

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 2010 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 2010 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.

PENNSYLVANIA CONSTRUCTION CLASSIFICATION
PREMIUM ADJUSTMENT PROGRAM (“PCCPAP”)
(Continued)

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 2010. 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 2010. For example, an average credit of 0.0896 indicates that the average qualifying risk in Code 601 received an 8.96 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 260 policies or more receiving full credibility. This formula is an adaptation of procedures used in NCCI jurisdictions where credibility is a linear function of the number of policies qualifying for Premium Adjustment Plan credits. Staff perceives the use of total policies to be more appropriate where large portions of a class have not historically qualified for PCCPAP credit.

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

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

Column (14) - TCF: The test correction factor necessary to balance credibility-weighted surcharges across all classifications to the overall indicated surcharge of 2.50 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 01/01/10 Through 12/31/10

100% Credibility =
 Partial Credibility =

260 Policies
 # of Policies / 260

Class	# of Policies (Total)	# of Policies (PCCPAP)	Payroll (Total)	Payroll (PCCPAP)	***PCCPAP Policies***		**Non-PCCPAP Policies**		Indicated Surcharge	Average PCCPAP Credit	Class "Z"	Formula Surcharge	TCF	Final Surcharge
					Premium Pre-PCCPAP	Premium Post-PCCPAP	Premium Pre-PCCPAP	Premium Post-PCCPAP						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
601	384	71	233,067,879	46,502,675	2,836,941	2,582,673	10,734,683	10,734,683	1.0191	0.0896	1.00	1.0191	0.9988	1.0179
602	209	44	163,093,112	34,326,275	1,558,973	1,313,220	5,179,321	5,179,321	1.0379	0.1576	0.80	1.0353	0.9988	1.0341
603	298	69	96,833,093	40,185,695	1,868,361	1,634,539	2,422,131	2,422,131	1.0576	0.1251	1.00	1.0576	0.9988	1.0563
605	49	0	19,177,857	0	0	0	1,230,277	1,230,277	1.0000	0.0000	0.19	1.0203	0.9988	1.0191
606	48	1	212,128,920	259,268	23,464	19,944	19,293,806	19,293,806	1.0002	0.1500	0.18	1.0205	0.9988	1.0193
607	478	14	490,819,308	10,176,942	634,324	556,674	32,394,169	32,394,169	1.0024	0.1224	1.00	1.0024	0.9988	1.0012
608	2,616	330	376,438,211	87,229,721	4,917,977	4,298,373	15,660,325	15,660,325	1.0310	0.1260	1.00	1.0310	0.9988	1.0298
609	2,699	220	763,433,640	91,241,901	4,160,059	3,721,597	30,074,907	30,074,907	1.0130	0.1054	1.00	1.0130	0.9988	1.0118
611	25	10	3,494,407	1,409,981	104,887	86,944	151,566	151,566	1.0752	0.1711	0.10	1.0300	0.9988	1.0288
615	6	0	1,505,000	0	0	0	141,847	141,847	1.0000	0.0000	0.02	1.0245	0.9988	1.0233
617	337	65	243,909,002	49,056,273	2,202,127	1,985,366	7,870,538	7,870,538	1.0220	0.0984	1.00	1.0220	0.9988	1.0208
645	766	149	168,722,110	54,964,421	2,818,365	2,488,177	6,183,382	6,183,382	1.0381	0.1172	1.00	1.0381	0.9988	1.0369
646	420	35	76,042,419	15,233,232	670,066	544,804	3,035,795	3,035,795	1.0350	0.1869	1.00	1.0350	0.9988	1.0338
647	239	8	47,074,285	1,271,645	75,547	70,519	2,832,049	2,832,049	1.0017	0.0666	0.92	1.0036	0.9988	1.0024
648	1,194	72	96,499,940	19,630,910	998,829	834,478	4,165,712	4,165,712	1.0329	0.1645	1.00	1.0329	0.9988	1.0317
649	261	87	72,084,347	35,907,428	856,533	752,290	898,252	898,252	1.0632	0.1217	1.00	1.0632	0.9988	1.0619
651	2,505	346	486,940,698	121,541,276	6,880,571	6,029,813	21,004,034	21,004,034	1.0315	0.1236	1.00	1.0315	0.9988	1.0303
652	6,786	58	414,311,832	10,502,401	775,943	687,225	31,402,606	31,402,606	1.0028	0.1143	1.00	1.0028	0.9988	1.0016
653	1,992	206	252,366,731	65,143,868	4,104,089	3,592,387	11,940,447	11,940,447	1.0329	0.1247	1.00	1.0329	0.9988	1.0317
654	629	156	200,835,650	52,513,157	3,952,358	3,433,307	10,124,689	10,124,689	1.0383	0.1313	1.00	1.0383	0.9988	1.0371
655	339	89	78,322,611	16,730,564	1,829,372	1,564,477	6,700,257	6,700,257	1.0321	0.1448	1.00	1.0321	0.9988	1.0309
656	119	10	104,476,754	4,459,774	250,763	194,383	5,506,774	5,506,774	1.0099	0.2248	0.46	1.0181	0.9988	1.0169
657	57	1	7,571,976	6,855	586	568	549,228	549,228	1.0000	0.0307	0.22	1.0195	0.9988	1.0183
658	503	76	61,617,095	14,085,089	1,011,367	837,775	3,579,928	3,579,928	1.0393	0.1716	1.00	1.0393	0.9988	1.0381
659	886	73	118,055,804	17,182,656	2,546,645	2,251,104	14,066,689	14,066,689	1.0181	0.1161	1.00	1.0181	0.9988	1.0169
660	1,035	131	297,165,530	51,337,955	1,105,403	912,327	5,146,018	5,146,018	1.0319	0.1747	1.00	1.0319	0.9988	1.0307
661	3,025	426	843,174,649	330,160,364	9,630,272	7,976,591	15,242,641	15,242,641	1.0712	0.1717	1.00	1.0712	0.9988	1.0699
662	290	3	54,987,773	231,953	9,418	7,442	2,418,650	2,418,650	1.0008	0.2098	1.00	1.0008	0.9988	1.0000
663	3,550	376	808,555,423	190,024,673	6,886,301	5,824,595	23,425,943	23,425,943	1.0363	0.1542	1.00	1.0363	0.9988	1.0351
664	2,415	286	678,433,997	212,535,135	7,539,610	6,410,302	17,552,398	17,552,398	1.0471	0.1498	1.00	1.0471	0.9988	1.0458
665	1,512	86	136,282,940	23,192,375	1,382,248	1,189,400	7,365,719	7,365,719	1.0225	0.1395	1.00	1.0225	0.9988	1.0213
666	306	63	47,836,437	15,755,534	872,948	759,945	1,729,951	1,729,951	1.0454	0.1294	1.00	1.0454	0.9988	1.0441
667	230	26	18,498,017	4,623,329	85,969	74,747	243,921	243,921	1.0352	0.1305	0.88	1.0340	0.9988	1.0328
668	480	52	47,936,794	10,358,501	475,765	404,335	1,707,871	1,707,871	1.0338	0.1501	1.00	1.0338	0.9988	1.0326
669	156	23	9,443,719	2,291,051	137,750	119,378	424,104	424,104	1.0338	0.1334	0.60	1.0303	0.9988	1.0291
670	630	46	44,200,535	11,446,824	440,384	347,642	1,450,510	1,450,510	1.0516	0.2106	1.00	1.0516	0.9988	1.0503
673	213	6	33,556,938	1,979,207	110,975	102,080	1,518,420	1,518,420	1.0055	0.0802	0.82	1.0090	0.9988	1.0078
674	222	3	19,261,005	1,244,309	46,983	41,976	747,393	747,393	1.0063	0.1066	0.85	1.0091	0.9988	1.0079
675	1,568	103	726,822,948	58,715,782	2,213,339	1,898,013	25,007,015	25,007,015	1.0117	0.1425	1.00	1.0117	0.9988	1.0105
676	342	37	49,263,237	10,792,994	408,446	349,856	1,554,368	1,554,368	1.0308	0.1434	1.00	1.0308	0.9988	1.0296
677	76	15	85,758,359	10,841,537	353,561	288,740	2,346,578	2,346,578	1.0246	0.1833	0.29	1.0249	0.9988	1.0237
679	33	1	8,875,700	371,344	22,536	17,353	679,051	679,051	1.0074	0.2300	0.13	1.0227	0.9988	1.0215
681	82	0	6,102,981	0	0	0	286,683	286,683	1.0000	0.0000	0.32	1.0170	0.9988	1.0158
691	23	0	13,059,003	0	0	0	670,749	670,749	1.0000	0.0000	0.09	1.0228	0.9988	1.0216
693	31	0	636,785	0	0	0	59,377	59,377	1.0000	0.0000	0.12	1.0220	0.9988	1.0208
695	55	0	7,482,356	0	0	0	328,662	328,662	1.0000	0.0000	0.21	1.0198	0.9988	1.0186
Total	40,119	3,873	8,726,157,807	1,725,464,874	76,800,055	66,205,359	357,049,434	357,049,434	1.0250	0.1380		1.0262	0.9988	1.0250

