Pennsylvania Compensation Rating Bureau
The Widener Building • 6th Floor
One South Penn Square • Philadelphia, PA 19107-3577
(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 the Chestnut Room, 7th Floor, Holiday Inn Express Midtown, 1305 Walnut Street, Philadelphia, Pennsylvania on Tuesday, November 21, 2006 at 10 a.m.

The following members were present:

Actuarial Committee	
Ms. M. Gaillard	American Home Assurance Company
Mr. S. Klabacha	Continental Casualty Company
Mr. C. Szczepanski	Donegal Mutual Insurance Company
Mr. J. Hohman	Erie Insurance Company
Mr. A. Becker.	Harleysville Mutual Insurance Company\
Ms. D. Brasley	Hartford Accident & Indemnity Company
Mr. S. Warfel	Insurance Company of North America
Mr. D. Lawton*	Liberty Mutual Insurance Company
Mr. S. Curlee	PMA Insurance Company
Classification and Rating Committee	
Mr. I. Feuerlicht	American Home Assurance Company
Mr. R. Butera	Amerihealth Casualty Insurance Company
Mr. B. Thomas	Argonaut Insurance Company
Not represented .	Graphic Arts Association
Mr. D. Bond	Harleysville Mutual Insurance Company
Ms. C. Gallagher	Lehigh Valley Business Conference on Health Care
Mr. D. Lawton*	Liberty Mutual Insurance Company
Mr. J. Devlin	Pennsylvania Automotive Association
Not represented	Pennsylvania Chamber of Business & Industry
Not represented	Pennsylvania Food Merchants Association
Ms. C. Wilson	Pennsylvania Newspaper Association
Not represented	Pennsylvania Retailers' Association
Mr. B. Blom.	Penn National Insurance Company
Ms. C. Algeo	PMA Insurance Company
Mr. T. Wisecarver	Chair - Ex Officio

Also present were:

Mr. D. Broadwater	Coal Mine Compensation Rating Bureau of Pennsylvania
Mr. S. Cooley	Duane Morris, LLP
Mr. K. Creighton	Pennsylvania Insurance Department
Mr. M. McKenney	Pennsylvania Insurance Department
Mr. D. Asmus	Office of Small Business Advocate
Mr. S. McKinnon	Office of Small Business Advocate (Mercer Oliver Wyman)
Mr. A. Becker	Selective Insurance Company
Mr. M. Pozaic	State Workers' Insurance Fund
Mr. J. Schmidt	Travelers Insurance Company
Mr. K. Hildebrand	Zenith Insurance Company
Ms. F. Barton	Bureau Staff
Ms. D. Belfus	Bureau Staff
Mr. B. Decker	Bureau Staff
Mr. M. Doyle	Bureau Staff
Mr. P. Yoon	Bureau Staff

* Member of both committees

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:

<u>Trended Ultimate Loss Ratios - Indemnity</u>

Exhibit 5 was identified as providing historical financial data upon which the proposed filing’s analysis was based. The exclusion of large deductible experience and Catastrophe Code 48 (September 11, 2001) losses from Exhibit 5 was noted.

Participants were reminded that for numerous previous loss cost filings the Bureau had adopted an approach of adjusting financial data to “post-law” levels, as respects the medical provisions of Act 44 of 1993 (Act 44) and the indemnity provisions of Act 57 of 1996 (Act 57). This methodology, which offered efficiencies in the overall filing analysis, was continued for purposes of the analysis offered for discussion at this meeting.

Page 1 of Exhibit 5 provided the two most recent calendar years of premium development data, which staff noted was supplemented by additional older experience taken from previous filings’ documentation for the analysis supporting this proposed filing.

