

August 30, 2024

The Honorable Michael Humphreys
Insurance Commissioner
Commonwealth of Pennsylvania - Insurance Department
1311 Strawberry Square
Harrisburg, PA 17120

**Attention: Michael McKenney, Director, Property & Casualty Bureau
Bojan Zorkic, Actuarial Review Supervisor**

**RE: PCRB Filing No. 344 – Proposed Effective April 1, 2025
Proposed Revisions to Designated Auditable Payrolls and Concurrent
Sections 1 and 2 Manual Amendments**

Dear Commissioner Humphreys:

The Basic Manual designates the following auditable weekly or annual payrolls: 1) the weekly minimum and maximum corporate officer payrolls; 2) the annual taxicab operator payroll; 3) the annual minimum auxiliary or special school police payroll; 4) the weekly maximum musicians' or entertainers' payrolls; and 5) the annual maximum payroll for each player, coach, manager or sports official subject to assignment to Code 970, Athletic Team – Contact Sports, or Code 991, Athletic Team – Noncontact Sports. The PCRB reviews these auditable payrolls annually.

The proposed revisions to each of these designated payrolls are a function of Pennsylvania's Statewide Average Weekly Wage (SAWW) effective January 1, 2024 (\$1,325.00 – an increase of 4.08% in relation to the January 1, 2023 SAWW of \$1,273.00). The PCRB recommends that all of the designated payroll revisions discussed herein become effective concurrent with the implementation of the PCRB's April 1, 2025 comprehensive (all classifications) loss cost revision, to be filed with the Department at a later date.

Included, as an exhibit for this filing, is the memorandum approved by the Classification & Rating Committee that pertains to the above stated process and the meeting discussion included acceptance for increasing the executive officer maximum premium multiplier. It was deemed beneficial to make the entire filing now with the proposed changes detailed below. Also included as exhibits are the manual pages (redlined and accepted versions). All three of these files use the proposed increased multiplier to develop related values.

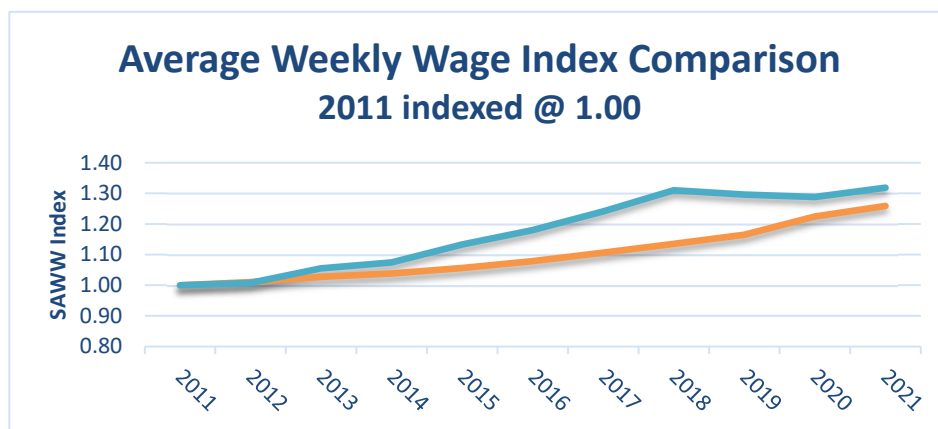
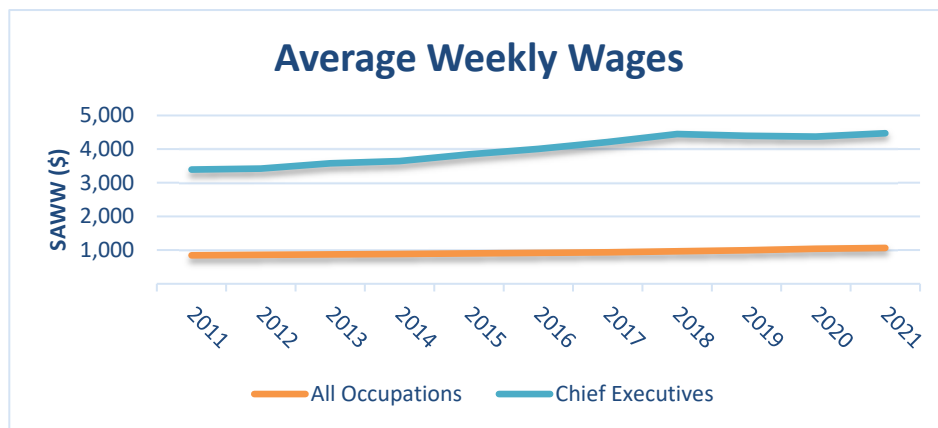
Background

