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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 offices of Duane Morris LLP, Conference Room 12K, 12th Floor, United Plaza Building, 30 South 17th Street, Philadelphia, Pennsylvania on Wednesday, December 3, 2014 at 10 a.m.

The following members were present:

Actuarial Committee

Mr. A. Iuliano	AmeriHealth Casualty Insurance Company
Ms. M. Gaillard*	American Home Assurance Company
Mr. C. Szczepanski	Donegal Mutual Insurance Company
Mr. A. Becker	Harleysville Insurance Company
Not Represented	Hartford Accident & Indemnity Company
Mr. S. Walsh	Liberty Mutual Insurance Company
Mr. S. Curlee	PMA Insurance Company
Mr. N. Rugge	Selective Insurance Company
Mr. R. Willsey	Travelers Property and Casualty Company

Classification and Rating Committee

Mr. F. Innes	AmeriHealth Casualty Insurance Company
Ms. M. Gaillard*	American Home Assurance Company
Not Represented	Graphic Arts Association
Ms. J. MacMullen	Harleysville Insurance Company
Not Represented	Malt Beverage Distributors Association
Mr. J. Hanna	Mutual Benefit Insurance Company
Mr. N. Lesher	National Federation of Independent Business
Not Represented	Pennsylvania Automotive Association
Mr. D. McCorkle	Pennsylvania Food Merchants Association
Ms. P. Knudsen	Pennsylvania Newspaper Association
Not Represented	Pennsylvania Retailers' Association
Mr. R. Edmunds	PMA Insurance Company
Not Represented	Westfield Insurance Company
Mr. R. Duesberry	Zenith Insurance Company
Mr. T. Wisecarver	Chair - Ex Officio

Also present were:

Mr. S. Crossley	Eastern Alliance Insurance Company
Ms. K. Greo	Eastern Alliance Insurance Company
Ms. D. Happ	QBE
Ms. K. Ayres	National Council on Compensation Insurance, Inc.
Mr. C. Romberger	Coal Mine Compensation Rating Bureau of Pennsylvania
Mr. M. McKenney	Pennsylvania Insurance Department
Mr. G. Zhou	Pennsylvania Insurance Department
Mr. S. Cooley	Duane Morris LLP
Ms. F. Barton	PCRB Staff
Ms. D. Belfus	PCRB Staff
Mr. K. Creighton	PCRB Staff
Mr. B. Decker	PCRB Staff
Ms. N. Ni	PCRB Staff

* - Representative on 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.

Considerations pertaining to the preparation of PCRB filings, planning and announcing PCRB committee meetings, including specifically this meeting, and opportunities and needs for pursuit of research projects were addressed. Implications of recent extension and expansion of filing preparation and review activities in Delaware for PCRB work were noted and explained.

The electronic distribution of agenda materials in advance of the meeting was noted, and all Committee members and other attendees were encouraged to participate in the meeting by raising questions or posing suggestions as those arose during the course of discussion.

ITEM (1) REVIEW OF APRIL 1, 2015 LOSS COST FILING

A discussion package of materials was provided to attendees for reference during the presentation of key findings from staff's work and to facilitate discussion. The meeting discussion proceeded to 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>House Bill 1846 of 2014 (HB1846)</u>

Staff provided an overview of provisions in this legislation, including the following:

- Reimbursement for repackaged drugs dispensed by a physician were limited to 110 percent of the Average Wholesale Price as determined by reference to the original manufacturer's National Drug Code number, and could not be based on a repackaged National Drug Code number.

- No outpatient provider, other than a licensed pharmacy, could be reimbursed for Schedule II drugs in excess of one initial seven-day supply beginning on the initial treatment for a work injury or illness, or in excess of an additional 15-day supply immediately after a medical procedure including surgery.

- No outpatient provider, other than a licensed pharmacy, could be reimbursed for Schedule III drugs containing Hydrocodone in excess of one initial seven-day supply beginning on the initial treatment for a work injury or illness, or in excess of an additional 15-day supply immediately after a medical procedure including surgery.

- No outpatient provider, other than a licensed pharmacy, could be reimbursed for "any other drug" (interpreted to mean drugs not listed in Schedule II and not listed in Schedule III and containing Hydrocodone) in excess of one initial 30-day supply beginning on the initial treatment for a work injury or illness.