Reported indemnity losses were identified as appearing on Page 3 (case-incurred indemnity loss) and Page 5 (paid indemnity loss) of Exhibit 5. Pages 7 through 20 of Exhibit 5 were noted as presenting details of the adjustment of indemnity experience to a post-Act 57 basis. The original such adjustments had been prepared using data from the April 1, 1999 Loss Cost Filing. Those adjustments had been balanced, so that indications obtained using historical data adjusted to a "post-law" level were comparable to alternative indications derived using historical data stated on a "pre-law" level, in combination with savings factors related to legislation. Adjustments for subsequent calendar years' data had been constructed serially based on policy year distributions of data and impacts attributable to the Act 57 law changes. Adjustments for calendar years prior to 2004 in this filing reflected factors that had been derived in previous Bureau filings. The adjustment for Calendar Year 2004 shown on Page 19 of Exhibit 5 in this filing had been recomputed using the most recent available data, and the adjustment for Calendar Year 2005 shown on Page 20 of Exhibit 5 had been made for the first time in this proposed filing. The revised Calendar Year 2004 adjustments and the Calendar Year 2005 adjustments applied in this filing had been performed in a manner similar to adjustments for prior years, using parameters consistent with those prior adjustments and/or ongoing assumptions about the extent to which data had responded to the effects of the law change.

The adjusted indemnity financial data, stated on a post-Act 57 basis, was shown on Pages 37 (incurred loss) and 39 (paid loss) of Exhibit 5.

Exhibit 6 presented the Bureau's loss development analysis in support of the filing, as well as significant portions of the special trend procedure proposed for use therein. Staff reviewed the pertinent portions of Exhibit 6 and related supporting documentation for indemnity benefits as follows.

Page 6.1 of Exhibit 6 provided premium and/or expected loss development history and estimated ultimate, on-level expected losses for use in computing loss ratios. Pages 6.2 through 6.6 provided steps in the application of incurred and/or paid loss development approaches to indemnity benefits. Staff advised that, consistent with a proposal first advanced and agreed upon during discussion of the April 1, 2005 Loss Cost Filing, the underlying loss data had been adjusted for the limited indemnity provisions of Act 44 for purposes of the analysis presented at this meeting. The benefit factors applied for the purpose of stating indemnity loss data on a post-Act 44 basis were shown on Page 6.4.

One of the approaches shown in Exhibit 6 used a case-incurred loss development method to estimate ultimate indemnity losses. Another estimate had been constructed using paid loss development for the maximum period of reporting supported by available financial data (to 20th report) and then converting cumulative paid losses to equivalent case-incurred losses and applying case-incurred loss development for the remaining development period to ultimate. Finally, the Bureau had derived estimates using the average of the case-incurred loss development method and the paid loss development method applied to 20th report.

Exhibit 7 presented the Bureau's derivation of "tail factors" for use in its array of possible loss development methods. The methodology applied had been used in prior PCRB filings in response to recommendations in regulatory examinations. Pages 2, 4, 6 and 8 of this exhibit each provided a tail factor estimate for indemnity benefits based on a different calendar year of development experience. An indemnity tail factor for the proposed filing had been selected as the average of these four separate indications, as shown on Page 1 of Exhibit 7.

Question: An attendee asked whether the Bureau used carrier IBNR amounts in its calculation of tail factors.

Answer: Staff replied that carrier IBNR amounts were not used in the tail factor calculations, and offered that the IBNR amounts were also excluded from loss development analysis for periods occurring before that embodied in the tail factors**.**

Exhibit 8 provided claim frequency experience that the Bureau had used in support of its trend analysis for the proposed filing.

Staff had obtained counts of indemnity claims and exposures (measured by expected losses at a constant set of Bureau loss costs) from unit statistical reports. This data was available by policy year from 1987 through 2004, with the last year having a mid-point of January 1, 2005. Compilations of this experience were provided separately for non-deductible business (Pages 3 and 4 of Exhibit 8) and for all business including deductible coverages (Pages 5 and 6 of Exhibit 8.) Staff had also reviewed trends in claim frequency by industry group, and indications for that review were provided on Page 8 of Exhibit 8.

