



Pennsylvania Compensation Rating Bureau

United Plaza Building • Suite 1500
30 South 17th Street • Philadelphia, PA 19103-4007
(215)568-2371 • FAX (215)564-4328 • www.pcrb.com

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 Salons A & B, 10th Floor of the Hilton Garden Inn Philadelphia Center City, 1100 Arch Street, Philadelphia, Pennsylvania on Monday, November 21, 2011 at 10 a.m.

The following members were present:

Actuarial Committee

Not Represented	American Home Assurance Company
Mr. A. Kerin	Amguard Insurance Company
Mr. C. Szczepanski	Donegal Mutual Insurance Company
Ms. L. Thorne	Fireman's Insurance Company of Washington, D.C.
Not Represented	Harleysville Mutual Insurance Company
Mr. D. Savage	Hartford Accident & Indemnity Company
Not Represented	Insurance Company of North America
Ms. E. Bellott	Liberty Mutual Insurance Company
Mr. K. Brady	PMA Insurance Company

Classification and Rating Committee

Ms. M. Innocenti	Crum & Forster Insurance Company
Not Represented	Graphic Arts Association
Ms. J. MacMullan	Harleysville Mutual Insurance Company
Not Represented	Insurance Company of North America
Not Represented	Malt Beverage Distributors Association
Ms. T. Theis	National Federation of Independent Business
Mr. J. Devlin	Pennsylvania Automotive Association
Mr. F. Preis	Pennsylvania Food Merchants Association
Not Represented	Pennsylvania Newspaper Association
Not Represented	Pennsylvania Retailers' Association
Ms. C. Algeo	PMA Insurance Company
Mr. D. Glowaski	Westfield Insurance Company
Mr. J. Binkowski	XL Insurance Company
Mr. S. Zrebiec	Zurich Insurance Company
Mr. T. Wisecarver	Chair - Ex Officio

Also present were:

Mr. I. Feuerlicht	American Home Assurance Company
Mr. A. Iuliano	AmeriHealth Casualty Insurance Company
Mr. C. Romberger	Coal Mine Compensation Rating Bureau of Pennsylvania
Mr. S. Cooley	Duane Morris LLP
Ms. K. Greo	Eastern Alliance Insurance Company
Ms. S. Hendricks	Eastern Alliance Insurance Company
Mr. K. Creighton	Pennsylvania Insurance Department
Mr. G. Zhou	Pennsylvania Insurance Department
Mr. A. Becker	Selective Insurance Company
Mr. J. Schmidt	Travelers Insurance Company
Ms. F. Barton	PCRB Staff
Ms. D. Belfus	PCRB Staff
Mr. B. Decker	PCRB Staff
Mr. M. Doyle	PCRB Staff
Mr. P. Yoon	PCRB Staff

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 electronic distribution of agenda materials in advance of the meeting and 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 loss cost change indication and its supporting materials. Questions were posed, responses were given and/or discussion ensued as indicated by the “Question,” “Answer,” “Discussion” and “Comment” entries inserted below:

Overall Loss Cost Change Indication

Staff noted a summary of key components of the draft April 1, 2012 filing that had been distributed in the second mailing of agenda materials, observing that experience obtained since the April 1, 2011 filing was submitted had been generally favorable. Policy year loss ratios and severity trends for both indemnity and medical losses had all improved, while claim frequency trend had slowed but only nominally. The cumulative effect of those changes was an average reduction in collectible loss costs of approximately 5.7 percent.

Derivation of ultimate on-level policy year loss ratios was described to attendees. Underlying data was obtained from aggregate financial calls as summarized in Exhibit 5. This data was presented on a consistent basis reflecting effects of Act 44 of 1993 (a law containing a variety of changes to the processes and parameters used to determine medical benefits for workers compensation cases in Pennsylvania) and Act 57 of 1996 (primarily consisting of changes to the system controlling indemnity benefits for workers compensation claims in Pennsylvania). Continuing practices of prior Pennsylvania filings, Exhibit 5 excluded data for policies written

on a large deductible basis. Staff described procedures used to assemble reported data from consistent groups of companies for each age-to-age comparison supported by Exhibit 5, noting that some companies either did not report data at certain evaluations or reported data that was not used in the filing analysis for a variety of reasons related to data quality.

