



Pennsylvania Compensation Rating Bureau

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December 2, 2005

VIA HAND DELIVERY

The Honorable M. Diane Koken
Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
1311 Strawberry Square
Harrisburg, PA 17120

Attention: Chuck Romberger

RE: Proposal C-350 - April 1, 2006 Loss Cost Filing

Dear Commissioner Koken:

On behalf of the members of the Pennsylvania Compensation Rating Bureau (PCRB), I am filing herewith workers compensation loss costs, rating values and rules proposed to be **effective 12:01 a.m., April 1, 2006** with respect to new and renewal policies having normal anniversary rating dates on or after that date.

This filing proposes an overall average reduction in loss costs (prior to application of the assessment for the Office of the Small Business Advocate, Pennsylvania Construction Classification Premium Adjustment Program loadings, Merit Rating Plan off-balance and Certified Safety Committee loadings) of 8.58 percent effective April 1, 2006.

This letter and its attachments present a discussion and explanation of the filing's supporting analysis and conclusions based thereon and are presented in the following topical sequence:

- Summary
- Principal Findings and Conclusions
- Recognition of Effects of Prior Legislation
- Loss Development
- Trend
- Indicated Change in Loss Costs
- Employer Assessment Factor and Loss Cost Loadings
- Experience Rating Plan Procedures and Parameters
- Optional Retrospective Loss Development Factors
- Classification Loss Cost Relativities
- Hepatitis C Loss Cost Surcharges
- Manual Language Revisions
- Excess Loss (Pure Premium) Factors, State and Hazard Group Relativities and Loss Elimination Ratios

SUMMARY

In preparing and reviewing supporting information for this filing, the Bureau has attempted to identify and estimate the relative contributions to the filed overall loss cost indication arising from several factors. The resulting attribution of effects upon the overall loss cost indication is set forth below:

1) Changes in indemnity loss experience from provisions in approved April 1, 2005 loss costs	0.966802
2) Changes in medical loss experience from provisions in approved April 1, 2005 loss costs	0.982741
3) Changes in indemnity trend rate and period from provisions in approved April 1, 2005 loss costs	0.974011
4) Changes in medical trend rate and period from provisions in approved April 1, 2005 loss costs	0.987872
5) Indicated change in loss costs effective April 1, 2006 (1) x (2) x (3) x (4)	0.9142

Line 5) above combines the separate effects described in Lines 1) through 4) by compounding the individual increases or reductions in loss cost indications, resulting in the proposed loss cost reduction of 8.58 percent ($0.9142 - 1.0000 = -0.0858$).

PRINCIPAL FINDINGS AND CONCLUSIONS

The following comments summarize the most important considerations and concepts pertinent to each of the specific factors contributing to the overall loss cost indication as set forth above.

Changes in Indemnity Loss Experience from Provisions in Approved April 1, 2005 Loss Costs

The PCRB's analysis of the most recent available experience data for indemnity benefits produces estimates of loss costs lower than the expectations underlying the current schedule of Bureau rating values. For this filing, the PCRB has again adjusted available historical indemnity data to be consistent with provisions of Act 57 of 1996 (Act 57) as part of the analysis supporting this filing. Instead of continuing past practices in addressing certain indemnity provisions of Act 44 of 1993 (Act 44) which were susceptible to estimation by application of a "savings factor" to trended indemnity loss ratios estimated on a pre-Act 44 basis, however, this filing has used benefit on-level factors to adjust historical indemnity data to a post-Act 44 basis before proceeding with loss development and trend analyses.

Besides statutory changes, indemnity experience is affected by a variety of additional factors. These include ongoing interpretation and administration of various provisions of the Workers Compensation Act. The initiation and/or continuation of various accident prevention and loss management programs by the Commonwealth, insurers and employers may affect loss experience. Economic conditions and fraud detection, prosecution and/or prevention initiatives have potential direct and indirect influences on the workers compensation system of the Commonwealth and its costs. Circumstances in the administrative system by means of which

claims for work-related injuries and illnesses are processed and disputes pertaining thereto are resolved may alter system experiences and costs. These and other similar considerations are reflected in experience data and are thereby incorporated into the loss development analyses performed in conjunction with each PCRB loss cost filing.

The net effect of all factors that have affected indemnity loss experience in the current filing would be to reduce the overall loss cost indication by approximately 3.32 points.

Changes in Medical Loss Experience from Provisions in Approved April 1, 2005 Loss Costs

Consistent with the approach adopted in prior recent filings, the PCRB has continued to state medical loss experience on a post-Act 44 basis. While the PCRB's analysis of medical loss experience suggests that the favorable effects of Act 44 of 1993 on workers compensation medical costs in Pennsylvania remain substantially in place, a separate analysis of the direct effects of that important legislation on current and prospective loss cost levels is not possible with historical data organized and adjusted as has been done for several previous filings to date.

While certain provisions of the Workers Compensation Act and supporting administrative system are specific to medical benefits instead of indemnity benefits, medical losses are also generally subject to influence by the same system considerations as enumerated above for indemnity losses. The PCRB's most recent evaluation of medical loss experience shows a decrease in loss cost levels from those contemplated in the April 1, 2005 filing, resulting in an incremental reduction in the overall loss cost indication of approximately 1.73 points.

Changes in Indemnity Trend Rate and Period from Provisions in Approved April 1, 2005 Loss Costs

In the April 1, 2005 Loss Cost Filing, the PCRB's trend provisions were based upon separate analyses of claim frequency and claim severity experience for the Pennsylvania workers compensation system.

Based on available data from internal sources, the PCRB had established loss ratio trends that projected observed claim frequency trends through January 1, 2002. The April 1, 2005 filing then anticipated that further improvement in claim frequency would continue at an annual trend rate of -6.2 percent, based on observed claim frequency trend over the policy year period 1996-2002 inclusive.

For this filing, the PCRB has updated the available information from internal sources pertaining to claim frequency that was used in previous filings and has applied the most recent available data to its trend analysis. Consistent with the collective indications of this supporting information, the PCRB has selected an annual claim frequency trend of -6.2 percent, based on observed claim frequency trend over the policy year period 1997-2003 inclusive.

Components of trend other than claim frequency, collectively referred to herein as "severity trend" for sake of brevity, have been reviewed using commonly accepted and applied trend models applied to the PCRB's estimated ultimate on-level loss ratios, adjusted for effects of previous changes in claim frequency. Testing done by the PCRB in regard to this trend analysis indicates that goodness-of-fit and predictive accuracy results for indemnity experience

are each improved by virtue of the separation of trend into frequency and severity components instead of treating loss ratios alone, particularly the predictive accuracy results using the seven-point exponential model applied for purposes of trending in this filing.

The trend models thus produced show indemnity severity trends, which had declined slightly to an annual rate of approximately +8.1 percent in last year's filing, have further improved to an annual rate of +6.7% for this filing.

On balance, the selected continuation of favorable claim frequency trend and the revised indemnity claim severity trend, applied in this filing to the mid-point of the proposed schedule of loss costs, account for approximately 2.60 points to the proposed reduction in loss costs from those approved effective April 1, 2005

Changes in Medical Trend Rate and Period from Provisions in Approved April 1, 2005 Loss Costs

The claim frequency trend discussed above with respect to indemnity benefits has also been applied for medical benefits. Medical severity ratios have been separately analyzed based on the same experience period used for indemnity benefits.

The severity trend model selected for this filing shows medical severity trends somewhat lower than those present in the information supporting the April 1, 2005 Loss Cost Filing (+7.2 percent per year), averaging approximately +6.6 percent per year in this analysis.

On balance, the selected continuation of favorable claim frequency trend and lower increasing medical claim severity trend applied in this filing to the mid-point of the proposed schedule of loss costs would reduce the proposed change in loss costs from those approved effective April 1, 2005 by approximately 1.21 points. This reduction occurs despite the fact that medical loss ratio trends have been and remain positive, because of the improvement in the expected level of medical severity trend used in this filing compared to that applied in the April 1, 2005 proposal.

RECOGNITION OF EFFECTS OF PRIOR LEGISLATION

The predominant legislative changes which must be recognized in preparing and reviewing this filing are Act 44 of 1993 and Act 57 of 1996.

Act 44 included the medical cost containment features listed below:

- Implementation of a reimbursement mechanism related to the Medicare system of compensating providers of medical goods and services.
- Authorization of administrative systems providing both utilization review and peer review of the necessity, appropriateness and reasonableness of fees for medical services.
- Authorization for coordinated care organizations intended to provide comprehensive medical services that recognize timely return to work for injured workers as a primary objective of the workers compensation system.

- Extension of the period of time within which employers may direct injured workers to use medical practitioners selected from a listing of qualified practitioners provided by the employer from 14 to 30 days.

In preparing its April 1, 1999 Loss Cost Filing, the PCRB first adopted an approach of stating experience incurred prior to the implementation of this law on an effective "post-Act 44" basis. Prior to adopting this approach, the PCRB had performed extensive testing of this approach and comparison of results obtained thereby to alternative methods incorporated in previous loss cost filings. This filing continues the procedures first implemented with the April 1, 1999 filing. This analytical approach precludes a new and independent evaluation of the continuing effects of Act 44 on loss costs for each filing. However, it also has many substantial benefits, including efficiency, tractability and the elimination of otherwise remaining requirements to "adjust" the most recent and critical calendar years' experience for effects of law changes occurring several years ago.

In its February 1, 1997 Loss Cost Filing, the PCRB had estimated effects of three key provisions of Act 57 on prospective loss costs. Those provisions were as follow:

- Section 204 - Allows for offsets to workers compensation indemnity benefits otherwise payable to recognize Social Security old age benefits, certain employer-funded pension benefits and/or severance benefits.
- Section 306 - Applies the American Medical Association Guides for the Evaluation of Permanent Impairment to determinations of which cases will be qualified for total disability benefits and, alternatively, which cases will be treated as permanent partial disability cases.
- Section 309 - Revises the procedures applicable to the establishment of workers' wages for purposes of determining indemnity benefit rates.

In each loss cost filing submitted subsequent to February 1, 1997, various technical updates and/or revisions to the original estimates of effects of this legislation have been incorporated as appropriate.

For reasons analogous to those supporting adjustment of prior medical experience to a post-Act 44 basis in preparing the April 1, 1999 Loss Cost Filing, the PCRB adopted a comparable approach for indemnity experience in the April 1, 2000 Loss Cost Filing as respects Act 57. As was the case in the transition for medical experience, the PCRB had previously extensively tested its adjustment of prior data. The PCRB had previously tested these adjustments for sensitivity and had verified the equivalence of this approach to the prior procedure. That prior procedure continued to adjust experience incurred after the effective date of the law to a pre-Act 57 basis, producing preliminary filing estimates and then applying savings factors to arrive at a final loss cost indication.

It should be understood that the transition of the PCRB's filing analyses from "pre-law" to "post-law" bases for Acts 44 and 57 does not remove or reduce the favorable impacts of these two important pieces of workers compensation legislation from the filing indications. Neither does this change signal deterioration in the PCRB's perspective about the magnitude of the effects that these laws have had and continue to have on Pennsylvania loss costs. Rather, these analytical changes simply allow the effects of these laws to be incorporated more directly and efficiently into ongoing loss cost filings' supporting information.

The Table I prepared from reported financial data in support of this filing and stated on a post-Act 44 basis for medical losses and a post-Act 57 basis for indemnity losses, as described above, is shown in Exhibit 5 of the enclosures to this filing. Details of adjustment of reported indemnity and medical data is provided in Exhibit 5.

As respects the small effects of Act 44 on indemnity losses, the PCRB has elected for the first time in preparing this filing to adjust historical indemnity loss data for the effects of that legislation. This approach treats the indemnity revisions enacted with Act 44 in the same fashion as previous filings have addressed the medical provisions of Act 44 and the indemnity changes of Act 57, thereby eliminating the need for application of a subsequent savings factor.

LOSS DEVELOPMENT

While the establishment of appropriate levels of loss costs is ultimately a prospective process, a great deal of the supporting analysis and information required in this endeavor pertains to the estimation of loss experience for PRIOR policy periods. Proper evaluation of previous loss experience establishes reference points from which projections of future loss cost requirements can be made and in the context of which such projections can be reviewed for reasonableness. In simple terms, future loss cost needs cannot reasonably be estimated without first establishing what prior loss cost experience has been.

In preparing this filing and particularly in regard to the estimation of policy year loss ratios, the PCRB has been mindful of numerous technical and analytical considerations. Among the pertinent processes and procedures applied to this filing are the standards set forth in the Casualty Actuarial Society's "Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves" (Principles). A discussion of those Principles as they pertain to analysis supporting this filing is included as a separate enclosure with this filing.

In previous loss cost filings the PCRB has applied various loss estimation approaches separately to indemnity and medical losses prior to selecting policy year ultimate losses for further use in those filings' analyses. The range of approaches that have been used included case-incurred loss development and a series of approaches combining paid and incurred loss development approaches. Those combined methods applied paid loss development for successively longer periods of time before converting paid losses to case-incurred amounts and then applied case-incurred loss development for the balance of the development period to ultimate.

The past practices described above have also been applied in support of this filing. In addition, as was the case for the April 1, 2002, April 1, 2003, April 1, 2004 and April 1, 2005 filings, the PCRB has included loss estimates derived by averaging results from a case-incurred loss development method and the longest term paid loss development method possible with available data in its analysis of loss development for this filing. This last approach is one alternative (and in some respects a particularly direct) way of balancing the potentially different results from case-incurred and paid loss development methods than the combined development approaches previously applied. Results of selected loss development methods applied in support of this filing are set forth in detail in Exhibits 6, 7 and 10 of the enclosures. This analysis and conclusions drawn there from are further described below:

Indemnity Losses - A relatively broad range of results was obtained from the application of the loss development approaches described above to indemnity losses. The case-incurred loss development method gave the lowest estimates of policy year losses of any method tested, while the approaches using paid loss development tended to produce higher results, as the period over which paid loss development was included in the method increased (see Page 10.1, Exhibit 10 of this filing for a graph illustrating some of these differences). This pattern of loss development methods, producing higher estimated policy year loss ratios as successively more paid loss development experience is used, has been in evidence over many previous PCRB filings.

The PCRB believes that compromise and release and/or other case settlement activity continue to be important factors within the most recent years' of available loss development experience. Last year the PCRB reported that, in many cases, compromise and release settlement amounts were being recorded either exclusively as indemnity amounts or with a disproportionately large allocation to indemnity, when compared to the anticipated future liabilities prior to the recognition and application of the compromise and release settlement. This appeared to result from various system limitations and/or coding procedures in evidence for many (but not all) carriers. The PCRB expressed the opinion that, as a result of this tendency, indemnity loss development might be artificially inflated, while medical loss development might be artificially deflated to an undeterminable extent.

Information obtained in a survey of large writers of workers compensation insurance in Pennsylvania prior to the submission of the April 1, 2005 Loss Cost Filing formed much of the basis for the above impression, with 11 of 14 respondents stating that most or all of their compromise and release settlement amounts were accounted for as indemnity losses. In a new carrier survey conducted in support of this filing, as summarized in a separate enclosure, seven of 14 respondents now report that all or most of their compromise and release settlement amounts are accounted for as indemnity losses, while seven other respondents reported that those settlements were generally or consistently apportioned between indemnity and medical losses based on the merits of each case.

For filings prior to the April 1, 2002 filing, the PCRB had used various selected loss development methods or averages of selected methods as the basis for its ultimate loss estimates. The basis for selecting the method(s) used in each filing were consistent from year-to-year; that is, the Bureau endeavored to base each annual filing's indications on a method or methods from which results fell in the mid-range of all methods tested and considered.

In the 2002, 2003, 2004 and 2005 filings, the PCRB selected ultimate loss estimates derived by averaging the indications separately obtained from the case-incurred loss development method and the longest-term paid loss development method supported by available financial data (a paid-to-20th report method).

As the indications derived from supporting information for this filing using this averaging process fall, as would be expected, in the mid-range of estimates produced for each policy year, the PCRB has again selected these average indications as the basis for this filing's analysis of appropriate loss cost indications.

Medical Losses - As has been the case in other recent PCRB loss cost filings, the range of results produced when applying the loss estimation methods described above to medical losses is narrower than is the case for indemnity benefits. (See Page 10.2 of Exhibit 10 of the enclosures to this filing for a graph illustrating some of these differences.) Consistent with the above discussion of loss development for indemnity losses, the PCRB has also selected estimates of prior policy year medical losses, based on the average of a case-incurred loss development approach and the longest-term paid loss development method supported by currently available financial data (a paid-to-20th report method), for use in this filing.

TREND

Indemnity Trend - Insurance experience available for analysis in promulgating loss costs is necessarily limited to policy periods previously completed. On the other hand, the loss costs being determined will apply to some future period. As can readily be seen in the preceding review of policy year loss ratios for this filing, insurance experience often reflects substantive changes over time in response to various economic, legal and social changes. As a result, the establishment of an appropriate overall loss cost change must recognize the time period that is interposed between the historical experience and the application of the new loss costs. This recognition is provided through "trend" analysis, a means of measuring any persistent, systemic changes in experience expected to occur in that interim period of time.

One commonly-applied method of establishing a provision for trend is to attempt to measure year-to-year changes occurring in historical information using mathematical techniques. Based on such measurements, a selected measure(s) is/are applied for the period of time required to connect the available prior experience to the prospective pricing period. The mathematical approaches most often used in this regard involve the fitting of selected curves through the observed historical data and basing the average change or trend rate on the characteristics of the curve(s) that best fit that prior experience.

Two curves usually considered in this type of analysis are a straight line (or "linear" model) and an "exponential" model. The linear model is based on a determination of the constant amount of change in loss ratios which best fits the observed historical data; the exponential model is based on a determination of the constant percentage change in loss ratios which best fits the observed historical data.

In preparing each of the last seven Pennsylvania loss cost filings (beginning with April 1, 1999 and continuing through April 1, 2005), the PCRB has separated its trend analysis into two component parts: claim frequency and severity factors. Based on detailed analysis of both internal and outside data (when available) pertaining to these phenomena (and, in particular, pertaining to claim frequency), the PCRB has selected different methods and/or parameters to estimate trends for each of these component parts. This approach has sometimes allowed the PCRB to capitalize on available external data pertaining to injury and illness counts and claim frequency and ultimately provided a basis for selection of prospective loss ratio trends based on specific analysis and review of claim frequency data and experience.

The trend provisions incorporated into the April 1, 2005 filing were premised on claim frequency and severity trends as measured within historical PCRB data, effectively assuming that those trends would continue through the prospective rating period for both indemnity and medical losses.

Based on separate measures of policy year loss ratio trend and claim frequency trend, implied severity trends have been identified in the supporting information for this filing. An exponential trend model, based on the seven policy years from 1997 through 2003 inclusive, was selected for use in this filing as the measure of historical indemnity severity ratio trend. The indicated indemnity severity trend inherent in PCRB indemnity experience is equivalent to an annual increase of approximately +6.7 percent per year, lower than the comparable indication one year ago (+8.1 percent).

As previously noted, information obtained in the PCRB's 2005 survey of large writers of workers compensation insurance in Pennsylvania (summarized in a separate enclosure with this filing) indicates that, while the industry appears to be improving in its ability to separate compromise and release settlement amounts into indemnity and medical portions, there remains some bias toward indemnity, with many carriers recording such settlements either exclusively as indemnity amounts or with a disproportionately large allocation to indemnity when compared to the anticipated future liabilities prior to the recognition and application of the compromise and release settlement. The PCRB expects that, as a result of this tendency, indemnity loss ratio and severity trends may be artificially inflated, while medical loss ratio and severity trends may be artificially deflated to a largely offsetting extent.

The PCRB's most pertinent information pertaining to claim frequency compares indemnity claims incurred to expected losses at a constant (current) loss cost level. The expected losses used to compute claim frequencies in the PCRB's internal data respond to changes in the mix of employments being insured and for which claims are being reported and also incorporate ongoing changes in wage levels in Pennsylvania. As there has been a tendency for the Pennsylvania economy to become more service-oriented and less focused on manufacturing and contracting, this shift has itself contributed to lower claim counts over time.

Historical claim frequency data shows a protracted and persistent trend of declining claim frequencies now extending back for approximately 16 years. Setting aside a brief period of three policy years (1994 – 1996) during which the observed declines approached or exceeded double-digit rates of decline, the long-term trends in claim frequency have fallen in a relatively narrow range. Since the extraordinary double-digit declines noted above ended in 1996, claim frequency has continued to fall at annual rates generally in the six percent per year range. The PCRB has selected a claim frequency trend of –6.2 percent as the basis for its projections of claim frequency changes in its trend analysis supporting indications proposed in this filing.

The PCRB would point out that regardless of the respective component(s) that may be producing changes in trend, loss cost indications are relatively sensitive to such changes. Even a relatively nominal deterioration in claim frequency and/or claim severity trend(s) from the provisions incorporated in this filing could render the indemnity trend used for this filing significantly understated.

Medical Trend - The PCRB has proceeded in a manner as respects medical trends similar to that described above for indemnity trend in preparing this filing.

An exponential trend model, based on the seven policy years from 1997 through 2003 inclusive, was selected for use in this filing as the measure of historical medical severity ratio trend. This model gives significant credence to policy year loss ratios seen in recent years in Pennsylvania.

For this filing, this trend model produces an effective trend model in which on-level medical severity ratios are increasing at a rate of approximately +6.6 percent per year. The same claim frequency trend as was used for indemnity benefits has been applied to medical losses.

The comments offered above with respect to indemnity losses regarding the sensitivity of loss cost indications and the potential effects of even relatively small adverse changes in claim frequency or claim severity trends are equally applicable to medical losses.

INDICATED CHANGE IN LOSS COSTS

Exhibit 12 enclosed in support of this filing presents the derivation of indicated changes in collectible loss costs effective April 1, 2006. The indicated change in collectible loss costs is derived based on estimates of prior policy year loss ratios, including the effects of Act 44 on both indemnity and medical benefits and of Act 57 on indemnity benefits. These estimated policy year loss ratios are then trended forward to the mid-point of the proposed loss costs (April 1, 2007) considering the anticipated claim frequency trend discussed above. The loss ratio thus estimated is 0.9142. Since in the PCRB's loss cost filings the target loss ratio is 1.0000, this result supports the proposed 8.58 percent decrease in current loss costs for the policy period beginning April 1, 2006.

Because average experience modifications are expected to be slightly lower during the period for which the proposed loss costs will apply than was the case for currently-approved loss costs, average proposed decreases in manual loss costs (at 7.71 percent) are slightly less pronounced than the indicated decrease in collectible loss costs of 8.58 percent. By industry group the proposed average changes in manual loss costs effective April 1, 2006 are:

Manufacturing	-7.95%
Contracting	-7.37%
All Other	-7.69%

These indicated changes to manual loss costs were derived by industry group on Page 1 of Exhibit 12, using information regarding the historical operation of the Experience Rating Plan (see Exhibits 18 and 19 of the enclosures to this filing). Anticipated collectible premium ratios are compared to provisions in current rates, with the ratios used to adjust the proposed change in collectible loss costs to appropriate manual levels on the bottom of Page 1 of the Exhibit 12.

EMPLOYER ASSESSMENT FACTOR AND LOSS COST LOADINGS

In preparing this filing, the PCRB has reviewed experience pertinent to the employer assessment factor to be applied to Pennsylvania workers compensation business in accordance with Act 57. Exhibit 13 enclosed presents a summary of the PCRB's determination of the appropriate employer assessment factor. The net effect of reported changes in budgetary amounts, bases for allocation among payer groups, and premium volume result in a proposed provision of 0.0198, higher than the currently-approved provision of 0.0191 because of increases seen in the budgetary amounts presented for the Administrative Fund and Supersedeas Fund for this year's filing as compared to those used a year ago.

The provision for assessments supporting the Office of the Small Business Advocate, which continues to be part of proposed PCRB loss costs, is proposed to remain at 0.0001.

PCRB loss costs continue to include adjustments for the effects of the Merit Rating Plan and the Certified Safety Committee Program. The Merit Rating Plan increment factor is proposed to remain at 0.0035, the same value as approved effective April 1, 2005. The Certified Safety Committee Program increment factor is proposed to change from 0.0052 to 0.0075. These proposed values are shown in Exhibit 13 and separately derived in Exhibits 15 and 16.

This filing also proposes to update classification loss costs to reflect indicated loadings for the Pennsylvania Construction Classification Premium Adjustment Program (PCCPAP).

Since 1991 the PCCPAP program has been in effect for designated construction classifications. This program offers tabular premium credits to employers subject to those specified classifications that demonstrate the payment of wages above certain threshold levels. 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 in the program. The revised plan makes adjustment within the computation of the credits themselves for the effect of high wages on experience modifications. Manual loss costs for each construction classification then incorporate "offsets" intended to recover the premium credits given to higher-wage employers from all employers insured in each construction classification. Thus, the PCCPAP program is intended to be "revenue-neutral" and should reallocate premium obligations between low- and high-wage employers without either increasing or reducing the overall amount of premium collected in these classifications.

For this filing the PCRB has been able to analyze participation in this program and the level of credits generally obtained by participating employers in each classification using the most recent available experience. Results of that analysis and proposed PCCPAP loads on loss costs by classification are included as Exhibit 14 of the enclosures to this filing.

Available experience, as summarized on Exhibit 14, produces a revised average indicated PCCPAP offset of 2.53 percent of loss costs, down nominally from the current average of 2.80 percent.

The proportion of construction industry premiums and payrolls represented by eligible employers seeking and/or qualifying for credit under the plan has decreased somewhat in the most recent available experience. Those risks that did qualify for PCCPAP credits produced only nominally lower average credits than had been the case in the recent past.

In addition, Exhibit 14 reveals that there continue to be material differences between construction classifications in terms of the portion of employers receiving PCCPAP credits and/or the level of credits provided to such employers. Proposed offsets range from no surcharge at all in Code 662, Household Appliance Service, to 6.69 percent in Code 649, Ceiling Installation.

EXPERIENCE RATING PLAN PARAMETERS

The Experience Rating Plan provides a prospective means of recognizing differences in loss potential between employers. This recognition is accomplished by means of a comparison of each qualifying employer's loss and exposure experience over a specified period of time (experience period) to the average experience of all employers engaged in similar businesses.

As part of each loss cost filing, the PCRB reviews the results of its Experience Rating Plan and proposes certain updates or revisions to the plan as are deemed necessary or appropriate to maintain the effective operation of the plan.

Effective April 1, 2004, the Experience Rating Plan was materially revised. Changes adopted at that time included a revised credibility table (generally assigning increased credibility to smaller risks' experience and lower credibility to larger risks' experience than had the legacy Experience Rating Plan) and a new loss limitation procedure in which all losses were limited to a flat amount of \$42,500 (instead of employing a sliding scale of loss limitations that increased with risk size). In addition, a 25 percent limitation was imposed on the extent to which an employer's experience modification could change (up or down) in any one year.

Recognizing the significant changes recently adopted with respect to the Experience Rating Plan, the PCRB has constructed the analytical exhibits pertaining to this plan and offered in support of this filing by applying the revised Experience Rating Plan to prior rating periods. This approach effectively demonstrates what the performance of the new plan would have been, rather than displaying what the performance of the legacy plan actually was.

Exhibit 18a of the enclosures to this filing presents a detailed analysis of results of the new Experience Rating Plan within each industry group over the most recent available five years. These analyses are set forth in tabular form by premium size group and experience modification range by year. Exhibit 19 of this filing presents summaries of collectible premium ratios and detail of the derivation of expected loss cost factors supporting the Experience Rating Plan parameters proposed in this filing. Exhibit 18a is constructed to show the results of the Experience Rating Plan before the application of capping procedures to individual employer modifications.

During 2005 the PCRB has been made aware of circumstances in which employers received substantial increases in experience modifications immediately before the capping procedures now in effect were implemented and for whom the now applicable capping limitations would prolong the period of application of debit modifications over a period of as much as several years. While the PCRB fully believes that the existing capping procedures are helpful overall, we also are mindful that the combination of unlimited increases in modifications and capped returns to a prevailing level once a year or years of adverse experience have passed through the rating experience period was unintended. Accordingly, with this filing the PCRB is including a proposal to modify the capping procedures so that, if an employer's indicated modification is below 1.000 but the capped modification is above 1.000, then a unity modification (a modification factor of 1.000) will be applied.

Exhibit 18b presents a summary page of data comparable to the summary in Exhibit 18a but constructed to reflect results of experience rating after the effects of the currently approved and additional proposed capping procedures were applied.

The changes in collectible premium ratios presented on Exhibit 19 must be accounted for in establishing manual levels of loss costs, as shown on the bottom portion of Page 1 of Exhibit 12.

Final Experience Rating Plan parameters proposed in this filing are shown in Exhibits 27 and Exhibit 28.

OPTIONAL RETROSPECTIVE LOSS DEVELOPMENT FACTORS

Because loss valuations tend to change (and generally to increase) over time, some retrospective rating plans provide for application of development factors to preliminary loss reports in computing retrospective premiums. The PCRB has historically presented appropriate voluntary loss development factors based on aggregate PCRB experience as part of its filings for use by carriers and insureds in negotiating and agreeing upon their retrospective rating plans.

Exhibit 26 of the enclosures to this filing shows the PCRB's proposed optional retrospective loss development factors on an unlimited basis. In addition, the PCRB includes in its Manual reference to the formula for adjusting unlimited loss development factors to limited bases by reference to the ELF's described above. That formula is also shown in Exhibit 26 for reference.

CLASSIFICATION LOSS COST RELATIVITIES

Workers compensation insurance is written under a classification system that provides varying rating values for different types of businesses, based on the risk of loss inherent in those businesses subject to each distinct classification. As a result, any overall loss cost indication must ultimately be apportioned to each individual classification with due recognition given to the comparative experience of employers subject to each classification.

In preparing individual classification loss costs for this filing, the PCRB has continued to apply pricing procedures established as a result of a 1994 study of the classification plan conducted in cooperation with the Insurance Department, Milliman & Robertson, Inc. and the Commonwealth Contractors' Coalition. These procedures have been used and approved in several previous PCRB loss cost filings.

Exhibit 17 of the enclosures to this filing provides an overview of the classification loss cost formulae utilized in preparation of this filing. These procedures are consistent with previously submitted and approved methods.

The PCRB has elected for purposes of this loss cost filing to apply "swing limits" or allowable fluctuations in classification loss costs of 25 points above and below the average loss cost change within each industry group. In addition, the PCRB applies a testing procedure to identify potential significant reversals in classification loss cost changes relative to overall average indications year-after-year and intervenes where such indicated changes exceed selected amounts. These swing limits apply to "pure" loss costs, which include an adjustment for the operation of the Experience Rating Plan. The values so determined are subsequently adjusted to include appropriate provisions for the following items:

- Offsets for net Merit Rating Plan credits
- Offsets for Pennsylvania Construction Classification Premium Adjustment Program credits
- Offsets for Certified Safety Committee credits
- Assessment for the Office of the Small Business Advocate

The Index to Classification Exhibits and the accompanying Class Book in the filing enclosures present detail of the experience and loss cost indications derived for each classification in this filing. Within the Index to Classification Exhibits, certain parametric components of the classification loss cost review process are presented, and the bases for establishing credibility tables applicable to both payroll and expected losses are provided. Summary unit statistical data pertinent to the classification experience analysis is also included as Exhibits 20a, 20b and 20c of the enclosures to this filing.

Item 8 within the Index to Classification Exhibits presents identification of several classifications, in which some form of selection or other intervention in the statistical procedures generally applied to the determination of classification loss costs was deemed appropriate. The bases for loss cost selection include special pricing procedures (for example, the explosives, aircraft and temporary staffing classifications), allocation of loss costs between ratable and non-ratable components, recognition of statutory provisions for occupational disease benefits, combinations of separately-defined codes for purposes of determining loss costs and/or responses to data reassignments occurring during the latter stages of classification pricing analysis.

Item 11 of the Index to Classification Exhibits presents "supplemental Class Book pages" detailing the derivation of loss costs for classifications treated in combination or subject to reassignments of data from/to another class(es). The Class Book presents detail of the experience and loss cost indications derived for each individual classification in this filing, performed without special consideration using the proposed procedures.

The loss costs developed in accordance with the procedures set forth on Exhibit 17 and presented in portions of the Index to Classification Exhibits and the Class Book exclude the following considerations previously discussed in this letter:

- PCCPAP offsets from Exhibit 14
- Merit Rating Plan credit offsets derived in Exhibit 15
- Offsets for Certified Safety Committee credits derived in Exhibit 16
- Assessment loading for the Office of the Small Business Advocate shown in Exhibit 13

The loss costs prior to application of these latter considerations may be thought of as "pure" loss costs and are the values to which the loss cost change limitations or "swing limits" have been applied.

For this filing, consideration was given to past filings' changes by classification, relative to average or overall indications, in making final rating value selections. This procedure mitigated what otherwise would have been substantial fluctuations above and below average levels between successive filings for a limited number of classifications.

Exhibit 28 in support of this filing presents a complete table of proposed loss costs and expected loss factors pertinent to the Experience Rating Plan. Exhibit 29 presents both summary results and classification detail of the PCRB's tests of proposed loss costs against intended levels. Finally, Exhibit 30 depicts in graphic form the distribution of percentage changes in classification loss costs, both before and after the application of swing limits or "caps."

HEPATITIS C LOSS COST SURCHARGES

H.B. 1633, enacted in December 2001, established a rebuttable presumption of work-related causality for Hepatitis C, if contracted by professional and volunteer firefighters, volunteer ambulance corps personnel, volunteer rescue and lifesaving squad personnel, emergency services personnel and paramedics.

For the April 1, 2003 Loss Cost Filing, the PCRB researched available public documentation and some selected independent reports provided by their authors toward the objective of establishing a benchmark set of surcharges to reflect the increased claims potential precipitated by H.B. 1633. Selected surcharge amounts were included with that filing for the following classification codes:

Code 807, Non-Volunteer Ambulance Services
Code 985, Salaried Police or Firefighters
Code 993, Volunteer Ambulance Corps
Code 994, Volunteer Fire Companies

After review of the April 1, 2003 filing by the Insurance Department, surcharge amounts originally proposed for the above-cited classifications were amended to reflect available information regarding the incidence of Hepatitis C in the general U.S. population. For the April 1, 2004 and April 1, 2005 Loss Cost Filings, procedures consistent with those approved levels of surcharges were retained, and those procedures are continued for purposes of this filing.

MANUAL LANGUAGE REVISIONS

Proposed Manual language to accomplish the changes described briefly below is included in this filing.

- ***Designated Auditable Payrolls***

The filing proposes updates to several of these values for the continuing effects of wage inflation, including specifically the following:

Executive officers - the maximum auditable payroll is proposed to change from \$1,750 to \$1,800 per week.

Taxicab operators for leased cab - the annual auditable payroll, absent available payroll records, proposed to change from \$34,500 to \$35,800.

Salaried police or firefighters - the minimum auditable payroll proposed to change from \$3,450 to \$3,600 per year.

Specific Manual language proposed in support of the above changes is provided under cover of a staff memorandum dated November 3, 2005 which accompanies this filing.

EXCESS LOSS (PURE PREMIUM) FACTORS, STATE AND HAZARD GROUP RELATIVITIES AND LOSS ELIMINATION RATIOS

PCRB loss cost filings typically 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 facilitate the application of standard tables to Pennsylvania business.

The April 1, 2005 Loss Cost Filing did not include updates to excess loss factor tables, loss elimination ratios or state and hazard group relativities, because PCRB staff had observed some unusual and counterintuitive results in its preliminary analysis and determined that additional research was warranted before proceeding to update the rating values in question.

The PCRB is proposing an updated table of excess loss (pure premium) factors based on an analysis of the most recent available Pennsylvania empirical data, supplemented by countrywide relativities for factors at larger loss limitations (above \$1 million) where Pennsylvania data is sparse or non-existent and thus not statistically credible.

Offering of small deductible coverages at certain specified amounts is mandatory in Pennsylvania. PCRB filings thus provide loss elimination ratios computed consistent with the mandatory deductible levels. This filing proposes revisions to the existing schedule of loss elimination ratios based on the most recent available Pennsylvania data. Since the mandatory \$1,000 deductible offer falls below the threshold for required individual claim reporting under the approved Statistical Plan, some special treatment and consideration has been applied in our analysis of loss elimination ratios.

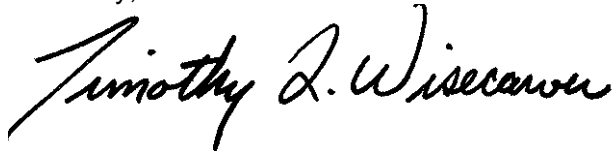
Size of loss considerations also apply to the determination of state and hazard group relativities that allow a single table of insurance charges and savings to be used in different jurisdictions where benefit levels and statutory provisions may vary significantly. But for some technical differences pertaining to the date to which various calculations were trended, the procedures used to establish these state and hazard group relativities were the same as those used to drive excess loss (pure premium) factors. The proposed filing continued a procedure first implemented for the April 1, 2003 filing, which assigned credibility weights by hazard group rather than on a statewide basis. Further, as a result of work done since last year's loss cost filing, the PCRB is proposing revisions to hazard group assignments for a number of classifications, most notably impacting the population of classes and rating value parameters applicable to Hazard Group I. With the benefit of these changes, the state and hazard group relativities proposed with this filing are more consistent with and/or reasonable in the context of rating values from other jurisdictions.

TABLE OF EXPECTED LOSS SIZE RANGES FOR RETROSPECTIVE RATING PLANS

In order to maintain existing tables of insurance charges and savings for the effects of claim inflation, the expected loss size ranges used to define those tables are regularly updated. To keep Pennsylvania's rating values consistent with those of other jurisdictions, the PCRB is filing herewith by reference the revised Table of Expected Loss Size Ranges as presented in the National Council on Compensation Insurance, Inc.'s (NCCI) Item Filing R-1395, a copy of which is provided as an exhibit with this filing.

This filing, Proposal C-350, fully and fairly reflects the most recent available experience indications in Pennsylvania, together with all initial and continuing effects of both Act 44 and Act 57. The PCRB respectfully requests a timely review of this filing toward the objective of its implementation, as proposed, on a new and renewal basis **effective April 1, 2006**. In requesting review of this filing, the PCRB is especially hopeful that adequate and appropriate advance notice of final loss costs and related rating values may be given to all participants in the Pennsylvania marketplace. Such notice would, of course, be assisted by as prompt and expeditious a review of this matter as possible. Toward that objective, the PCRB will be pleased to answer any questions or provide any available supplementary information which you or your staff may require.

Sincerely,



Timothy L. Wisecarver
President

TLW/kg

Enclosures: Brown Book
Actuarial and Classification & Rating Committees Minutes
Summary of Responses to Survey of 34 Large Carrier Groups
Discussion of Casualty Actuarial Society's "Statement of Principles Regarding
Property and Casualty Loss and Loss Adjustment Expense Reserves"
Index and Supporting Classification Exhibits
Class Book
Exhibit 5 Table I - Summary of Financial Call Data
Exhibit 6 Paid & Incurred Loss Development & Trend
Exhibit 7 Tail Factors for Loss Development
Exhibit 8 Claim Frequencies
Exhibit 9a Measures of Goodness of Fit in Trend Calculations Using Loss
Ratios
Exhibit 9b Measures of Goodness of Fit in Trend Calculations Using Severity
Ratios
Exhibit 10 Graphs of Indemnity and Medical Loss Ratios
Exhibit 11a Retrospective Test of Trend Projections for Loss Ratios
Exhibit 11b Retrospective Test of Trend Projections for Severity Ratios
Exhibit 12 Indicated Change in Loss Costs
Exhibit 13 Loss-Based Assessments and Employer Assessment Factor
Exhibit 14 Pennsylvania Construction Classification Premium Adjustment
Program ("PCCPAP")
Exhibit 15 Merit Rating Plan Off-Balance Indications
Exhibit 16 Certified Safety Committee Program Offset
Exhibit 17 Loss Cost Formulae
Exhibit 18a Review of Experience Rating Plan Results (Uncapped)
Exhibit 18b Review of Experience Rating Plan Results (Summary Page
Only - With Capping)
Exhibit 19 Review of Experience Rating Plan Parameters

Enclosures continued:

Exhibit 20a	Table II
Exhibit 20b	Table III
Exhibit 20c	Table IV
Exhibit 21	Excess Loss (Pure Premium) Factors – NCCI Methodology
Exhibit 22	Empirical Pennsylvania Loss Distribution
Exhibit 23	Proposed Excess Loss (Pure Premium) Factors
Exhibit 24	State & Hazard Group Relativities
Exhibit 25	Small Deductible – Loss Elimination Ratios
Exhibit 26	Retrospective Development Factors
Exhibit 27	Table B
Exhibit 28	Loss Costs and Expected Loss Factors
Exhibit 29	Tests of Indicated & Selected Loss Costs
Exhibit 30	Distribution of Loss Cost Percentage Changes
Exhibit 31	Hepatitis C Surcharge
Exhibit 32	NCCI Filing Memorandum R-1395
Exhibit 33	Manual Revisions – Section 6 – Experience Rating Plan
	Staff Memorandum of November 3, 2005 - Proposed Revisions to Designated Auditable Payrolls