Previous PCRB filings had included reference to data provided by the Department of Labor & Industry regarding counts of injuries and illnesses reported in the Commonwealth, together with non-federal payrolls. The work injuries and illnesses shown in those reports were incidents resulting in lost time beyond the day or shift of occurrence. For this filing, updates had been received from the Department of Labor & Industry through June 30, 2006. The history of these injury reports and payrolls was available on a calendar year basis from 1985 through 2005 and for the 12-month periods ending June 30 of each year from 1996 through 2006 inclusive.

Staff noted that data for counts of injuries and illnesses from the Department of Labor & Industry had previously exhibited fluctuations attributed to an unknown extent to changes in reporting practices by some of that Department's data sources and observed that recent data from the Department of Labor & Industry again appeared to depart from claim experience manifest in PCRB sources. To date PCRB staff had taken the impression from discussions with staff at the Department of Labor & Industry that the recent data was again not reflective of actual injury or claim experience in the Commonwealth but had not been able to obtain detailed descriptions of phenomena that might be associated with the data in question.

For reference purposes, the historical data from the Department of Labor & Industry was provided on Pages 1 and 2 of Exhibit 8.

Question*:* It was noted that the Bureau's measure of claim frequency was expressed per million dollars of expected loss. Explanation of the derivation of the expected losses used in those calculations was requested.

Answer*:* The Bureau's claim frequency data is based upon unit statistical reports, which include exposures (generally payrolls) by classification. Exposure data reported in the unit statistical reports is used in conjunction with the currently-approved schedule of PCRB loss costs to compute the on-level expected losses used in computing claim frequencies. Staff observed that this approach incorporated both amounts of exposure and the distribution of exposures by classification in the Bureau's time series of claim frequencies.

Question: A follow-up question was posed asking whether the Bureau adjusted its claim frequency analyses for wage inflation.

Answer: The claim frequencies used in the Bureau's analysis were not adjusted for wage inflation, and so the Bureau's measures of claim frequency trend included the effects of such inflation**.**

For use in conjunction with the indemnity severity trend factors, the Bureau had selected a prospective frequency trend based on non-deductible business over the Policy Years 1998 – 2004 inclusive from Exhibit 8, resulting in a frequency trend of –6.1 percent which had been used in trending claim frequency through the mid-point of the prospective rating period (April 1, 2008). The frequency trend factors consistent with this procedure were set forth on Page 6.6 of Exhibit 6.

Staff described the proposed filling's approach to trend analysis in the following fashion. Estimated ultimate on-level loss ratios derived in Exhibit 6 had been adjusted for the effects of changes in claim frequency presented in the Bureau data, excluding deductible business from Exhibit 8. The results of these adjustments were referred to as "severity ratios" and were presented on Page 6.6 of Exhibit 6. The Bureau had then applied its customary linear and exponential trend models to the severity ratios so derived over numbers of data points ranging from four to ten. For each trend model and loss development method in combination, severity trend factors were calculated for each of the three most recent policy years. This severity trend analysis was shown on Pages 6.7 through 6.10 of Exhibit 6.

In Exhibits 9a and 9b, goodness-of-fit tests had been applied to trend models applied to loss ratios (Exhibit 9a) and severity ratios (Exhibit 9b). Staff opined that using severity ratios had significantly improved the results of fitting tests, with r-squared values for severity ratios being materially higher than those of counterpart efforts to fit loss ratios, and severity ratios also showing somewhat smaller proportional residual differences in the goodness-of-fit testing done by the Bureau. Exhibits 11a and 11b, respectively, provided further examinations of the effectiveness of trend models by testing predictive abilities of the respective models and trend periods prepared in support of this proposed filing. Staff opined that using severity ratios had materially improved the results of projection tests, with many such tests resulting in severity projections proportionally closer to actual points than for loss ratio projections.

