

April, 2006

To Our Valued Customers, Agents, and Brokers:

On June 1, 2005, Texas Governor Rick Perry signed into law major workers compensation reform legislation—House Bill (HB) 7. Governor Perry and others believe that HB 7 will lead to significantly lower workers compensation loss costs for employers in the State of Texas. We at Travelers firmly support the goals of this legislation. If we and our customers work together to implement the various provisions, we expect that the managed care components of HB 7 can provide a positive impact on workers compensation claim loss costs.

Although HB 7 became effective September 1, 2005, the full implementation of the various provisions has carried into 2006. Two key provisions of HB 7 are: (1) the authorization of certified Workers Compensation Health Care Networks and (2) clarification of provider discounts in non-network settings.

- 1) Authorization of certified Workers Compensation Health Care Networks. This is a critical component of HB 7, since it will provide to employers and insurers the ability to **direct** medical treatment within the established network. The certified Workers Compensation Health Care Network (“HCN”) will be the primary means of directing medical treatment of injured workers.

Below are additional details concerning Texas certified Workers Compensation Health Care Networks:

- Effective January 1, 2006, the Texas Department of Insurance (TDI) was authorized to begin accepting applications to establish certified HCNs that comply with the provisions of HB 7.

On behalf of our customers in Texas, we have been working with First Health Group to establish a certified HCN as required under HB 7. In January, 2006, our application was filed with the TDI for certification of a customized HCN in Texas. Following the TDI's acceptance of this application, the TDI has approximately 60 days to complete its review and issue the network certification. We are awaiting certification of the network by TDI.

- What certification of an HCN means and what effect it will have on your claim management processes in Texas.

TDI will certify a workers compensation HCN based on adequate medical provider coverage in specific geographic service areas (GSA). Once the TDI certifies a HCN, each employer in a covered GSA must elect to participate in the HCN, and an active enrollment process will follow for each employer and their employees.

Once an employer has enrolled in a certified HCN, injured employees must seek medical treatment within HCN's network for the life of their workers compensation claim. There are limited allowances for out-of-network care as set forth in HB 7.

The benefits to an employer who enrolls in a certified HCN are significant when considering how to best manage workers compensation loss costs. The ability to direct injured employees to a certified HCN will maximize an employer's ability to control medical costs and, as important, promote an active return to work program since physicians within the HCN are receptive to and support our return to work planning efforts.

- 2) Clarification of provider discounts in non-network settings. Although HB 7 repealed the provisions of the labor code regarding “voluntary networks,” HB 7 does allow for carriers to contract with providers to secure provider fee arrangements that differ from Texas Fee Schedule in connection with treatment of injured workers outside a certified HCN. Travelers and First Health have taken steps to ensure such discounted fee arrangements are available with selected Texas providers. Under the contracted fee arrangements, provider discounts may still be taken when care is provided to an injured worker outside a certified HCN. However, these are purely contracted fee arrangements, and the employer/carrier has no ability to direct treatment of the injured workers in non-network settings.

Next steps in the implementation of HB 7:

- Once our customized HCN is certified by TDI and you are located in a certified GSA, we will contact you to confirm enrollment and to assist you in implementing the plan. We will provide you support in areas of employee communications and the necessary documents for enrollment. We are also prepared to answer any questions you may have regarding implementation of the HCN.
- We are conducting extensive internal training for our medical case managers and claim professionals to educate our staff on the requirements of HB 7 as well as conducting local employer schools to facilitate employer understanding.
- We will continue to communicate with you as things progress.

In conclusion, while implementation of HB 7 may present some challenges, we are confident that the new HCN will provide: (1) top quality care for injured workers, (2) physicians who are receptive to and supportive of return-to-work planning, and (3) through the managed care components of the HCN, an ability to better manage workers compensation loss costs.

If you would like to learn more about the changes under HB 7, you may access the Texas Department of Insurance website at <http://mywcinfo.com/index2.aspx> (select “Texas” under the State Rules & Regulations section) or contact your local Travelers representative or call 800-238-6208 (**Note:** Press the # key, then say “workers compensation,” or press 3.)

Thank you.