Prior to April 1, 2013 the corporate officer weekly minimum auditable payroll was set at 50% of SAWW. With the PCRB's April 1, 2013 loss cost filing, the process began for increasing the auditable payroll to 100% of SAWW. This process was phased in over a few years and was completed with the PCRB's April 1, 2017 annual filing. Since then, the corporate officer weekly minimum auditable payroll remains at 100% of SAWW. The current formula for determining the weekly maximum corporate officer auditable payroll (2.5 times SAWW) was established when the previous weekly minimum corporate officer auditable payroll of 50% of SAWW was determined. It was PCRB's intention to update the maximum multiplier at some point in the future once the minimum phasing was complete. For this filing, PCRB proposes that the corporate office

maximum be revised from 2.5 times SAWW to 4.0 times SAWW. This proposal will restore an adequate relativity between the corporate officer minimum and the corporate officer maximum and minimize any subsidies for policies that cover officers. The PCRB finds that it is appropriate to adjust the formula for determining the corporate officer maximum and offer the following supporting details provided within this letter.

Analysis Summary

PCRB staff reviewed Unit Statistical Data, Bureau of Labor Statistics (BLS) data, and approaches used in other jurisdictions in preparing this filing. That data shows that executive officer pay has been increasing at a rate that is greater than the average for overall pay increases for most of recent history. The two graphs below show statewide average weekly wages for all occupations as well as specifically Chief Executives. These graphs are respectively in a raw value format and indexed at 1.00 for 2011.



Prior to the COVID-19 pandemic, Chief Executive wages were increasing at a faster rate than All Occupations. During the pandemic, while All Occupations increased, Chief Executives saw a flattening. This can be attributed to low wage workers being furloughed showing an overall average increase while specific careers had salaries held more constant or lower bonuses for some higher wage workers correlated to economic conditions. The most recent data point shows

a return to the historical pattern and a differential of about 4.0 times higher than the All Occupations average.

The following table details minimum and maximum multipliers for regionally similar jurisdictions. An exact comparison is hard to illustrate as systems and execution in each jurisdiction vary.

Jurisdiction	Executive Office	Multiplier	
	SAWW	Min Multiplier	Max Multiplier
District of Columbia	\$5,887.00	1	4
Maryland	\$5,157.00	1	4
New Hampshire	\$3,597.00	0.5	4
New Jersey	\$7,968.00	0.5	2
New York	\$6,238.00	0.5	1.5 / 4 *
Pennsylvania	\$4,473.65	1	2.5

* New York has separate Maximum Multipliers for Executive and Non-Executive Officers, shown respectively.

Note: New Jersey has recently indicated that they may review their multiplier in the near future as it had not been recently done.

When other jurisdictions were reviewed, it depicts and informs a better picture of the national landscape. As shown here, a majority of states use the 4.0 times multiplier.