- The above time limitations applied across health care providers involved in treating each workers compensation claim.

- No outpatient provider, other than a licensed pharmacy, could be reimbursed for over-the-counter drugs.

- The PCRB was required to calculate the savings achieved through implementation of HB1846 within 18 months following its effective date (with the effective date being December 26, 2014 based on signature of the bill having taken place on October 27, 2014).

Staff's approach to evaluating HB1846 using Medical Data Call submissions was described, including challenges pertaining to the interpretation of available data and the absence of data pertaining to duration of supply from the Medical Data Call database.

Question: Staff was asked whether a preliminary estimate or range for savings expected for HB1846 was available.

Answer: Changes in the law pertaining to repackaged drugs appeared to be the most significant components of savings. While the legislation might have substantial impact on specific parts of overall pharmaceutical costs, the targeted areas were still relatively small parts of total medical costs. Staff thought that the effect of HB1846 on overall loss costs could fall in a range of one to two percent, but added that in the longer term the greatest benefit of the law might be to avoid growth in costs that would otherwise have taken place, rather than reducing existing costs.

<u>Overall Loss Cost Change Indication</u>

Exhibit 12 of the agenda materials was referenced. Exhibit 12 was replicated in the first three pages of the discussion package, which were used as visual aids for 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., 2010, 2011 and 2012. These loss ratios and the resultant average ratios were shown on Lines (1) through (4) on Page 12.1 of Exhibit 12, the first page of the discussion package.

Trended loss ratios based on each of the Policy Years 2010, 2011 and 2012 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 to derive time series of claim severity ratios.

Staff had applied an exponential trend model to claim severity ratios for the most recent seven years to derive claim severity trends for this filing. The annual indemnity severity trend thus obtained was noted on Page 12.2 of Exhibit 12, the second page of the discussion package, as +2.15 percent, and the counterpart annual medical severity trend was observed to be +4.33 percent.

Historical claim frequencies and the derivation of a prospective claim frequency trend (-5.0 percent) were presented on Page 12.3 of Exhibit 12, the third page of the discussion package.

The average trended on-level loss ratio obtained by applying the combined claim frequency and severity trends was shown on Line (10) of Page 12.1 of Exhibit 12 and, at 0.9461, this ratio produced an indicated 5.39 percent decrease in collectible loss costs, prior to the application of HB1846 savings as previously discussed.

Staff noted that nominal changes in Experience Rating Plan off-balances, measured using the currently-approved Experience Rating Plan and differing by industry group, would be applied to produce indicated average changes in manual loss costs by industry group. Results of that adjustment would be derived from a final rate test when proposed classification loss costs were available.

Page 4 of the discussion package provided attribution of the effects of selected components of experience on the overall loss cost change indication. As illustrated on that exhibit, indemnity loss and trend experience each contributed more than two points' reduction to the overall indication, while medical trend resulted in approximately two-thirds of a point of reduction and medical loss experience was virtually neutral in the April 1, 2015 loss cost change.

Loss Development

Attendees were advised that the loss development analysis supporting the April 1, 2015 loss cost filing was presented on Exhibits 5, 6, 7 and 10 of the meeting agenda materials.

The basis for the overall loss cost change was described as beginning with the evaluation of ultimate costs of prior policy years. The underlying data for that evaluation was obtained from aggregate financial calls as summarized in Exhibit 5. This data was presented on a consistent basis reflecting effects of Act 44 of 1993 (a law containing a variety of changes to the processes and parameters used to determine medical benefits for workers compensation cases in Pennsylvania) and Act 57 of 1996 (primarily consisting of changes to the system controlling indemnity benefits for workers compensation claims in Pennsylvania). Continuing practices of prior Pennsylvania filings, Exhibit 5 excluded data for policies written on a large deductible basis. Staff described procedures used to assemble reported data from consistent groups of companies for each age-to-age comparison supported by Exhibit 5, noting that some companies either did not report data at certain evaluations or reported data that was not used in the filing analysis for a variety of reasons related to data quality.

