



Pennsylvania Compensation Rating Bureau

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ACTUARIAL AND CLASSIFICATION & RATING COMMITTEES - RECORD OF JOINT MEETING

A meeting of the Actuarial and Classification & Rating Committees of the Pennsylvania Compensation Rating Bureau was held in the Board (Blue) Room, 7th Floor, One South Broad Building, One South Broad Street, Philadelphia, Pennsylvania on Wednesday, December 9, 2004 at 10 a.m.

The following members were present:

Actuarial Committee

Ms. M. Gaillard.	American Home Assurance Company
Mr. L. White	Amerihealth Casualty Insurance Company
Mr. A. Yashar	Continental Casualty Company
Ms. M. Sperduto*	Harleysville Mutual Insurance Company
Ms. P. Sealand-Reale	Hartford Accident & Indemnity Company
Mr. Peter DeMallie*	Liberty Mutual Insurance Company
Mr. C. Ott	Penn National Insurance Company
Mr. S. Warfel	PMA Insurance Company
Mr. M. Yingling	Travelers Property & Casualty Company

Classification and Rating Committee

Ms. B. O'Hara	American Home Assurance Company
Mr. J. McGuire	Amguard Insurance Group
Not Represented	Graphic Arts Association
Ms. M. Sperduto*	Harleysville Mutual Insurance Company
Ms. K. Gallagher	Lehigh Valley Business Conference on Health Care
Mr. P. DeMallie*	Liberty Mutual Insurance Company
Not Represented	National Federation of Independent Business
Not Represented	Pennsylvania Chamber of Business & Industry
Not Represented	Pennsylvania Food Merchants Association
Ms. B. Flaherty	PMA Insurance Company
Ms. C. Wilson	Pennsylvania Newspaper Association
Mr. P. Cortese	Pennsylvania Retailers' Association
Not Represented	Security Insurance of Hartford
Not Represented	Westport Insurance Company
Mr. T. Wisecarver	Chair - Ex Officio

Also present were:

Mr. D. Broadwater	Coal Mine Compensation Rating Bureau of PA
Mr. S. Cooley	Duane Morris LLP
Mr. J. Hohman	Erie Insurance Company
Mr. W. Wilkins	Insurance Company of North America
Mr. J. Zhang	Mercer Risk Finance & Insurance Consulting (Office of Small Business Advocate)
Ms. K. Ayres	National Council on Compensation Insurance, Inc.
Ms. C. Pennington	Office of Small Business Advocate
Mr. K. Creighton	Pennsylvania Insurance Department
Mr. B. Krick	Selective Insurance Company
Mr. J. Dorbad	State Workers' Insurance Fund
Mr. G. Watkins	Technical Associates, Inc. (Office of Small Business Advocate)
Ms. F. Barton	Bureau Staff
Ms. D. Belfus	Bureau Staff
Mr. B. Decker	Bureau Staff
Mr. M. Doyle	Bureau Staff
Mr. P. Yoon	Bureau Staff

* Member of both committees

The Antitrust Preamble was read at the beginning of the meeting for the benefit of all participants.

All Committee members and other attendees made self-introductions.

Staff noted the meeting agenda materials provided in advance of the meeting and indicated that the Committee discussion would be organized so as to address specific subject areas incorporated in those materials. Staff encouraged all Committee members and other attendees to participate in the meeting by raising questions or posing suggestions as those arose during the course of discussion.

The meeting discussion proceeded to first address the overall loss cost indication and its component supporting analyses. Questions were posed, responses were given and/or discussion ensued as indicated by the offset "Question," "Response" and "Discussion" entries inserted below:

Trended Ultimate Loss Ratios - Indemnity

Exhibit 5 was identified as providing historical financial data upon which the proposed filing's analysis was based.

Participants were reminded that for numerous previous loss cost filings the Bureau had adopted an approach of adjusting financial data to "post-law" levels, as respects the medical provisions of Act 44 of 1993 (Act 44) and the indemnity provisions of Act 57 of 1996 (Act 57). This methodology, which offered efficiencies in the overall filing analysis,

precluded on-going revisions of prior estimates of the separate and specific effects of the more substantial components of those law changes on Pennsylvania workers compensation system costs.

It was noted that the limited indemnity provisions of Act 44 had been accounted for in those previous filings by way of a “savings factor” applied to loss ratios initially established on a “pre-law change” basis. Staff indicated that this approach continued to be used for this proposed filing but put forth the proposition that in future filings the indemnity savings produced by Act 44 of 1993 could be treated in the same fashion as the more substantive medical savings of that law change and the indemnity savings arising from Act 57 of 1996. Attendees generally concurred in that assessment.