Multiplier	States
1.5	MT, NY
2	AK, CT, NJ, OH, VA
2.5	PA
3	FL, LA
3.5	
4	AL, AZ, AR, DC, DE, GA, HI, ID, IL, IN, IA, KS, KY, ME, MD, NE, NH, NM, OK, OR, RI, SC, SD, TN, UT, VT, WV

To gather empirical data, PCRB reviewed policies from Unit Statistical data where premium matched 2.5 times SAWW exactly for up to 3 employees in at least 3 out of the last 5 experience years (2017 – 2021). While this leaves out policy exposures where executives are covered along with other employees, it ensures that we are only reviewing policies that do cover executives. The experience over this period for this subset shows that the reported losses far outweigh the premium gathered, showing an average annual incurred loss ratio of 233%.

$$Incurred Loss Ratio = \frac{473,617}{203,567} = 233\%$$

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As a result, because of this high loss ratio, policies covering executive officers need to be subsidized by policies that do not, through increases to the overall loss cost, since companies with executive officers on their policies have less than adequate audited premium. By increasing the multiplier to 4.0 that loss ratio would instead be 145% and result in slightly lower values for the other policies which will naturally adjust as part of the normal ratemaking process. Given the nature of this change and the limited number of impacted polices, the overall statewide impact is assumed to be minimal.

Based on the above supporting analysis, the PCRB proposes that the formula for determining the corporate officer maximum be revised from 2.5 times SAWW to 4.0 times SAWW (rounded to the nearest \$50). Effective April 1, 2025, this results in a proposed revision of the corporate officer maximum from \$3,300 to \$5,300. It is felt that this is reasonable as it aligns more closely to the estimated average executive officer weekly wage of \$5,555. The proposal accounts for the noted increases in executive officer pay, partially reinstates a reasonable differential between the corporate officer minimum, and removes subsidies from the statewide loss costs by accounting for the costs more appropriately of executive officer exposure.

Thank you in advance for your attention to this filing. The PCRB welcomes any questions that you or the Insurance Department staff may have regarding this proposal.

Sincerely,

William V. Taylor
President

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Index of Supporting Documents
PCRB Filing 344 - Auditable Payrolls Memorandum
PCRB Filing 344 - Auditable Payrolls - Manual Pages – Redlined
PCRB Filing 344 - Auditable Payrolls - Manual Pages - Accepted



PENNSYLVANIA

Compensation Rating Bureau

TO: Pennsylvania Compensation Rating Bureau Classification & Rating Committee

FROM: Robert Ferrante, Senior Classification Analyst – Technical Services

DATE: June 05, 2024

RE: Proposed Revisions to Designated Auditable Payrolls and Concurrent Sections 1 and 2 Manual Amendments – April 1, 2025

The Pennsylvania Workers' Compensation Manual of Rules, Classifications and Rating Values for Workers' Compensation and for Employers Liability Insurance (Basic Manual) designates the following auditable weekly or annual payrolls: 1) the weekly minimum and maximum corporate officer payrolls, 2) the annual taxicab operator payroll, 3) the annual minimum auxiliary or special school police payroll, 4) the weekly maximum musicians' or entertainers' payrolls, and 5) the annual maximum payroll for each player, coach, manager or sports official subject to assignment to Code 970, Athletic Team – Contact Sports, or Code 991, Athletic Team – Noncontact Sports. The PCRB reviews these auditable payrolls annually.

The PCRB recommends that the revisions to the designated auditable payrolls being proposed in this memorandum become effective concurrent with the implementation of the PCRB's April 1, 2025, comprehensive loss cost revision, to be filed with the Department at a later date. The proposed revisions are a product of Pennsylvania's Statewide Average Weekly Wage (SAWW) effective January 1, 2024 (\$1,325.00 – an increase of 4.08% in relation to the January 1, 2023, SAWW of \$1,273.00).

Presently, the formula for the executive officer weekly maximum auditable payroll is SAWW times 2.5 (rounded to the nearest \$50.00). The PCRB intends to propose that this formula be revised from 2.5 times SAWW (rounded to the nearest \$50.00) to 4 times SAWW (rounded to the nearest \$50.00). Background and support for the proposal to revise the formula for the executive officer weekly maximum auditable payroll will be provided by the PCRB's Actuarial Team in a separate memorandum.

