



Pennsylvania Compensation Rating Bureau

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

April 29, 2021

PCRB CIRCULAR NO. 1763

To All Members of the PCRB:

RE: THE PENNSYLVANIA WORKERS COMPENSATION PRICING SYSTEM

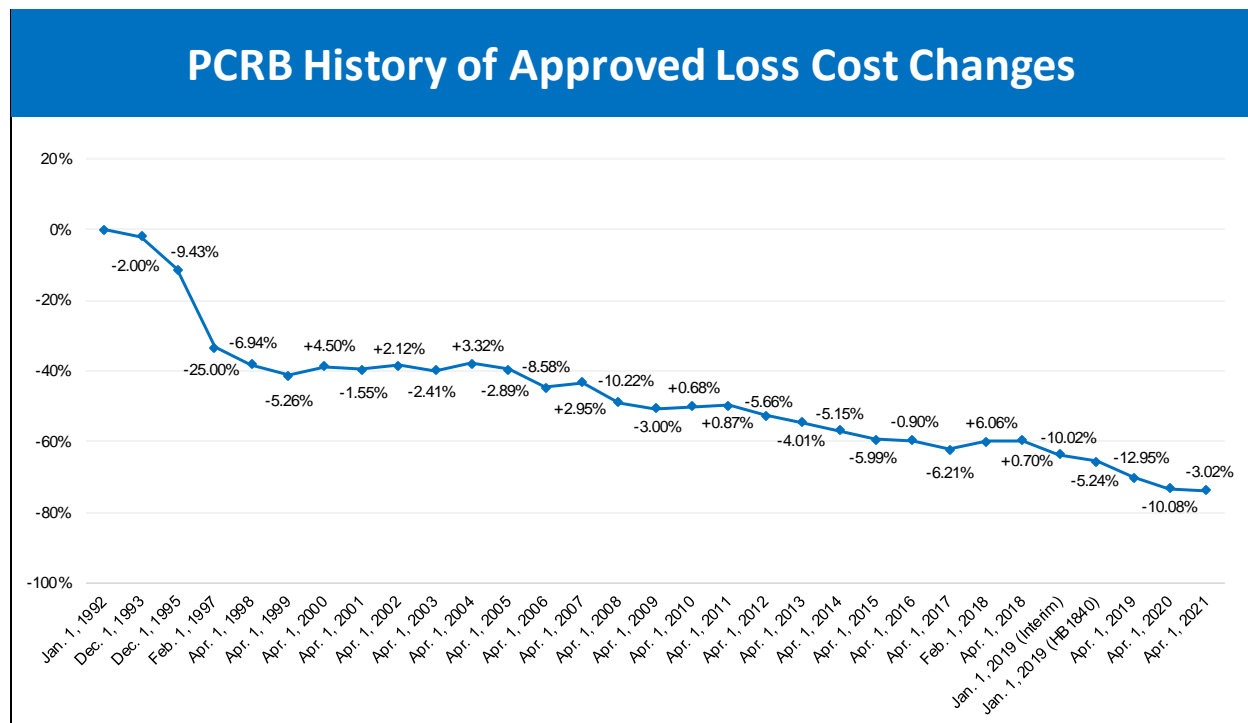
The PCRB held its Annual Meeting on Thursday, April 29, 2021. Traditionally, during and following that meeting, an update on the state of the Pennsylvania Workers Compensation marketplace is provided. A brief version of the State of the Line was previewed at this meeting and a report by the same name is now posted with additional information. There is also a special report on COVID-19 also released concurrently as a companion to this year's State of the Line report.

Along with the reports provided at this time, we customarily provide this circular, which highlights the key elements of the Pennsylvania workers compensation system, including background and discussion regarding loss cost revisions, trends in claim costs and several dynamics affecting the system. This is provided for the benefit of PCRB members and other interested parties, and updates information provided in prior circular versions. The appendix of this circular provides the data underlying the charts.

As mentioned above and in addition to the information contained in this circular, please refer to the recently released reports providing detailed Pennsylvania workers compensation marketplace activity metrics and actuarial results for the past year. Readers are encouraged to obtain the recently published 2020 reports from the PCRB website: State Activity Report, the State of the Line Report and the Medical Activity Report. These noted reports are available on the left side of the Homepage via the "Data Reports / Special Studies" link and, additionally, the 2020 PCRB Annual Report is found via the "Organization" link.