Exhibit 6 was noted as a key element of the PCRB's analyses of both loss development and trend. Premium development was presented on Page 6.1 of this exhibit. Loss development analyses for indemnity and medical benefits had been performed using both paid loss and case incurred loss methods. Calculations for indemnity benefits were shown on Pages 6.2 through 6.6, while the counterpart pages for medical benefits were 6.14 through 6.18.

Tail factors for loss development calculations were derived using a methodology presented in Exhibit 7 of the agenda materials.

Staff described the PCRB's approach to loss development and the role of that analysis in the filing preparation. PCRB customarily used the average of the two most recent calendar years of development as a basis for deriving age-to-age factors in its filings. For each successive filing, a new calendar year of data was added, and loss development factors from the older of the two years used in the previous filing were dropped from the analysis. This process effectively replaced the older of the two years used in the most recent previous filing with the newest available year. For the April 1, 2015 filing, the newest available calendar year of loss development data available was that of Calendar Year 2013. The older of the two development periods relied upon in preparing the April 1, 2014 filing had been Calendar Year 2011. Calendar year 2012 had been included in the work supporting the 2014 filing and was retained for use in the 2015 filing.

Page 5 of the discussion package presented graphs of cumulative indemnity paid loss development factors taken from supporting information for the April 1, 2014 filing and the proposed April 1, 2015 filing, respectively. Page 5 showed the five maturities from 1st report (policy year at 24 months) to 5th report (policy year at 72 months). This comparison illustrated the change in indemnity paid loss development experience for the 2015 filing in comparison to the filing underlying present loss costs.

The comparisons on Page 5 showed slight improvement in paid indemnity loss development for the five earliest maturities in the 2015 filing, since the cumulative development factors derived for the April 1, 2015 filing were nominally lower than those taken from the April 1, 2014 filing.

Page 6 of the discussion package presented graphical comparisons of cumulative indemnity paid loss development factors derived in the same fashion as the comparisons on Page 5. Page 6 covered indemnity paid loss development after 6th report (policy year at 84 months). This separation of maturities from those reflected on Page 5 allowed the graph scale to be more informative of differences for later maturities, for which development factors become relatively small.

The comparisons on Page 6 showed consistent improvement in paid indemnity loss development through 15th report for the 2015 filing, with cumulative development factors for the later maturities being very similar for both filings.

Pages 7 and 8 of the discussion package compared incurred indemnity loss development factors taken from the April 1, 2014 and proposed April 1, 2015 filings. Page 7 included the five maturities from 1st report to 5th report, and Page 8 presented development for maturities from 6th report and beyond.

Page 7 showed improvement (lower cumulative loss development factors) in indemnity incurred loss development in every early maturity for the April 1, 2015 filing.

The comparisons on Page 8 showed consistent improvement in incurred indemnity loss development through 25th report for the 2015 filing.

Question: An observation was made that for indemnity incurred loss development, the differences between the current and previous years' factors to ultimate for sixth, seventh and eighth reports appeared to be particularly significant. The question was raised whether staff was aware of any underlying reasons or explanations for those observed differences.

Answer: Reference was made to the scales employed in presenting pages seven and eight, respectively. Taking the values graphed on pages seven and eight into account, differences in loss development factors were generally declining as the policy year maturities increased, including across the sixth, seventh and eighth maturities.

Pages 9 and 10 of the discussion package addressed paid medical loss development in the same fashion as Pages 5 and 6 had dealt with paid indemnity data.

Page 9 showed nominal deterioration (higher) loss development for the April 1, 2015 filing than the prior filing.

Page 10 showed higher cumulative medical paid loss development factors for the April 1, 2015 filing through 19th report, with factors for later maturities being very similar between the two filings.

Pages 11 and 12 of the discussion package addressed case incurred medical loss development in the same fashion as Pages 7 and 8 had dealt with case incurred indemnity data.

Page 11 showed mixed comparisons of cumulative medical loss development factors between the 2014 and 2015 filings, with the differences in either direction being quite small.

Page 12 illustrated nominally higher development factors for the 2015 filing through 12th report, with later comparisons being very similar between the 2014 and 2015 filings.

Comment: A committee member commented that the presentation provided at this meeting with respect to loss development, employing cumulative factors instead of age-to-age link ratios, was an improvement from the approach used in recent previous meetings.

Answer: Previous committee input leading to the development of the current exhibits was acknowledged, with appreciation.