Page 1 of Exhibit 5 provided the two most recent calendar years of premium development data, which staff noted was supplemented by additional older experience taken from previous filings’ documentation for the analysis supporting this proposed filing.

Reported indemnity losses were identified as appearing on Page 3 (case-incurred indemnity loss) and Page 5 (paid indemnity loss) of Exhibit 5. Pages 7 through 17 of Exhibit 5 were noted as presenting details of the adjustment of indemnity experience to a post-Act 57 basis. Adjustments for calendar years prior to 1999 reflected factors derived in previous Bureau filings. The original such adjustments had been prepared using data from the April 1, 1999 Loss Cost Filing. Those adjustments had been balanced so that indications obtained using historical data adjusted to a “post-law” level were comparable to alternative indications derived using historical data stated on a “pre-law” level, in combination with savings factors related to legislation. The adjustment for Calendar Year 2003 was used for the first time in this proposed filing. The Calendar Year 2003 adjustment had been performed in a manner similar to adjustments for prior years and used parameters consistent with those prior adjustments and/or ongoing assumptions about the extent to which data had responded to the effects of the law change.

The adjusted indemnity financial data, stated on a post-Act 57 basis, was shown on Pages 31 (incurred loss) and 33 (paid loss) of Exhibit 5.

Exhibit 6 presented the Bureau’s loss development analysis in support of the filing, as well as significant portions of the special trend procedure proposed for use therein. Staff reviewed the pertinent portions of Exhibit 6 and related supporting documentation for indemnity benefits as follows.

Page 6.1 of Exhibit 6 provided premium and/or expected loss development history and estimated ultimate, on-level expected losses for use in computing loss ratios. Pages 6.2 through 6.6 provided steps in the application of incurred and/or paid loss development approaches to indemnity benefits. One of the approaches shown used a case-incurred loss development method to estimate ultimate indemnity losses. A series of additional alternative estimates had been constructed using a combination of paid loss development and case-incurred loss development methods. By applying a paid loss development method to indemnity benefits for varying periods of initial development, then converting cumulative paid losses to equivalent case-incurred losses and applying case-incurred loss development for the remaining development period(s) to ultimate, the Bureau had

constructed a series of ultimate indemnity loss estimates. Finally, the Bureau had derived estimates using the average of a case-incurred loss development method and the paid loss development method that relied on the longest available period of paid loss experience (in this case, a paid loss development method applied to 20th report).

Staff noted that, although various of the hybrid paid-loss and case-incurred loss development methods had been selected as the basis for estimated ultimate losses in filings submitted several years ago, the more recent practice had been to focus on indications from the paid-loss, case-incurred loss methods and an average indication based on those two separate methods. The rationale for adopting the averaging approach was in part that it was difficult to discern whether and why phenomena occurring within the respective payment and/or reserving patterns might be influencing loss estimates from time-to-time. With that uncertainty, the hybrid methods presented problematic considerations of timing that complicated the selection and explanation of filing materials, and staff expressed the opinion that it was unlikely that filing analyses would return to a dependency on hybrid approaches per se in the foreseeable future. In that context, staff asked the attendees whether they saw value in a continued presentation of results for these methods.

Question: Have selections of hybrid methods been thought appropriate in light of the impact of specific reforms in previous filings?

Answer: The use of hybrid approaches was an alternative intended to give partial weight to both paid-loss and case-incurred loss development approaches and was not designed for purposes of measuring any particular reform or time period of experience. It has long been recognized that the two different basic methods are likely to give different results, necessitating some procedure for selecting between those answers or compromising between them. In the review of previous rating value filings in Delaware, it was pointed out that the straight average of the paid and case-incurred methods would be a reasonable approach when reasons for differences between the methods were not clear.

Question: Had NCCI previously used versions of the hybrid methods presented by the Bureau?

Answer: These kinds of methods had been used by NCCI in some filings, but they had not been used for such purposes for quite some time.

Question: Didn't Pennsylvania use a paid-to-6th report method?

Answer: Yes, but, as indicated by NCCI, that approach had been applied in a filing(s) made several years ago.

Comment: Showing the hybrid methods does allow you to see patterns and changes as you move from one to the other. As you move from left to right across the exhibit, you can see when acceleration is occurring in the payment pattern or reserving method.

Response: The hybrid methods will highlight differences but generally raise analytical questions that the Bureau can't answer. Using the average of the paid and case-incurred methods tempers results from either method and is thought to represent a reasonable compromise if used consistently over time.

Exhibit 7 presented the Bureau's derivation of "tail factors" for use in its array of possible loss development methods. The methodology applied had been used in prior PCRB filings in response to recommendations in regulatory examinations. Pages 2, 4, 6 and 8 of this exhibit each provided a tail factor estimate for indemnity benefits based on a different calendar year of development experience. An indemnity tail factor for the proposed filing had been selected as the average of these four separate indications, as summarized on Page 1 of Exhibit 7.

