

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

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

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

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

The PCRB has assembled 2008 policy year experience data that provides historical measures of the extent to which employers in each eligible classification have qualified for PCCPAP credits, and the magnitude of credits granted under this program. The attached exhibit presents the staff analysis of this experience, and derives a proposed revised set of PCCPAP loadings to maintain the intended balance within the affected classifications. A brief description of page 14.1 follows:

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

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

Column (3) - # of Policies (PCCPAP): The number of policies qualified for PCCPAP credit for the 2008 policy term.

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

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

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

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

Columns (8) and (9) - Non-PCCPAP Policy Premium, Pre PCCPAP: The Standard Premium attributable to policies that did not qualify for PCCPAP credit in 2008. The current PCCPAP load on Manual Rates is omitted from this calculation

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

Column (11) - Average PCCPAP Credit: For qualifying policies, the average credit given in 2008. For example, an average credit of 0.0851 indicates that the average qualifying risk in Code 601 received an 8.51 percent reduction in standard premium by operation of the PCCPAP plan’s tabular credit and experience rating plan adjustment.

Column (12) - Class “Z”: This is the credibility assigned each classification’s indicated PCCPAP surcharge. The credibility formula is a linear function of total classification policies, with 245 policies or more receiving full credibility. This formula is an adaptation of procedures used in NCCI jurisdictions where credibility is a linear function of the number of policies qualifying for Premium Adjustment Plan credits. Staff perceives the use of total policies to be more appropriate where large portions of a class have not historically qualified for PCCPAP credit.

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

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

Column (14) - TCF: The test correction factor necessary to balance credibility-weighted surcharges across all classifications to the overall indicated surcharge of 3.06 percent.