Pages 13 and 14 of the discussion package presented information also contained, in part, on Pages 10.1 and 10.2 of Exhibit 10 of the filing materials, that being comparisons of the estimated ultimate loss ratios derived using paid loss and case incurred loss development approaches. Page 13 showed comparisons for indemnity loss in which newer policy year estimates were nominally lower using the case incurred development method than the paid loss development method. These small differences became less significant for older policy years, and the two methods converged for the oldest policy years illustrated on Page 13.

Page 14 of the discussion package presented comparisons of the estimated ultimate loss ratios for medical derived from using paid loss and case incurred loss development approaches. The pattern of comparisons was very similar to that observed for indemnity loss on Page 13, with newer policy years showing the case incurred loss development method having nominally lower estimates than the paid loss development method and with the differences becoming less significant for older policy years.

The patterns illustrated on Pages 13 and 14 of the discussion package were noted as being similar to results from other recent PCRB filings. Consistent with the approach used in numerous recent PCRB filings, the loss cost change indication had been derived using the average of paid loss and case incurred loss development methods applied separately to indemnity and medical losses.

<u>Claim Frequency Trend</u>

Exhibit 8 of the agenda materials derived the filing's metric for claim frequency trend.

Alternative data sets relevant to claim frequency experience and estimates were compared. The PCRB's derivation of claim frequency trend was described as using unit statistical data excluding large deductible policies. Page 15 of the discussion package illustrated the PCRB's long-term experience with regard to claim frequency with a line graph. Pennsylvania's claim frequency had declined each year for the period shown, with Policy Years 2009 and 2010 showing somewhat more modest changes than the preceding or following years. The basis of the draft filing's indication for claim frequency trend was noted as being an exponential fit through the most recent available seven policy year points, giving an annual rate of claim frequency decrease of 5.0 percent.

Staff noted that, in previous filings, Exhibit 8 had included tabulations of injury and illness counts obtained from the Department of Labor & Industry. Review of the most recent data from that source had shown marked increases (approximately doubling) in reported counts for recent periods. Inquiry to Labor & Industry had discovered that new reporting standards and the implementation of a new computer system in the agency had coincided with the observed changes in reported injury and illness counts. Accordingly, staff had elected not to include summaries of the Labor and Industry data with Exhibit 8 for this year's filing.
Question: A committee member inquired as to how the expected losses used as the denominator for claim frequency calculations on Exhibit 8 had been derived.

Answer: ***The explanation first noted that Exhibit 8 was based on unit statistical data. From those reports, exposures (generally payrolls) by classification were multiplied by current loss costs to calculate the expected losses for each classification, and the values used in Exhibit 8 were the sums of the resulting calculations across all classifications.***

This approach was described as taking into account the volume of employment and the distribution of employment among risk classifications in measuring claim frequency, effectively adjusting for shifts in employment between relatively high-risk and low-risk classifications over time.

Question: Clarification was sought as to whether the expected losses were reflecting amounts of payroll reported from year to year.

Answer: Staff confirmed that payroll volume was included in the expected losses but reiterated that the distribution of exposures between classifications was, or at least could be, also contributing to changes in expected losses over time.

Question: An attendee wondered how the PCRB would respond to the described changes in Labor & Industry reports.

Answer: The references to Labor and Industry data in previous filings had not been of the nature of computing claim frequency or claim frequency trends based on that information. Rather, the Labor & Industry data had been reviewed, particularly in very recent periods which fell beyond the experience available from unit statistical data, to check for unexpected changes in injury and illness counts.

On two prior occasions, changes in procedures within Labor & Industry and/or their data sources had disrupted trends in the Labor & Industry data and, in each case, the PCRB had been obliged to take those disruptions into account, reducing or eliminating any reliance on the Labor & Industry data to confirm or refute continuation of claim frequency trends as presented in unit statistical data. Staff felt that a similar response was in order for this filing, and so the Labor & Industry pages had been removed from Exhibit 8 to avoid possible confusion or misinterpretation.

Staff briefly explained that only indemnity claims were used as the basis for the filing's claim frequency trend. Medical Only claims, which represented a substantial majority of claim counts but a very small portion of loss dollars, were not included and the same (indemnity) claim frequency was used for both indemnity and medical analysis.

