

**Discussion of any limitations that may have had a substantive impact on the unpaid claims estimates included in the filing as noted in the Statement of Principles Regarding Property and Casualty Unpaid Claims Estimates promulgated by the Casualty Actuarial Society regarding the PCRB's April 1, 2018 Loss Cost Filing.**

## **Introduction**

In support of the April 1, 2015 Loss Cost Filing (and other prior loss cost filings), the Pennsylvania Compensation Rating Bureau (PCRB) offered narrative discussions of the Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves published by the Casualty Actuarial Society (Principles) in partial support of those filings before the Pennsylvania Insurance Department (Department). The PCRB provided these discussions because the Department requested these discussions from the PCRB in support of prior loss cost filings.

After the submission of the April 1, 2015 loss cost filing, the Casualty Actuarial Society revised the Principles. As part of last year's loss cost filing, the PCRB offered a discussion of limitations that may have had a substantive impact on the unpaid claims estimates included in the filing as noted in the Statement of Principles Regarding Property and Casualty Unpaid Claims Estimates promulgated by the Casualty Actuarial Society. The PCRB provided that discussion because the Department requested a discussion from the PCRB in support of that loss cost filing. The April 1, 2018 loss cost filing likewise includes such a discussion.

The PCRB notes that the estimates for unpaid claims included in the referenced filing are inherently uncertain. This uncertainty stems from a dependence of the amount of future claims payments on facts and circumstances that are unknown at this time. The PCRB believes that the following additional limitations may also apply.

## **Aggregate Data**

The PCRB's filing contains data and information for the combined experience of carriers in the PCRB's database. The policy year data valued as of December 31, 2016 used to calculate the overall loss cost indication in this filing is based on a majority of companies in the PCRB's database. The total Pennsylvania workers compensation market share of those companies is approximately 98.4%. This compares to market shares of 98.8% and 97.1% in the April 1, 2017 and April 1, 2016 loss cost filings, respectively. Not all companies' financial call data is used in the filing due to data quality issues or because certain companies/groups did not submit financial calls to the PCRB. Data by carrier or insured is not disclosed in the filing to protect the proprietary and trade secret information of these entities. However, the PCRB acknowledges that the experience of the PCRB's individual member companies or insureds may be different (or may be perceived to be different) from the aggregate experience of the PCRB's total membership.

## **House Bill 1846 of 2014**

House Bill 1846 was signed into law on October 27, 2014 and became effective on December 26, 2014. This year's filing, similar to last year's filing, includes an adjustment due to the impact of House Bill 1846 on workers compensation medical costs. The total impact of House Bill 1846 on workers compensation medical costs in this filing is approximately 1.61% (or 0.9839) for the policies effective from April 1, 2018 through March 31, 2019. This impact is comprised of a medical savings factor of approximately 0.9908 and the impact of medical severity trend deflection of approximately 0.9930 ( $0.9839 = 0.9908 * 0.9930$ ). The medical savings factor can be found in Exhibit 1, Page 1.1, Line 9a. The impact on medical severity trend can be found in Exhibit 1, Page 1.2, Medical Trend columns 4 through 6. The analysis of House Bill 1846 is included in Exhibit 34. The evaluation of this legislation is the same as was seen in the previous three years' loss cost filings.

### **Pennsylvania Supreme Court ruling in *Protz v. WCAB (Derry Area School District)***

On June 20, 2017, the Pennsylvania Supreme Court issued its decision in *Protz v. WCAB (Derry Area School District)*, Nos 6 WAP 2016, 7 WAP 2017, holding that Section 306(a.2) of the Workers' Compensation Act (77 P.S. § 511.2) is an unconstitutional delegation of legislative authority. The Court concluded that the entirety of Section 306(a.2) was unconstitutional. Specifically, the Court upheld the Commonwealth Court order declaring that the portion of the Act requiring physicians to apply the methodology set forth in "the most recent edition" of the American Medical Association *Guides to the Evaluation of Permanent Impairment* violates the constitutional requirement that all legislative power "be vested in a General Assembly which shall consist of a Senate and a House of Representatives."

The PCRB performed an analysis of this Supreme Court ruling that resulted in an overall proposed increase to Pennsylvania loss costs of 6.06 percent (see PCRB Proposal C-369). The PCRB assumed for ratemaking purposes in this filing, PCRB Proposal C-370, that Proposal C-369 was approved. The experience underlying this filing was reported prior to the Pennsylvania Supreme Court's decision. Therefore, a factor was applied to indemnity losses in this filing's loss cost indication based on the analysis in Proposal C-369. Proposal C-369 did not contain an impact on medical losses.