Indemnity loss ratio trend factors computed as the product of the indemnity severity trend factors and frequency trend factors described above were shown on Page 6.11 of Exhibit 6. The resulting trended indemnity loss ratios were presented on Pages 6.12 (linear trend model) and 6.13 (exponential trend model).

Exhibit 10 provided graphs of indemnity loss ratios (Page 10.1) and indemnity severity ratios (Page 10.3). In addition, Exhibit 10 provided a graph of indemnity loss ratios, indemnity severity ratios and claim frequency each indexed to a common starting point (Policy Year 1992) on Page 10.5. These graphs illustrated the point that, since Policy Year 1997, indemnity claim severity in Pennsylvania had been generally increasing at a rate that was slightly higher than the offsetting improvement in claim frequency.

Pages 6.12 and 6.13 of Exhibit 6 showed arrays of possible trended indemnity loss ratios produced by the methods described above, with the Bureau's selected result (0.4984) highlighted with a border on Page 6.13. The selected result was produced using the average of a case-incurred loss development approach and the paid loss development method to 20th report loss development. An exponential seven-point severity trend was used in combination with the selection of an annual claim frequency trend rate of –6.1 percent to trend selected policy year results forward through the mid-point of the prospective rating period, April 1, 2008.

Trended Ultimate Loss Ratios - Medical

Staff indicated that the analysis done for medical losses paralleled that described above for indemnity losses in most important respects. The pertinent exhibit and page references were provided as follow:

Exhibit	Content	Page(s)
5	Medical financial data - Table I reported data	4 (case incurred), 6 (paid)
	Adjustment of medical financial data to post-Act 44 basis	21 through 34
	Adjusted medical financial data	38 (case incurred), 40 (paid)
6	Medical loss development	6.14 through 6.18
	Trending of medical severity ratios	6.19 through 6.22
	Medical loss ratio trend factors	6.23
	Trended medical loss ratios	6.24 (linear), 6.25 (exponential)
7	Medical loss development tail factors	Summary on Page 1, detail on Pages 3, 5, 7 and 9
8	Claim frequency	Per indemnity discussion
9a, 9b	Goodness-of-fit tests	9a1, 9a4, 9a5, 9a8 and 9a9
	9a for loss ratios, 9b for severity ratios	9b1, 9b4, 9b5, 9b8 and 9b9

NOTE: Test fits for medical severity ratios, using seven-point projections, have results proportionally somewhat closer to actual values than do loss ratio fits.

11a, 11b	Retrospective tests of prediction for loss ratios (Exhibit 11a) and severity ratios (Exhibit 11b)	11a6 – 11a10 and 11b6 – 11b10

NOTE: Test projections using severity ratios were much closer than loss ratio projections for one test, with results for the other two possible comparisons using seven-point projections favoring use of loss ratios.

10	Graphs of medical loss ratios	10.2
	Graphs of medical severity ratios	10.4
	Graph of indexed medical loss ratios, severity ratios and frequency trends combined	10.6

Staff noted that the trend model used for medical severity ratios was an exponential fit through the most recent seven policy year data points estimated based on the average of the case incurred and paid to 20th report development methods. In combination with the selected claim frequency trend previously described with the analysis of indemnity experience, this approach gave the trended medical loss ratio (0.5311) highlighted with a border on page 6.25 of Exhibit 6.

Indicated Overall Change in Loss Costs

Exhibit 12 of the agenda materials supported this section 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., 2002, 2003 and 2004. 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 2002, 2003 and 2004 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.

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.

Following the discussion of the overall loss cost change indication, the Committees continued discussion of additional topics related to staff analysis or potential areas for additional review as outlined below.

Question*:* Staff was asked to confirm that the indications from Exhibit 12 showed that manual loss cost levels were proposed to increase by one percent, experience rating effects were expected to produce an additional increase of almost two percent, and, in combination, these factors resulted in the proposed change in collectible loss costs of almost three percent.

Answer*:* Staff confirmed that the interpretation offered was correct.

<u>Discussion</u>: It was observed that, while overall loss costs were proposed to increase 2.95 percent, non-rated accounts would receive increases of slightly less than one percent. This result arose from the implementation of a manual loss cost change of +0.99 percent and a collectible loss cost change of +2.95 percent. It was noted that the impact of the filing would vary by classification, with some codes receiving increases above the average manual change, some receiving smaller increases and yet others receiving reductions according to the merits of their respective loss and exposure experience data.

<u>Question</u>: Inquiry was made as to whether the anticipated change in average experience modification suggested that prevailing experience modifications were too low.

<u>Answer</u>: Staff replied to the effect that, while the filing analysis routinely measured expected fluctuations in experience modifications, this measurement did not necessarily imply any impropriety in current and/or future modifications. Changes in experience modifications in varying amounts were regularly seen as experience used in the promulgation of modifications was updated and refreshed every year.

<u>Question</u>*:* An attendee asked whether the Line 10 values on this year's Exhibit 12 were the same as the values on Line 11 of last year's Exhibit 12.

<u>Answer</u>*:* Staff confirmed that the Exhibit 12 values did flow through successive annual fling analyses as described***.***

<u>Question</u>*:* An attendee observed that Policy Year 2004 experience looked worse than the average of the three policy years and wondered whether that might suggest further increase indications in future filings. As a related matter, staff was asked whether the Bureau was committed to using a seven-point exponential trend to measure frequency and/or severity trends.

<u>Answer</u>*:* The Bureau had selected the seven-point exponential model based on a variety of considerations, including the graphs of policy year on-level loss and severity ratios, practices in previous filings, and goodness of fit and prediction accuracy tests. With respect to the observed variations between individual recent policy year loss ratios, staff noted the use of the three most recent policy years as bases for projecting trended loss ratios as a measure of protection against being unduly influenced by a single good year or a bad year.

<u>Comment</u>: In this filing, the two-year average trended loss ratio using only Policy Years 2003 and 2004 appeared to give the same loss cost change indication as did the average of Policy Years 2002, 2003 and 2004.

<u>Question</u>*:* Observation was made that in Table I, Page 2 (total incurred losses) the most recent diagonal showed generally higher development factors for older policy years than did the previous diagonal. Staff was asked for its opinion about the implications of such differences.

<u>Answer</u>*:* Staff noted that Exhibit 6 showed a series of seven loss development diagonals as compared to the two most recent diagonals reflected in Table I and explained that the Bureau's selection of a loss development method proceeded with the benefit of review of that broader series of development experience. The use of two-year average loss development factors was based in part on the size of the Pennsylvania data base, which was thought to be sufficiently credible to warrant substantial responsiveness to recent loss development indications. Staff observed that the indicated change in loss cots was driven by a combination of loss development and trend on the medical side. Indemnity experience provided nominal offsets to those medical effects, resulting in the overall indication seen on Exhibit 12.

Question*:* An attendee asked how medical services were reimbursed in Pennsylvania and, in particular, whether such services were reimbursed as charged by the provider(s) involved.

Answer*:* Pennsylvania uses a fee schedule that controls reimbursement amounts for medical goods and services absent specific agreement between purchasers and providers through Coordinated Care Organizations or other similar mechanisms. The adoption of a fee schedule was described as the centerpiece of Act 44 of 1993 which had resulted in a substantial and immediate reduction in indicated loss costs***.***

Question*:* An attendee asked what impact payroll growth had in the observed indemnity annual frequency trend***.***

Answer*:* Staff pointed out portions of Exhibit 8 which separately accounted for the effects of wage inflation for informational purposes.

