

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 premiums. 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. When an experience-rated employer receives a PCCPAP credit, the expected losses used in determining that employer’s modification are reduced in proportion to the PCCPAP credit, thereby avoiding redundant credits based on prevailing wage levels.

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 2001 policy year experience data which 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 2001 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 experience modifications made where applicable for those policies. The current PCCPAP load on Manual Rates is omitted from this calculation.

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(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 experience modifications made where applicable. 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 which did not qualify for PCCPAP credit in 2001. 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 2001. For example, an average credit of .0939 indicates that the average qualifying risk in Code 601 received a 9.39 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 225 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 3.23 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.

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	514	111	161,434,267	36,757,154	2,775,585	2,514,943	9,047,626	9,047,626	1.0225	0.0939	1.00	1.0225	0.99961	1.0221
602	184	62	93,589,388	25,762,803	979,062	903,134	2,304,480	2,304,480	1.0237	0.0776	0.82	1.0249	0.99961	1.0245
603	283	103	66,172,734	24,327,983	1,660,526	1,506,209	2,481,843	2,481,843	1.0387	0.0929	1.00	1.0387	0.99961	1.0383
605	36	1	9,251,746	46,692	4,538	4,174	810,252	810,252	1.0004	0.0802	0.16	1.0258	0.99961	1.0254
606	15	0	10,959,588	0	0	0	1,524,945	1,524,945	1.0000	0.0000	0.07	1.0285	0.99961	1.0281
607	312	17	72,985,786	6,332,985	520,002	438,699	7,062,065	7,062,065	1.0108	0.1564	1.00	1.0108	0.99961	1.0104
608	2,830	403	387,960,014	114,721,166	7,149,068	6,460,105	17,230,675	17,230,675	1.0291	0.0964	1.00	1.0291	0.99961	1.0287
609	2,787	301	461,567,407	98,051,583	4,991,643	4,524,661	18,321,151	18,321,151	1.0204	0.0936	1.00	1.0204	0.99961	1.0200
611	35	16	3,812,701	1,756,995	235,715	187,107	217,672	217,672	1.1201	0.2062	0.16	1.0449	0.99961	1.0445
615	1	1	1,529,682	1,529,682	400,254	379,040	0	0	1.0560	0.0530	0.00	1.0306	0.99961	1.0302
617	279	82	90,695,799	32,348,969	1,947,484	1,765,956	4,247,380	4,247,380	1.0302	0.0932	1.00	1.0302	0.99961	1.0298
645	761	184	194,246,630	94,172,167	5,957,828	5,370,551	7,144,170	7,144,170	1.0469	0.0986	1.00	1.0469	0.99961	1.0465
646	394	49	61,784,253	13,619,877	763,660	654,504	2,817,821	2,817,821	1.0314	0.1429	1.00	1.0314	0.99961	1.0310
647	155	12	20,977,485	1,380,524	138,831	112,679	1,874,031	1,874,031	1.0132	0.1884	0.69	1.0186	0.99961	1.0182
648	1,187	97	106,524,755	28,106,099	1,491,304	1,334,854	4,327,374	4,327,374	1.0276	0.1049	1.00	1.0276	0.99961	1.0272
649	218	87	59,653,828	37,052,158	1,121,317	1,003,274	791,976	791,976	1.0658	0.1053	0.97	1.0647	0.99961	1.0643
651	2,944	392	524,290,666	183,583,052	12,094,449	10,966,530	25,564,953	25,564,953	1.0309	0.0933	1.00	1.0309	0.99961	1.0305
652	8,213	160	525,835,612	28,759,600	2,287,323	2,032,084	41,188,838	41,188,838	1.0059	0.1116	1.00	1.0059	0.99961	1.0055
653	2,216	252	328,295,878	121,257,733	8,758,163	7,979,374	14,878,100	14,878,100	1.0341	0.0889	1.00	1.0341	0.99961	1.0337
654	617	187	144,250,436	61,740,767	6,597,746	5,728,931	7,465,764	7,465,764	1.0658	0.1317	1.00	1.0658	0.99961	1.0654
655	389	76	75,999,047	13,509,140	2,418,635	2,080,724	10,194,965	10,194,965	1.0275	0.1397	1.00	1.0275	0.99961	1.0271
656	78	7	42,381,915	2,380,815	256,911	233,341	3,529,556	3,529,556	1.0063	0.0917	0.35	1.0221	0.99961	1.0217
657	59	15	6,909,431	1,336,701	90,089	80,347	676,166	676,166	1.0129	0.1081	0.26	1.0260	0.99961	1.0256
658	448	94	49,377,724	17,803,540	1,675,825	1,439,642	3,234,448	3,234,448	1.0505	0.1409	1.00	1.0505	0.99961	1.0501
659	845	121	107,687,331	36,527,312	5,378,496	4,835,965	11,139,701	11,139,701	1.0340	0.1009	1.00	1.0340	0.99961	1.0336
660	789	72	221,603,232	32,978,424	779,181	684,216	3,933,981	3,933,981	1.0206	0.1219	1.00	1.0206	0.99961	1.0202
661	3,038	461	895,335,701	378,257,045	13,503,439	11,666,811	19,093,858	19,093,858	1.0597	0.1360	1.00	1.0597	0.99961	1.0593
662	268	4	75,676,770	462,071	16,467	13,226	2,700,956	2,700,956	1.0012	0.1968	1.00	1.0012	0.99961	1.0008
663	3,567	407	767,902,585	174,404,377	7,875,397	6,761,388	27,921,198	27,921,198	1.0321	0.1415	1.00	1.0321	0.99961	1.0317
664	2,411	326	566,467,035	175,547,876	6,718,018	5,897,010	15,751,571	15,751,571	1.0379	0.1222	1.00	1.0379	0.99961	1.0375
665	1,584	108	119,917,978	22,459,584	2,078,549	1,824,846	8,823,108	8,823,108	1.0238	0.1221	1.00	1.0238	0.99961	1.0234
666	283	32	42,814,505	10,283,753	734,997	633,132	2,446,417	2,446,417	1.0331	0.1386	1.00	1.0331	0.99961	1.0327
667	378	36	28,061,882	7,141,205	175,623	159,417	542,996	542,996	1.0231	0.0923	1.00	1.0231	0.99961	1.0227
668	376	52	42,889,574	15,351,043	931,476	842,953	1,771,783	1,771,783	1.0339	0.0950	1.00	1.0339	0.99961	1.0335
669	188	32	14,063,287	4,522,614	345,654	313,323	683,794	683,794	1.0324	0.0935	0.84	1.0321	0.99961	1.0317
670	552	38	42,882,049	9,325,790	567,422	477,814	2,129,288	2,129,288	1.0344	0.1579	1.00	1.0344	0.99961	1.0340
673	177	8	24,627,085	4,164,525	330,914	281,916	1,278,445	1,278,445	1.0314	0.1481	0.79	1.0312	0.99961	1.0308
674	205	5	17,809,224	1,497,761	107,268	85,287	1,030,693	1,030,693	1.0197	0.2049	0.91	1.0207	0.99961	1.0203
675	1,446	138	348,771,157	64,998,593	3,119,240	2,704,032	13,838,815	13,838,815	1.0251	0.1331	1.00	1.0251	0.99961	1.0247
676	288	48	58,456,216	17,012,984	834,144	669,951	1,882,092	1,882,092	1.0643	0.1968	1.00	1.0643	0.99961	1.0639
677	56	11	47,319,952	6,022,861	422,842	348,623	3,583,204	3,583,204	1.0189	0.1755	0.25	1.0277	0.99961	1.0273
679	22	0	6,647,430	0	0	0	1,047,491	1,047,491	1.0000	0.0000	0.10	1.0275	0.99961	1.0271
681	88	0	5,152,709	0	0	0	321,296	321,296	1.0000	0.0000	0.39	1.0187	0.99961	1.0183
682	66	0	2,771,794	0	0	0	554,767	554,767	1.0000	0.0000	0.29	1.0217	0.99961	1.0213
Total	41,582	4,608	6,937,344,268	1,907,296,003	108,235,085	95,900,773	307,411,705	307,411,705	1.0306	0.1140		1.0310	0.99961	1.0306