Note:
 For each Class:
 Indicated Surcharge = (Total Premium Pre-PCCPAP) / (Total Premium Post-PCCPAP)
 Basis of Credibility: 1 / ((# PCCPAP Policies) / (# Total Policies)) * 25 = 260 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	1.0138	1.0179	0.4%
602	1.0160	1.0341	1.8%
603	1.0470	1.0563	0.9%
605	1.0203	1.0191	-0.1%
606	1.0203	1.0193	-0.1%
607	1.0059	1.0012	-0.5%
608	1.0291	1.0298	0.1%
609	1.0118	1.0118	0.0%
611	1.0286	1.0288	0.0%
615	1.0258	1.0233	-0.2%
617	1.0189	1.0208	0.2%
645	1.0632	1.0369	-2.5%
646	1.0348	1.0338	-0.1%
647	1.0069	1.0024	-0.4%
648	1.0292	1.0317	0.2%
649	1.0706	1.0619	-0.8%
651	1.0307	1.0303	0.0%
652	1.0022	1.0016	-0.1%
653	1.0345	1.0317	-0.3%
654	1.0342	1.0371	0.3%
655	1.0555	1.0309	-2.3%
656	1.0198	1.0169	-0.3%
657	1.0262	1.0183	-0.8%
658	1.0383	1.0381	0.0%
659	1.0215	1.0169	-0.5%
660	1.0256	1.0307	0.5%
661	1.0715	1.0699	-0.1%
662	1.0000	1.0000	0.0%
663	1.0346	1.0351	0.0%
664	1.0384	1.0458	0.7%
665	1.0204	1.0213	0.1%
666	1.0544	1.0441	-1.0%
667	1.0235	1.0328	0.9%
668	1.0312	1.0326	0.1%
669	1.0340	1.0291	-0.5%
670	1.0499	1.0503	0.0%
673	1.0060	1.0078	0.2%
674	1.0160	1.0079	-0.8%
675	1.0118	1.0105	-0.1%
676	1.0508	1.0296	-2.0%
677	1.0208	1.0237	0.3%
679	1.0241	1.0215	-0.3%
681	1.0172	1.0158	-0.1%
691	1.0247	1.0216	-0.3%
693	1.0225	1.0208	-0.2%
695	1.0216	1.0186	-0.3%
Total	1.0275	1.0250	-0.2%