Question*:* A further question arose as to whether the effects of wage inflation on claim frequency could be annualized***.***

Answer*:* Portions of Exhibit 8 providing annual rates of change in claim frequency adjusted for changes in the Statewide Average Weekly Wage were noted. The annual change in claim frequency without wage inflation for the period 1998-2004 was seen to be -3.2 percent. Staff observed that in some states claim frequency was measured in terms of claims per number of workers and expressed the view that, when the effects of wage inflation were taken into account, the Pennsylvania claim frequency data seemed reasonably consistent with broader trends***.***

Question*:* An attendee noted changes in Pennsylvania's overtime law circa 2004 and asked whether the Bureau's analysis had taken those changes into account.

Answer*:* Staff answered that no adjustment(s) to the historical and/or projected claim frequencies had been made in response to the changes noted. It was observed that the most recent available data, apparently falling after the implementation of the law in question, showed somewhat smaller declines in claim frequency than the longer term data in Pennsylvania, a result contrary to the expectation that the overtime changes alone might accelerate claim frequency declines.

Question*:* Staff was asked whether the Bureau had looked at how claim frequencies had changed for various types and/or sizes of loss.

Answer*:* The Bureau had undertaken reviews of claim frequency addressing these points on a couple of occasions. Several years ago Pennsylvania data showed little difference by type or loss, contrary to results reported in some other states at the time. More recently the Pennsylvania claim frequency changes did appear to be somewhat disproportionately attributable to smaller claims. It was noted that these aspects of claim frequency trend would have implications for expected and observed severity trends.

Question*:* An inquiry was made concerning the time frames involved in the reviews of claim frequency described by the Bureau.

Answer*:* The most recent data had involved five years of experience running through Policy Year 2003. The earlier review had been some time before that and had focused on data from the late 1990s***.***

Terrorism Provisions in Pricing

Staff noted that the PCRB had implemented a loss cost rating value related to terrorism effective April 1, 2003. That implementation had been supported by terrorism modeling analysis done at the time by and/or for the National Council on Compensation Insurance, Inc. (NCCI). The PCRB has subsequently understood that NCCI has generally held rating values related to TRIA level at their original filing levels. Under these circumstances, the PCRB has also elected to retain the existing loss cost rating value for terrorism in Pennsylvania.

Consistent with countrywide practices recognizing the reliance upon specific legislation (the Terrorism Risk Insurance Extension Act of 2005) in Manual language, staff advised attendees that the Bureau had filed selected new or amended endorsement forms that had been approved by the Insurance Department on a new and renewal basis effective January 1, 2006.

Domestic Terrorism, Natural Catastrophes and Major Industrial Accidents

Staff noted Bureau Filing No. C-349, previously submitted and approved by the Pennsylvania Insurance Department effective January 1, 2006 addressing Manual language, endorsement forms and rating values applicable to these exposures.

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 briefly noted recent and ongoing developments in other jurisdictions pertaining to size-of-loss analyses and indicated that further review and consideration of the implications of such work for Pennsylvania would be undertaken subsequent to the preparation and submission of the April 1, 2007 filing. Discussion then ensued related to the following exhibits from the meeting agenda materials

Exhibit 21 presented results of a methodology previously provided to the PCRB by the NCCI. This method had been used to calculate excess loss (pure premium) factors in some previous PCRB filings. More recent filings had relied heavily upon empirical Pennsylvania data as the basis for these rating values; however, staff had continued to apply the NCCI methodology in order to review its results as compared to the empirical indications and in order to be able to use relativities derived from the NCCI methods for selected loss values where historical Pennsylvania data was either unavailable or of very limited volume and statistical credibility.

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.

Exhibit 23 showed current and proposed excess loss (pure premium) factors computed using results from Exhibits 21 and 22, together with the indicated percentage changes therein by loss limitation and hazard group.

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. But for some technical differences pertaining to the date to which various calculations were trended, the procedures used to establish these state and hazard group relativities was the same as that used in the NCCI excess loss (pure premium) factor calculations. 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. Exhibit 24 presented the derivation of state and hazard group relativities for the proposed filing and included a list of classifications for which hazard group assignment changes were proposed with this filing.