This filing will result in an increase to the executive officer weekly maximum auditable payroll from \$3,200 per week to \$5,300 per week effective April 1, 2025, provided the Department approves the PCRB's proposal to revise the executive officer maximum formula. Absent the Department's approval of the PCRB's proposal to revise the formula (i.e., if the formula remains at 2.5 times SAWW), this filing will result in an increase to the executive officer weekly maximum auditable payroll from \$3,200 per week to \$3,300 per week effective April 1, 2025.

The formulas for calculating the remaining designated auditable payrolls remain as follows:

- 100% of SAWW for the executive officer weekly minimum auditable for.
- SAWW times 50 (rounded to the nearest \$50.00) for the annual taxicab driver payroll to be used when cabs are leased and no payroll records are available.
- 10% of SAWW times 50 (rounded to the nearest \$50.00) for the auxiliary or special school police minimum annual payroll.
- 100% of SAWW for the maximum weekly payroll to be audited for musicians or entertainers who are not independent contractors.
- SAWW times 4 multiplied by 52 (rounded to the nearest \$10,000) for the annual maximum payroll for each player, coach, manager, or sports official subject to assignment to Code 970 or Code 991.

As a result of this review the PCRB proposes that for April 1, 2025:

- The executive officer minimum be revised from \$1,275 per week to \$1,325 per week.
- The taxicab driver's annual payroll be revised from \$63,650 to \$66,250.
- The auxiliary or special school police annual payroll be revised from \$6,350 to \$6,650.
- The maximum auditable payroll for musicians or entertainers be revised from \$1,273 per week to \$1,325 per week.
- The maximum payroll for each player, coach, manager, or sports official subject to assignment to either Code 970 or Code 991 be revised from \$260,000 per year to \$280,000 per year.

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS
AND RATING VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS
LIABILITY INSURANCE**

Proposed Effective April 1, 2025

INFORMATION PAGE remains unchanged.

PREFACE remains unchanged.

MEMBERSHIP remains unchanged.

TABLE OF CONTENTS remains unchanged.

SECTION 1 – Underwriting Rules-Rule I (GENERAL) through Rule IV (CLASSIFICATIONS) remains unchanged.

RULE V – PREMIUM BASIS

No change to Item A.

B. REMUNERATION – PAYROLL

No change to Item 1.

2. Inclusions

No change.

No change Items a. through m.

- n. Musicians or entertainers who are not independent contractors shall be included in computation of premiums of hotels or restaurants (maximum of \$~~1,273~~1,325 per week for each musician or entertainer);

No change Items o. through v.

No change to Item 3. through 5.

No change to Items C. through F.

SECTION 1 – Underwriting Rules-Rule VI (RATING VALUES AND PREMIUM DETERMINATION) through Rule VIII (LIMITS OF LIABILITY) remains unchanged.

RULE IX- SPECIAL CONDITIONS OR OPERATIONS AFFECTING COVERAGE AND PREMIUM

A. EXECUTIVE OFFICERS

No change to Items 1. through 5.

6. Premium Determination

No change.

- a. No change.

- b. The minimum individual payroll for an executive officer is \$~~1,273~~1,325 per week.

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS
AND RATING VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS
LIABILITY INSURANCE**

Proposed Effective April 1, 2025

c. The maximum individual payroll for an executive officer is ~~\$3,200~~\$5,300 per week.

No change to Items d. and e.

No change to Item B.

C. PROFESSIONAL OR SEMI PROFESSIONAL ATHLETIC TEAMS – CLASS CODE 970 AND 971

No change to Item 1.

2. The entire remuneration of each player, coach, manager or sports official should be included in computing premium, subject to a maximum of ~~\$260,000~~\$280,000 per policy year.

No change to Items 3 and 4.

No change to Items D through I.