<u>Claim Severity Trend</u>

Exhibits 6, 9, 10 and 11 were pertinent to the PCRB's analysis of claim severity trend.

Staff provided a brief overview of the PCRB's customary trending procedures, which separated loss ratio trends into claim frequency and claim severity components. The calculation of "severity ratios" by adjusting loss ratios for observed changes in claim frequency was outlined, with reference to Pages 6.6 and 6.18 of Exhibit 6. Estimation of severity trends was accomplished in Exhibit 6 (Pages 6.6 through 6.10 for indemnity severity ratios and Pages 6.18

through 6.22 for medical severity ratios). Pages 10.3 and 10.4 of Exhibit 10 displayed time series of severity ratios thus derived.

Pages 16 and 17 of the discussion package showed graphs of historical severity ratios and trend lines projecting future severity ratios based on prior policy years. Page 16 addressed indemnity severity ratios, with historical ratios being based on the average of the paid loss and case incurred loss development methods and shown connected by a solid line and trended ratios based on a seven-point exponential trend line fit through Policy Years 2006 through 2012 and represented by a dotted line on the discussion package page.

Page 17 addressed medical severity ratios, with historical ratios being based on the average of the paid loss and case incurred loss development methods and shown connected by a solid line and trended ratios based on a seven-point exponential trend line fit through Policy Years 2006 through 2012 and represented by a dotted line on the discussion package page.

In evaluating the filing proposal's treatment of trend, the PCRB had replicated prior filings' tests of the goodness of fit of various trend methods and experience periods applied to loss ratios and severity ratios, respectively, and those tests were presented in Exhibit 9a (loss ratios) and Exhibit 9b (severity ratios). R-squares were somewhat better for indemnity loss ratios than for indemnity severity ratios, but were markedly superior for medical severity ratios than for loss ratios. Residuals based on seven-point exponential fits were mixed between loss ratio and severity ratio fits for indemnity, but were more favorable for severity ratio fits for medical.

In addition, the PCRB had reviewed the efficacy of alternative trend methods and experience periods in forecasting subsequent policy year loss ratios and severity ratios, with the results of those reviews contained in Exhibit 11a (for loss ratios) and Exhibit 11b (for severity ratios). Although application of a common trend method (i.e., exponential fit) through the same number of points (for example, seven) separately to claim frequency and claim severity is equivalent to using those same methods applied to loss ratios, the limited number of tests available for seven-point exponential projections favored loss ratios for indemnity and favored severity ratios for medical.

Page 18 of the discussion package presented graphs of historical and projected indemnity loss ratios, claim frequency and claim severity derived in accordance with the procedures and methods previously discussed. This presentation replicated Page 10.5 of Exhibit 10 and illustrated declining indemnity loss ratios (trending at an annual rate of decrease of 2.9 percent) which resulted from claim severity increasing more slowly than claim frequency had declined (severity up 2.2 percent per year and frequency declining at 5.0 percent per year).

Page 19 of the discussion package presented graphs of historical and projected medical loss ratios, claim frequency and claim severity derived in accordance with the procedures and methods previously discussed. This presentation replicated Page 10.6 of Exhibit 10 and illustrated higher severity trend ratios for medical losses (+4.3 percent per year) than for indemnity losses, but with loss ratios still declining modestly over time (-0.9 percent per year) due to the net favorable effects of claim frequency improvement.

In the context of Pennsylvania system outcomes, Page 20 of the discussion package illustrated settlement rates derived from unit statistical data. This page contained a set of line graphs tracking the portions of reported indemnity claims that remained open at various report levels for a series of prior policy years. These graphs generally showed a pattern of stable or slowly improving settlement rates after first report over the past several four years.

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

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 in statewide average wage levels, with such filings subject to review and approval by the Insurance Department and typically effective each October 1.

Staff noted that the average PCCPAP loading indicated, based on the most recent available data, was nominally higher than that currently in effect (2.60 percent proposed vs. 2.42 percent current). This was attributed to the effects of recent increases in participation in the program and average credits being awarded to participating risks.

Question: An attendee inquired as to how "high wage" was defined, and whether that threshold changed over time.

