

**PENNSYLVANIA COMPENSATION RATING BUREAU  
APRIL 1, 2003 LOSS COST FILING  
SURVEY OF 24 LARGE CARRIER GROUPS – SUMMARY OF RESPONSES**

In preparation for the April 1, 2003 Loss Cost Filing the PCRБ developed and distributed a series of questions to larger carrier groups. The questions, developed based on preliminary staff analysis prior to the joint meeting of the PCRБ's Actuarial and Classification & Rating Committees, were intended to solicit information more current than that available from routine data collection resources, such as financial data and unit statistical reports, and/or to elicit carrier insights into possible causes for observed features of the available experience data.

The survey questions were sent to a total of 24 carrier groups, collectively representing over 77 percent of the Pennsylvania workers compensation market in 2001.

Responses were received from 12 of those carrier groups. The responses obtained from the returned surveys are summarized in the attached pages which replicate the form and sequence of the questions asked for purposes of providing context for the summaries shown. Note that in a few instances a carrier(s) gave more than one response, in which case the number of responses cited may exceed 12 in total.

**Pennsylvania Compensation Rating Bureau**  
Trends in Experience – April 1, 2003 Loss Cost Filing

Questionnaire for Leading Carrier Groups

1. Bureau data shows a substantial and persistent downward trend in claim frequency, continuing through the most recent policy year available from unit data (2000). The trend in question is measured comparing indemnity claims to on-level expected losses, so that medical-only losses are excluded from the data and shifts in employment between classifications and/or Industry Groups is recognized in the frequency calculations over time.

The recent annual effective rate of decline in claim frequency seen in Bureau data is 6.3%. Excluding the effects of a period of three policy years in the mid-1990s (when claim frequency dropped at double-digit or near-double-digit rates), this recent trend is consistent with experience of the past 11 policy years in which claim frequency dropped at an average rate of 6.6%.

**What has your group observed with respect to claim frequency in the period from 1997 to date?**

<u>Response</u>	<u>Number of Times Given</u>
Declines in claim frequency for the period in question, with the extent of declines varying both above and below the level cited by the PCRB in its survey background	9
Claim frequency measured in terms of claims per policy written, with frequency seen to be increasing	2
Recent claim frequency experience essentially flat, with prior reductions offset by more recent increases	1

**To what do you attribute the changes you have seen?**

<u>Response</u>	<u>Number of Times Given</u>
Safety measures and/or technological Advances	5
Changes in the composition of the book Of business written	3
Reduced employment levels	2
Increases in Policy Size	2
No reason(s) given	2
Risks self-paying and not reporting injuries	1

**What do you expect in terms of claim frequency for the period from 2001 through 2003?**

<u>Response</u>	<u>Number of Times Given</u>
Continued decreases, at levels generally comparable To recent past	6
Continued improvement but at slower pace than recently observed	3
Increases	3

**What factors do you think will cause the claim frequency experience you anticipate and why?**

<u>Response</u>	<u>Number of Times Given</u>
Loss control programs and initiatives	5
Economic conditions	4
Composition and volume of book of business written	2
No reason(s) given	2

**Pennsylvania Compensation Rating Bureau**  
Trends in Experience – April 1, 2003 Loss Cost Filing

Questionnaire for Leading Carrier Groups

2. Bureau data shows a significant increase in indemnity claim severity trends for the most recent available data as compared to the experience underlying our April 1, 2002 loss cost filing. Last year we saw indemnity claim severity trend as about +3.0% per year. This year we are measuring indemnity severity trend at approximately +6.5% per year, using comparable methods. **(NOTE: Subsequent to the preparation and distribution of the questionnaire, the Bureau's estimate of indemnity severity trend was revised to +8.1%.)**

Our data also indicates that indemnity claims are being closed somewhat more quickly in recent periods than had previously been the case. Thus, in combination our data is suggesting that the average indemnity claim is increasing faster than wages (and thus faster than benefit levels) at the same time that average claim duration is declining.

**What has your company seen in terms of changes in indemnity claim severity over the period from 1996 – 2001?**

<u>Response</u>	<u>Number of Times Given</u>
Generally increasing at rates comparable to levels reported by PCRB	4
Increasing notably faster than levels reported by PCRB	2
No consistent pattern observed	2
No response given	2
Flat	1
Decreasing	1

**What factors do you find notable in terms of either controlling or increasing indemnity claim severity over this period of time?**

<u>Response</u>	<u>Number of Times Given</u>
Deterioration in application of administrative reforms and statutory provisions	5
No reply or opinion provided	3
Rise in numbers of serious cases	1
Increasing wage levels	1
Managed care programs	1
Composition and volume of book written	1

**What do you expect to see in terms of indemnity claim severity for the period 2001 – 2003?**

<u>Response</u>	<u>Number of Times Given</u>
No reply given	5
Increases consistent with recent past	4
Increases at rates somewhat less than recent past	2
Increasing	1
Leveling out near term, with later increases	1

**What factor(s) do you think will be most important in contributing to the indemnity claim severity changes that you foresee and why?**

<u>Response</u>	<u>Number of Times Given</u>
No reply given	5
Administrative impediments to timely return to work And related forms of case resolution	4
Changes in benefit levels	3
Possible legislative responses to system conditions	1
Managed care programs helping experience	1
Declining benefit inflation	1
Rising rehabilitation service costs	1

**Pennsylvania Compensation Rating Bureau**  
Trends in Experience – April 1, 2003 Loss Cost Filing

Questionnaire for Leading Carrier Groups

3. Bureau data shows medical claim severity trends for the most recent available data to be modestly higher than those underlying our April 1, 2002 loss cost filing. Last year we saw medical claim severity trend as about +8.0% per year. This year we are measuring medical severity trend at approximately +8.6% per year, using comparable methods.

**What has your company seen in terms of changes in medical claim severity over the period from 1996 – 2001?**

<u>Response</u>	<u>Number of Times Given</u>
Generally comparable to levels cited by PCRB	5
Other different or unspecified increases	5
Data not available	1
Flat	1

**What factors do you find notable in terms of either controlling or increasing medical claim severity over this period of time?**

<u>Response</u>	<u>Number of Times Given</u>
Growing problems with managed care programs	6
No response provided	3
Rising inflation in settlement amounts	1
General health care cost trends	1
Composition and volume of book written	1

**What do you expect to see in terms of medical claim severity for the period 2001 – 2003?**

<u>Response</u>	<u>Number of Times Given</u>
Accelerating increases	5
Increases continuing recent pace	3
No reply given	3
Decelerating increases	1

**What factor(s) do you think will be most important in contributing to the medical claim severity changes that you foresee and why?**

<u>Response</u>	<u>Number of Times Given</u>
Technological changes and ongoing medical inflation	8
No reply given	4

**Pennsylvania Compensation Rating Bureau**  
Trends in Experience – April 1, 2003 Loss Cost Filing

Questionnaire for Leading Carrier Groups

**What considerations NOT mentioned in your responses to the above questions do you think will be significant drivers of loss cost experience in Pennsylvania from 2001 through 2003?**

<u>Response</u>	<u>Number of Times Given</u>
No reply given	8
Litigation	2
Economic conditions	2
Emergence of more frequent large losses	1

**How do you think each of these factors will affect loss costs?**

<u>Response</u>	<u>Number of Times Given</u>
No reply given	10
Worsening economic conditions could increase system costs	1
Increasing claim severity could increase system costs	1
Impairment of selected administrative provisions such as labor market surveys could increase system costs	1