



## Pennsylvania Compensation Rating Bureau

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February 3, 2011

### **PENNSYLVANIA TEST AUDIT PROGRAM** **BULLETIN # 107**

#### **TEST AUDIT APPEAL DECISION**

Per Bureau Circular No. 1532, the result of an insurance carrier appeal to the Audit Committee is presented to the membership for their information.

The appeal involved an employer whose authorized basic classifications were Codes 015, Logging or Lumber- Mechanized Tree Feller Equipment, and 301, Saw Mill. The standard exceptions Codes 951, Salesperson-Outside, and 953, Office, were also authorized. The appeal centered on the proper classification assignment of two field employees and the use of a subclassification assignment for those employees.

The insured is a saw mill with related logging operations. The PCRB's test audit assigned the employees in question to Code 015, as both employees' duties contemplated the hauling of logs. The original carrier audit assigned both employees to Code 301. In subsequent correspondence the carrier agreed that the employees' duties were hauling logs and, therefore, not assignable to Code 301. However, the carrier argued that the proper classification assignment should be the carrier's subclassification Code 5009, which was approved by the Pennsylvania Insurance Department more than a decade previous for the hauling of logs.

The essence of the appeal as presented is that, if the two misclassified employees were assigned to the carrier's subclassification Code 5009, the overall premium difference would be under the \$500 difference threshold. Several handouts were provided to the Committee as part of the carrier's presentation. The first handout included a copy of the final billing that listed Code 5009 with no exposure and no premium. Documents from the PCRB's Rating Rules/Policy Reporting and Statistical Departments from the 2004 and 2005 policy terms showing exposure assigned to Code 5009 were also distributed to the Committee. The carrier argued that, since the use of Code 5009 with Code 015 was accepted on previous policies and unit statistical reports, it would be unfair to not allow it in this case.

In response staff reaffirmed the insured's authorized classifications (Codes 015, 301, 951 and 953). These classifications are to be used for employee assignment and the calculation of premium. Staff further advised that, while the PCRB is not responsible for the approval or administration of subclassifications, it is required that any subclassification used by a carrier must be a direct derivative of a PCRB-authorized classification. This requirement is in place so that subclassification payroll and losses can be properly assigned to the appropriate parent classification for rate making purposes. The use of subclassification Code 5009 is not a direct derivative of the appropriate parent classification Code 015. To the extent a subclassification for

log hauling was applicable to the insured, a subclassification to Code 5015 should have been used. The carrier did not have approval for the use of a subclassification to Code 5015.

The Committee questioned both the carrier and staff. The carrier was asked if they agreed with the PCRB's assignment of Code 015 for the employees in question. The carrier conceded that the original assignment of Code 301 for these employees was incorrect. Staff was asked when the classification change from Code 009 to Code 015 was made for the insured. Staff advised that the change was effective in September 2005. Staff was also asked if this test audit review was the first review conducted after the classification change was implemented. Staff advised that this was the first review since the insured's classification was amended from Code 009 to Code 015.

In executive session the Committee reviewed the carrier's presentation in detail. A consensus quickly developed which recognized the carrier's admitted deficiency in the performance of this particular audit, i.e., the misclassification of two employees and the resulting incorrect billing of the insured. Subclassification procedure in Pennsylvania was also discussed at length, including the PCRB's role and administrative responsibility. In particular the Committee took careful notice of the requirement that a subclassification applied to any risk must reflect a code number and definition which clearly ties it to an applicable authorized classification for that risk.

In conclusion, given carrier's misclassification of employees and the resulting incorrect premium calculation and billing, upon motion made and duly seconded, the Committee voted to sustain the test audit difference in this matter. Further, the Committee rejected the carrier's argument that subclassification Code 5009 should be used to calculate the difference in premium between the carrier audit and the PCRB's test audit, noting that the insured's billing did not reflect the correct subclassification (5015) and corresponding charge. The motion was passed unanimously.