

PENNSYLVANIA COMPENSATION RATING BUREAU  
PENNSYLVANIA CONSTRUCTION CLASSIFICATION  
PREMIUM ADJUSTMENT PROGRAM (“PCCPAP”)

The PCCPAP has been used in Pennsylvania since 1991 as a means of addressing construction employers’ concerns regarding the effects of wage differentials on workers’ compensation premium. The program establishes a set of tabular premium credits given to employers engaged in the construction trades and who have paid wages in excess of minimum qualifying levels. Until January 1, 2002, when an experience-rated employer received a PCCPAP credit, the expected losses used in determining that employer’s modification were reduced in proportion to the PCCPAP credit, thereby avoiding redundant credits based on prevailing wage levels.

Beginning January 1, 2002, the practice of adjusting PCCPAP participating employers’ experience modifications was discontinued. Instead, an equivalent adjustment is now made to reduce the insured’s policy credit factor.

The PCCPAP is intended to be a means of redistributing a portion of workers’ compensation insurance premiums between lower-wage and higher-wage employers. On balance the program is intended to be revenue neutral. Prior to 1995, classifications in which employers were eligible for credits had been subject to a flat loading of 1 percent, intended to offset the credits being provided to relatively high-wage employers. Starting with the 1995 loss cost filing, the current procedure, as described herein, has been used.

The PCRB has assembled 2013 policy year experience data that provides historical measures of the extent to which employers in each eligible classification have qualified for PCCPAP credits, and the magnitude of credits granted under this program. The attached exhibit presents the staff analysis of this experience, and derives a proposed revised set of PCCPAP loadings to maintain the intended balance within the affected classifications. A brief description of page 14.1 follows:

Column (1) - Class: The numeric designation of each classification eligible for PCCPAP credit.

Column (2) - # of Policies (Total): The number of policies reported in each class, whether or not those policies applied for or received PCCPAP credit.

Column (3) - # of Policies (PCCPAP): The number of policies qualified for PCCPAP credit for the 2013 policy term.

Column (4) - Payroll (Total): The payroll attributable to the policies reported in column (2).

Column (5) - Payroll (PCCPAP): The payroll attributable to policies reported in column (3).

Column (6) - PCCPAP Policy Premium, Pre-PCCPAP: The Standard Premium which would have applied to qualifying PCCPAP policies ABSENT both the tabular PCCPAP credit and the adjustment to that tabular credit to offset any redundancy resulting from the calculation of experience modifications. The current PCCPAP load on Manual Rates is omitted from this calculation.

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Column (7) - PCCPAP Policy Premium, Post-PCCPAP: The Standard Premium attributable to qualifying PCCPAP policies, reflecting BOTH the tabular PCCPAP credits and the adjustment to that tabular credit to offset any redundancy resulting from the calculation of experience modifications. The current PCCPAP load on Manual Rates is omitted from this calculation.

Columns (8) and (9) - Non-PCCPAP Policy Premium: The Standard Premium attributable to policies that did not qualify for PCCPAP credit in 2013. The current PCCPAP load on Manual Rates is omitted from this calculation.

Column (10) - Indicated Surcharge: The ratio of Pre-PCCPAP premiums for both qualifying and non-qualifying policies to Post-PCCPAP premiums for those same policies. Computed as (Column (6) + Column (8)) / (Column (7) + Column (9)).

Column (11) - Average PCCPAP Credit: For qualifying policies, the average credit given in 2013. For example, an average credit of 0.0739 indicates that the average qualifying risk in Code 601 received a 7.39 percent reduction in standard premium by operation of the PCCPAP plan’s tabular credit and experience rating plan adjustment. This is computed as  $(1.00 - (\text{Column (7)} / \text{Column(6)}))$ .

Column (12) - Class “Z”: This is the credibility assigned each classification’s indicated PCCPAP surcharge. The credibility formula is a linear function of total classification policies, with 295 policies or more receiving full credibility. This formula is an adaptation of procedures used in NCCI jurisdictions where credibility is a linear function of the number of policies qualifying for Premium Adjustment Plan credits. Staff perceives the use of total policies to be more appropriate where large portions of a class have not historically qualified for PCCPAP credit.