Note:

For each Class:

Indicated Surcharge = (Total Premium Pre-PCCPAP) / (Total Premium Post-PCCPAP)

Basis of Credibility: 1 / ((# PCCPAP Policies) / (# Total Policies)) * 25 = 225 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))

0.9996

Comparison of PCCPAP Surcharges by Class

Class (1)	Current PCCPAP Surcharge (2)	Proposed PCCPAP Surcharge (3)	Percentage Change (4)=(3)/(2)-1.0
601	1.0217	1.0221	0.0%
602	1.0291	1.0245	-0.4%
603	1.0559	1.0383	-1.7%
605	1.0263	1.0254	-0.1%
606	1.0295	1.0281	-0.1%
607	1.0115	1.0104	-0.1%
608	1.0295	1.0287	-0.1%
609	1.0197	1.0200	0.0%
611	1.0374	1.0445	0.7%
615	1.0316	1.0302	-0.1%
617	1.0287	1.0298	0.1%
645	1.0445	1.0465	0.2%
646	1.0297	1.0310	0.1%
647	1.0208	1.0182	-0.3%
648	1.0308	1.0272	-0.3%
649	1.0689	1.0643	-0.4%
651	1.0308	1.0305	0.0%
652	1.0048	1.0055	0.1%
653	1.0356	1.0337	-0.2%
654	1.0472	1.0654	1.7%
655	1.0711	1.0271	-4.1%
656	1.0279	1.0217	-0.6%
657	1.0250	1.0256	0.1%
658	1.0437	1.0501	0.6%
659	1.0357	1.0336	-0.2%
660	1.0195	1.0202	0.1%
661	1.0600	1.0593	-0.1%
662	1.0014	1.0008	-0.1%
663	1.0353	1.0317	-0.3%
664	1.0404	1.0375	-0.3%
665	1.0206	1.0234	0.3%
666	1.0294	1.0327	0.3%
667	1.0296	1.0227	-0.7%
668	1.0446	1.0335	-1.1%
669	1.0266	1.0317	0.5%
670	1.0320	1.0340	0.2%
673	1.0255	1.0308	0.5%
674	1.0112	1.0203	0.9%
675	1.0226	1.0247	0.2%
676	1.0325	1.0639	3.0%
677	1.0275	1.0273	0.0%
679	1.0291	1.0271	-0.2%
681	1.0210	1.0183	-0.3%
682	1.0228	1.0213	-0.1%
691	1.0197	1.0200	0.0%
693	1.0308	1.0305	0.0%
695	1.0600	1.0593	-0.1%
Total	1.0323	1.0306	-0.2%