2,3,4,5,6,7,8,10,11,12,15,16,17
Moore	3	1,16,17
Morris	4	1,4,16,17
Motley	0	
Nacogdoches	0	
Navarro	4	1,4,16,17
Newton	8	3,4,5,6,7,8,10,15,
Nolan	0	
Nueces	4	1,2,16,17
Ochiltree	0	
Oldham	3	1,16,17
Orange	0	
Palo Pinto	4	1,4,16,17
Panola	4	1,4,16,17
Parker	4	1,4,16,17
Parmer	0	
Pecos	0	
Polk	8	3,4,5,6,7,8,10,15
Potter	3	1,16,17
Presidio	0	
Rains	5	1,4,11,16,17
Randall	3	1,16,17
Reagan	0	
Real	0	
Red River	1	4
Reeves	0	
Refugio	4	1,2,16,17
Roberts	0	
Robertson	11	1,3,4,5,6,7,8,10,15,16,17
Rockwall	8	1,2,4,9,11,13,16,17
Runnels	0	
Rusk	4	1,4,16,17
Sabine	1	4

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County	Number of WC Networks	Networks in County*
San Augustine	1	4
San Jacinto	12	1,3,4,5,6,7,8,10,11,15,16,17
San Patricio	4	1,2,16,17
San Saba	3	1,16,17
Schleicher	0	
Scurry	0	
Shackelford	0	
Shelby	1	4
Sherman	0	
Smith	4	1,4,16,17
Somervell	4	1,4,16,17
Starr	3	1,16,17
Stephens	3	1,16,17
Sterling	0	
Stonewall	0	
Sutton	0	
Swisher	0	
Tarrant	7	1,2,4,9,13,16,17
Taylor	0	
Terrell	0	
Terry	4	1,14,16,17
Throckmorton	0	
Titus	4	1,4,16,17
Tom Green	3	1,16,17
Travis	4	1,13,16,17
Trinity	11	1,3,4,5,6,7,8,10,15,16,17
Tyler	8	3,4,5,6,7,8,10,15
Upshur	4	1,4,16,17
Upton	0	
Uvalde	0	
Val Verde	0	
Van Zandt	4	1,4,16,17
Victoria	3	1,16,17
Walker	12	1,3,4,5,6,7,8,10,12,15,16,17
Waller	14	1,2,3,4,5,6,7,8,10,11,12,15,16,17
Ward	0	
Washington	12	1,2,3,4,5,6,7,8,10,15,16,17
Webb	0	
Wharton	12	1,3,4,5,6,7,8,10,12,15,16,17
Wheeler	0	
Wichita	0	

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County	Number of WC Networks	Networks in County*
Wilbarger	0	
Willacy	4	1,2,16,17
Williamson	4	1,13,16,17
Wilson	5	1,2,11,16,17
Winkler	0	
Wise	7	1,2,4,9,11,16,17
Wood	4	1,4,16,17
Yoakum	3	1,16,17
Young	0	
Zapata	0	
Zavala	0	

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