

**Pennsylvania Compensation Rating Bureau**  
Trends in Experience – April 1, 2005 Loss Cost Filing

Questionnaire for Leading Carrier Groups

In preparation for the April 1, 2005 Loss Cost Filing the PCRB developed and distributed a series of questions to larger carrier groups. The questions were intended to solicit information more current than that available from routine data collection resources such as financial data and unit statistical reports and/or to elicit carrier insights into possible causes for observed features of the available experience data.

The survey questions were sent to a total of 36 carrier groups, collectively representing over 90 percent of the Pennsylvania workers compensation market in 2002.

Responses were received from 16 of those carrier groups, representing over 52 percent of the 2002 Pennsylvania market. The responses obtained from the returned surveys are summarized in the attached pages, which replicate the form and sequence of the questions asked for purposes of providing context for the summaries shown. Because some surveys included multiple responses to specific questions, the numbers of responses counted in these summaries may exceed the number of responding carrier groups.

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In each of the past several years the Bureau has distributed a series of questions to larger carrier groups as part of its work in developing supporting information for annual loss cost filings. Questions posed have varied somewhat from year-to-year but have generally covered a variety of topics, including availability of data specific to the Pennsylvania market, loss reserving methods used by the companies and their observed trends within those methods, perspectives regarding the administrative system and processes applicable to contested cases in Pennsylvania, and assessments of the effects of previous statutory changes on the Pennsylvania system.

Early on, Bureau staff generally followed up the distribution of these survey questions by interviewing carriers to glean answers to the questions presented. In each of the last two years (2002 and 2003), the Bureau distributed more limited sets of questions focused on some key issues identified in its preliminary review of available experience data underlying the April 1, 2003 and April 1, 2004 Loss Cost Filings. Those questions were distributed electronically, and carriers were asked to reply via e-mail. Any member(s) inclined to also discuss their responses with Bureau staff were encouraged to so indicate in their response.

The Bureau's work toward the April 1, 2005 Loss Cost Filing is presently in the stages of data collection and assembly, so that we cannot pose survey questions in the context of specific findings or trends emerging from our analysis of aggregate data. In the interest of giving carriers more time to prepare and submit their responses and in hopes that the Bureau will, in turn, be able to design, apply and/or interpret various aspects of our analysis based on carrier input to this survey, we are distributing our survey questions for the April 1, 2005 filing at this time.

We have made our best effort to direct this questionnaire to a company representative who can knowledgeably complete it. In the event you know someone else in your company who would be better suited for that purpose, please forward the questionnaire to them and advise us who you sent it to, as well as providing an e-mail address for that individual.

**It is again imperative that responses be returned promptly and in any event not later than Monday, July 26, 2004. Replies should be sent to BOTH of the following e-mail addresses:**

[twisecarver@pcrb.com](mailto:twisecarver@pcrb.com)

[mdoyle@pcrb.com](mailto:mdoyle@pcrb.com)

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1. Bureau data from previous filings has shown substantial and persistent downward trends in claim frequency. The trends in question have been measured comparing indemnity claims to on-level expected losses, so that medical-only losses are excluded from the data, and shifts in employment between classifications and/or industry groups are recognized in the frequency calculations over time.

The April 1, 2004 Loss Cost Filing reflected an annual effective rate of decline in claim frequency of 6.0 percent. The April 1, 2005 filing will consider the most recent available data and develop appropriate projections for in-going claim frequency changes through the mid-point of the proposed schedule of loss costs.

**What has your group observed with respect to claim frequency in the period from 1999 to date?**

RESPONSE SUMMARY

Declining claim frequency	14
Increasing claim frequency	2

**To what do you attribute the changes you have seen?**

RESPONSE SUMMARY

Safety programs and incentives, working conditions	8
Book of business written	4
Economic conditions	2
Cost shifting from other programs	1
Suppressed claim reporting	1
No response	4

**What do you expect claim frequency data for the period from 2003 through 2006 will show when that experience becomes available?**

RESPONSE SUMMARY

Continuing declines	5
Decreases at reduced rates from past experience	5
Increases	2
Flat	1
No response	3

**What factors do you think will cause the claim frequency experience you anticipate and why?**

RESPONSE SUMMARY

Economic conditions	5
Safety programs and incentives, working conditions	5
Expected continuation of recent observed trend(s)	4
Fraud prevention efforts	2
Price inflation	1
Aging workforce	1
No response	3

2. Bureau data from the April 1, 2004 Loss Cost Filing showed a significant increase in indemnity claim severity trends as compared to the experience underlying previous filings, measuring indemnity severity trend at approximately +8.2 percent per year.