Offering of small deducible coverages at certain specified amounts is mandatory in Pennsylvania. PCRB filings thus provide loss elimination ratios computed consistent with the mandatory deductible levels. Exhibit 25 presented the derivation of loss elimination ratios as the complements of per-claim excess loss (pure premium) factors. 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.

Staff directed attention to Exhibit 32, a copy of NCCI's Item Filing No. B-1403. The PCRB proposed filing the Table of Expected Loss Size Ranges shown as Exhibit 2 on Page 24 of that filing memorandum for use in Pennsylvania effective April 1, 2007.

Question*:* Being mindful of recent changes undertaken in other states, staff was asked whether the PCRB was considering expanding its number of hazard groups from the current four.

Answer*:* Staff indicated an awareness of activity in other states and expressed the expectation that those areas would be considered in the coming year. Pennsylvania had realigned its hazard group assignments for a number of classifications last year, and review of these subjects was continuing***.***

Question*:* A participant asked whether the size of loss analyses provided trend factors.

Answer*:* Staff replied that trend information was shown on Page 8 of Exhibit 21. Lines 5 and 6 showed indemnity and medical trends respectively*.*

Question*:* The inquirer asked for confirmation that the trends shown were severity trends.

Answer*:* Staff confirmed that the trends being referenced were severity trends.

Comment*:* The trends on Exhibit 21 were significantly lower than the severity trends derived in other portions of the agenda materials previously discussed.

Answer*:* The trend factors by injury type (serious and non-serious) were noted*.*

Comment: On financial data (the source for severity trends previously presented at this meeting) shifts can occur from larger to smaller claims. Such shifts might explain differences between the trend values being compared.

Question*:* The excess loss factors being proposed reflected some very substantial changes. Staff was asked what the comparable changes had been in the previous year's filing.

Answer*:* Staff stated that the changes in excess loss factors effective April 1, 2006 had been increases but of lesser magnitude than the reductions now seen at higher loss limitations. It was noted that generally more modest changes would be expected at lower limits with larger changes applicable to higher limits.

Question*:* Staff was asked whether the credibility process may have influenced the indicated changes in this filing*.*

Answer: Internal reviews during preparation of the agenda materials had addressed the divergence between financial data and excess loss factor trends. Differences in time periods and type of data involved in those respective analyses were thought to account for at least some of the differences at hand.

Question*:* Staff was asked whether the use of unit statistical data was inherent in the excess loss analysis.

Answer*:* Staff felt that, because the size of loss analysis reflected comparisons of Pennsylvania to other state data based on unit statistical report information, it would be problematic to divorce this work from that type of information. Consideration had been and would continue to be given to adjusting the Pennsylvania data in various fashions to achieve greater consistency between different parts of the filing analysis.

<u>Loss-Based Assessments and Employer Assessment Factor</u>

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 Bureau loss costs, had been removed from those loss costs. Consistent with requirements of H.B. 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 Bureau loss costs under provisions of this law. Also consistent with past practice, the Bureau continued to include offset provisions for merit rating and credits granted under the Certified Safety Committee Program in published and proposed Bureau loss costs.

Exhibit 13 provided parameters used to compute the proposed employer assessment factor effective April 1, 2007 (0.0192) and the proposed loading to Bureau 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, 2007 (0.0136). Staff noted that the proposed employer assessment factor was nominally lower than the current level (0.0198) due to a decrease in PCRB member share of the budgetary amounts for Administration Fund, Subsequent Injury fund and Supersedeas Fund as compared to the previous year. The loading in Bureau loss costs for the remaining factors listed above was noted as being up from 0.0111, predominantly reflecting increased credit activity in the Certified Safety Committee Credit Program.

<u>Pennsylvania Construction Classification Premium Adjustment Program (PCCPAP)</u>

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 July 1.