Question: *An attendee asked for elaboration about how companies with incomplete historical reporting were treated in the compilation of reported losses for purposes of applying development methods and the extent to which the population of companies contributing data to Exhibit 5 was either consistent or changing over time. This person observed that reported loss ratios seemed to be increasing, while ultimate loss ratios estimated in the filing were decreasing.*

Answer: *Selection of companies to be included in any cell(s) in Exhibit 5 was strictly managed based on the attempt to include as much data as possible, while maintaining identical groups of carriers in each age-to-age comparison. Staff characterized the shifts in carrier population from report-to-report as generally being limited. Once age-to-age development factors had been derived in the fashion described, the resulting development patterns were applied to the most recent evaluation of premiums or losses which would include any carrier whose data had been accepted as part of the most recent available reporting of financial data.*

Staff indicated that it had observed that link ratios developed in the filing tended to be declining from those previously applied. Comparison of the most recent age-to-age factors to those two years prior (effectively comparing the link ratio being added to the one being dropped from the previous filing's analysis this year) tended to show a predominance of differences in which the new factor was smaller or lower than the second prior year. Medical case-incurred loss development link ratios were the noted exception, for which increases and decreases in link ratios were more balanced than the other available comparisons.

Exhibit 6 was noted as a key element of the PCRB's analyses of both loss development and trend. Premium development was presented on Page 6.1 of this exhibit. Loss development analyses for indemnity and medical benefits had been performed using both paid-loss and case-incurred loss methods. Calculations for indemnity benefits were shown on Pages 6.2 through 6.6, while the counterpart pages for medical benefits were 6.14 through 6.18. Tail factors for loss development calculations were derived using a methodology presented in Exhibit 7 of the agenda materials.

Staff pointed to Pages 10.1 and 10.2 of Exhibit 10 for graphical comparisons of policy year loss ratios obtained from the paid-loss and case-incurred loss development methods. As had been the case in numerous prior PCRB filings, the paid-loss development method showed consistently higher results than the case-incurred loss development method. Also consistent with methods used in support of prior PCRB filings, staff had applied the average of those two methods as the basis for ultimate policy year loss ratios in deriving the draft April 1, 2012 filing.

Exhibit 8 of the agenda materials was a central part of the derivation of claim frequency trend and was discussed next. Alternative data sets relevant to claim frequency experience and estimates were compared. The PCRB's derivation of claim frequency trend was described as

using unit statistical data excluding large deductible policies. Fluctuations in claim frequency were noted and compared to general countrywide experience in the most recent periods. The basis of the draft filing's indication for claim frequency trend was noted as an exponential fit through the most recent available seven policy year points, giving an annual rate of claim frequency decrease of 5.7 percent.

Question: *Staff was asked whether a reason(s) had been identified as to why Pennsylvania was not showing a claim frequency increase comparable to those reported for Delaware and for the National Council on Compensation Insurance, Inc. (NCCI).*

Answer: *The response indicated that, while a variety of factors such as changes in mix of business, economic conditions, statutory provisions and/or administrative systems could conceivably contribute to this experience, no factor(s) had been positively identified as causing the differences in observations from one state or another. Staff noted that the NCCI's experience had been that a substantial majority but not all of their states had seen recent claim frequency increases.*

Question: *Comment was offered to the effect that NCCI's basis for recent analysis of claim frequency had been a comparison of Accident Year 2010 to Accident Year 2009. This led to a question as to whether the PCRB knew what the Accident Year 2010 indication was here.*

Answer: *Staff acknowledged that its most recent available policy year data only included part of Policy Year 2010 and that the PCRB did not collect accident year data comparable to that relied upon by NCCI in first reporting claim frequency increases earlier this year. The Delaware increase noted by the Delaware Compensation Rating Bureau, Inc. was based on Policy Year 2009 data, and staff understood that comparable policy year data from unit statistical reports had shown increases in at least some NCCI jurisdictions.*

The calculation of "severity ratios" by adjusting loss ratios for observed changes in claim frequency was outlined, with reference to Pages 6.6 and 6.18 of Exhibit 6. Estimation of severity trends was accomplished in Exhibit 6 (Pages 6.6 through 6.10 for indemnity severity ratios and Pages 6.18 through 6.22 for medical severity ratios). Pages 10.3 and 10.4 of Exhibit 10 displayed a time series of severity ratios thus derived.

