

# Classification and Rating Committee

## Meeting Agenda

Date	Time	Location	Staff Contact
June 13, 2018	9:45 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	Brenda Keys

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To Members of the Classification and Rating Committee, WCIRB Members and All Interested Parties:  
**This meeting is Open to the Public.**

**I. Approval of Minutes**

Meeting held May 31, 2018

**II. Unfinished Business**

**III. New Business**

- A. Potential 2018/2019 Classification Research Studies and Projects
- B. Demonstration of WCIRB Services and Tools (presentation only)

**IV. Matters Arising at Time of Meeting**

**V. Next Meeting Date:** October 16, 2018

**VI. Adjournment**

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## **Item III-C Potential Classification Studies**

The objective of the WCIRB's classification research process is to continually improve the Standard Classification System to facilitate advisory pure premium rates that provide the basis for an equitable distribution of costs among policyholders. Toward this end, WCIRB staff analyzes existing classifications to ensure they appropriately group businesses with similar exposure to workers' compensation losses and that they remain relatively easy to administer. Furthering this objective, WCIRB staff has identified a number of potential classification studies for the Committee's consideration. Potential studies have been segregated among five categories with the primary goal of: (a) simplifying the classification system, (b) addressing evolving industries, (c) addressing specific classification concerns, (d) keeping classification procedures current and (e) promoting consistency across jurisdictions. This list is the result of Committee suggestions, other stakeholder input as well as staff's analysis.

Considering the multi-year studies previously agreed to by the Committee and staff's assessment of the relative priorities of the remaining potential studies, staff recommends that the classification studies outlined in the attached Table 1 be conducted in 2018-2019 for inclusion in the January 1, 2020 Regulatory Filing. Table 1 also includes a rough estimate of the resource commitment for each study and the timeframes within which the study can likely be conducted.

Staff is seeking the Committee's feedback regarding the completeness of the studies and projects under consideration as well as staff's prioritization of studies to be completed in preparation for the January 1, 2020 Regulatory Filing.

### **Potential Classification Studies**

#### **A. Studies Intended to Simplify Classification System**

##### **1. Further Classification Enhancements to the USRP**

###### **Source: WCIRB Staff**

Staff will continue to review standard classifications in order to keep them updated and relevant. Staff anticipates that a significant number of USRP changes will be identified in preparation for the 2020 Regulatory Filing as a result of the WCIRB's effort to improve the transparency of classification assignments through the recently enhanced Classification Inspection Report.

##### **2. Iron or Steel Erection Classifications**

###### **Source: WCIRB Staff**

This study will review the iron or steel erection classifications in order to clarify their intended scope and provide direction as to their application. Staff anticipates that this study will identify significant classification revisions and enhancements that will improve the administration of these classifications. Staff recommends that this study be held for future consideration.

##### **3. Administration of Construction "Project" Classifications**

###### **Source: WCIRB Staff**

Certain construction classifications are administered as "project" classifications, such that subcontractors performing work at a construction project are assigned to the project classification, rather than the classification that describes the individual trade they are performing. Staff will review the construction classifications to determine (1) which construction classifications should be designated as "project" classifications and (2) how the regulations can be revised to more clearly explain the administration of "project" classifications, including potential revisions to the classification phraseologies and/or the Special Industry Classification Procedures for Construction or Erection Work. Staff recommends that this study be held for future consideration.

**4. Non-Standard Exception Employees Assigned to Classifications 8810 and 8742**

**Source: Classification and Rating Committee/WCIRB Staff**

This study will review the efficacy of the current classification procedure for employees assigned to Classifications 8810, *Clerical Office Employees*, and 8742, *Salespersons – Outside*, who may not meet the strict definition of Standard Exception Employees. These employees include:

- ticket sellers at airports,
- pari-mutual employees,
- cemetery plot or mausoleum sales counselors, and
- walking billboards.

Staff recommends a study to review the application of Classification 8810 in connection with aircraft operations, with attention to ticket sellers at airports, and to develop proposals to improve the classification procedures applicable to these operations for inclusion in the 2020 Regulatory Filing. Staff recommends that study of the additional non-aircraft industry assignments be held for future consideration.