Loss Cost Changes

The average change in collectible loss costs approved by the Insurance Commissioner, effective April 1, 2021, was a decrease of 3.02 percent. The system of filing loss costs was implemented as a result of Act 44 of 1993, and Act 44, along with Act 57 of 1996, introduced significant changes in the Pennsylvania workers compensation system. Resulting from these changes is a history of loss cost changes in Pennsylvania since the inception of the present pricing system, as shown in the following chart:



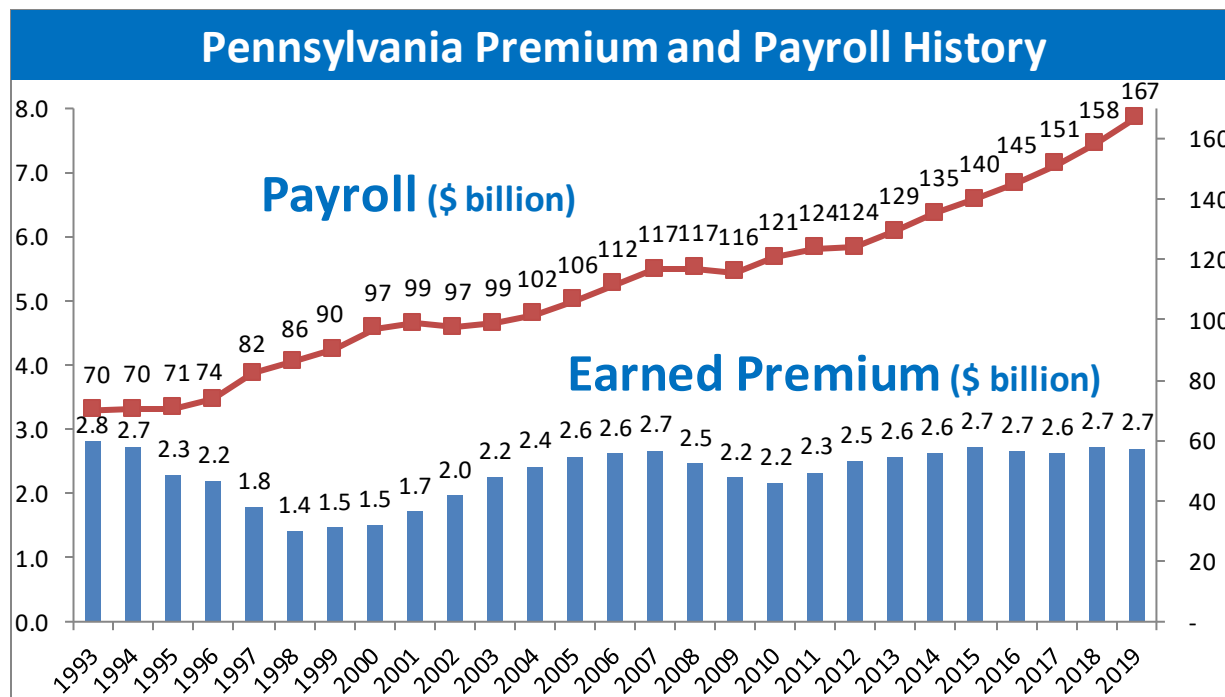
Over this 29-year period, the primary factors underlying the long-term downward trend in Pennsylvania are the improvement in claim frequency, which is decreasing by 6.3 percent annually, along with the fundamental changes due to Acts 44 and 57. The downward frequency trend has been sufficient to counter upward claim severity trends for indemnity and medical benefits. The approved April 1, 2021 loss costs contemplate that claim frequency will continue to show declines through the end of 2021. The following chart shows the trends underlying the approved April 1, 2021 loss cost filing.

Pennsylvania Claim Cost Trends			
	Frequency	Severity	Pure Premium
Indemnity	-6.3%	+1.8%	-4.6%
Medical		+2.7%	-3.8%

Premium and Payroll History

The size of the Pennsylvania workers compensation insurance market, as measured by Direct Earned Premium, has fluctuated over the last several decades. Ironically, 2019 shows the same level as 1994 at \$2.7 billion. Since 2003, the premium has been relatively consistent fluctuating from a low of \$2.2 billion in 2004 and 2010 to a high of \$2.7 billion in 2007, 2015/16, and 2018/19. In contrast, effective payroll¹ has more than doubled over the entire time frame and is up 64% since 2004. The chart below illustrates the different growth patterns. The pattern of premium growth and decline displayed for Pennsylvania is similar to patterns seen in broader, multi-state studies.

¹ Payroll in this chart is adjusted to an “effective” level by subtracting an amount that reflects the retained exposure, measured by the premium discount on deductible policies. This provides a better comparison to earned premium in company financial statements, which is net of deductible credits.



Notes: Payroll for large deductible policies is reduced in proportion to the premium reductions due to deductibles.
 Payroll for 2018 and 2019 is estimated based on PA Department of Labor & Industry payroll data.
 Premium data is the aggregate direct earned premium from insurer financial statements, from A.M. Best Database Services.
 Payroll is based on policy year data. Earned premium is based on calendar year data.

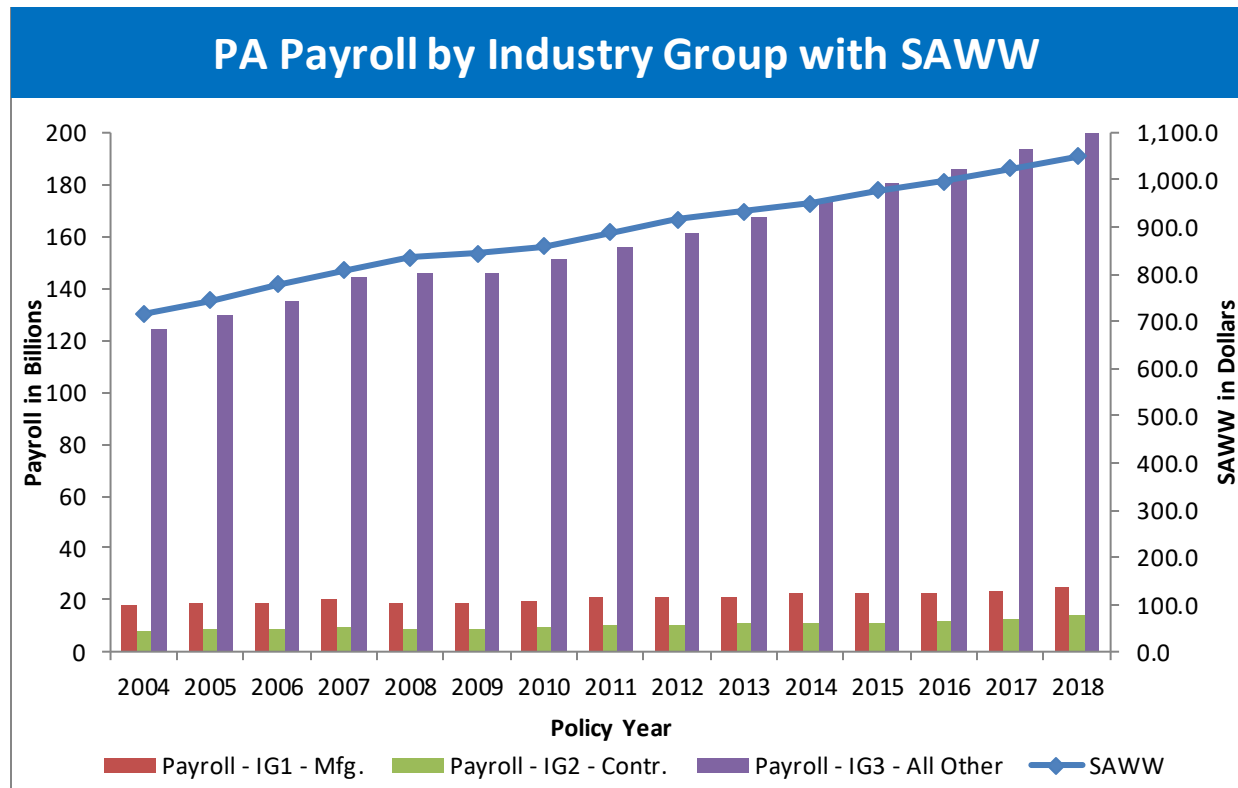
The difference in growth rates for payroll and premium appears to result from several dynamics in Pennsylvania, some of which are similar to trends across the country.

