

PENNSYLVANIA COMPENSATION RATING BUREAU
PENNSYLVANIA CONSTRUCTION CLASSIFICATION
PREMIUM ADJUSTMENT PROGRAM (“PCCPAP”)

The PCCPAP program has been used in Pennsylvania since 1991 as a means of addressing construction employers’ concerns regarding the effects of wage differentials on workers’ compensation premiums. The program establishes a set of tabular premium credits given to employers engaged in the construction trades and who have paid wages in excess of minimum qualifying levels. Until January 1, 2002, when an experience-rated employer received a PCCPAP credit, the expected losses used in determining that employer’s modification were reduced in proportion to the PCCPAP credit, thereby avoiding redundant credits based on prevailing wage levels.

Beginning January 1, 2002, the practice of adjusting PCCPAP participating employers’ experience modifications was discontinued. Instead, an equivalent adjustment is now made to reduce the insured’s policy credit factor.

The PCCPAP is intended to be a means of redistributing a portion of workers’ compensation insurance premiums between lower-wage and higher-wage employers. On balance the program is intended to be revenue neutral. Prior to 1995, classifications in which employers were eligible for credits had been subject to a flat loading of 1 percent, intended to offset the credits being provided to relatively high-wage employers. Starting with the 1995 loss cost filing, the current procedure, as described herein, has been used.

The PCRB has assembled 2002 policy year experience data which provides historical measures of the extent to which employers in each eligible classification have qualified for PCCPAP credits, and the magnitude of credits granted under this program. The attached exhibit presents the staff analysis of this experience, and derives a proposed revised set of PCCPAP loadings to maintain the intended balance within the affected classifications. A brief description of page 14.1 follows:

Column (1) - Class: The numeric designation of each classification eligible for PCCPAP credit.

Column (2) - # of Policies (Total): The number of policies reported in each class, whether or not those policies applied for or received PCCPAP credit.

Column (3) - # of Policies (PCCPAP): The number of policies qualified for PCCPAP credit for the 2002 policy term.

Column (4) - Payroll (Total): The payroll attributable to the policies reported in column (2).

Column (5) - Payroll (PCCPAP): the payroll attributable to policies reported in column (3).

Column (6) - PCCPAP Policy Premium, Pre-PCCPAP: The Standard Premium which would have applied to qualifying PCCPAP policies ABSENT both the tabular PCCPAP credit and the adjustment to that tabular credit to offset any redundancy resulting from the calculation of experience modifications. The current PCCPAP load on Manual Rates is omitted from this calculation.

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Column (7) - PCCPAP Policy Premium, Post-PCCPAP: The Standard Premium attributable to qualifying PCCPAP policies, reflecting BOTH the tabular PCCPAP credits and the adjustment to that tabular credit to offset any redundancy resulting from the calculation of experience modifications. The current PCCPAP load on Manual Rates is omitted from this calculation.

Columns (8) and (9) - Non-PCCPAP Policy Premium, Pre PCCPAP: The Standard Premium attributable to policies which did not qualify for PCCPAP credit in 2002. The current PCCPAP load on Manual Rates is omitted from this calculation

Column (10) - Indicated Surcharge: The ratio of Pre-PCCPAP premiums for both qualifying and non-qualifying policies to Post-PCCPAP premiums for those same policies. Computed as (Column (6) + Column (8)) / (Column (7) + Column (9)).

Column (11) - Average PCCPAP Credit: For qualifying policies, the average credit given in 2002. For example, an average credit of .0964 indicates that the average qualifying risk in Code 601 received a 9.64 percent reduction in standard premium by operation of the PCCPAP plan’s tabular credit and experience rating plan adjustment.

Column (12) - Class “Z”: This is the credibility assigned each classification’s indicated PCCPAP surcharge. The credibility formula is a linear function of total classification policies, with 210 policies or more receiving full credibility. This formula is an adaptation of procedures used in NCCI jurisdictions where credibility is a linear function of the number of policies qualifying for Premium Adjustment Plan credits. Staff perceives the use of total policies to be more appropriate where large portions of a class have not historically qualified for PCCPAP credit.