SECTION 1 – Underwriting Rules-Rule X (CANCELLATION) through Rule XVIII (PROFESSIONAL EMPLOYER ORGANIZATIONS, PROFESSIONAL EMPLOYER AGREEMENTS AND PROFESSIONAL EMPLOYER SERVICES) remains unchanged.

SECTION 2

PCRB RATING VALUES through **DEFINITIONS** remains unchanged.

CLASSIFICATIONS

Classification Code 005, **TREE PRUNING, SPRAYING, REPAIRING OR FUMIGATING**, through Classification code 802, **MOBILE CRANE RENTAL WITH OPERATORS**, remain unchanged.

803 TAXICAB COMPANY

No change.

When cabs are leased to operators and no payroll records are available, an amount of ~~\$63,650~~\$66,250 per annum may be taken as payroll per operator provided the insurer has made a determination of employment status. This amount may be prorated if the operator does not work a full year.

Classification code 804, **SCHOOL TRANSPORTATION – BY INDEPENDENT CONTRACTOR**, through classification code 969, **AMUSEMENT, OUTDOOR: FAIRS, EXHIBITIONS, AMUSEMENT PARKS, OR ANY OUTDOOR AMUSEMENT THAT IS PERMANENTLY SITED**, remain unchanged.

970 ATHLETIC TEAM – CONTACT SPORTS –PROFESSIONAL AND SEMI-PROFESSIONAL

No change.

The entire remuneration of each player, coach, manager or sports official should be included in computing premium, subject to a maximum of ~~\$260,000~~\$280,000 per policy year. When a player, coach or manager works for two or more teams in the same sport during the policy year, the maximum shall be pro-rated.

No change.

OPERATIONS ALSO INCLUDED:

No change.

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS
AND RATING VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS
LIABILITY INSURANCE**

Proposed Effective April 1, 2025

OPERATIONS NOT INCLUDED:

No change.

Classification code 971, **COMMERCIAL BUILDINGS**, through Classification code 984, **INSURANCE COMPANY – ALL EMPLOYEES INCLUDING OFFICE**, remain unchanged.

985 POLICE OR FIREFIGHTERS, SALARIED EMPLOYEES OF CITIES, TOWNSHIPS, BOROUGHES OR COUNTIES

OPERATIONS ALSO INCLUDED:

1. Auxiliary police or special school police appointed by municipalities or townships. For such personnel, premium shall be based upon the actual remuneration subject to a minimum payroll of ~~\$6,350~~6,650 per year for each employee performing services at any time during the year.

No change to Items 2. and 3.

OPERATIONS NOT INCLUDED:

No change.

Classification code 986, **ADULT SHELTER OR HALFWAY HOUSE – RESIDENTIAL – NON-MEDICAL – ALL EMPLOYEES INCLUDING OFFICE**, through Classification code 989, **VOLUNTEER FIRE COMPANY, - SUPPORT STAFF**, remains unchanged.

991 ATHLETIC TEAM – NONCONTACT SPORTS – PROFESSIONAL OR SEMI –PROFESSIONAL

No change.

The entire remuneration of each player, coach, manager or sports official should be included in computing premium subject to a maximum of ~~\$260,000~~280,000 per policy year. When a player, coach, or manager works for two or more teams in the same sport during the policy year, the maximum shall be pro-rated.

No change.

OPERATIONS ALSO INCLUDED:

No change.

OPERATIONS NOT INCLUDED:

No change.

GENERAL AUDITING & CLASSIFICATION INFORMATION through the end of **SECTION 2** remains unchanged.

SECTION 3 – ENDORSEMENTS remains unchanged.

SECTION 4 – RETROSPECTIVE RATING PLAN remains unchanged.

SECTION 5 – EXPERIENCE RATING PLAN remains unchanged.

SECTION 6 – MERIT RATING PLAN remains unchanged.

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS
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RULE V – PREMIUM BASIS

No change to Item A.

D. REMUNERATION – PAYROLL

No change to Item 1.

2. Inclusions

No change.

No change Items a. through m.