Question: Why was the old method thought to be understating the tail factor? Wouldn't that approach actually overstate the tail factor?

Answer: No. The prior method compared a calendar year development amount for a group of prior policy years to the base loss amount for another single policy year. If the prior policy years actually tended to have smaller loss amounts as they got older, the prior method would be assuming that the observed calendar development was a smaller proportion of the prior losses than was actually the case, thus understating true development.

Exhibit 8 provided claim frequency experience that the Bureau had used in support of its trend analysis for the proposed filing.

Staff had obtained counts of indemnity claims and exposures (measured by expected losses at a constant set of Bureau loss costs) from unit statistical reports. This data was available by policy year from 1987 through 2002, with the last year having a mid-point of January 1, 2003. Compilations of this experience were provided separately for non-deductible business (Pages 3 and 4 of Exhibit 8) and for all business including deductible coverages (Pages 5 and 6 of Exhibit 8.) Staff had also reviewed trends in claim frequency by industry group, and indications for that review were provided on Pages 8 and 9 of Exhibit 8.

Recent PCRB filings had included reference to data provided by the Department of Labor & Industry regarding counts of injuries and illnesses reported in the Commonwealth, together with non-federal payrolls. The work injuries and illnesses shown in those reports were incidents resulting in lost time beyond the day or shift of occurrence. For this filing, updates had been received from the Department of Labor & Industry through June 30, 2004. The history of these injury reports and payrolls was thus available on a calendar year basis from 1985 through 2003 and for the 12-month period ending June 30, 2004.

Staff noted that, in providing its more recent data for counts of injuries and illnesses, the Department of Labor & Industry had cautioned the Bureau that this data had been influenced to an unknown extent by changes in reporting practices by some of that Department's data sources. In the main, the changes so noted were thought by the

Department representatives to have involved changing from a practice of reporting only indemnity claims to the intended procedure of included injury and illness reports for any case having lost time beyond the date or shift of occurrence.

Given the caveats applicable to the more recent data from the Department of Labor & Industry, staff had not made adjustments to its analysis of claim frequency, as reflected in Bureau data based on the Department of Labor & Industry information. For reference purposes, however, the historical data from the Department of Labor & Industry was provided on Pages 1 and 2 of Exhibit 8, and a graphical comparison of the claim frequency trends inherent in that data to those reflected in the PCRB data was set forth on Page 7 of Exhibit 8.

Question: Exhibit 8, Page 3 shows the ratio of indemnity claims to on level expected losses. How are the expected losses put on level?

Answer: This exhibit is based on unit statistical data. We take the exposures by classification, extend them at the current schedule of Bureau loss costs and add the results across all policies to obtain the on-level expected losses.

Question: The Department of Labor & Industry data shows increasing injury counts and claim frequencies. The Bureau's unit statistical data shows that claim frequency is decreasing. Is this difference attributable to the Bureau using trend factors that might exceed wage inflation?

Answer: No. The Department of Labor & Industry data is intrinsically different than ours, especially since 2000-2001. The Department and the Bureau believe that many sources for the Labor & Industry data had lapsed into practices of not reporting all the incidents they were supposed to, and the recent increase in injury and illness counts is attributable to correction of that past mistake on a going-forward basis.

Question: If the Bureau used a constant payroll trend in developing its time series, would results be comparable to those shown?

Answer: The Bureau is not applying any presumed wage or payroll trend – the unit statistical data supports a direct calculation of on level expected losses using actual reported payrolls as allocated to classification.

Comment: Maybe small employers are less likely to report small indemnity and/or medical-only claims, since these employers don't want those claims affecting their experience modifications.

Response: Unless small employers undertook such an underreporting of claims on an ever-increasing scale, this factor should result in a temporary disruption of observed trends rather than a long-term suppression of them.

Comment: The numbers of and exposure base attributable to small businesses continues to increase, possibly extending the horizon over which underreporting of claims might affect observed claim frequency trends.

Question: On Exhibit 8, Page 3, is there a relationship between claim reporting and the perceived hardness or softness of the workers compensation insurance market? Perhaps a harder or hardening market brings reduced levels of claim reporting.

Answer: –5.0 percent is the most recent annual change in claim frequency, and that observation is lower than the series of preceding changes. However, even with the apparently slower improvement in the latest year, there is a long-term declining claim frequency evident in all the Bureau's data. Further, one must keep in mind the kind of measure of claim frequency under discussion here. More than half of the Bureau's selected annual decrease in claim frequency would occur solely because wages have been going up.