Last year, our data also indicated that indemnity claims were being closed somewhat more quickly in recent periods than had previously been the case. Thus, in combination, our data was suggesting that the average indemnity claim was increasing faster than wages (and thus faster than benefit levels) at the same time that average claim duration was declining.

**What has your company seen in terms of changes in indemnity claim severity over the period from 1999 to date?**

RESPONSE SUMMARY

Increasing indemnity severity	10
Declining indemnity severity	2
Increases at declining rates of change	1
Fluctuations between increases and decreases	1
Increase after flat period	1
No response	1

**What factors do you find notable in terms of either controlling or increasing indemnity claim severity over this period of time?**

RESPONSE SUMMARY

Benefit administration programs and procedures	10
Wage & benefit levels	2
Book of business written	2
Economic conditions	2
Medical utilization	2
No response	5

**What do you expect indemnity claim severity data for the period from 2003 through 2006 will show when that experience becomes available?**

RESPONSE SUMMARY

Increasing indemnity severities	9
Increasing at accelerating rate of change	2
Increasing at declining rates of change	2
Flat	1
No response	2

**What factor(s) do you think will be most important in contributing to the indemnity claim severity changes that you foresee, and why?**

RESPONSE SUMMARY

Benefit administration programs and procedures	8
Wage & benefit levels	3
Economic conditions	3
Book of business written	2
Continuation of observed recent trends	2
No response	3

3. Bureau data from the April 1, 2004 Loss Cost Filing showed a medical claim severity trend of +7.7 percent per year.

**What has your company seen in terms of changes in medical claim severity over the period from 1999 to date?**

RESPONSE SUMMARY

Increasing medical severity	15
Fluctuations between increases and decreases	1

**What factors do you find notable in terms of either controlling or increasing medical claim severity over this period of time?**

RESPONSE SUMMARY

Medical price inflation	9
Medical utilization	9
Litigation, medical malpractice implications	4
Benefit administration programs and procedures	1
Large losses	1
No response	2

**What do you expect medical claim severity data for the period from 2003 through 2006 will show when that experience becomes available?**

RESPONSE SUMMARY

Increasing medical severities	13
Increasing at declining rates of change	2
No response	1

**What factor(s) do you think will be most important in contributing to the medical claim severity changes that you foresee, and why?**

RESPONSE SUMMARY

Medical price inflation	6
Medical utilization	6
Benefit administration programs and procedures	4
Litigation, medical malpractice implications	4
Lack of reasons to expect change in recent trend	3
No response	3

4. As seen in Questions 2 and 3 above, for the April 1, 2004 Loss Cost Filing the Bureau's measure of indemnity trend exceeded its measure of medical severity trend. This unprecedented result was noted in our analysis last year, and, particularly if such an indication is repeated for the April 1, 2005 Loss Cost Filing, we would very much like to know as much as possible about the experience underlying our findings.

**Are there any factors that you think may be artificially inflating recent indemnity claim severity trends and/or artificially suppressing recent medical claim severity trends in Pennsylvania?**

RESPONSE SUMMARY

Yes	6
No response	10

**If so, what are they?**

RESPONSE SUMMARY

Allocations of compromise & release settlements between indemnity & medical	4
Benefit administration programs and procedures	2
Medical malpractice issues	1

**How does your company determine and report amounts attributable to indemnity and medical loss, respectively, when compromise and release settlements are paid?**

RESPONSE SUMMARY

All or most of settlements allocated to indemnity	11
Settlements apportioned between indemnity & medical based on case merits	3
No response	2

**5. What considerations NOT mentioned in your responses to the above questions do you think will be significant drivers of loss cost experience in Pennsylvania from 2003 through 2006?**

RESPONSE SUMMARY

Benefit administration programs and procedures	2
Book of business written	1
Possible future system reforms	1
Litigation, medical malpractice implications	1
Economic conditions	1
No response	11

**How do you think each of these factors will affect loss costs?**

RESPONSE SUMMARY

Serving to mitigate or improve system costs and/or trends	3
Serving to exacerbate or worsen system costs and/or trends	2
No response	11

Thank you for providing your responses to these questions. Please provide the following identifying information with your reply: