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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 Garden Room, 10th Floor of the Hilton Garden Inn Philadelphia Center City, 1100 Arch Street, Philadelphia, Pennsylvania on Wednesday, November 17, 2010 at 10 a.m.

The following members were present:

Actuarial Committee

Ms. M. Gaillard	American Home Assurance Company
Mr. A. Kerin	Amguard Insurance Company
Mr. C. Szczepanski	Donegal Mutual Insurance Company
Ms. L. Thorne	Fireman's Insurance Company of Washington, D.C.
Mr. A. Becker	Harleysville Mutual Insurance Company
Mr. P. DeMallie	Insurance Company of North America
Ms. N. Treitel-Moore	Liberty Mutual Insurance Company
Mr. K. Brady	PMA Insurance Company
Mr. A. Becker	Selective Insurance Company

Classification and Rating Committee

Mr. I. Feuerlicht	American Home Assurance Company
Ms. M. Innocenti	Crum & Forster Insurance Company
Mr. R. Irons	Eastern Alliance Insurance Company
Not Represented	Graphic Arts Association
Mr. T. Mehaffie	Malt Beverage Distributors Association
Not Represented	National Federation of Independent Business
Mr. J. Devlin	Pennsylvania Automotive Association
Mr. F. Preis	Pennsylvania Food Merchants Association
Ms. M. Melewsky	Pennsylvania Newspaper Association
Not Represented	Pennsylvania Retailers' Association
Mr. R. Edmunds	PMA Insurance Company
Mr. E. White	SeaBright Insurance Company
Not Represented	Westfield Insurance Company
Mr. S. Zrebiec	Zurich Insurance company
Mr. T. Wisecarver	Chair - Ex Officio

Also present were:

Mr. A. Iuliano	AmeriHealth Casualty Insurance Company
Mr. C. Romberger	Coal Mine Compensation Rating Bureau of Pennsylvania
Mr. S. Cooley	Duane Morris LLP
Ms. K. Greo	Eastern Alliance Insurance Company
Ms. K. Ayres	National Council on Compensation Insurance, Inc.
Mr. K. Creighton	Pennsylvania Insurance Department
Mr. E. Zhou	Pennsylvania Insurance Department
Mr. J. Schmidt	Travelers 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

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:

Overall Loss Cost Change Indication

Staff noted that general concepts and processes would be outlined early on in the meeting by reference to Preliminary Discussion Exhibits (PDE) provided as handouts at the meeting. During this overview comments and references would be made pertaining to agenda exhibits containing the counterpart portion(s) of the analyses supporting the April 1, 2011 loss cost change indication. Selected agenda exhibits not included in the general overview would then be described, and summary results of the PCRB's analysis of the April 1, 2011 loss cost change indication would be presented for discussion.

The first PDE, "Workers Compensation Data Development Illustration–Raw Data," was introduced. Staff described the organization of information appearing on this exhibit, with policy years of experience appearing on separate rows and successively later evaluation points appearing in columns increasing in age from left to right on the page. The application of this form of data organization to various metrics of workers compensation experience, including premiums, expected losses and losses or benefit costs, was noted. For benefits, staff further described partitions of data into indemnity and medical components and noted the availability of paid and/or case incurred loss data.

The second PDE, "Workers Compensation Data Development Illustration–Development Factor Analysis," was addressed next. Staff related the calculated factors displayed on this page to the raw data shown in the first PDE. It was noted that data used by the PCRB in preparing its filing indications was provided by hundreds of different insurers and that, in the course of collecting this data, omissions, errors and/or questions pertaining to data quality were encountered. When those considerations precluded the PCRB from using a carrier's or carriers' submissions, data used for development analysis needed to be summarized such that the complement of insurers and insureds represented in each pair of data points used in computing development factors were the same. As a means of maximizing available data, the PCRB effectively constructed successive pairs of diagonals instead of a single triangle, as was used for illustrative purposes in the first two PDEs.

Considerations encountered when performing development analyses on premiums, expected losses and paid and/or incurred indemnity and medical losses were identified. Staff noted that the data supporting the April 1, 2011 Loss Cost Filing's loss development analyses appeared in Exhibit 5 of the agenda materials.

The third PDE, "Workers Compensation Data Development Illustration–Ultimate Estimates from Development Analysis," was introduced. The mechanics and implications of the calculations shown were briefly described. Staff pointed out that portions of Exhibits 6 and 7 of the agenda materials provided details of the PCRB's estimates of ultimate expected losses and indemnity and medical loss amounts in support of the April 1, 2011 loss cost change indication.

The fourth PDE, "Historical Changes in Workers' Compensation Experience," was used to provide background for the PCRB's trend analysis. The use of on-level adjustments in this process was described, and the implications of such adjustments on interpretation of historical data were noted. Staff observed that historical series were available for various metrics pertinent to its annual loss cost filing, including ratios of losses to expected losses and claim frequencies.

The final PDE, "Trending Workers' Compensation Data to Future Points in Time," was presented. The purpose of trend analysis and possible choices of methods and/or bases for deriving trend indications were illustrated. The interpretation of a future trended data point as a benchmark for loss cost change indications was described.

Staff observed that portions of Exhibit 6 and Exhibits 9a, 9b, 11a and 11b of the agenda materials addressed various aspects of the PCRB's trend analysis for the April 1, 2011 Loss Cost Filing.

Exhibit 8 of the agenda materials was discussed. The importance of claim frequency as a factor in determining loss cost levels was emphasized. Alternative data sets relevant to claim frequency experience and estimates were compared. The PCRB's review and analysis of claim frequency experience were described, and the calculation of "severity ratios" from ratios of loss to expected losses was outlined. Considerations pertaining to wage level changes, the implications of variations in wage changes over time for Exhibit 8 and other portions of the filing and procedures used to account for such changes in this filing were presented.

Comment: An attendee observed that the Bureau's measures of claim frequency trend had been approximately -6.0 percent for an extended period of time.

***Answer:** Staff concurred with this recollection and offered that the claim frequency trend incorporated into the April 1, 2010 Loss Cost Filing had been -5.9 percent.*

***Question:** A Committee member asked whether the claim frequency trend might appear to be flattening, based on the most recent available data.*

***Answer:** Staff pointed out that the last data point shown was for a one-year period ending June 30, 2010 and thus that the time elapsing between the prior observation and that point was not a full year, since the previous points were for years ending December 31. It was further noted that the bottom of the exhibit showed a series of fiscal years (ending June 30) as a basis for more consistent evaluation of the latest available data. Staff explained that the PCRB had historically used data on work injuries compiled by the Pennsylvania Department of Labor & Industry (L&I) as a benchmark for trends more recent than the latest available unit statistical reports. On occasion in the early- and mid-2000s, the L&I data had diverged markedly from the PCRB's experience, owing to various considerations pertaining to data reporting and collection. As a consequence, the PCRB had more recently shown the L&I data as a point of information in its filings but had not applied that data as directly to its analyses as had previously been the case.*

***Question:** Staff was asked to explain the difference between the top and bottom portions of Exhibit 8.*

***Answer:** Attendees were informed that the lower portion of Exhibit 8 removed the effect of wage growth from observed claim frequency trend, in response to questions about that impact arising in previous Committee meetings.*

***Question:** Inquiry was made as to when the described changes in wage growth had taken place.*

***Answer:** Staff answered that, beginning in 2008, wage growth had moderated significantly. Because in Pennsylvania both indemnity and medical prices were indexed to changes in wages, it was expected that the effects of slower wage growth would be at least somewhat offsetting for claim frequency and claim severity.*

***Comment:** The thought was expressed that in difficult economic times it was harder to place injured workers back into the workplace than would be the case in periods of prosperity and/or expansion.*

***Answer:** While acknowledging the premise for the observation offered, staff indicated that loss data reflective of much of the recent recessionary period (Policy Years 2009 and 2010) was not included in the available ratemaking experience as yet.*

***Question:** A Committee member asked whether the PCRB's data was limited to a policy year reporting basis.*

***Answer:** Staff confirmed that the PCRB did not collect accident year financial data.*

***Comment:** An attendee stated that, in some industries more so than others, payroll might be declining if and as workers were paid in cash to avoid various taxes and payroll-related costs such as workers compensation insurance.*

***Answer:** The PCRB indicated that it had compared claim frequency experience by industry group, and, while the absolute levels of claim frequency were different, the trends had been thought to be quite comparable. It was acknowledged that the PCRB had not separately reviewed wage or payroll trends by industry group.*

***Comment:** A Committee member noted that premium development had been done using four-year average development data and opined that changes in premium development at audit might not be fully reflected in those four-year averages.*

***Answer:** Staff indicated that premium audits were included in most of the policies reported even at first report, which was 24 months after the inception of the policy year.*

***Question:** An attendee asked whether premium development for an incomplete policy year was used in preparing PCRB filings.*

***Answer:** It was explained that the PCRB did not use incomplete policy years as a basis for its indications. Anecdotes pertaining to the impacts of the recession on such phenomena as insureds' appetites for premium audits were exchanged. The nominal effect of changes in the adequacy of deposit premiums on premium development as applied in the PCRB's filings was explored.*

***Question:** Staff was asked whether the PCRB had given any thought to the idea that, as the recession ended and a weak recovery began, the last two years of experience might not be indicative of what will happen in the future. Specifically, the question was asked whether the PCRB had applied econometric studies to its trend analysis.*

***Answer:** Staff indicated that it had not undertaken application of econometric studies of the type described but that it was aware of recent pronouncements to the effect that, in periods of recession, claim frequency improvement tended to accelerate and then moderate or even briefly reverse during periods of expansion immediately after recessions. Staff described the measure of claim frequency applied in Pennsylvania filings (indemnity claims per unit of on-level expected losses) and noted that, since wage growth was slowed during recessions, the improvement in claim frequency would be muted by virtue of the effect of wage growth. In periods of recovery, it was similarly expected that accelerated wage growth would offset part of all of the potential deterioration in claim frequency associated with economic conditions.*

***Comment:** With respect to the pages of Exhibit 8 presenting data by industry group, it was observed that the Manufacturing and Contracting Industry Groups showed greater declines in claim frequency in 2007 and 2008 than did the Other Industry group.*

***Answer:** Staff observed that the period of time over which claim frequency was being trended for this filing included some recessionary times (which were perceived as likely to show accelerated declines in claim frequency) and some portion of the early recovery*

(which was expected to show less favorable claim frequency trend). While the PCRB had separately tabulated claim frequency experience by industry group, the filing was not presented on the basis of separate trending by industry group.

Comment: An attendee observed that some of the possible implications of economic conditions and their different impact by industry group might best be captured through the use of econometric modeling. Conversation indicated that the National Council on Compensation Insurance, Inc. (NCCI) had used econometric models more recently and extensively than had the PCRB.

NCCI advised that it had moved away from econometric modeling in its own ratemaking work owing to issues of predictive accuracy and a lack of persistence in forms of models that performed well in successive years. NCCI was currently using statistical rather than econometric modeling as a ratemaking tool.

Next staff discussed Exhibit 10 of the agenda materials. Pages 10.1 and 10.2 presented indemnity and medical ratios of loss to on-level expected losses derived using paid and case-incurred loss development methods, as well as the average of those separate indications. Pages 10.3 and 10.4 converted the ratios on Pages 10.1 and 10.2 to severity ratios by adjusting for known changes in claim frequency since 1997. Pages 10.5 and 10.6 presented historical loss ratios based on the average of paid and case-incurred loss development methods, claim frequency trend and claim severity trend with projections to the year beginning April 1, 2011. The significance of the projections to the last annual period reflected on Pages 10.5 and 10.6 was described.

Exhibit 12 of the agenda materials was next offered. The second mailing version of this exhibit was utilized for this portion 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., 2006, 2007 and 2008. 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 2006, 2007 and 2008 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.

Consistent with the approach in recent previous filings, trend procedures applied in the development of this filing had separated historical experience into frequency and severity components by adjusting policy year on-level loss ratios for actual changes in claim frequency. Historical claim frequencies and the derivation of a prospective claim frequency trend were presented on Page 12.3 of Exhibit 12.

Based on separate measures of policy year loss ratio trend and claim frequency trend, implied claim severity trends were derived. Review of the resulting claim severity ratios showed claim severities in the two latest available policy years, 2007 and 2008, to be significantly higher than counterpart ratios for previous years. The April 1, 2010 filing had used an average of exponential trend models applied to claim severity ratios for the most recent seven years (then including Policy Year 2007) and for the oldest six of the most recent seven policy years (then excluding Policy Year 2007) as the basis for the filing's severity trends. This approach gave some weight to Policy Year 2007 but assigned less weight to that year than would have been the case using any single exponential model that included Policy Year 2007. Given the corroboration of the higher severity ratio in Policy Year 2008 now available from the April 1, 2011 filing, staff had applied an exponential trend model to claim severity ratios for the most recent seven years (including both Policy Years 2007 and 2008) to derive claim severity trend for this filing. The annual indemnity severity trend thus obtained was noted as +6.2 percent, and the counterpart annual medical severity trend was observed to be +5.9 percent.

The average trended on-level loss ratio obtained by applying the combined claim frequency and severity trends was shown on Line (9) of Exhibit 12, and at 1.0087 this ratio produced an indicated 0.87 percent increase in collectible loss costs.

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.

Question: An attendee asked whether the PCRB consistently used three policy years as the basis for establishing and trending loss ratios in its filing analyses and in particular whether the PCRB had considered the alternative of using two policy years for those purposes.

Answer: Staff indicated that prevailing practice for some time had been to use an experience period of three policy years in Pennsylvania and to use four policy years in Delaware. Some time ago an extensive regulatory examination had included commentary on this point, but staff could not recall specifics from the examination report. *(Note: Review of the examination report subsequent to the meeting found a recommendation of using a two- or three-year experience period, with judgment applied to determine how the respective years would be weighted in the calculations.)*

Comment: It was noted that the latest two years were the highest of the three years being used for this filing and that the loss cost change indication would be approximately +3.5 percent using only the latest two policy years, equally weighted.

Answer: Staff observed that the trend analysis supporting the filing included the two most recent policy years.

Question: The NCCI representative was asked about how experience periods were configured for various NCCI jurisdictions.

Comment: The NCCI representative indicated that they used two years except for some very small states. Attendees added that California and New York each used two years as their experience period in establishing overall rate level changes. It was further observed that NCCI limited losses for purposes of its overall rate level analyses except for some very large states where the formula for loss limits resulted in very little application of the limits so derived.

Answer: Staff observed that Pennsylvania was a relatively large state and that the PCRB did not use limited losses in its overall rate level analysis here. The impact of loss limits if established in traditional fashion would be expected to be very small. It was noted that limited losses were used when a state's data volume was limited, and, as a result, loss ratio indications could be volatile based on a small number of (large) claims.

Comment: A Committee member observed that Policy Year 2006, the oldest of the three policy years being used as the filing experience period, ended quite some time prior to the rating period (starting April 1, 2011). It was conceded that the PCRB could not plausibly change its methods frequently with respect to such features as the selection of an experience period.

Answer: Staff agreed that the PCRB would not want to change methods serially without compelling justification. The idea of considering such a change at a point in time when the two-year and three-year indications were closely aligned was advanced.

Discussion next addressed selected agenda exhibits pertaining to pricing programs as identified following.

<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 PCRB loss costs, had been removed from those loss costs. Consistent with requirements of HB 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 PCRB loss costs under provisions of this law.

With the enactment of HB 2738, an Uninsured Employers Guaranty Fund had been established, with initial funding granted by legislative appropriation and authority given to the Bureau of Workers' Compensation to issue assessments to insurers and self-insurers for additional funding as the need might arise. Consistent with past practice, the PCRB continued to include offset provisions for merit rating and credits granted under the Certified Safety Committee Program in published and proposed PCRB loss costs.

Exhibit 13 provided parameters used to compute the proposed employer assessment factor effective April 1, 2011 (0.0188) and the proposed loading to PCRB 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, 2011 (0.0139). Staff noted that the proposed employer assessment factor was lower than the current level (0.0207) due to declines in budgetary provisions for the Administration Fund being greater than the reduction in the assessment premium base between the 2010 and 2011 calculations.