First, total payroll reported by insurers to the PCRB, adjusted to reflect large deductible policies, has risen every year except 2002 and 2009. The cumulative increase in effective payroll since 1993 is 139 percent.

Second, as shown in the first chart of this circular, loss costs have generally declined since they were first implemented in 1993. The cumulative loss cost change since then is a decrease of 74 percent.

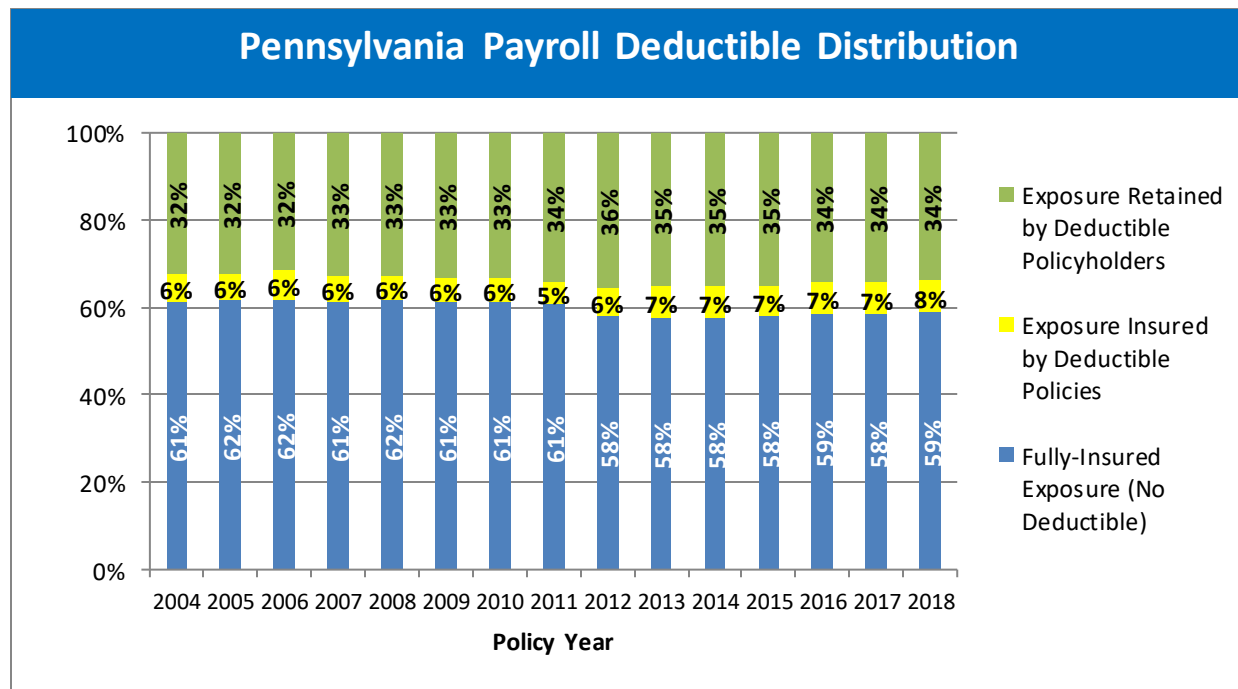
Third, payroll growth differs among the three PCRB industry groups, with manufacturing payroll lagging the other sectors which have kept pace with the growth in the Statewide Average Weekly Wage (SAWW). In the next chart, payroll is included at its full value for deductible policies (i.e., not at the “effective” level), to be comparable to the wage data. The chart shows SAWW growth from 2004 to 2018 of 47 percent.