Measures of goodness-of-fit for severity ratio trends were shown in Exhibit 9b, and retrospective tests of trend projections of severity ratios were shown in Exhibit 11b. Staff noted comparisons of the results of these exhibits to counterpart analyses based on loss ratios and as shown in Exhibits 9a and 11a, respectively.

Exhibit 9b presented r-square values for regressions performed on indemnity and medical severity ratios over numbers of points ranging from as few as four to as many as ten. All of the severity ratios' r-square values were higher (better) than those obtained by regression through loss ratios. Residuals of the two alternative sets of values (loss ratios and severity ratios) were roughly evenly divided in terms of which metric was more successfully fitted in proportion to the actual values when tested using a 7-point fit.

Errors in trended severity ratios using a seven-point experience period tended to be relatively larger than those for trended loss ratios for medical benefits and relatively smaller than those for trended loss ratios for indemnity benefits.

Pages 10.5 and 10.6 of Exhibit 10 presented historical loss ratios based on the average of paid and case-incurred loss development methods, claim frequency trend and claim severity trend with projections to the year beginning April 1, 2012. The significance of the projections to the last annual period reflected on Pages 10.5 and 10.6 was described.

Exhibit 12 of the agenda materials was next offered. The second mailing version of this exhibit was utilized for this portion of the meeting discussion.

Loss ratios selected for indemnity and medical benefits had been posted for each of the three most recent available completed policy years, i.e., 2007, 2008 and 2009. 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 2007, 2008 and 2009 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.

Consistent with the approach in recent previous filings, trend procedures applied in the development of this filing had separated historical experience into frequency and severity components by adjusting policy year on-level loss ratios for actual changes in claim frequency. Historical claim frequencies and the derivation of a prospective claim frequency trend were presented on Page 12.3 of Exhibit 12.

Based on separate measures of policy year loss ratio trend and claim frequency trend, implied claim severity trends were derived. Staff had applied an exponential trend model to claim severity ratios for the most recent seven years to derive claim severity trends for this filing. The annual indemnity severity trend thus obtained was noted as +5.2 percent, and the counterpart annual medical severity trend was observed to be +4.8 percent.

The average trended on-level loss ratio obtained by applying the combined claim frequency and severity trends was shown on Line (9) of Exhibit 12, and at 0.9434 this ratio produced an indicated 5.66 percent decrease in collectible loss costs.

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.

Discussion next addressed selected agenda exhibits pertaining to pricing programs as identified following.

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 PCRB loss costs, had been removed from those loss costs. Consistent with requirements of HB 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 PCRB loss costs under provisions of this law.

With the enactment of HB 2738, an Uninsured Employers Guaranty Fund had been established, with initial funding granted by legislative appropriation and authority given to the Bureau of Workers' Compensation to issue assessments to insurers and self-insurers for additional funding as the need might arise. Consistent with past practice, the PCRB continued to include offset provisions for merit rating and credits granted under the Certified Safety Committee Program in published and proposed PCRB loss costs.

Exhibit 13 provided parameters used to compute the proposed employer assessment factor effective April 1, 2012 (0.0225) and the proposed loading to PCRB 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, 2012 (0.0146).

Staff noted that the proposed employer assessment factor was higher than the current level (0.0188) due to increases in budgetary provisions for the Administration Fund and Supersedeas Fund together with declines the applicable Employer Assessment Premium Base.

The loading in PCRB loss costs for the remaining factors listed above was noted as being up nominally from 0.0139 due to an increase in credit activity in the Certified Safety Committee Credit 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 October 1.

Staff noted that the average PCCPAP loading indicated, based on the most recent available data, was nominally lower than that currently in effect (2.75 percent proposed vs. 3.07 percent current). This was attributed to the effects of recent small declines in participation in the program and 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.

Question: *A committee member asked whether industries other than construction had expressed interest in a counterpart program(s).*

Answer: *Staff responded that no requests of this nature had been advanced to date in Pennsylvania or, so far as the PCRB was aware, in other states. It was noted that construction businesses often had the impression that their wage levels were relatively high and/or that wages varied significantly within the industry, giving rise to interest in alternative exposure bases and, in turn, premium adjustment programs.*

The Pennsylvania program had been established in response to proceedings related to a prior rate hearing at which construction industry representatives had sought adoption of man-hours as the exposure base for workers compensation insurance. Staff advised attendees that results of this and several other pricing programs were presented in some detail on the PCRB's website and that, overall, the PCCPAP credits were not supported by the experience of the entities receiving them.