Comment: NCCI measures claim frequency per 100,000 workers, and, on that basis, they foresee ongoing declines in claim frequency in the three to four percent range.

Question: Has the Bureau trended claim frequency for the three industry groups separately rather than treating them in a single consolidated approach?

Answer: The separate industry groups were reviewed for consistency, but an analysis was not applied to those separate parts of the total as a means of estimating future claim frequency. The Bureau was of the opinion that the combined approach would recognize shifts between industry groups and/or changes in frequency within any industry group, particularly to the extent that those changes were continuing over time.

Comment: Especially with shifts of exposure distributions occurring, answers obtained by looking at each industry group separately may differ at least somewhat from those obtained from a combined approach.

Comment: NCCI recently did a size of loss analysis within its review of claim frequency, in which large claims showed slower improvements in frequency than small ones. What are the implications of this finding for the Bureau's claim frequency trend analysis?

Response: If and to the extent that this might be occurring in Pennsylvania, the Bureau's measurement of claim severity should have responded to this factor over time. If a sudden dislocation in frequencies of small (or large) claims took place, then the implications for the Bureau's trend analysis might be more significant.

Comment: An annual decline in claim frequency of 5 percent or 5.5 percent going-forward feels better than a value in excess of 6 percent, but the data does not strongly support such a selection.

Response: We have seen temporary improvements similar to the latest data point before, for example in Policy Year 1997. Heretofore, such changes have not persisted or been expanding in subsequent periods. In order to depart from a claim frequency indication based on a reasonably extended period of prior experience, the Bureau thinks it is necessary to see at least a few data points corroborating the result presented here by the latest data point.

Staff described the proposed filing's approach to trend analysis in the following fashion. Estimated ultimate on-level loss ratios derived in Exhibit 6 had been adjusted for the effects of changes in claim frequency presented in the Bureau data from Exhibit 8. The results of these adjustments were referred to as "severity ratios" and were presented on Page 6.6 of Exhibit 6. The Bureau had then applied its customary linear and exponential trend models to the severity ratios, so derived over numbers of data points ranging from four to ten. For each trend model and loss development method in combination, severity trend factors were calculated for each of the three most recent policy years. This severity trend analysis was shown on Pages 6.7 through 6.10 of Exhibit 6.

In Exhibits 9a and 9b, goodness-of-fit tests had been applied to trend models applied to loss ratios (Exhibit 9a) and severity ratios (Exhibit 9b). Exhibits 11a and 11b, respectively, provided further examinations of the effectiveness of trend models by testing predictive abilities of the respective models and trend periods prepared in support of this proposed filing.

For use in conjunction with the indemnity severity trend factors, the Bureau had selected a prospective frequency trend based on non-deductible business over the Policy Years 1996 – 2002 inclusive from Exhibit 8, resulting in a frequency trend of –6.2 percent which had been used in trending claim frequency through the mid-point of the prospective rating period (April 1, 2006). The frequency trend factors consistent with this procedure were set forth on Page 6.6 of Exhibit 6.

Indemnity loss ratio trend factors computed as the product of the indemnity severity trend factors and frequency trend factors describe above were shown on Page 6.11 of Exhibit 6. The resulting trended indemnity loss ratios were presented on Pages 6.12 (linear trend model) and 6.13 (exponential trend model).

Exhibit 10 provided graphs of indemnity loss ratios (Page 10.1) and indemnity severity ratios (Page 10.3). In addition, Exhibit 10 provided a graph of indemnity loss ratios, indemnity severity ratios and claim frequency each indexed to a common starting point (January 1, 1990) on Page 10.5. These graphs illustrated the point that, since Policy Year 1996, indemnity claim severity in Pennsylvania had been generally increasing at a rate more than offsetting continuing improvements in claim frequency.

Pages 6.12 and 6.13 of Exhibit 6 showed arrays of possible trended indemnity loss ratios produced by the methods described above, with the Bureau's selected result highlighted with a border on Page 6.13. The selected result was produced using the average of a case-incurred loss development approach and the paid loss development method to 20th report loss development. An exponential seven-point severity trend was used in combination with the selection of an annual claim frequency trend rate of –6.2 percent to trend selected policy year results forward through the mid-point of the prospective rating period, April 1, 2006.