For the three PCRB industry groups, the growth over that same period varies. For Industry Group 1 – Manufacturing, payroll rose from \$18.3 billion to \$24.6 billion, or by 34 percent. For Industry Group 2 – Contracting, payroll grew from \$8.0 billion to \$13.8 billion, or by 73 percent. For Industry Group 3 – All Other, payroll grew from \$124.0 billion to \$199.9 billion, an increase of 61 percent. The growth rate for Manufacturing is well below that of the other industry groups and the SAWW.



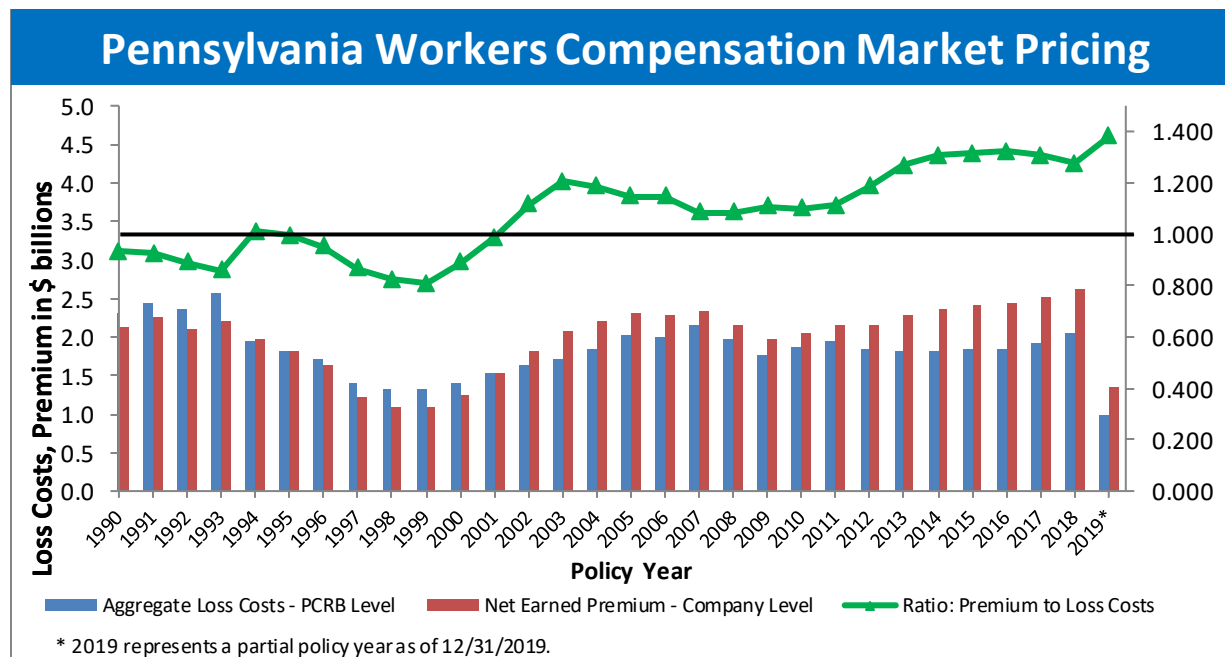
Growth in Use of Large Deductible Policies

A fourth dynamic is the growth in the use of large deductible policies. In 2018, 41 percent of payroll was reported on large deductible policies, where the average portion of risk retained by policyholders is about 82 percent. The next chart shows the history from 2004 to 2018.



Loss Costs and Industry Earned Premium

Another factor to consider is the pricing strategy across the industry in Pennsylvania and the country. Pricing strategy is impacted by market cycles, competitiveness, legislation, investment income and many other factors. The chart below shows the relationship between aggregate loss costs at PCRB level and net earned premium at company level by policy year from 1990 through the first half of Policy Year 2019. Prior to 2002, carriers wrote business in Pennsylvania at levels below, and sometimes significantly below, PCRB loss costs. This is evidenced by the ratio of carrier prices to PCRB loss costs which reached a low point in 1999 at 0.81. However, since 2002, the ratios appear less volatile and have been generally increasing with the incomplete Policy Year 2019 ratio estimated at 1.38.