Column (13) - Formula Surcharge: The credibility-weighted classification loadings for PCCPAP credits. The calculation uses the following values:

$$\text{Column (10)} \times \text{Column (12)} + (1.00 - (\text{Column (12)}) \times \text{Average Column (10)})$$

Column (14) - TCF: The test correction factor necessary to balance credibility-weighted surcharges across all classifications to the overall indicated surcharge of 2.51 percent.

Column (15) - Final Surcharge: The product of the TCF (Column (14)) and the formula surcharges (Column (13)) by classification.

Page 14.2 shows a comparison of current and proposed PCCPAP surcharges by class and overall.

PCCPAP Surcharges  
For Policy Effective Dates 01/01/13 Through 12/31/13

100% Credibility =  
Partial Credibility =

295 Policies  
# of Policies / 295

Class	# of Policies (Total)	# of Policies (PCCPAP)	Payroll (Total)	Payroll (PCCPAP)	***PCCPAP Policies***		**Non-PCCPAP Policies**		Indicated Surcharge	Average PCCPAP Credit	Class "Z"	Formula Surcharge	TCF	Final Surcharge
					Premium Pre-PCCPAP	Premium Post-PCCPAP	Premium Pre-PCCPAP	Premium Post-PCCPAP						
601	331	61	253,075,125	39,255,281	2,098,616	1,943,532	10,846,139	10,846,139	1.0121	0.0739	1.00	1.0121	0.9988	1.0109
603	264	69	91,021,644	36,555,321	1,618,733	1,388,641	2,327,223	2,327,223	1.0619	0.1421	0.89	1.0579	0.9988	1.0567
605	40	1	23,780,391	889,263	90,473	79,616	1,314,205	1,314,205	1.0078	0.1200	0.14	1.0227	0.9988	1.0215
606	47	0	285,794,126	0	0	0	19,746,024	19,746,024	1.0000	0.0000	0.16	1.0211	0.9988	1.0199
607	460	17	619,501,825	18,785,163	947,652	772,871	30,313,594	30,313,594	1.0056	0.1844	1.00	1.0056	0.9988	1.0044
608	2,391	259	414,577,101	88,388,177	4,404,450	3,835,380	16,543,757	16,543,757	1.0279	0.1292	1.00	1.0279	0.9988	1.0267
609	2,502	215	1,090,255,149	124,400,996	5,497,646	4,889,650	39,632,927	39,632,927	1.0137	0.1106	1.00	1.0137	0.9988	1.0125
611	22	9	6,007,291	1,301,008	138,142	119,923	316,448	316,448	1.0418	0.1319	0.07	1.0263	0.9988	1.0251
615	3	1	11,477,176	2,032,707	130,849	124,306	736,890	736,890	1.0076	0.0500	0.01	1.0249	0.9988	1.0237
617	308	70	297,809,977	44,639,132	1,702,027	1,539,488	8,365,978	8,365,978	1.0164	0.0955	1.00	1.0164	0.9988	1.0152
645	723	140	209,207,013	79,793,238	4,106,200	3,615,123	6,527,158	6,527,158	1.0484	0.1196	1.00	1.0484	0.9988	1.0472
646	388	42	78,963,542	18,042,103	818,605	687,321	2,855,802	2,855,802	1.0371	0.1604	1.00	1.0371	0.9988	1.0359
647	232	16	35,468,689	1,105,217	74,867	60,614	2,008,077	2,008,077	1.0069	0.1904	0.79	1.0107	0.9988	1.0095
648	1,110	46	104,941,469	18,614,007	1,006,245	869,744	4,344,207	4,344,207	1.0262	0.1357	1.00	1.0262	0.9988	1.0250
649	256	90	69,053,783	39,206,487	909,812	791,456	725,027	725,027	1.0780	0.1301	0.87	1.0711	0.9988	1.0698
651	2,342	238	564,899,566	115,171,207	6,422,066	5,501,433	25,133,935	25,133,935	1.0301	0.1434	1.00	1.0301	0.9988	1.0289
652	6,025	42	417,791,706	11,124,490	780,407	709,890	30,799,225	30,799,225	1.0022	0.0904	1.00	1.0022	0.9988	1.0010