Staff noted that the average PCCPAP loading indicated, based on the most recent available data, was nominally higher than that currently in effect (2.75 percent proposed vs. 2.53 percent current). This was attributed to the effects of nominal increases in participation in the program and/or 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*:* Staff was asked whether the PCCPAP surcharges were built into Manual loss costs for construction classifications.

Answer*:* Staff confirmed that such was the case***.***

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 (0.33 percent), a slight decrease from the level currently in effect (0.35 percent).

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 1994 – 2004 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 change in the loading to offset ongoing credits from 0.75 percent to 1.02 percent.

Question*:* An attendee wondered whether large deductible policies would be eligible for the Certified Safety Committee Credit Program.

Answer*:* Staff observed that any Pennsylvania employer was eligible to participate in the Certified Safety Committee Credit Program. In general, larger-than-average employers have tended to participate in this program. In measuring participation in the plan, large deductible policies were included on a first-dollar basis. In response to inquiry about comparative exposure data and time periods shown in various exhibits, it was noted that the Merit Rating Plan data reflected a 12-month period but not a specific policy year.

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.

Hepatitis C Surcharges for Selected Classifications

Staff noted legislation enacting a presumption of work-related causality for Hepatitis C incurred by selected sets of workers (H.B. 1633) that was passed in 2002. For its April 1, 2003 Loss Cost Filing, the Bureau had conducted an analysis based on available statistics concerning incidence of HCV in the general population in concert with projected costs for Hepatitis C cases in healthcare workers under various scenarios by an independent consulting group (Milliman U.S.A., formerly Milliman & Robertson, Inc.). These projections had been compared with existing loss cost estimates for affected classifications, and indicated surcharges had been derived. The Insurance Department's review of the April 1, 2003 filing had suggested that the incidence of HCV in the affected classifications could arguably be comparable to those of the general U.S. population and thus lower than those originally proposed by the Bureau. Ultimately, the Bureau had adjusted the applicable surcharges to be consistent with the incidence of HCV in the general U.S. population. This filing proposed to continue that procedure, as presented in Exhibit 31.

Proposed Loss Cost Relativities by Classification

Exhibits 17, 20a, 20b, 20c, 28, 29 and 30 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. With respect to certain "test correction factors," which had historically been applied as matrices of factors differing by type of loss and industry group, the Bureau's April 1, 2003 Loss Cost Filing had completed a transition begun with the April 1, 2001 filing to implement a process of applying test correction factors uniformly across all types of loss and industry groups. The proposed filing would maintain and continue the procedure first used in final form with last year's loss cost filing.

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 Bureau loss costs.

Question*:* An attendee asked whether changes in the final column's rating values would balance to the manual loss cost change previously discussed – i.e., +0.99 percent.

Answer*:* Staff explained that the draft filing proposed an average increase of 2.95 percent in collectible loss costs and an average increase of 0.99 in Manual loss costs, with the difference attributable to effects of experience rating. The Manual change in los costs had been determined excluding effects of the surcharges for such programs as Merit Rating or Certified Safety Committee Credit Programs.

Comment*:* Some carriers felt that it would be helpful in preparing their separate loss cost multiplier filings to have a weighted average change in the final rating values including all surcharges and related adjustments.

Answer*:* Staff indicated that a measure of changes in final rating values could be added to the filing materials for informational purposes.

Question*:* An inquiry was made concerning whether the changes reflected on Exhibit 12 reflected impacts of any surcharge program(s).

Answer*:* Staff stated that Exhibit 12 changes were measured prior to the effects of surcharge programs***.***

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.

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.

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 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 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.

<u>Auditable Payroll Values Indexed to the Statewide Average Weekly Wage</u>

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.

There being no further business for the Committees to consider, the meeting was adjourned.

Respectfully submitted,

Timothy L. Wisecarver
Chair - Ex Officio

kg