Question: *Pertinent to the last observation, an inquiry was made concerning whether the PCRB had given any thought to eliminating the premium adjustment program, given that the credits being assigned therein did not appear to be warranted.*

Answer: *It was explained that the PCCPAP provided an expedient alternative to the use of man-hours for premium computation purposes that had been acceptable to all parties and that there would be concerns that discontinuing this program might rekindle discussions for a change in exposure base.*

Comment: *An observation was made that premium adjustment programs were by no means universal among states, that the accumulated data showed that the program was not warranted in Pennsylvania, and that there had been less political interest in the workers compensation insurance exposure base in recent years than had been the case some time ago.*

Answer: *The application of premium adjustment programs in a number of states was seen as part of the reason for reduced pressure to change exposure bases for the line. Further, having the PCCPAP in place did allow the PCRB to test the credits being granted and to use that data in support of the existing exposure base. Rescinding the program would be expected to be very unpopular with businesses accustomed to receiving credits and could be a catalyst for a renewed campaign for other more onerous changes in the system. Perceived issues with the current program aside, it was an established program that was accepted by employers and approved by regulators.*

Comment: *Because the program arose from a rate proceeding and was subsequently filed by the PCRB and approved by the Insurance Department, the PCRB would have to seek regulatory approval for any change(s) including eliminating the program.*

Question: *Another participant asked whether the PCRB had any plans to review the table used to determine PCCPAP credits, noting that NCCI did this somewhat differently in states where they administered premium adjustment programs.*

Answer: *The reply noted that Pennsylvania had indexed its table of qualifying wage levels and credits from the inception of the program, something that had not been part of early NCCI plans. Staff expressed knowledge that NCCI had revised its approach to such programs but did not recall details of those changes. It was generally believed that NCCI's current approach was more restrictive than the Pennsylvania plan in terms of available credits.*

A cautious approach to making revisions to this program was confirmed by staff. An example of a change that had been implemented involved the original practice of adjusting experience modifications to avoid duplicating their effect in PCCPAP credits.

Comment: *Notwithstanding the preceding discussion, an attendee expressed concern about continuing to issue credits that were not earned on the basis of differences in loss experience.*

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 (0.29 percent), the same level as was 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 1995 – 2009 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 proposed a nominal change in the loading to offset ongoing credits from 1.09 percent to 1.16 percent.

Question: A committee member recalled that PCCPAP program credits and loss cost surcharges were differentiated by classification code and wondered why the Certified Safety Committee Credit Program was not treated similarly.

Answer: Differences between these programs were noted, including the fact that only construction classifications were eligible for participation on the PCCPAP, whereas all classifications were eligible for the Certified Safety Committee Credit Program. Concern was expressed that many classifications would have little or no data pertaining to the results of the Certified Safety Committee Credit Program, presenting analytical challenges in crafting equitable and defensible surcharges by classification. Staff asked whether other states were known to have taken a classification-specific approach to loading rating values for the effects of safety credit programs. No attendee offered such information.

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 18a, 18b, 19 and 27 of the agenda materials.

Exhibit 18a 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. It was noted that Exhibit 18a presented Experience Rating Plan results prior to the effects of capping, recognizing that the selected capping procedures were intended to mitigate year-to-year movement in experience modifications but would not be expected to improve the accuracy of the modifications thus issued. An illustration of some of the effects of the new Experience Rating Plan was provided by reference to graphical pages included with the second mailing's version of Exhibit 18a.

Exhibit 18b was referenced as a summary page formatted identically to Exhibit 18a but reflecting the impacts of capping procedures adopted incrementally with initial swing limits adopted in 2004 and additional transition capping procedures added effective April 1, 2006.

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.