**5. Wrecking or Demolition**

**Source: WCIRB Staff**

The purpose of this study is to review the Special Industry Classification Procedures for Wrecking or Demolition and Building Raising or Moving to: (a) clarify classification procedures regarding the assignment of Classification 5606, *Contractors – construction or erection – executive level supervisors*, and Classification 5610, *Contractors – construction or erection – all construction subcontracted*, and (b) provide additional direction regarding the classification of subcontractors. Staff recommends that a study to review and clarify the application of Classification 5606 and Classification 5610 in connection with Wrecking or Demolition and Building Raising or Moving, and to address the classification procedures for “soft demolition” or “tear-out” operations that are not currently addressed, be performed in 2018/2019 and any proposed changes be included in the 2020 Regulatory Filing.

**6. Manufacturing Classifications**

**Source: Underwriting Working Group**

This study will review the manufacturing industries to determine how to classify distribution centers that are the only California operation (originally discussed in relation to Clothing Mfg.). Staff recommends that a study, limited in scope to Classification 3682, *Instrument Mfg. – non-electronic*, and its potential application to employers that design and distribute a proprietary product but subcontract the manufacture to other concerns, be performed in 2018/2019 and any proposed changes be included in the 2020 Regulatory Filing.

**7. Municipal, State or Other Public Agencies Industry Group Classifications**

**Source: WCIRB Staff**

This study will review the schedule of Municipal, State or Other Public Agencies classifications to validate the need for the industry group and to clarify the application of the classifications. Staff recommends that this study be held for future consideration.

**B. Studies Intended to Address Evolving Industries**

**1. Computer Programming**

**Source: WCIRB Staff**

This study will consider the efficacy of the restriction in Classification 8859(1), *Computer Programming or Software Development*, excluding employers that engage in computer programming or software development in support of the employer’s own operations and determine if additional changes to the classification phraseology or Special Industry Classification Procedures are necessary. Staff recommends that this study be held for future consideration.

## C. Studies Intended to Address Specific Classification Concerns

### 1. Hospitality and Resort Industry

#### Source: Underwriting Working Group

This study will review the efficacy of the current classification procedures relative to Classification 9050(1) *Hotels* and 9050(2), *Motels*, as well as food and beverage, spa and other services performed in connection with these operations. Staff recommends initiating a multi-year study in collaboration with the multi-jurisdictional working group on the basis of workers' compensation premium to review all classifications applicable to hospitality and resort industry operations with the goals of establishing jurisdictional alignment and consistent classification procedures for this very large national industry. Additional classifications that will be reviewed in connection with this study include 9060, *Clubs – country or golf*, 9069, *Clubs – gaming*, 9054, *Spas or Baths*, 9586, *Barber Shops, Hair Styling Salons and Personal Appearance Services*, 9079(1), *Restaurants or Taverns*, and 8078(1), *Sandwich Shops*. Staff anticipates developing proposals that will improve classification procedures and potentially align California with other jurisdictions for inclusion in the 2020 Regulatory Filing. However, staff anticipates that proposed solutions to larger issues will likely continue beyond the 2020 Regulatory Filing.

### 2. Expansion of Maximum Payroll Limitations to Additional Classifications.

#### Source: WCIRB Staff

At the May 8, 2018 meeting, the Classification and Rating Committee recommended that the payroll of employees in five additional classifications be subject to the USRP annual payroll limitation already in place for executive officers, partners, individual employers and members of a limited liability company as well as several classifications with many highly compensated employees and great variability in wages. This change is being proposed to be effective January 1, 2020, which will allow for an extensive outreach and education effort and determination of appropriate adjustment to advisory pure premium rates to be conducted during 2018/2019 for the January 1, 2020 Pure Premium Rate Filing. In future years, staff intends to review additional classifications to determine eligibility for a payroll limitation.

### 3. Social Services Agencies

#### Source: WCIRB Staff

This study will review the efficacy of the current classification procedures relative to the social services industry. Staff recommends that this study be held for future consideration.