Answer: The PCCPAP program includes a table of qualifying wages and a scale of premium credits associated with increasing levels of wages. Staff recalled that the first such table had granted credits at wages above $10.00, but the lowest qualifying wage and the wages required for successively higher credits were revised annually in accordance with changes in the Statewide Average Weekly Wage.

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), slightly less than the level currently in effect (0.30 percent).

Experience Rating Plan

Staff referred to Exhibits 18a, 18b, 19 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 be expected to improve the accuracy of the modifications thus issued.

Illustration of effects of the Experience Rating Plan was provided by reference to Pages 21 and 22 of the discussion package, which replicated materials included in Exhibit 18a.

Page 21 (credit risks) showed a pattern that might suggest that the Experience Rating Plan could provide higher credibility than was assigned in the current plan for risks above $50,000 or $100,000. Page 22 (debit risks) suggested that the Experience Rating Plan might apply too low credibility assignments across the spectrum of risk sizes.

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. The effects of capping were observed to be small across all risk sizes, but potentially significant for some individual accounts.

Pages 23 and 24 of the discussion package were similar to pages 21 and 22 but displayed the results of experience rating using capped experience modifications (i.e., calculated experience modifications after the application of prevailing limitations on changes in experience modifications from year to year.)

Aspirations to refresh and extend testing of the PCRB Experience Rating Plan previously shared with the Committees were affirmed, with a caveat for the potential usurpation of otherwise available time for work dictated by outside forces and influences.

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 would be the basis for the relativities by industry group of manual changes in loss costs previously discussed in Exhibit 12. Savings anticipated for HB1846 would be included in the calculation of final Expected Loss Cost Factors for the April 1, 2015 filing.

Question: Staff was asked whether consideration had been given to updating the $42,500 loss limitation used in the Experience Rating Plan.

Answer: The response affirmed that the loss limit, in addition to a variety of other features of the plan, was intended to be reviewed periodically.

Question: The inquirer asked whether the PCRB had a time frame for the performance of such reviews.

Answer: While the Experience Rating Plan was a high priority, this work had been deferred of necessity in recent years owing to pressures on resources needed to complete mandatory functions. Thought was being given to means of expanding the PCRB's capabilities in order to support more regular and ongoing reviews of this nature.

Retrospective Rating Plan Optional Loss Development Factors

Carriers could 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.

Loss Cost Relativities by Classification

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 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.

Staff reminded attendees that PCRB Filing No. 240 had introduced a new procedure for mapping direct employment classes into temporary staffing classes. Effective December 1, 2010, temporary staffing classification Codes 544, 682, 929, 937 and 947 had been discontinued and were replaced with ten new temporary staffing exposure groups, Classes 520-529.

The temporary staffing procedures adopted in 2010 mapped direct employment classes with similar rating values into a common temporary staffing exposure group. As part of PCRB Filing No. 240, it had been observed that classification rating value relativities would shift over time and that the rating values of the direct employment classes mapping into the proposed temporary staffing exposure groups might subsequently move outside the bounds of originally-constructed ranges. With that phenomenon in mind, the PCRB had intended to review the composition of direct business classes defining the temporary staffing exposure groups periodically.

A proposal to revise the mapping of direct employment classifications into temporary staffing exposure groups had been discussed at the joint committee meeting held with respect to the April 1, 2014 loss cost filing. However, concerns had been raised about the extent to which temporary staffing employers would have had notice of the proposed changes, which often resulted in very significant changes in loss costs. Accordingly, the PCRB had submitted a separate interim filing during 2014, PCRB Filing No. 261, which had included advance notice to potentially impacted employers of the proposed changes. PCRB Filing No. 261 had been approved for implementation with the April 1, 2015 loss cost filing, and the promulgation of classification loss costs would proceed accordingly. The methodology for calculating rating values for temporary staffing Classes 520-529 otherwise remained unchanged.

In a similar vein, staff recalled discussion about the discontinuation of the Aircraft Seat Surcharge program which the National Council on Compensation Insurance, Inc. had proposed to be effective January 1, 2015. Based on discussion at the joint committee meeting held prior to submitting the PCRB's April 1, 2014 loss cost filing, it was decided to emulate that countrywide effective date for Pennsylvania. Accordingly, PCRB Filing No. 259 had been submitted and approved with the January 1, 2015 effective date.