Question: *A participant asked how the PCRB planned to proceed in considering possible changes to the Experience Rating Plan.*

Answer: *Staff described some thoughts under development in this area. Credibility assignments for classification ratemaking had been changed some time ago to use payroll amounts in lieu of expected losses, and staff expected to test such an approach in experience rating as well. Another area of potential interest was the transition between merit rating and experience rating in terms of credits and debits assigned for similar experience. The existing uniform split point of \$42,500 was another plan feature that staff expected to review for possible change.*

Question: *The inquiring participant sought confirmation that the PCRB would communicate its progress in these areas to PCRB members and the Actuarial Committee.*

Answer: *Staff confirmed that the Actuarial and Classification & Rating Committees would see and review the PCRB's work prior to anything being submitted to the regulator for review and approval.*

Question: *A follow-up question was posed as to the likely time frame for this research and possible change.*

Answer: *It was expected that a response would be forthcoming within the next year or two.*

Size-of-Loss Analyses

Staff noted that 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 thereunder. 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.

Staff further noted that many of the size-of-loss studies and rating values proposed in the filing vary by hazard group and that the hazard groups were modified and expanded from four (designated I, II, III and IV) to seven (designated A, B, C, D, E, F and G) hazard groups as part of the April 1, 2009 filing. Those seven could also be combined to form four new hazard groups (A&B = 1, C&D = 2, E&F = 3, and G = 4) for use by carriers during a transition period that provided time for carrier system changes to be made. That transition program was in place for the filings effective April 1 of 2009, 2010 and 2011. Beginning with the April 1, 2012 filing, the transition program is no longer in place, and the filing will only support analysis for the seven hazard groups (A-G).

Staff briefly noted that the April 1, 2008 filing analysis had determined that actual loss experience could be used over a significant portion of the size-of-loss range for each type of injury. Various commonly-used distributions had been considered in fitting the empirical size-of-loss distributions, including Single Parameter Pareto, Generalized Pareto, Lognormal, Gamma, Weibull and Exponential. Separate analyses of claim frequency and loss severity were

performed. In generating final loss distributions and excess loss factors, actual data (claim counts and dollars of loss) for limits below \$500,000 had been combined with fitted counts and dollars above \$500,000 and re-accumulated.

Staff then described analysis conducted for the April 1, 2012 filing to support expanded hazard groups and excess loss factors applicable thereto. The methods and distributions employed are similar to the approach first introduced with the April 1, 2008 filing.

Exhibit 22 presented the most recent available Pennsylvania size-of-loss distribution, derived by tabulating reported loss amounts and developing open claims, so as to produce ultimate loss estimates on a case-by-case basis consistent with the PCRB's analysis of aggregate financial data. Losses were trended to the midpoint of the prospective rating period. The exhibit also includes actual excess loss factors based on empirical loss distributions by type of injury (death, permanent total, permanent partial, and temporary total), along with excess loss ratios tied to fitted curves for loss limitations of \$500,000 and higher.

Exhibit 23 derives proposed excess loss (pure premium) factors computed using results in Exhibit 22 and based on the proposed new hazard group assignments. Note that the process for calculating excess factors in Exhibit 23 is unchanged from prior years, although the loss distributions on which the analysis relies have been updated, and the average costs and weights by type-of-injury and hazard group reflect the most recent data.

Size of loss considerations also applied 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. 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. But for the April 1, 2009 filing, where the revision and expansion of hazard groups required a special treatment, the procedure has been used consistently since the April 1, 2003 filing. The compliment of credibility is assigned to prior year relativities adjusted for overall changes in Pennsylvania and countrywide (NCCI states) average severities. Exhibit 24 presented the derivation of state and hazard group relativities for the proposed filing.

Offering of small deductible coverages at certain specified amounts is mandatory in Pennsylvania. PCRB filings thus provide updated loss elimination ratios computed consistent with the mandatory deductible levels of \$1,000, \$5,000 and \$10,000. Staff noted the fact that the mandatory \$1,000 deductible offer fell below the threshold for required individual claim reporting under the approved Statistical Plan, requiring some special treatment and consideration in the course of the analysis of loss elimination ratios. More recently, PCRB has segregated individually reported small claims from small claims reported on a grouped basis. This process also allows for a more refined treatment of the distribution of medical-only losses by loss size. For the April 1, 2012 filing staff recommends that current loss elimination ratios for small deductible coverages remain in effect until a more thorough review of the segregated data can be completed.

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. Exhibit 32 contains selected portions of NCCI Item Filing R-1403. The PCRB is proposing to file the table of Expected Loss Ranges shown on Page 4 of the exhibit.

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.

Proposed Loss Cost Relativities by Classification

Exhibits 17, 20a, 20b, 20c, 28, 29, 30 and 31 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.