### 4. Classification 8017(7), *Stores – Hardware*

#### Source: WCIRB Staff

This study will review Classification 8017(7), *Stores – hardware*, particularly with regard to the efficacy of the current classification procedure relative to display and parts departments at dealer operations as well as the possibility of combining operations with Classification 8111(1), *Plumbers' Supplies Dealers*. Staff recommends conducting a study to review Classification 8017(7) and Classification 8111(1) in 2018/2019 and include any proposed changes in the 2020 Regulatory Filing. As part of the study, staff will review and provide direction as to how related operations should be classified.

### 5. Classifications 8028, *Equipment or Machinery Rental Yards*, and 8107, *Machinery Dealers*

#### Source: WCIRB Staff

This study will review the efficacy of the current classification procedure relative to equipment or machinery dealers and equipment or machinery rental firms. Staff recommends that this study be held for future consideration.

**2. Review Classifications in Order to Determine Inclusion of Clerical Office and Outside Sales Activities**

**Source: WCIRB Staff**

This study will review the data for Classifications 8810, *Clerical Office Employees*, and 8742, *Salespersons – Outside*, associated with given industries and determine whether to amend the classifications to include clerical office and/or outside sales activities. Staff recommends that this study be held for future consideration.

**3. Mining Classifications**

**Source: Classification and Rating Committee**

In July 2014, the Classification and Rating Committee recommended that Classifications 1122, *Mining – surface*, 1123, *Mining – underground – with shafts, tunnels or drifts; all employees with exposure to underground mining operations*, and 1124, *Mining – underground – surface employees*, be reviewed to determine the appropriateness of combining them, as none of these classifications currently generate sufficient payroll and loss data to develop a statistically credible advisory pure premium rate. Staff recommends that this study be held for future consideration.

**D. Studies Intended to Keep Classification System Current**

**1. Dual Wage Classifications.**

**Source: Classification and Rating Committee**

At the April 25, 2017 meeting, the Classification and Rating Committee recommended that to keep the dual wage thresholds current with wage inflation, the thresholds should be reviewed every two years. Since the last comprehensive review of the dual wage thresholds was conducted in 2017 with the changes effective January 1, 2018, staff recommends again reviewing the thresholds in 2019 with the changes proposed to be effective January 1, 2020.

**2. Review of Large Classifications for Homogeneity in Operations**

**Source: WCIRB Staff**

These studies will review the span of operations contemplated within large classifications to determine if, based on a review of a number of analytical summaries, the constituents represent a reasonably homogenous group for classification purposes. WCIRB staff anticipates that these studies may identify additional areas for which an in-depth classification study is appropriate. Staff recommends that these studies be held for future consideration.

**3. Classifications Combined for Ratemaking**

**Source: Classification and Rating Committee**

In recent years, staff completed several studies of classifications combined for advisory pure premium ratemaking purposes to determine whether such classifications should continue to be combined. In future years, staff recommends extending this analysis to suffixed classifications with the objective of potentially establishing new distinct classifications or combining the suffixed classifications.

**4. Low Credibility Classification Studies**

**Source: Classification and Rating Committee/WCIRB Staff**

WCIRB staff reviews low credibility classifications for the purpose of determining whether classifications with declining statistical credibility should be eliminated and their constituents reassigned to one or more existing classifications. For the 2020 Regulatory Filing, staff recommends reviewing the following:

- Classifications 0400(1), *Cotton Merchants – including cotton compressing*, and 0400(2), *Warehouses – cotton – including cotton compressing*, to consider eliminating the suffixes

for this classification and determine if its constituents have operations that are similar to any other post-farming processing operations described by another classification for possible consolidation of these classifications.

- Classification 2150, *Ice Mfg. or Ice Dealers*, to determine whether this classification should be eliminated and its constituents reassigned to one or more existing classifications.

## **E. Studies Intended to Promote Consistency Across Jurisdictions**

### **1. Payroll/Remuneration Reporting Rules**

#### **Source: WCIRB Staff**

The multi-jurisdictional working group on the basis of workers' compensation premium is developing a series of "national guidelines" on payroll reporting in areas such as restricted stock units, stock options, deferred and retroactive pay and tips and gratuities. Some of these guidelines have been reflected in changes included in the January 1, 2019 Regulatory Filing. Staff recommends continuing to develop proposals that will align California with other jurisdictions and to incorporate additional proposals in the 2020 Regulatory Filing. Staff also recommends continuing the analysis of larger payroll issues, such as tips and gratuities, which have not yet been resolved or adopted as "national guidelines" for future consideration.