Staff Memorandum Dated July 8, 2014
Proposed Manual Language Revisions to Sections 1, 2, 3 and 4 (Housekeeping)

No changes to classification loss costs were anticipated as a result of the collective language revisions proposed in the captioned memorandum. The changes were broadly described as follows:

- One change to classification procedure, reassigning "Ketchup Manufacturing" from Code 113, Caning or Preserving, to Code 104, Food Products Manufacturing, N.O.C. This change is consistent with prevailing classification assignment to the only known production facility insured in Pennsylvania and principally engaged in Ketchup manufacturing.

- Changes in language used to refer to enabling legislation for workers compensation matters in Pennsylvania.

- Adding information about where the Statewide Average Weekly Wage may be obtained from Commonwealth resources.

- Eliminating outdated transitional language pertaining to the approved Premium Algorithm Preface.

- Retitling Classification 112, to "Carbonated Beverage Manufacturing".

- Editorial Changes to Manual language for Codes 028, Oil or Gas Production, 104, Food Products Manufacturing, N.O.C., 606, Oil or Gas Well Drilling and 757, Telecommunications Company.

- Additions, revisions and deletions of various Underwriting Guide entries.

- Deletion of the "Campus" definition from the Manual.

The above changes had not previously been shared with the Classification & Rating Committee via an email advisory, and so were offered for discussion at the December 3, 2014 meeting.

Staff Memorandum Dated November 26, 2014 - Auditable Payroll Values Indexed to the Statewide Average Weekly Wage

Staff noted that the Manual designated various auditable weekly or annual payrolls, including the weekly maximum musicians' or entertainers' payrolls, the weekly minimum and maximum corporate officer payrolls, the annual taxicab operator payroll and the annual minimum auxiliary or special school police payroll.

A staff memorandum dated November 26, 2014, outlining appropriate revisions to the currently-approved parameters in these cases, was presented for discussion. Continuing a transitional program begun with the April 1, 2013 filing, the minimum corporate officer auditable payroll was proposed to be computed as 80 percent of the SAWW effective January 1, 2014. As the January 1, 2014 SAWW was $932, the resulting minimum auditable corporate officer payroll was $750 per week.

The maximum individual payroll for executive officers was proposed to change from $2,300 to $2,350 per week.

The annual payroll applicable to taxicab operators in the absence of payroll records was proposed to change from $45,850 to $46,600, and the minimum payroll for auxiliary police or special school police appointed by municipalities or townships was proposed to increase from $4,600 to $4,650 per year. Each of these parameters was maintained annually by reference to Pennsylvania's SAWW, with the convention of rounding results to the nearest $50 applied.

The above changes were proposed to become effective on a new and renewal basis April 1, 2015.

It was noted that PCRB staff continued to review Manual provisions for minimum and maximum annual payrolls for professional or semiprofessional athletes, coaches or managers. No revisions to existing procedures were being proposed at this time.

Question: A committee member asked what was expected in terms of timing for completing the remaining analysis and preparing and submitting the April 1, 2015 filing.

Answer: Staff promised to distribute materials concerning the estimation of savings under HB1846 to all attendees when they became available. The PCRB wanted to complete and submit the filing as expeditiously as possible, but as the time required to complete the novel work on the law amendment was not certain, there was not a firm date for completing the filing itself.

It was thought that the filing could be made as soon as the week of December 8, or that it might take as much as two weeks more time to finish. When the filing was made, it would be announced in the Pennsylvania Bulletin, and a public comment period would begin to run with the date of publication in the Pennsylvania Bulletin.

Question: An attendee asked whether the PCRB's analysis of HB1846 would include projections of impact for future years.

Answer: Although staff was aware that discussions addressing the longer term implications of changes like those enacted in HB1846 had taken place while the law was being drafted and debated, the PCRB's current analysis was focused on the impact of the changes on the April 1, 2015 filing only.

Staff felt that, in the longer term, the more significant effects of HB1846 might prove to be avoidance of costs that might otherwise have been presented in the system, and observed that estimating events that had not taken place was more uncertain than evaluating how a change in the system would impact recent past experience, the latter of which was the nature of the evaluation being conducted at the present time.

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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