Question: An attendee asked for clarification of the derivation and use of test correction factors evidenced in the presence of "pre-test" and "post-test" pure premiums in the Class Book.

Answer: A description was offered as follows. At various steps within the classification ratemaking procedures, the indications derived from unit data (providing the classification rating value relativities) are brought into closer balance with the financial data (from which overall loss cost level change indications are derived). As examples of features of the classification pricing process that might introduce imbalances to be corrected were the use of loss limitations and credibility weighting. The post- test brings the unit data back in balance with the financial data and loads the large losses back in.

Comment: It was observed that in this filing the changes invoked by test corrections seemed universally downward.

Answer: Staff explained that test correction factors were derived and applied within type of injury (serious, non-serious and medical-only) for each classification.

Question: The attendee then asked whether there was an identifiable driving factor behind the test correction adjustments in the filing.

Answer: The essential basis for these adjustments was thought to be differences in timing and evaluation of unit statistical and financial data, respectively.

Question: Staff was asked whether high-severity classifications were more likely to be hurt by the capping process than lower-severity classifications.

Answer: Staff did not think this was the case, noting that higher-cost classifications received larger absolute adjustments than did lower-cost classifications but that the relative adjustments were uniform across all classes.

Comment: A comment was made to the effect that in NCCI states test corrections for the effects of loss limitations were differentiated by industry group.

Answer: That isn't how we do it. We do not separately identify excess losses.

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 PCRB 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.

Question: A participant observed that Classification 881 was affected by secondary capping and surmised that this classification would have low credibility.

Answer: Staff reported that this classification was a temporary staffing code and that it did have low credibility. However, staff emphasized that this would not have to be the case in order for the secondary capping procedure to apply, in that classes with lower credibility were less likely to depart from the average change indication than were larger more credible ones.

A Class Book providing detail of historical experience and derivation of proposed rating values had been distributed with agenda materials 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. An exhibit labeled "Index and Supporting Classification Exhibits" was provided for use in conjunction with the Class Book.

Question: Identification of materials in the filing pertaining to the temporary staffing classification previously discussed and to a comparison of temporary staffing experience to direct employment codes was requested.

Answer: Staff explained that the secondary capping procedure was intended to mitigate oscillations of more than 15 percent above and below the average industry group change for any given code. For Class 881, the April 1, 2011 filing had included an indicated reduction of six percent, in the context of a one percent statewide indicated increase. For this filing, Class 881 had an indicated increase of four percent compared to a five percent statewide reduction. The two successive differences of seven percent and nine percent gave a total of 16 percent, which exceeded the applicable limitation of 15 percent.

Discussion then referred to Page 9-2 within the Index and Supporting Classification Exhibits, where the comparisons of experience for temporary staffing codes to that of direct employment codes were shown. Those comparisons showed temporary staffing loss experience to be 53 percent higher than direct employment exposures for serious losses, 82 percent higher for non-serious losses, and 28 percent higher for medical-only losses. These differences were then credibility-weighted to derive the differentials applied to direct employment classification rating values to obtain the indicated temporary staffing classification values.

Effective December 1, 2010 temporary staffing classification Codes 544, 682, 929, 937 and 947 had been discontinued. However, the exposures and losses for the risks in those classifications could not be accurately reassigned to other approved classifications upon their discontinuation. While no new business will be written using these discontinued classifications, the Experience Rating Plan still requires reference to expected loss factors (ELFs) associated with prior periods of exposure in computing experience modifications. Exhibit 31 includes ELFs for the discontinued classes for use in calculating experience modification factors for affected risks.

Staff Memorandum Dated November 1, 2011

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. Changes proposed would increase the minimum individual payroll for executive officers from \$400 to \$450 per week. The maximum individual payroll for executive officers was proposed to change from \$2,100 to \$2,150 per week.

The maximum remuneration for premium computation purposes applicable to musicians or entertainers who are not independent contractors was proposed to change from \$400 per week to \$450 per week.

The annual payroll applicable to taxicab operators in the absence of payroll records was proposed to change from \$42,250 to \$42,900, and the minimum payroll for auxiliary police or special school police appointed by municipalities or townships was proposed to increase from \$4,250 to \$4,300 per year.

The Manual changes set forth in the staff memorandum dated November 1, 2011 were proposed to become effective on a new and renewal basis April 1, 2012.

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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