653	1,755	131	248,883,315	60,918,066	3,597,535	3,120,086	11,081,095	11,081,095	1.0336	0.1327	1.00	1.0336	0.9988	1.0324
654	542	133	206,190,710	50,316,432	3,490,683	3,015,466	9,961,095	9,961,095	1.0366	0.1361	1.00	1.0366	0.9988	1.0354
655	322	58	132,206,361	25,790,726	2,782,756	2,371,566	9,872,673	9,872,673	1.0336	0.1478	1.00	1.0336	0.9988	1.0324
656	140	7	127,290,500	7,075,845	393,711	325,895	6,118,777	6,118,777	1.0105	0.1722	0.47	1.0182	0.9988	1.0170
657	54	1	12,758,048	103,782	7,279	7,061	844,988	844,988	1.0003	0.0299	0.18	1.0206	0.9988	1.0194
658	418	71	71,467,303	17,582,502	1,202,796	963,474	3,701,674	3,701,674	1.0513	0.1990	1.00	1.0513	0.9988	1.0501
659	822	56	128,041,718	19,842,948	2,699,092	2,397,473	14,208,972	14,208,972	1.0182	0.1117	1.00	1.0182	0.9988	1.0170
660	1,027	122	385,818,910	63,393,637	1,493,750	1,214,195	7,217,145	7,217,145	1.0332	0.1871	1.00	1.0332	0.9988	1.0320
661	2,864	333	916,637,183	387,751,224	10,037,105	8,363,662	14,017,361	14,017,361	1.0748	0.1667	1.00	1.0748	0.9988	1.0735
662	243	0	144,069,558	0	0	0	5,777,277	5,777,277	1.0000	0.0000	0.82	1.0045	0.9988	1.0033
663	3,178	293	877,162,966	207,460,966	6,588,952	5,549,494	22,171,122	22,171,122	1.0375	0.1578	1.00	1.0375	0.9988	1.0363
664	2,370	253	792,591,662	258,997,190	8,276,137	7,030,642	17,717,588	17,717,588	1.0503	0.1505	1.00	1.0503	0.9988	1.0491
665	1,494	50	127,031,648	21,343,399	1,284,756	1,119,708	6,839,354	6,839,354	1.0207	0.1285	1.00	1.0207	0.9988	1.0195
666	255	38	50,712,607	16,036,245	790,053	681,112	1,791,091	1,791,091	1.0441	0.1379	0.86	1.0414	0.9988	1.0402
667	228	19	19,630,969	4,421,631	84,428	74,399	234,473	234,473	1.0325	0.1188	0.77	1.0308	0.9988	1.0296
668	440	32	54,369,320	11,394,348	586,469	502,740	2,008,949	2,008,949	1.0333	0.1428	1.00	1.0333	0.9988	1.0321
669	135	21	8,698,248	2,489,169	132,477	118,699	343,688	343,688	1.0298	0.1040	0.46	1.0273	0.9988	1.0261
670	614	46	49,605,820	13,718,597	597,166	480,282	1,492,208	1,492,208	1.0593	0.1957	1.00	1.0593	0.9988	1.0581
673	225	3	36,360,834	752,155	36,216	29,182	1,599,140	1,599,140	1.0043	0.1942	0.76	1.0093	0.9988	1.0081
674	202	2	19,831,230	1,298,692	51,016	44,044	739,893	739,893	1.0089	0.1367	0.68	1.0141	0.9988	1.0129
675	1,617	83	925,434,595	60,706,227	2,046,565	1,726,578	27,930,823	27,930,823	1.0108	0.1564	1.00	1.0108	0.9988	1.0096
676	309	41	54,459,277	14,053,352	559,470	454,355	1,365,996	1,365,996	1.0577	0.1879	1.00	1.0577	0.9988	1.0565
677	76	11	70,536,378	9,355,387	250,158	201,535	1,616,509	1,616,509	1.0267	0.1944	0.26	1.0255	0.9988	1.0243
679	21	0	8,418,436	0	0	0	546,944	546,944	1.0000	0.0000	0.07	1.0233	0.9988	1.0221
681	87	0	7,240,466	0	0	0	321,577	321,577	1.0000	0.0000	0.29	1.0178	0.9988	1.0166
691	22	0	1,834,883	0	0	0	101,689	101,689	1.0000	0.0000	0.07	1.0233	0.9988	1.0221
693	37	0	1,838,567	0	0	0	143,224	143,224	1.0000	0.0000	0.13	1.0218	0.9988	1.0206
695	56	0	6,691,645	0	0	0	238,731	238,731	1.0000	0.0000	0.19	1.0203	0.9988	1.0191
Total	36,997	3,120	10,059,438,730	1,894,106,317	77,735,360	66,720,636	372,540,672	372,540,672	1.0251	0.1417		1.0263	0.9988	1.0251