PCRB loss cost filings, which address only the provision for claim payment, represent the projected average cost for each classification. They do not provide indications of either past or prospective price trends. Insurance carriers must independently evaluate information and factors beyond PCRB filings to determine the rates they will use in the Pennsylvania market, subject to regulatory approval.

As previously noted in PCRB circulars and further reinforced by the above narrative and information, PCRB rating values can serve as meaningful benchmarks within an overall pricing approach. However, numerous other very important factors must also be carefully accounted for on an ongoing basis in each carrier's pricing analysis.

Questions regarding the information in this circular should be directed to Brent Otto, Vice President & Chief Actuary, at extension 4451, botto@pcrb.com or Ken Creighton, Director of Actuarial Services, at extension 4924, kcreighton@pcrb.com.

William V. Taylor
President

WVT/dn

Remember to visit our web site at www.pcrb.com for more information about this and other topics.

Appendix

Data Underlying the Charts

History of Approved Loss Cost Changes in Pennsylvania		
Policy Year Effective Date	Average Change in Loss Costs	Cumulative Change in Loss Costs
Dec. 1, 1993	-2.00%	-2.00%
Dec. 1, 1995	-9.43%	-11.24%
Feb. 1, 1997	-25.00%	-33.43%
Apr. 1, 1998	-6.94%	-38.05%
Apr. 1, 1999	-5.26%	-41.31%
Apr. 1, 2000	4.50%	-38.67%
Apr. 1, 2001	-1.55%	-39.62%
Apr. 1, 2002	2.12%	-38.34%
Apr. 1, 2003	-2.41%	-39.82%
Apr. 1, 2004	3.32%	-37.83%
Apr. 1, 2005	-2.89%	-39.62%
Apr. 1, 2006	-8.58%	-44.80%
Apr. 1, 2007	2.95%	-43.18%
Apr. 1, 2008	-10.22%	-48.98%
Apr. 1, 2009	-3.00%	-50.51%
Apr. 1, 2010	0.68%	-50.18%
Apr. 1, 2011	0.87%	-49.74%
Apr. 1, 2012	-5.66%	-52.59%
Apr. 1, 2013	-4.01%	-54.49%
Apr. 1, 2014	-5.15%	-56.83%
Apr. 1, 2015	-5.99%	-59.42%
Apr. 1, 2016	-0.90%	-59.78%
Apr. 1, 2017	-6.21%	-62.28%
Feb. 1, 2018	6.06%	-60.00%
Apr. 1, 2018	0.70%	-59.72%
Jan. 1, 2019 (Interim)	-10.02%	-63.75%
Jan. 1, 2019 (HB1840)	-5.24%	-65.65%
Apr. 1, 2019	-12.95%	-70.10%
Apr. 1, 2020	-10.08%	-73.11%
Apr. 1, 2021	-3.02%	-73.93%

Pennsylvania Premium and Payroll History		
Policy/Calendar Year	Direct Earned Premium by Calendar Year (\$000)*	Effective Payroll by Policy Year (\$000)
1993	2,817,651	69,982,125
1994	2,730,858	70,222,604
1995	2,290,920	70,649,222
1996	2,196,055	73,588,426
1997	1,794,790	82,120,076
1998	1,408,597	86,056,936
1999	1,469,706	90,266,811
2000	1,514,995	97,173,836
2001	1,712,165	98,756,549
2002	1,966,766	97,391,574
2003	2,249,933	98,925,416
2004	2,421,470	101,672,111
2005	2,581,581	106,334,571
2006	2,620,364	111,670,952
2007	2,672,758	116,706,903
2008	2,465,389	116,872,320
2009	2,244,791	115,569,109
2010	2,167,273	120,632,623
2011	2,328,257	123,508,825
2012	2,504,225	124,036,269
2013	2,569,218	129,367,580
2014	2,634,727	135,225,779
2015	2,717,988	139,832,966
2016	2,666,022	145,169,281
2017	2,625,831	151,421,924
2018	2,727,143	158,333,494
2019	2,700,852	166,972,352