Column (13) - Formula Surcharge: The credibility-weighted classification loadings for PCCPAP credits. The calculation uses the following values:

$$\text{Column (10)} \times \text{Column (12)} + (1.00 - (\text{Column (12)})) \times \text{Average Column (10)}$$

Column (14) - TCF: The test correction factor necessary to balance credibility-weighted surcharges across all classifications to the overall indicated surcharge of 2.80 percent.

Column (15) - Final Surcharge: The product of the TCF (Column (14)) and the formula surcharges (Column (13)) by classification.

Page 14.2 shows a comparison of current and proposed PCCPAP surcharges by class and overall.

| Class | # of Policies (Total) | # of Policies (PCCPAP) | Payroll (Total) | Payroll (PCCPAP) | ***PCCPAP Policies*** | | **Non-PCCPAP Policies** | | Indicated Surcharge | Average PCCPAP Credit | Class "Z" | Formula Surcharge | TCF | Final Surcharge |
|-------|-----------------------|------------------------|-----------------|------------------|-----------------------|-------------|-------------------------|-------------|---------------------|-----------------------|-----------|-------------------|--------|-----------------|
| | | | | | Pre-PCCPAP | Post-PCCPAP | Pre-PCCPAP | Post-PCCPAP | | | | | | |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) |
| 601 | 541 | 91 | 160,687,925 | 37,961,695 | 2,650,598 | 2,395,208 | 8,807,379 | 8,807,379 | 1.0228 | 0.0964 | 1.00 | 1.0228 | 0.9993 | 1.0221 |
| 602 | 210 | 65 | 94,264,636 | 27,615,396 | 1,116,144 | 1,028,982 | 2,785,011 | 2,785,011 | 1.0229 | 0.0781 | 1.00 | 1.0229 | 0.9993 | 1.0222 |
| 603 | 310 | 105 | 82,662,340 | 35,561,212 | 2,300,795 | 2,022,694 | 2,684,044 | 2,684,044 | 1.0591 | 0.1209 | 1.00 | 1.0591 | 0.9993 | 1.0584 |
| 605 | 28 | 1 | 11,229,358 | 44,829 | 4,062 | 3,737 | 1,225,703 | 1,225,703 | 1.0003 | 0.0800 | 0.13 | 1.0244 | 0.9993 | 1.0237 |
| 606 | 19 | 0 | 10,534,727 | 0 | 0 | 0 | 1,631,321 | 1,631,321 | 1.0000 | 0.0000 | 0.09 | 1.0255 | 0.9993 | 1.0248 |
| 607 | 313 | 29 | 64,238,079 | 8,914,814 | 762,219 | 645,062 | 5,362,985 | 5,362,985 | 1.0195 | 0.1537 | 1.00 | 1.0195 | 0.9993 | 1.0188 |
| 608 | 2,851 | 421 | 394,060,613 | 114,565,624 | 7,483,760 | 6,677,801 | 17,769,115 | 17,769,115 | 1.0330 | 0.1077 | 1.00 | 1.0330 | 0.9993 | 1.0323 |
| 609 | 2,770 | 291 | 503,170,149 | 88,038,902 | 4,413,018 | 3,952,921 | 20,907,891 | 20,907,891 | 1.0185 | 0.1043 | 1.00 | 1.0185 | 0.9993 | 1.0178 |
| 611 | 30 | 16 | 2,366,563 | 1,449,754 | 161,974 | 141,438 | 163,383 | 163,383 | 1.0674 | 0.1268 | 0.14 | 1.0335 | 0.9993 | 1.0328 |
| 615 | 2 | 0 | 1,267,356 | 0 | 0 | 0 | 308,828 | 308,828 | 1.0000 | 0.0000 | 0.01 | 1.0277 | 0.9993 | 1.0270 |