Note:

For each Class:

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

Basis of Credibility: 1 / ((# PCCPAP Policies) / (# Total Policies)) \* 25 = 295 Policies for Full Credibility

Formula Surcharge = (Indicated Surcharge) \* (Credibility for that Class) + (1 - Credibility) \* (Average Indicated Surcharge)

Test Correction Factor = (Total Indicated Surcharge) / ((Total Weighted Formula Surcharge) / (Total Premium Post-PCCPAP))

Comparison of PCCPAP Surcharges by Class

Class (1)	Current PCCPAP Surcharge (2)	Proposed PCCPAP Surcharge (3)	Percentage Change (4)=(3)/(2)-1.0
601	1.0119	1.0109	-0.1%
603	1.0653	1.0567	-0.8%
605	1.0217	1.0215	0.0%
606	1.0198	1.0199	0.0%
607	1.0049	1.0044	0.0%
608	1.0303	1.0267	-0.3%
609	1.0122	1.0125	0.0%
611	1.0287	1.0251	-0.3%
615	1.0237	1.0237	0.0%
617	1.0130	1.0152	0.2%
645	1.0474	1.0472	0.0%
646	1.0257	1.0359	1.0%
647	1.0104	1.0095	-0.1%
648	1.0258	1.0250	-0.1%
649	1.0865	1.0698	-1.5%
651	1.0247	1.0289	0.4%
652	1.0016	1.0010	-0.1%
653	1.0358	1.0324	-0.3%
654	1.0375	1.0354	-0.2%
655	1.0448	1.0324	-1.2%
656	1.0164	1.0170	0.1%
657	1.0199	1.0194	0.0%
658	1.0448	1.0501	0.5%
659	1.0161	1.0170	0.1%
660	1.0353	1.0320	-0.3%
661	1.0701	1.0735	0.3%
662	1.0014	1.0033	0.2%
663	1.0431	1.0363	-0.7%
664	1.0507	1.0491	-0.2%
665	1.0222	1.0195	-0.3%
666	1.0475	1.0402	-0.7%
667	1.0405	1.0296	-1.0%
668	1.0360	1.0321	-0.4%
669	1.0341	1.0261	-0.8%
670	1.0576	1.0581	0.0%
673	1.0073	1.0081	0.1%
674	1.0126	1.0129	0.0%
675	1.0103	1.0096	-0.1%
676	1.0515	1.0565	0.5%
677	1.0222	1.0243	0.2%
679	1.0230	1.0221	-0.1%
681	1.0167	1.0166	0.0%
691	1.0222	1.0221	0.0%
693	1.0211	1.0206	0.0%
695	1.0201	1.0191	-0.1%
Total	1.0260	1.0251	-0.1%