*A.M. Best Database Services

Pennsylvania Payroll by Industry Group with Statewide Average Weekly Wage					
Payroll Gross of Deductible (\$000)					
Policy Year	IG1 - Manufacturing	IG2 - Contracting	IG3 - All Other	Total	SAWW
2004	18,309,340	7,974,650	124,004,258	150,288,248	716.0
2005	18,706,250	8,488,740	129,927,283	157,122,274	745.0
2006	19,078,259	9,000,344	135,236,842	163,315,445	779.0
2007	19,926,596	9,421,485	144,516,989	173,865,071	808.0
2008	18,982,119	9,116,220	145,637,162	173,735,500	836.0
2009	18,835,707	8,390,682	145,727,693	172,954,082	845.0
2010	19,801,865	9,245,588	151,063,705	180,111,159	858.0
2011	20,878,941	10,349,863	155,987,404	187,216,208	888.0
2012	20,934,664	10,184,476	161,363,764	192,482,904	917.0
2013	21,391,298	10,700,925	167,346,465	199,438,689	932.0
2014	22,633,302	11,359,625	174,376,170	208,369,098	951.0
2015	22,541,318	11,445,052	180,994,301	214,980,670	978.0
2016	22,642,051	11,689,888	185,865,019	220,196,958	996.0
2017	23,741,192	12,875,193	193,700,836	230,317,221	1,025.0
2018	24,552,619	13,812,906	199,947,794	238,313,319	1,049.0

Pennsylvania Payroll Deductible Distribution (\$000)				
Policy Year	Total Gross of Deductible	Fully Insured Exposure (No Deductible)	Exposure Insured by Deductible Policies	Exposure Retained by Deductible Policyholders
2004	150,288,248	91,995,518	9,676,593	48,616,137
2005	157,122,274	96,804,336	9,530,234	50,787,703
2006	163,315,445	101,093,164	10,577,788	51,644,493
2007	173,865,071	106,620,167	10,086,736	57,158,168
2008	173,735,500	107,306,551	9,565,769	56,863,181
2009	172,954,082	105,915,562	9,653,547	57,384,973
2010	180,111,159	110,464,162	10,168,462	59,478,536
2011	187,216,208	113,480,811	10,028,014	63,707,382
2012	192,482,904	112,146,478	11,889,791	68,446,635
2013	199,438,689	115,319,711	14,047,869	70,071,108
2014	208,369,098	120,350,664	14,875,115	73,143,318
2015	214,980,670	125,091,072	14,741,894	75,147,704
2016	220,196,958	129,254,320	15,914,962	75,027,677
2017	230,317,221	134,337,541	17,084,383	78,895,297
2018	238,313,319	140,093,610	17,875,987	80,343,722

Pennsylvania Workers Compensation Market Pricing			
Policy Year	Collectible Loss Costs at Bureau Level (\$000)	Net Earned Premium at Company Level (\$000)	Ratio
1990	2,298,225	2,140,593	0.931
1991	2,439,831	2,258,124	0.926
1992	2,356,417	2,097,477	0.890
1993	2,558,858	2,197,315	0.859
1994	1,945,927	1,966,307	1.010
1995	1,813,893	1,807,000	0.996
1996	1,724,784	1,642,568	0.952
1997	1,406,555	1,219,884	0.867
1998	1,329,641	1,095,359	0.824
1999	1,335,220	1,080,539	0.809
2000	1,411,195	1,255,786	0.890
2001	1,540,618	1,519,439	0.986
2002	1,635,126	1,825,520	1.116
2003	1,715,690	2,065,041	1.204
2004	1,856,159	2,198,676	1.185
2005	2,019,628	2,312,901	1.145
2006	1,994,579	2,284,671	1.145
2007	2,165,052	2,344,191	1.083
2008	1,985,607	2,156,709	1.086
2009	1,773,831	1,965,496	1.108
2010	1,872,837	2,061,873	1.101
2011	1,943,760	2,160,307	1.111
2012	1,831,237	2,167,680	1.184
2013	1,806,474	2,292,094	1.269
2014	1,804,924	2,356,722	1.306
2015	1,847,446	2,427,120	1.314
2016	1,839,623	2,428,071	1.320
2017	1,920,535	2,512,057	1.308
2018	2,049,298	2,610,493	1.274
2019*	984,936	1,358,086	1.379

* 2019 is an incomplete policy year.