- n. Musicians or entertainers who are not independent contractors shall be included in computation of premiums of hotels or restaurants (maximum of \$1,325 per week for each musician or entertainer);

No change Items o. through u.

No change to Item 3. through 5.

No change to Items C. through F.

SECTION 1 – Underwriting Rules-Rule VI (RATING VALUES AND PREMIUM DETERMINATION) through Rule VIII (LIMITS OF LIABILITY) remains unchanged.

RULE IX- SPECIAL CONDITIONS OR OPERATIONS AFFECTING COVERAGE AND PREMIUM

A. EXECUTIVE OFFICERS

No change to Items 1. through 5.

6. Premium Determination

No change.

- a. No change.

- b. The minimum individual payroll for an executive officer is \$1,325 per week.

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS
AND RATING VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS
LIABILITY INSURANCE**

Proposed Effective April 1, 2025

c. The maximum individual payroll for an executive officer is \$5,300 per week.

No change to Items d. and e.

No change to Item B.

C. PROFESSIONAL OR SEMI PROFESSIONAL ATHLETIC TEAMS – CLASS CODE 970 AND 971

No change to Item 1.

2. The entire remuneration of each player, coach, manager or sports official should be included in computing premium, subject to a maximum of \$280,000.

No change to Items 3 and 4.

No change to Items D through I.

SECTION 1 – Underwriting Rules-Rule X (CANCELLATION) through Rule XVIII (PROFESSIONAL EMPLOYER ORGANIZATIONS, PROFESSIONAL EMPLOYER AGREEMENTS AND PROFESSIONAL EMPLOYER SERVICES) remains unchanged.

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803 TAXICAB COMPANY

No change.

When cabs are leased to operators and no payroll records are available, an amount of \$66,250 per annum may be taken as payroll per operator provided the insurer has made a determination of employment status. This amount may be prorated if the operator does not work a full year.

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970 ATHLETIC TEAM – CONTACT SPORTS –PROFESSIONAL AND SEMI-PROFESSIONAL

No change.

The entire remuneration of each player, coach, manager or sports official should be included in computing premium, subject to a maximum of \$280,000 per policy year. When a player, coach or manager works for two or more teams in the same sport during the policy year, the maximum shall be pro-rated.

No change.

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS
AND RATING VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS
LIABILITY INSURANCE**

Proposed Effective April 1, 2025

OPERATIONS ALSO INCLUDED:

No change.

OPERATIONS NOT INCLUDED:

No change.

Classification code 971, **COMMERCIAL BUILDINGS**, through Classification code 984, **INSURANCE COMPANY – ALL EMPLOYEES INCLUDING OFFICE**, remain unchanged.

985 POLICE OR FIREFIGHTERS, SALARIED EMPLOYEES OF CITIES, TOWNSHIPS, BOROUGHES, OR COUNTIES

OPERATIONS ALSO INCLUDED:

1. Auxiliary police or special school police appointed by municipalities or townships. For such personnel, premium shall be based upon the actual remuneration subject to a minimum payroll of \$6,650 per year for each employee performing services at any time during the year.

No change to Items 2. and 3.

OPERATIONS NOT INCLUDED:

No change.

Classification code 986, **ADULT SHELTER, OR HALFWAY HOUSE – RESIDENTIAL – NON-MEDICAL – ALL EMPLOYEES INCLUDING OFFICE**, through Classification code 989, **VOLUNTEER FIRE COMPANY, SUPPORT STAFF**, remains unchanged.

991 ATHLETIC TEAM – NONCONTACT SPORTS – PROFESSIONAL OR SEMI –PROFESSIONAL

No change.

The entire remuneration of each player, coach, manager, or sports official should be included in computing premium subject to a maximum of \$280,000 per policy year. When a player, coach, or manager works for two or more teams in the same sport during the policy year, the maximum shall be pro-rated.

OPERATIONS ALSO INCLUDED:

No change.

OPERATIONS NOT INCLUDED:

No change.

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