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

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

PCCPAP Surcharges  
For Policy Effective Dates 01/01/08 Through 12/31/08

100% Credibility =  
Partial Credibility =

245 Policies  
# of Policies / 245

Class (1)	# of Policies (Total) (2)	# of Policies (PCCPAP) (3)	***PCCPAP Policies***				**Non-PCCPAP Policies**				Average PCCPAP Credit (11)	Class "Z" (12)	Formula Surcharge (13)	TCF (14)	Final Surcharge (15)
			Payroll (Total) (4)	Payroll (PCCPAP) (5)	Premium Pre-PCCPAP (6)	Premium Post-PCCPAP (7)	Premium Pre-PCCPAP (8)	Premium Post-PCCPAP (9)	Indicated Surcharge (10)						
601	802	87	200,174,784	41,335,572	2,484,974	2,273,557	10,280,644	10,280,644	1.0168	0.0851	1.00	1.0168	0.9989	1.0157	
602	217	59	125,176,213	36,997,258	1,658,108	1,527,722	4,216,248	4,216,248	1.0227	0.0786	0.89	1.0236	0.9989	1.0225	
603	325	75	75,643,894	28,330,296	1,435,094	1,272,560	2,176,896	2,176,896	1.0471	0.1133	1.00	1.0471	0.9989	1.0459	
605	47	2	17,244,839	807,899	45,216	39,537	1,066,424	1,066,424	1.0051	0.1256	0.19	1.0258	0.9989	1.0247	
606	41	0	72,957,626	0	0	0	8,529,403	8,529,403	1.0000	0.0000	0.17	1.0255	0.9989	1.0244	
607	392	18	153,840,210	6,672,235	433,557	383,391	10,564,997	10,564,997	1.0046	0.1157	1.00	1.0046	0.9989	1.0035	
608	2,797	360	431,524,393	109,282,934	6,755,222	6,064,165	18,888,160	18,888,160	1.0277	0.1023	1.00	1.0277	0.9989	1.0266	
609	2,827	206	635,858,350	80,740,206	3,853,416	3,466,801	26,703,414	26,703,414	1.0128	0.1003	1.00	1.0128	0.9989	1.0117	
611	28	10	7,324,486	715,134	55,277	48,303	592,786	592,786	1.0109	0.1262	0.11	1.0285	0.9989	1.0274	
615	4	0	6,558,332	0	0	0	746,972	746,972	1.0000	0.0000	0.02	1.0301	0.9989	1.0290	
617	350	69	164,683,275	25,369,257	1,318,382	1,180,263	7,371,830	7,371,830	1.0162	0.1048	1.00	1.0162	0.9989	1.0151	
645	904	207	249,295,879	119,042,218	6,769,464	5,868,181	7,884,777	7,884,777	1.0655	0.1331	1.00	1.0655	0.9989	1.0643	
646	440	50	66,623,062	19,043,210	903,798	746,946	2,434,248	2,434,248	1.0493	0.1735	1.00	1.0493	0.9989	1.0481	
647	223	14	36,113,258	2,112,061	182,663	144,249	2,416,456	2,416,456	1.0150	0.2103	0.91	1.0164	0.9989	1.0153	
648	1,373	96	121,664,218	27,097,597	1,472,010	1,237,408	5,185,629	5,185,629	1.0365	0.1594	1.00	1.0365	0.9989	1.0354	
649	294	131	88,579,012	94,364,433	1,634,305	1,405,744	809,987	809,987	1.1032	0.1399	1.00	1.1032	0.9989	1.1020	
651	2,612	353	596,864,313	169,858,684	10,495,723	9,162,020	27,085,571	27,085,571	1.0368	0.1271	1.00	1.0368	0.9989	1.0357	
652	7,551	84	500,203,634	16,584,555	1,299,455	1,143,766	38,677,006	38,677,006	1.0039	0.1198	1.00	1.0039	0.9989	1.0028	
653	2,231	254	329,749,588	94,364,433	6,463,599	5,664,982	16,200,797	16,200,797	1.0365	0.1236	1.00	1.0365	0.9989	1.0354	
654	740	183	193,907,345	56,051,938	4,520,857	3,951,197	10,418,313	10,418,313	1.0396	0.1260	1.00	1.0396	0.9989	1.0385	
655	370	71	79,417,382	23,020,752	2,594,103	2,170,836	6,465,475	6,465,475	1.0490	0.1632	1.00	1.0490	0.9989	1.0478	
656	110	8	75,440,086	3,535,359	203,061	159,111	5,016,128	5,016,128	1.0085	0.2164	0.45	1.0207	0.9989	1.0196	
657	64	3	8,380,612	2,530,641	232,916	207,278	472,924	472,924	1.0377	0.1101	0.26	1.0325	0.9989	1.0314	
658	529	102	73,044,063	22,368,026	1,722,674	1,469,696	4,120,763	4,120,763	1.0453	0.1469	1.00	1.0453	0.9989	1.0442	
659	945	97	125,679,889	18,264,373	2,652,561	2,383,634	15,690,982	15,690,982	1.0149	0.1014	1.00	1.0149	0.9989	1.0138	
660	1,023	129	281,865,513	42,620,128	802,976	683,339	4,507,303	4,507,303	1.0230	0.1490	1.00	1.0230	0.9989	1.0219	
661	3,195	488	1,031,609,198	466,698,811	14,754,010	12,347,272	18,734,133	18,734,133	1.0774	0.1631	1.00	1.0774	0.9989	1.0762	
662	271	2	49,446,237	160,546	7,416	6,634	2,499,934	2,499,934	1.0003	0.1054	1.00	1.0003	0.9989	1.0000	
663	3,673	441	899,959,515	193,072,712	7,998,418	6,670,300	29,093,662	29,093,662	1.0371	0.1660	1.00	1.0371	0.9989	1.0360	
664	2,573	313	724,372,828	248,510,626	9,613,344	8,215,298	18,947,763	18,947,763	1.0515	0.1454	1.00	1.0515	0.9989	1.0503	
665	1,654	89	159,783,628	28,101,384	1,806,607	1,567,946	9,652,329	9,652,329	1.0213	0.1321	1.00	1.0213	0.9989	1.0202	
666	298	67	65,284,050	25,048,797	1,525,116	1,359,369	2,341,422	2,341,422	1.0448	0.1087	1.00	1.0448	0.9989	1.0437	
667	254	18	23,095,857	5,066,362	100,727	90,600	354,099	354,099	1.0228	0.1005	1.00	1.0228	0.9989	1.0217	
668	522	80	60,371,865	18,464,403	887,794	766,941	2,026,943	2,026,943	1.0433	0.1361	1.00	1.0433	0.9989	1.0422	
669	197	50	13,926,496	5,102,027	324,421	282,538	605,183	605,183	1.0472	0.1291	0.80	1.0439	0.9989	1.0428	
670	665	57	53,001,152	16,432,898	715,787	586,595	1,698,886	1,698,886	1.0565	0.1805	1.00	1.0565	0.9989	1.0553	
673	228	3	37,950,322	947,724	46,812	41,637	1,859,652	1,859,652	1.0027	0.1105	0.93	1.0047	0.9989	1.0036	
674	218	2	20,942,528	480,765	19,421	17,676	979,155	979,155	1.0018	0.0899	0.89	1.0050	0.9989	1.0039	
675	1,642	104	583,433,305	57,105,616	2,652,866	2,297,339	23,022,991	23,022,991	1.0140	0.1340	1.00	1.0140	0.9989	1.0129	
676	376	62	65,096,821	21,679,647	853,609	699,579	1,935,216	1,935,216	1.0585	0.1804	1.00	1.0585	0.9989	1.0573	
677	83	8	143,186,725	4,508,234	176,154	142,340	4,942,940	4,942,940	1.0066	0.1920	0.34	1.0225	0.9989	1.0214	
679	21	1	9,011,949	186,929	12,599	10,583	781,056	781,056	1.0025	0.1600	0.09	1.0282	0.9989	1.0271	
681	84	0	5,613,501	0	0	0	277,379	277,379	1.0000	0.0000	0.34	1.0203	0.9989	1.0192	
691	24	0	7,169,020	0	0	0	243,625	243,625	1.0000	0.0000	0.10	1.0276	0.9989	1.0265	
693	39	0	1,824,010	0	0	0	169,015	169,015	1.0000	0.0000	0.16	1.0258	0.9989	1.0247	
695	43	0	4,135,987	0	0	0	199,478	199,478	1.0000	0.0000	0.18	1.0252	0.9989	1.0241	
Total	43,299	4,453	8,677,029,250	2,099,059,029	101,484,512	87,757,333	358,888,994	358,888,994	1.0307	0.1353		1.0318	0.9989	1.0307	