| 617 | 289 | 91 | 103,410,998 | 39,853,763 | 2,366,143 | 2,192,082 | 4,165,361 | 4,165,361 | 1.0274 | 0.0736 | 1.00 | 1.0274 | 0.9993 | 1.0267 |
| 645 | 781 | 210 | 204,488,213 | 103,442,671 | 6,593,588 | 6,000,334 | 7,151,933 | 7,151,933 | 1.0451 | 0.0900 | 1.00 | 1.0451 | 0.9993 | 1.0444 |
| 646 | 398 | 58 | 70,931,539 | 16,314,273 | 987,698 | 834,375 | 2,859,183 | 2,859,183 | 1.0415 | 0.1552 | 1.00 | 1.0415 | 0.9993 | 1.0408 |
| 647 | 148 | 8 | 31,976,747 | 873,131 | 87,629 | 74,670 | 2,758,685 | 2,758,685 | 1.0046 | 0.1479 | 0.70 | 1.0116 | 0.9993 | 1.0109 |
| 648 | 1,198 | 90 | 107,960,352 | 23,272,840 | 1,217,506 | 1,068,139 | 4,861,543 | 4,861,543 | 1.0252 | 0.1227 | 1.00 | 1.0252 | 0.9993 | 1.0245 |
| 649 | 250 | 113 | 62,220,419 | 38,416,343 | 1,241,979 | 1,127,799 | 750,586 | 750,586 | 1.0608 | 0.0919 | 1.00 | 1.0608 | 0.9993 | 1.0601 |
| 651 | 2,861 | 420 | 507,723,204 | 160,995,770 | 10,793,315 | 9,826,540 | 26,246,959 | 26,246,959 | 1.0268 | 0.0896 | 1.00 | 1.0268 | 0.9993 | 1.0261 |
| 652 | 8,127 | 145 | 546,263,377 | 26,993,700 | 2,140,542 | 1,881,036 | 44,906,953 | 44,906,953 | 1.0055 | 0.1212 | 1.00 | 1.0055 | 0.9993 | 1.0048 |
| 653 | 2,239 | 267 | 300,761,548 | 100,050,235 | 7,530,153 | 6,863,420 | 14,814,898 | 14,814,898 | 1.0308 | 0.0885 | 1.00 | 1.0308 | 0.9993 | 1.0301 |
| 654 | 650 | 195 | 143,492,161 | 53,560,502 | 5,340,880 | 4,584,536 | 8,188,510 | 8,188,510 | 1.0592 | 0.1416 | 1.00 | 1.0592 | 0.9993 | 1.0585 |
| 655 | 415 | 101 | 127,320,244 | 21,837,302 | 3,235,232 | 2,779,516 | 18,391,933 | 18,391,933 | 1.0215 | 0.1409 | 1.00 | 1.0215 | 0.9993 | 1.0208 |
| 656 | 92 | 9 | 49,352,305 | 13,213,750 | 1,451,340 | 1,412,418 | 3,142,385 | 3,142,385 | 1.0085 | 0.0268 | 0.44 | 1.0194 | 0.9993 | 1.0187 |
| 657 | 74 | 21 | 15,122,978 | 2,283,977 | 173,097 | 164,545 | 1,214,555 | 1,214,555 | 1.0062 | 0.0494 | 0.35 | 1.0204 | 0.9993 | 1.0197 |
| 658 | 463 | 104 | 56,128,937 | 21,028,680 | 1,965,730 | 1,707,655 | 3,492,037 | 3,492,037 | 1.0496 | 0.1313 | 1.00 | 1.0496 | 0.9993 | 1.0489 |
| 659 | 847 | 108 | 97,776,707 | 26,798,579 | 3,481,734 | 3,148,396 | 11,121,795 | 11,121,795 | 1.0234 | 0.0957 | 1.00 | 1.0234 | 0.9993 | 1.0227 |
| 660 | 830 | 81 | 360,308,181 | 28,434,890 | 602,492 | 525,427 | 5,693,838 | 5,693,838 | 1.0124 | 0.1279 | 1.00 | 1.0124 | 0.9993 | 1.0117 |
| 661 | 3,092 | 520 | 898,660,343 | 361,220,317 | 13,615,379 | 11,755,204 | 20,141,847 | 20,141,847 | 1.0583 | 0.1366 | 1.00 | 1.0583 | 0.9993 | 1.0576 |
| 662 | 247 | 10 | 64,724,195 | 725,254 | 25,066 | 22,906 | 2,455,852 | 2,455,852 | 1.0009 | 0.0862 | 1.00 | 1.0009 | 0.9993 | 1.0002 |
| 663 | 3,711 | 479 | 731,491,792 | 186,191,665 | 8,143,818 | 7,107,983 | 26,064,652 | 26,064,652 | 1.0312 | 0.1272 | 1.00 | 1.0312 | 0.9993 | 1.0305 |
| 664 | 2,428 | 338 | 594,933,999 | 185,737,759 | 7,139,328 | 6,241,680 | 16,240,193 | 16,240,193 | 1.0399 | 0.1257 | 1.00 | 1.0399 | 0.9993 | 1.0392 |
| 665 | 1,568 | 116 | 118,037,344 | 20,997,519 | 1,924,180 | 1,708,245 | 8,693,461 | 8,693,461 | 1.0208 | 0.1122 | 1.00 | 1.0208 | 0.9993 | 1.0201 |
| 666 | 296 | 36 | 48,824,375 | 12,782,843 | 919,019 | 811,714 | 2,439,977 | 2,439,977 | 1.0330 | 0.1168 | 1.00 | 1.0330 | 0.9993 | 1.0323 |
| 667 | 364 | 36 | 26,848,838 | 6,797,137 | 166,690 | 148,270 | 505,186 | 505,186 | 1.0282 | 0.1105 | 1.00 | 1.0282 | 0.9993 | 1.0275 |
| 668 | 381 | 38 | 43,224,281 | 12,657,954 | 847,267 | 750,653 | 1,889,303 | 1,889,303 | 1.0366 | 0.1140 | 1.00 | 1.0366 | 0.9993 | 1.0359 |
| 669 | 194 | 39 | 15,223,684 | 3,880,999 | 305,001 | 272,372 | 869,356 | 869,356 | 1.0286 | 0.1070 | 0.92 | 1.0286 | 0.9993 | 1.0279 |
| 670 | 548 | 40 | 46,641,341 | 8,493,435 | 505,029 | 425,004 | 2,408,925 | 2,408,925 | 1.0282 | 0.1585 | 1.00 | 1.0282 | 0.9993 | 1.0275 |
| 673 | 185 | 4 | 25,569,698 | 3,683,636 | 289,043 | 250,015 | 1,392,728 | 1,392,728 | 1.0238 | 0.1350 | 0.88 | 1.0243 | 0.9993 | 1.0236 |
| 674 | 215 | 9 | 19,525,891 | 1,322,732 | 93,873 | 79,441 | 1,109,065 | 1,109,065 | 1.0121 | 0.1537 | 1.00 | 1.0121 | 0.9993 | 1.0114 |
| 675 | 1,553 | 195 | 505,011,390 | 100,369,497 | 4,232,230 | 3,783,053 | 18,027,073 | 18,027,073 | 1.0206 | 0.1061 | 1.00 | 1.0206 | 0.9993 | 1.0199 |
| 676 | 271 | 52 | 52,235,932 | 16,149,702 | 814,636 | 697,838 | 1,793,901 | 1,793,901 | 1.0469 | 0.1434 | 1.00 | 1.0469 | 0.9993 | 1.0462 |
| 677 | 73 | 20 | 138,811,743 | 13,942,389 | 790,696 | 717,827 | 8,120,740 | 8,120,740 | 1.0082 | 0.0922 | 0.35 | 1.0211 | 0.9993 | 1.0204 |
| 679 | 27 | 2 | 12,245,991 | 21,441 | 3,835 | 3,260 | 1,176,547 | 1,176,547 | 1.0005 | 0.1499 | 0.13 | 1.0244 | 0.9993 | 1.0237 |
| 681 | 85 | 0 | 4,277,295 | 0 | 0 | 0 | 260,694 | 260,694 | 1.0000 | 0.0000 | 0.40 | 1.0168 | 0.9993 | 1.0161 |
| 682 | 69 | 0 | 3,406,824 | 0 | 0 | 0 | 737,003 | 737,003 | 1.0000 | 0.0000 | 0.33 | 1.0188 | 0.9993 | 1.0181 |
| 691 | 27 | 0 | 797,764 | 0 | 0 | 0 | 40,142 | 40,142 | 1.0000 | 0.0000 | 0.13 | 1.0244 | 0.9993 | 1.0237 |
| 693 | 51 | 0 | 2,560,142 | 0 | 0 | 0 | 246,160 | 246,160 | 1.0000 | 0.0000 | 0.24 | 1.0213 | 0.9993 | 1.0206 |
| 695 | 47 | 0 | 2,411,450 | 0 | 0 | 0 | 111,286 | 111,286 | 1.0000 | 0.0000 | 0.22 | 1.0218 | 0.9993 | 1.0211 |
| Total | 42,168 | 4,974 | 7,465,183,968 | 1,926,496,911 | 107,916,718 | 95,834,196 | 336,130,905 | 336,130,905 | 1.0280 | 0.1120 | | 1.0287 | 0.9993 | 1.0280 |