Trended Ultimate Loss Ratios - Medical

Staff indicated that the analysis done for medical losses paralleled that described above for indemnity losses in most important respects. The pertinent exhibit and page references were provided as follow:

<u>Exhibit</u>	<u>Content</u>	<u>Page(s)</u>
5	Medical financial data - Table I reported data	4 (case incurred), 6 (paid)
	Adjustment of medical financial data to post-Act 44 basis	18 through 28
	Adjusted medical financial data	32 (case incurred), 34 (paid)
6	Medical loss development	6.14 through 6.18
	Trending of medical severity ratios	6.19 through 6.22
	Medical loss ratio trend factors	6.23
	Trended medical loss ratios	6.24 (linear), 6.25 (exponential)
7	Medical loss development tail factors	Summary on Page 1, detail on Pages 3, 5, 7 and 9
8	Claim frequency	Per indemnity discussion
9a, 9b	Goodness-of-fit tests 9a for loss ratios, 9b for severity ratios	9a1, 9a4, 9a5, 9a8 and 9a9 9b1, 9b4, 9b5, 9b8 and 9b9
11a, 11b	Retrospective tests of prediction for loss ratios (Exhibit 11a) and severity ratios (Exhibit 11b)	11a6 – 11a10 and 11b6 – 11b10
10	Graphs of medical loss ratios	10.2
	Graphs of medical severity ratios	10.4
	Graph of indexed medical loss ratios, severity ratios and frequency trends combined	10.6

Staff noted that the trend model used for medical severity ratios was an exponential fit through the most recent seven policy year data points estimated based on the average of the case incurred and paid to 20th report development methods. In combination with the

selected claim frequency trend previously described with the analysis of indemnity experience, this approach gave the trended medical loss ratio highlighted with a border on page 6.25 of Exhibit 6.

Question: On Pages 1 and 2 of Exhibit 10, the graphs show results of different loss development methods for medical losses to be closer together than for indemnity losses. Has this difference also been apparent in the Bureau's recent Delaware analyses?

Answer: The medical graphs are not as closely aligned in Delaware as they are in Pennsylvania, but the relative differences between indemnity and medical analyses is also true there.

Question: Staff again posed the question of whether the Bureau should retain the hybrid loss development methods for the purpose of supporting information in future filings, or if a simpler presentation of paid loss development, incurred loss development and the average of those methods be preferable?

Answer: A simpler approach would be acceptable, provided that, if something significant changed in the data and results for the hybrid methods, the Bureau should note that and bring it to the Committees' attention.

Comment: Using the average of the extreme methods tends to minimize potential errors, particularly if this approach is applied consistently over the mid- to long-term.

Comment: If the Bureau looks at the hybrid methods as deemed appropriate, the Committees do not need to see them unless and until the Bureau sees something noteworthy in their application.

With the understanding that, should the need arise, staff could produce results reflecting such methods using available data, the attendees' consensus was to simplify exhibits by omitting the presentation of those variations in future filings.

Indicated Overall Change in Loss Costs

Exhibit 12 of the agenda materials supported this section of the meeting discussion. Staff described the construction and interpretation of Exhibit 12 as follows.

Loss ratios selected for indemnity and medical benefits had been posted for each of the three most recent available completed policy years, i.e., 2000, 2001 and 2002. These loss ratios and the resultant average ratios were shown on Lines (1) through (4) on Page 12.1 of Exhibit 12.

Trended loss ratios based on each of the Policy Years 2000, 2001 and 2002 were presented on Lines (5) through (7) on Page 12.1 of Exhibit 12, with the resultant average trended loss ratio shown on Line (8) of that same page.

The appropriate savings factors for the indemnity provisions of Act 44 of 1993 previously described were shown on Line (9) on Page 12.1 and had been applied to produce Line (12) of that exhibit. This analysis produced an overall collectible loss cost decrease of approximately 2.89 percent.

Staff noted that nominal changes in Experience Rating Plan off-balances, measured using the currently approved Experience Rating Plan and differing by industry group, had been applied to produce the indicated average changes in manual loss costs by industry group shown on Line (15), Page 12.1 of Exhibit 12. A handout page was provided that supplemented the original materials for Exhibit 12. This handout page added overall manual loss cost changes consistent with the approved Experience Rating Plan (as revised effective April 1, 2004).

Question: Staff asked the Committees whether the Bureau should maintain the separate presentation of the Act 44 indemnity savings factor on Exhibit 12 or if that factor could also be incorporated into the adjustment of Table I for law changes?

After limited discussion, it was concluded that that future filings could apply all law changes in the construction of Table I.

Following the discussion of the overall loss cost change indication, the Committees continued discussion of additional topics related to staff analysis or potential areas for additional review as outlined below.

Terrorism Provisions in Pricing

Staff noted that the PCRB had implemented a loss cost rating value related to terrorism effective April 1, 2003. That implementation had been supported by terrorism modeling analysis done by and/or for the National Council on Compensation Insurance, Inc. (NCCI). The PCRB has subsequently understood that NCCI has generally held rating values related to TRIA level at their original filing levels. Under these circumstances, the PCRB has elected to retain the existing loss cost rating value for terrorism in Pennsylvania and, thus, is not proposing a change in that value at this time.

Question: Is the Bureau's recently-approved endorsement consistent with that adopted by NCCI?

Answer: Pennsylvania has a war risk exclusion that is unique among workers compensation jurisdictions. That exclusion necessitated different language for the Pennsylvania form. In addition, the Pennsylvania form was adopted for use on a new and renewal basis rather than on the outstanding basis applicable to the NCCI form.

Comment: A second Pennsylvania endorsement form recently approved replaces the original notification endorsement and contains the proper language as respects war risks. Pennsylvania was not requiring issuance of the new endorsement for policies effective prior to January 1, 2005.

Domestic Terrorism, Natural Catastrophes and Major Industrial Accidents

NCCI Item Filing B-1393

Staff noted the captioned filing and provided a brief overview of the exposures addressed therein. The absence of large-scale losses attributable to the named causes in available data was stressed, with the consequence that no contingency against their future occurrence was present in current rating values.

Staff further noted the difficulties inherent in obtaining Pennsylvania-specific values for the cited exposures and advised the group that the Bureau was aware of no independent bureau(s) that had made a counterpart filing to date.

Discussion ensued including comment to the effect that Indiana had filed and obtained approval for the NCCI filing in their jurisdiction. Possible sources of supporting information specific or at least pertinent to Pennsylvania for selected portions of the hazards included in Item Filing No. B-1393 were described.

Staff indicated that the feasibility of preparing and submitting a filing similar to B-1393 would be revisited in light of the discussion and with the possible benefit of some of the sources mentioned.

Comment: The analysis of natural catastrophes undertaken by or for NCCI focused on earthquakes. For industrial accidents, the NCCI work had used a cross-section of states for modeling purposes. Pennsylvania was not one of the modeled states.

NCCI states generally produced loss costs values attributable to the combined hazards of domestic terrorism, natural catastrophes and large-scale industrial accidents of \$0.01.

Comment: Indiana filed the NCCI item filing, and it has been approved in that state.

Question: Staff asked how the Committees would envision the Bureau preparing a filing of this nature, given the absence of available supporting information?

Answer: NCCI indicated that it could provide some supporting data and/or discussions of approaches used for states not directly modeled.

Comment: Large-scale industrial accidents and/or domestic terrorism are just as likely to happen in Pennsylvania as in many other states.

Comment: The Bureau should consult with NCCI to determine how it might best proceed for Pennsylvania's circumstances.

Comment: It is possible for domestic terrorism to happen in Philadelphia or other areas within Pennsylvania.

Comment: Domestic terrorism was part of the original TRIA work that NCCI did, and Pennsylvania was included as a modeled jurisdiction in that filing.

Loss-Based Assessments and Employer Assessment Factor

Exhibit 13 of the agenda material addressed the above referenced items.

Effective October 1, 1999, the provisions for the Administration Fund, Subsequent Injury Fund and Supersedeas Fund previously included in published Bureau loss costs had been removed from those loss costs. Consistent with requirements of H.B. 1027, these amounts were now treated as a separate charge to insured employers collected through insurers. Loss-based assessments applicable to funding for the Office of the Small Business Advocate remained part of published Bureau loss costs under provisions of this law. Also consistent with past practice, the Bureau continued to include offset provisions for merit rating and credits granted under the Certified Safety Committee Program in published and proposed Bureau loss costs.

Exhibit 13 provided parameters used to compute the proposed employer assessment factor effective April 1, 2005 (0.0191) and the proposed loading to Bureau loss costs to provide for Merit Rating Plan credit offset, Certified Safety Committee Program credit offset and the Office of Small Business Advocate funding effective April 1, 2005 (.0088). Staff noted that the proposed employer assessment factor was reduced from the current level (0.0286), largely due to increasing premium volume in Pennsylvania. The loading in Bureau loss costs for the remaining factors noted above was noted as being down nominally from 0.0092, predominantly reflecting changes in provisions for the Certified Safety Committee Program.

Pennsylvania Construction Classification Premium Adjustment Program (PCCPAP)

Exhibit 14 of the agenda materials was reviewed with all attendees.

The purpose of the PCCPAP program was described as responding to wage differentials within the construction industry, providing a program of premium credits to higher-wage employers. These credits were offset by loadings applied to construction classifications, reflecting the portion of employers participating in the program and the average premium credit obtained by those participating businesses, thus maintaining the required premium level in each classification.

The table of qualifying wages applicable to the PCCPAP was regularly amended based on actual changes on statewide average wage levels, with such filings subject to review and approval by the Insurance Department and typically effective each July 1.

Staff noted that the average PCCPAP loading indicated, based on the most recent available data, was nominally lower than that currently in effect (2.80 percent proposed vs. 3.06 percent current). This was attributed to the effects of nominal decreases in participation in the program and/or average credits being generated by participating employers.

Staff noted that the PCCPAP program had been revised effective January 1, 2002 to eliminate adjustment of experience modifications in recognition of the effects of PCCPAP credits as the approved means of avoiding providing redundant credits. The adjustment of

experience modifications had been seen as a potential impediment to participation on the program. The revised plan made adjustment within the computation of the credits themselves for the effect of high wages on experience modifications. During the interim period in which available historical data reflected the prior plan and proposed new plan parameters were needed consistent with the revised plan, staff was assuming that the alternative forms of adjustment to coordinate experience rating adjustments with PCCPAP credits were equivalent calculations, the intent of the change approved effective January 1, 2002.

Merit Rating Plan

Exhibit 15 of the agenda materials was used as the basis for this discussion.

The Merit Rating Plan was noted as a statutory requirement intended to provide incentive for the maintenance of safe workplaces for businesses too small to qualify for the uniform Experience Rating Plan. Exhibit 15 presented the offset to manual loss costs required to compensate for the net credit received by all eligible employers under this plan, which was shown to have changed only nominally from the level currently in effect (0.35 percent proposed as compared to 0.36 percent currently in effect).

Certified Safety Committee Credit Program

Exhibit 16 of the agenda materials addressed recent experience under the Certified Safety Committee Credit Program. Experience was available for Policy Years 1994 - 2002 inclusive.

Staff noted that until mid- to late-1996 this program did not allow employers to qualify for credit in more than one policy period. As a result, 1995, 1996 and 1997 data were expected to understate the prospective experience under this program after Act 57 had provided for up to five annual credit periods for qualifying employers. Subsequently, in 1999 and 2000 some employers began to reach the limit of five years' of credit application under current law. In 2002 new legislation (Senate Bill 813) was passed that removed the limit on the number of times an employer could receive such credits. Based on a monitoring of ongoing certification activity, staff perceived the early response to this legislation to have been somewhat more muted than had originally been estimated, and the loading to offset ongoing credits was proposed to be changed from 0.55 percent to 0.52 percent.

Size-of-Loss Analyses

PCRB loss cost filings include rating values pertinent to various rating plans affected by the size of loss for individual claims or occurrences insured there under. Some such plans provide limitations applicable to the amount(s) of loss that can be used in computing a retrospective premium. Other portions of this analysis affected or facilitated the application of standard tables to Pennsylvania business.

Staff noted that work toward completion of the size-of-loss analyses was still in progress, and, as a consequence, no agenda materials were available for review at this meeting.

Retrospective Rating Plan Optional Loss Development Factors

Carriers may apply loss development factors to early evaluations in order to include a provision for maturation of loss values at subsequent reports. Exhibit 26 of the agenda materials provided such development factors applicable without limitation of losses, as well as a procedure that could be used to apply excess loss factors to compute appropriate loss development factors for various loss limitations and hazard groups.

Hepatitis C Surcharges for Selected Classifications

Staff noted legislation enacting a presumption of work-related casualty for Hepatitis C incurred by selected sets of workers (H.B. 1633) that was passed in 2002. For its April 1, 2003 Loss Cost Filing the Bureau had conducted an analysis based on available statistics concerning incidence of HCV in the general population in concert with projected costs for Hepatitis C cases in healthcare workers under various scenarios by an independent consulting group (Milliman U.S.A., formerly Milliman & Robertson, Inc.). These projections had been compared with existing loss cost estimates for affected classifications and indicated surcharges had been derived. The Insurance Department's review of the April 1, 2003 filing had suggested that the incidence of HCV in the affected classifications could arguably be comparable to those of the general U.S. population and thus lower than those originally proposed by the Bureau. Ultimately, the Bureau had adjusted the applicable surcharges to be consistent with the incidence of HCV in the general U.S. population. This filing proposed to continue maintaining surcharges at the approved levels, as presented in Exhibit 31.

Experience Rating Plan

Staff reminded the Committees that substantial revisions to the existing Experience Rating Plan had been approved by the Insurance Department effective April 1, 2004. Attendees were advised that the Experience Rating Plan exhibits provided for discussion at this meeting had been constructed by applying the revised Experience Rating Plan to rating periods occurring prior to the actual implementation of the new plan.

Staff referred to Exhibits 18, 19 and 27 of the agenda materials.

Exhibit 18 showed historical results of applying the Experience Rating Plan over a period of five successive years, organized by year, industry group, and premium size and modification range. An illustration of some of the effects of the new Experience Rating Plan was provided by reference to Exhibit 18 and comparison of selected results for large risks to the same analysis done for the previous filing and reflecting results of the legacy plan.