Note:  
For each Class:  
Indicated Surcharge = (Total Premium Pre-PCCPAP) / (Total Premium Post-PCCPAP)  
Basis of Credibility:  $1 / ((\# \text{ PCCPAP Policies}) / (\# \text{ Total Policies})) * 25 = 245 \text{ Policies for Full Credibility}$   
Formula Surcharge = (Indicated Surcharge) \* (Credibility for that Class) + (1- Credibility) \* (Average Indicated Surcharge)  
Test Correction Factor = (Total Indicated Surcharge) / ((Total Weighted Formula Surcharge) / (Total Premium Post-PCCPAP))

Comparison of PCCPAP Surcharges by Class

Class (1)	Current PCCPAP Surcharge (2)	Proposed PCCPAP Surcharge (3)	Percentage Change (4)=(3)/(2)-1.0
601	1.0195	1.0157	-0.4%
602	1.0285	1.0225	-0.6%
603	1.0502	1.0459	-0.4%
605	1.0282	1.0247	-0.3%
606	1.0285	1.0244	-0.4%
607	1.0133	1.0035	-1.0%
608	1.0309	1.0266	-0.4%
609	1.0161	1.0117	-0.4%
611	1.0338	1.0274	-0.6%
615	1.0342	1.0290	-0.5%
617	1.0263	1.0151	-1.1%
645	1.0782	1.0643	-1.3%
646	1.0465	1.0481	0.2%
647	1.0103	1.0153	0.5%
648	1.0324	1.0354	0.3%
649	1.0970	1.1020	0.5%
651	1.0435	1.0357	-0.7%
652	1.0035	1.0028	-0.1%
653	1.0447	1.0354	-0.9%
654	1.0372	1.0385	0.1%
655	1.0378	1.0478	1.0%
656	1.0258	1.0196	-0.6%
657	1.0633	1.0314	-3.0%
658	1.0517	1.0442	-0.7%
659	1.0232	1.0138	-0.9%
660	1.0254	1.0219	-0.3%
661	1.0840	1.0762	-0.7%
662	1.0000	1.0000	0.0%
663	1.0474	1.0360	-1.1%
664	1.0545	1.0503	-0.4%
665	1.0262	1.0202	-0.6%
666	1.0485	1.0437	-0.5%
667	1.0312	1.0217	-0.9%
668	1.0469	1.0422	-0.4%
669	1.0490	1.0428	-0.6%
670	1.0767	1.0553	-2.0%
673	1.0056	1.0036	-0.2%
674	1.0008	1.0039	0.3%
675	1.0169	1.0129	-0.4%
676	1.0584	1.0573	-0.1%
677	1.0249	1.0214	-0.3%
679	1.0314	1.0271	-0.4%
681	1.0221	1.0192	-0.3%
691	1.0310	1.0265	-0.4%
693	1.0278	1.0247	-0.3%
695	1.0282	1.0241	-0.4%
Total	1.0356	1.0307	-0.5%