Note:
 For each Class:
 Indicated Surcharge = (Total Premium Pre-PCCPAP) / (Total Premium Post-PCCPAP)
 Basis of Credibility: 1 / ((# PCCPAP Policies)/(# Total Policies)) * 25 = 210 Policies for Full Credibility
 Formula Surcharge = (Indicated Surcharge) * (Credibility for that Class) + (1 - Credibility) * (Average Indicated Surcharge)
 Test Correction Factor = (Total Indicated Surcharge) / ((Total Weighted Formula Surcharge) / (Total Premium Post-PCCPAP))

Comparison of PCCPAP Surcharges by Class

| Class (1) | Current PCCPAP Surcharge (2) | Proposed PCCPAP Surcharge (3) | Percentage Change (4)=(3)/(2)-1.0 |
|--------------|---------------------------------------|--|---|
| 601 | 1.0221 | 1.0221 | 0.0% |
| 602 | 1.0245 | 1.0222 | -0.2% |
| 603 | 1.0383 | 1.0584 | 1.9% |
| 605 | 1.0254 | 1.0237 | -0.2% |
| 606 | 1.0281 | 1.0248 | -0.3% |
| 607 | 1.0104 | 1.0188 | 0.8% |
| 608 | 1.0287 | 1.0323 | 0.3% |
| 609 | 1.0200 | 1.0178 | -0.2% |
| 611 | 1.0445 | 1.0328 | -1.1% |
| 615 | 1.0302 | 1.0270 | -0.3% |
| 617 | 1.0298 | 1.0267 | -0.3% |
| 645 | 1.0465 | 1.0444 | -0.2% |
| 646 | 1.0310 | 1.0408 | 1.0% |
| 647 | 1.0182 | 1.0109 | -0.7% |
| 648 | 1.0272 | 1.0245 | -0.3% |
| 649 | 1.0643 | 1.0601 | -0.4% |
| 651 | 1.0305 | 1.0261 | -0.4% |
| 652 | 1.0055 | 1.0048 | -0.1% |
| 653 | 1.0337 | 1.0301 | -0.3% |
| 654 | 1.0654 | 1.0585 | -0.6% |
| 655 | 1.0271 | 1.0208 | -0.6% |
| 656 | 1.0217 | 1.0187 | -0.3% |
| 657 | 1.0256 | 1.0197 | -0.6% |
| 658 | 1.0501 | 1.0489 | -0.1% |
| 659 | 1.0336 | 1.0227 | -1.1% |
| 660 | 1.0202 | 1.0117 | -0.8% |
| 661 | 1.0593 | 1.0576 | -0.2% |
| 662 | 1.0008 | 1.0002 | -0.1% |
| 663 | 1.0317 | 1.0305 | -0.1% |
| 664 | 1.0375 | 1.0392 | 0.2% |
| 665 | 1.0234 | 1.0201 | -0.3% |
| 666 | 1.0327 | 1.0323 | 0.0% |
| 667 | 1.0227 | 1.0275 | 0.5% |
| 668 | 1.0335 | 1.0359 | 0.2% |
| 669 | 1.0317 | 1.0279 | -0.4% |
| 670 | 1.0340 | 1.0275 | -0.6% |
| 673 | 1.0308 | 1.0236 | -0.7% |
| 674 | 1.0203 | 1.0114 | -0.9% |
| 675 | 1.0247 | 1.0199 | -0.5% |
| 676 | 1.0639 | 1.0462 | -1.7% |
| 677 | 1.0273 | 1.0204 | -0.7% |
| 679 | 1.0271 | 1.0237 | -0.3% |
| 681 | 1.0183 | 1.0161 | -0.2% |
| 682 | 1.0213 | 1.0181 | -0.3% |
| 691 | 1.0200 | 1.0237 | 0.4% |
| 693 | 1.0305 | 1.0206 | -1.0% |
| 695 | 1.0593 | 1.0211 | -3.6% |
| Total | 1.0306 | 1.0280 | -0.3% |