### **3. Significant Classification Differences Across Jurisdictions**

#### **Source: WCIRB Staff**

Jurisdictional differences in classification procedures can create challenges for policyholders and insurers that operate in multiple states. WCIRB staff plans to review significant classification differences in California relative to most other jurisdictions and assess whether the differences are appropriate or if California classification rules should be modified to more closely conform to the other jurisdictions. For 2018/2019, staff will consider jurisdictional alignment through the Hospitality Industry Study. In the future, staff anticipates continuing to lead the multi-jurisdictional effort to review classification procedures across the country for a number of industries with the goal of increasing consistency.

### **4. Classifications 9079(1), *Restaurants or Taverns*, 8078(1), *Sandwich Shops*, 8078(2), *Beverage Preparation Shops*, and 8078(3), *Ice Cream or Frozen Yogurt Shops***

#### **Source: WCIRB Staff**

This study will review the efficacy of the current classification procedure for employers that prepare and serve food and beverage items to the public to determine if the constituents should be divided into separate classifications and to clarify their operations and provide direction as to their application. Staff will also consider: (a) whether operations described as sandwich shops, beverage preparation shops and ice cream or frozen yogurt shops are sufficiently differentiated from other food and beverage and restaurant operations, (b) whether food and beverage operations that are separately classified as 9079(1) in connection with retail store operations and hotel operations are homogenous with other restaurant or food and beverage operations, and (c) whether the classification procedures for food and beverage and restaurant operations should be brought more in alignment with other jurisdictions. Staff will review the potential jurisdictional alignment of food and beverage classifications through the Hospitality Industry Study.

### **5. USL&H Classifications**

#### **Source: WCIRB Staff**

This is a periodic review of USL&H classifications administered in states other than California for comparison as to how they are administered for data collection purposes in California. Staff recommends that this study be held for future consideration.

**Table 1  
Summary of Staff Suggested 2018/2019 Classification Research Studies  
with Estimated Resource Commitment/Timeframes**

Potential Classification Research Projects	Anticipated Commitment (L,M,H) <sup>1</sup>	Quarters of Staff Activity			
		3 <sup>rd</sup> Qtr 2018	4 <sup>th</sup> Qtr 2018	1 <sup>th</sup> Qtr 2019	2 <sup>nd</sup> Qtr 2019
<b>Studies Intended to Simplify Classification System</b>					
Further Classification Enhancements to the USRP	High	✓	✓	✓	✓
Classification 8810 in Connection with Aircraft Operations	Low	✓	✓		
Wrecking or Demolition	Low	✓	✓		
Classification 3682, <i>Instrument Mfg. – non-electronic</i>	Low		✓		
<b>Studies Intended to Address Specific Classification Concerns</b>					
Hospitality and Resort Industry	Very High	✓	✓	✓	✓
Expansion of Maximum Payroll Limitations	Moderate	✓	✓	✓	✓
Classifications 8017(7), <i>Stores – Hardware</i> , and 8111(1), <i>Plumbers’ Supplies Dealers</i>	Moderate	✓	✓		
<b>Studies Intended to Keep Classification System Current</b>					
Dual Wage Classifications Thresholds	High	✓	✓	✓	✓
Low Credibility Study: Classifications 0400(1), <i>Cotton Merchants – including cotton compressing</i> , and 0400(2), <i>Warehouses – cotton – including cotton compressing</i>	Low to Moderate	✓	✓		
Low Credibility Study: Classification 2150, <i>Ice Mfg. or Ice Dealers</i>	Low	✓	✓		
<b>Studies Intended to Promote Consistency Across Jurisdictions</b>					
Payroll/Remuneration Reporting Rules	Moderate	✓	✓	✓	
Food and Beverage Classifications	High		✓	✓	✓

<sup>1</sup> Estimated WCIRB staff resource commitment: “Low” corresponds to an estimate of below 50 hours, “Moderate” corresponds to an estimate of between 50 and 200 hours, and “High” corresponds to an estimate in excess of 200 hours.