Question: What is the Bureau's objective in revising its Experience Rating Plan?

Answer: Ideally, an Experience Rating Plan that caused all employers to produce a common loss ratio would be thought to have performed extremely well. There were practical and equitable limitations noted for the extent to which debit modifications might be acceptable toward this model result, however. The basic intention for the new plan was to produce more accurate and equitable experience ratings than those resulting from the former legacy plan.

Exhibit 19 presented derivation of selected parameters within the current Experience Rating Plan. It was noted that the collectible premium ratios derived on Page 19.1 of Exhibit 19 were the basis for the relativities by industry group of manual changes in loss costs previously discussed in Exhibit 12.

Exhibit 27 provided the proposed Table B or credibility table for the current Experience Rating Plan, consistent with parameters developed in Exhibit 19.

Proposed Loss Cost Relativities by Classification

Exhibits 17, 20A, 20B, 20C, 28, 29 and 30 of the agenda materials and the Class Book were reviewed with the attendees as follows:

Exhibit 17 presented a narrative discussion of the procedures applied to derive classification loss cost relativities. Staff noted that these procedures were generally unchanged from those of the most recent previous loss cost filing. With respect to certain "test correction factors," which had historically been applied as matrices of factors differing by type of loss and industry group, the Bureau's April 1, 2003 Loss Cost Filing had completed a transition begun with the April 1, 2001 filing to implement a process of applying test correction factors uniformly across all types of loss and industry groups. The proposed filing would maintain and continue the procedure first used in final form with last year's loss cost filing.

Exhibits 20A, 20B and 20C of the agenda materials were offered as summary tabulations based on unit statistical data used to derive certain parameters applied in the determination of classification loss cost relativities.

Exhibit 28 showed proposed classification loss costs and expected loss factors by classification consistent with the proposed overall change in loss cost level. Exhibit 29 provided insight into the derivation of the proposed classification rating values by showing

a test of indicated and selected classification rating values, including effects of capping and application of loadings for the various assessments which would remain a part of published Bureau loss costs.

Exhibit 30 showed a histogram of proposed classification rating value changes based on the proposed overall change in loss cost levels. Staff noted that desirable features of classification loss cost changes included relatively narrow distribution around the average change and few, if any, classifications which materially shift from better to worse than average or vice-versa between successive filings.

A Class Book providing detail of historical experience and derivation of proposed rating values had been distributed with agenda materials mailed prior to the meeting. This exhibit contained tabulations of prior experience data by classification, together with the detail of the derivation of individual loss cost proposals in the draft filing. Staff noted that the Class Book, as provided, was consistent with the current Experience Rating Plan and that a second version, compatible with the proposed Experience Rating Plan, had not been prepared in recognition of the volume of materials at issue and the fact that the vast majority of data and information that would be shown in such a publication would have been duplicative of the first Class Book.

Staff mentioned that Bureau Filing No. 214 was presently pending before the Insurance Department. That filing proposed changes in the procedures used to establish loss costs for a series of some two dozen temporary staffing classifications, based on the experience reported therein instead of the experience reported in counterpart direct employment codes. Staff noted that the classification rating values shown in the discussion materials were predicated upon an approval of Bureau Filing No. 214. If that filing was disapproved and the current procedures continued to apply, slightly less than two-thirds of the non-temporary staffing codes would receive the same loss costs as shown in the agenda materials, because the rounding of rating values to two decimals would conceal the shift of loss costs away from temporary staffing codes back to direct employment codes. Somewhat more than one-third of the direct classifications would receive loss costs nominally higher than those presented in the draft materials for the meeting.

Auditable Payroll Values Indexed to the Statewide Average Weekly Wage

Staff noted that maximum remunerations for premium computation purposes with respect to executive officers and salaried police or firefighters were maintained in specified relationships to the Statewide Average Weekly Wage. In addition, presumed remuneration for premium computation purposes for some taxicab operators was similarly derived. A staff memorandum outlining appropriate revisions to the currently-approved parameters in these cases was presented for discussion.

Employers Liability Coverage Endorsement – WC 00 03 03 B
Federal Employers Liability Act Coverage – WC 01 01 04

Staff distributed a memorandum dated December 8, 2004 addressing changes to the captioned endorsements filed by the NCCI and recommended for use in other jurisdictions. Staff intended to include these revisions with the April 1, 2005 Loss Cost Filing to maintain consistency with other jurisdictions.

There being no further business for the Committees to consider, the meeting was adjourned.

Respectfully submitted,

Timothy L. Wisecarver
Chair - Ex Officio

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