The loading in PCRB loss costs for the remaining factors listed above was noted as being down nominally from 0.0142 due to slightly decreased credit activity in the Certified Safety Committee Credit Program.

Pennsylvania Construction Classification Premium Adjustment Program (PCCPAP)

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 lower than that currently in effect (3.07 percent proposed vs. 3.56 percent current). This was attributed to the effects of 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.

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 (0.29 percent), the same level as was currently in effect.

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 – 2008 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 nominal change in the loading to offset ongoing credits from 1.12 percent to 1.09 percent.

Question: Staff was asked whether evaluations had been done of the extent to which credits provided under various rating programs were warranted.

Answer: Attendees were advised that the PCRB maintained a series of such evaluations on its website, pertaining to such programs as the PCCPAP, Certified Safety Committee Credit Program and Schedule Rating. Plans to add Merit Rating to this complement of analyses were also noted.

Question: Inquiry was made as to whether the PCRB ever relied on results of such reviews to argue for discontinuation of any pricing program(s).

Answer: Staff characterized the PCRB's purposes in presenting the referenced reports as to inform the marketplace about various aspects of the indicated programs. The statutory and/or administrative bases for various programs were noted. The PCRB did not advocate for or against public policy positions per se and so had not applied reviews of program performance in the fashion presented in the question.

Question: An attendee inquired as to whether all risks were eligible for the Certified Safety Committee Credit Program.

Answer: Staff responded in the affirmative.

Question: A follow-up question was presented concerning how extensively these programs were being used.

Answer: Staff recalled that the Certified Safety Committee Credit Program was used by risks that were notably larger than average, probably owing to various logistical considerations.

<u>Experience Rating Plan</u>

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 <u>revised</u> 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.

Handouts were provided which graphically interpreted the aggregate five-year results of the Experience Rating Plan, with one page devoted to debit-rated risks and a second page addressing credit-rated risks. Staff reviewed the implications of the graphs as presented.

Question: An attendee asked whether the analysis presented had been performed previously and, if so, whether the results had been comparable to those presented here.

Answer: Staff explained that the data supporting the presentation covered a five-year period. Exhibit 18 had been included in numerous prior filings, but the graphic summary offered at this meeting was new. Presentation notwithstanding, the PCRB did test and monitor the Experience Rating Plan each year.

Question: Staff was asked whether the graphs could be provided separately by year.

Answer: Staff indicated that a set of graphs could be done on an annual basis. While greater volatility of results was expected, comparison of the general shapes of the curves was expected to be somewhat instructive.

Comment: It was noted that the Experience Rating Plan could probably not be expected to make much more aggressive adjustments for debit-rated risks but that perhaps the plan could be modified to better establish and assign credits to eligible risks.

Answer: Staff expressed a willingness to expand the partitions of data for which graphs were provided in future meetings.

Question: The question of whether the PCRB had studied the effects of capping experience modifications was posed.

Answer: Staff referred to Exhibit 18b, which showed the analysis of Exhibit 18 but with the effects of capping included. No graphs had been prepared for this version of the analysis. Staff briefly discussed the basis for some of the capping procedures, those being more aligned with considerations of stability than accuracy.

Comment: An attendee wondered what might be learned from an analysis of debits and credits within size of risk.

Answer: Staff perceived a problem in executing changes to the plan to the extent that indications were that different credibilities might appear desirable for subsets of a given size group. The underlying experience suggests that credit ratings will dominate any application of the Experience Rating Plan, but staff was willing to expand the presentation to look at individual years and to also perhaps address a longer time period.

Comment: It was observed that the graphs of credits and debits were of similar shape. For credits, too much weight appeared to be given to smaller risks, and too little credibility seemed to be assigned to larger risks. This was cited as a potential area for further study.

Question: Staff was asked if the PCRB looked at the off balance in the Experience Rating Plan.

Answer: Staff answered in the affirmative, pointing to the bottom portion of Exhibit 12 for purposes of illustration. It was further seen that Exhibit 19 showed collectible premium ratios.

Question: An attendee asked whether the PCRB had looked at experience rating by industry group and questioned some of the results presented for credit rated risks.

Answer: Staff reiterated that Exhibit 18 showed results by year and by industry group. The potential for expanding the presentation in future meetings was repeated.

Question: An attendee asked for the definitions of the industry groups included in the report.

Answer: Staff responded that Industry Group 1 was Manufacturing, Industry Group 2 was Contracting and Industry Group 3 was All Other industries.

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.

Question: In comparing Actual and Manual loss ratios, an attendee asked whether the experience modifications were the only difference.

Answer: Staff confirmed that with respect to these comparisons the only difference was the experience modification. Experience rating off-balances were accounted for in manual rates with different loading factors by industry group.

Exhibit 27 provided the proposed Table B or credibility table for the current Experience Rating Plan, consistent with parameters developed in Exhibit 19.

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 further noted that many of the size-of-loss studies and rating values proposed in the filing vary by hazard group and that the hazard groups were modified and expanded from four (designated I, II, III and IV) to seven (designated A, B, C, D, E, F and G) hazard groups as part of the April 1, 2009 filing. Those seven can also be combined to form four new hazard groups (A&B = 1, C&D = 2, E&F = 3, and G = 4) for use by carriers during a transition period that will provide time for carrier system changes to be made.

Staff briefly noted that the April 1, 2008 filing analysis had determined that actual loss experience could be used over a significant portion of the size-of-loss range for each type of injury. Various commonly-used distributions had been considered in fitting the empirical size-of-loss distributions, including Single Parameter Pareto, Generalized Pareto, Lognormal, Gamma, Weibull and Exponential. Separate analyses of claim frequency and loss severity were performed. In generating final loss distributions and excess loss factors, actual data (claim counts and dollars of loss) for limits below $500,000 had been combined with fitted counts and dollars above $500,000 and re-accumulated.

Staff then described analysis conducted for the April 1, 2011 filing to support expanded hazard groups and excess loss factors applicable thereto. The methods and distributions employed are similar to the approach first introduced with the April 1, 2008.

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. Losses were trended to the midpoint of the prospective rating period. The exhibit also includes actual excess loss factors based on empirical loss distributions by type of injury (death, permanent total, permanent partial, and temporary total), along with excess loss ratios tied to fitted curves for loss limitations of $500,000 and higher.

Question: Inquiry was made with respect to how losses were developed and if the PCRB applied the same loss development factor to each claim.
Answer: Staff indicated that the loss development factors varied by both year and type of injury.

Question: A Committee member asked whether this approach might understate the ultimate presence of outliers in the size-of-loss distributions.

Answer: Staff agreed that this result was conceivable. The PCRB had looked at loss development by size of loss in previous analyses but had been unable to develop a successful approach. In general, staff had found that the biggest claims tended not to develop very much at all.

***Comment:* The observation was made that the average development factor did not work particularly well when applied to large claims.**

***Answer:* Staff agreed.**

***Comment:* It was noted that NCCI has done and continues to produce work involving loss dispersions.**

***Answer:* Loss development was described as an area that was not perfect and could be improved. It was common knowledge that not every claim develops in the same way. The PCRB expressed a willingness to look further into this area.**

***Question:* An attendee noticed that the raw data for death fluctuated from year-to-year. There was a big difference between fitted and actual claim sizes. Staff was asked if this result was typical.**

***Answer:* Staff commented that there was a lot of variation in death claims, in part because of limited numbers of claims. For claims over $500,000, as an example, there were only 117 claims for the 2010 analysis which included data for three policy years.**

Exhibit 23 derives proposed excess loss (pure premium) factors computed using results in Exhibit 22 and based on the proposed new hazard group assignments. Note that the process for calculating excess factors in Exhibit 23 is unchanged from prior years, although the loss distributions on which the analysis relies have been updated, and the average costs and weights by type-of-injury and hazard group reflect the most recent data.

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. 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. But for the April 1, 2009 filing, where the revision and expansion of hazard groups required a special treatment, the procedure has been used consistently since the April 1, 2003 filing. The compliment of credibility is assigned to prior year relativities adjusted for overall changes in Pennsylvania and countrywide (NCCI states) average severities. Exhibit 24 presented the derivation of state and hazard group relativities for the proposed 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 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. The revised loss distributions of Exhibit 22 have been incorporated in the derivation of values for limits of $5,000 and $10,000.

Question: Staff was asked whether a lot of companies were combining small deductible claims for reporting purposes.

Answer: Information available to staff was that this practice had declined considerably with the advent and then expansion of electronic reporting, and the PCRB intended to study this matter further. To the extent that small claims were separately reported, raw data was available for the refinement of size-of-loss distributions.

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.

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.

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 PCRB loss costs.

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. An exhibit labeled “Index and Supporting Classification Exhibits” was provided for use in conjunction with the Class Book.

Question: An attendee asked whether the PCRB was considering using NCCI’s new classification pricing methodology.

Answer: Staff expressed interest in NCCI's recent work in this area and the intention of reviewing the new methodology for features that could be applied to advantage in Pennsylvania. However, it was important to understand that the PCRB's current procedure was significantly different from that employed by NCCI before they adopted the most recent changes.

Question: With regard to the timing of the temporary staff filing approval, staff was asked whether the end result was different from what would have resulted from some other alternative timing.

Answer: Staff answered that the final proposed rating values were the same but that the data initially extracted for analysis in support of this filing required modification in order to obtain the correct results. Had the approval been available soon enough, the data could have been organized so as to derive the final result directly instead of through adjusted exhibits.

Staff presented brief overviews of two recently-enacted pieces of legislation in Pennsylvania. House Bill 400 pertained to independent contractors in the construction industry. Provisions of this bill were currently under review by the PCRB to ascertain whether and, if so, how it might affect procedures and programs administered by the PCRB.

House Bill 1231 established a rebuttable presumption of work causation for certain forms of cancer diagnosed in firefighters. The Pennsylvania House of Representatives had concurred in Senate amendments to this bill on November 15, 2010. This legislation was expected to impact loss costs in selected risk classifications, and the PCRB would attempt to prepare and submit a separate filing addressing that impact as soon as possible. House Bill 1231 would be effective upon signing by the Governor.

Question: Staff was asked if the PCRB would submit such a filing to be effective on an outstanding basis, given the immediate nature of the law's implementation.

Answer: Staff recounted industry comment with respect to past outstanding rate changes that suggested such implementations were to be avoided if possible. In this instance the changes would only address a small group of policies.

Comment: It was observed that, while the number of policies involved might be small, the impact could be significant for some risks and/or insurers. It was suggested that implementing any approved change on an outstanding basis might be made optional for carriers.

Answer: Staff expressed the opinion that it might be possible for carriers to adopt a new and renewal PCRB filing on an outstanding basis.

Comment/Question: The impression was presented that retroactive or outstanding filings led to dissatisfaction, as employers could not effectively plan for them. Staff was asked whether the PCRB could attempt to change the effective date and/or the nature of implementation of the law so that it would not cut across all policies on short notice.

Answer: ***The PCRB outlined some concerns with pursuing such matters of public policy from the standpoint of cost or convenience and related some anecdotal information that had been received in the early steps of attempting to estimate costs for this proposal.***

Comment: ***An attendee observed that the realm of public policy issues was generally reserved for insurance trade groups. It was further noted that immediate and/or retroactive legislation was enacted in various states on occasion despite industry consequences. It was separately observed, however, that certain such enactments had been successfully challenged.***

Staff Memorandum Dated November 16, 2010 *(Provided as a handout)*

Auditable Payroll Values Indexed to the Statewide Average Weekly Wage

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. Changes proposed would increase the annual payroll applicable to taxicab operators in the absence of payroll records from $41,800 to $42,250 and revise the minimum payroll for auxiliary police or special school police appointed by municipalities or townships from $4,200 to $4,250 per year.

The Manual changes set forth in the staff memorandum dated November 16, 2010 were proposed to become effective on a new and renewal basis April 1, 2011.

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

Respectfully submitted,

Timothy L. Wisecarver
Chair - Ex Officio

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