



June 30, 2023

PCRB CIRCULAR NO. 1797

To All Members of the PCRB:

Re: EXPERIENCE RATING PLAN REVISIONS - EFFECTIVE APRIL 1, 2024

The PCRB submitted Filing No. 340 to the Pennsylvania Insurance Department on June 23, 2023. The filing proposes changes to the Experience Rating Plan (ERP) for policies with Rating Effective Dates on or after April 1, 2024. This filing has been submitted in advance so revisions to the ERP can be implemented concurrent with the next annual loss cost filing, also effective April 1, 2024.

This filing results from extensive research and analysis conducted by the PCRB over several years, exploring various alternatives to enhance the existing ERP. This process also included input from various stakeholders, including carriers, agents, brokers, regulators, and others. The proposed changes primarily focus on assigning different credibility weights to employers' reported data and implementing new limitations on the charges associated with individual accidents. The existing arithmetic formula for experience rating will remain the same. Additionally, proposals were made to lower the eligibility from \$10,000 to \$5,000 and cap the indicated modification changes at the lower of the maximum modification or a 40% swing limit after a two-year transition period concludes. The proposed ERP adjustments provide enhanced plan performance through improved accuracy that will incentive workplace safety. Members can find the details regarding the proposed changes and transition period rules in the complete filing on our website at www.pcrb.com in the "Filings" section.

To facilitate understanding of the new ERP, the PCRB has published a Factsheet and Frequently Asked Questions (FAQ) on the [Experience Rating](#) section of the PCRB website. During this transitioning period, the PCRB will also be providing additional educational materials and tools related to the new plan. We encourage all stakeholders to regularly visit our website for updates and announcements regarding this filing in the coming months.

Furthermore, acknowledging the significant interest in the revision of the ERP and the potential for questions, the PCRB has scheduled a webinar for July 19, 2023, at 10 a.m. This webinar aims to further explain the changes and address questions regarding the new ERP. Please visit the webinar link ([PA ERP Webinar](#)) or via the PCRB website to register for this webinar.

Questions concerning this filing should be directed to Brent Otto, Vice President of Actuarial Services and Chief Actuary, at botto@pcrb.com.

William V. Taylor
President

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS, AND
RATING VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS LIABILITY
INSURANCE**

Proposed Effective April 1, 2024

INFORMATION PAGE remains unchanged.

PREFACE remains unchanged.

MEMBERSHIP remains unchanged.

TABLE OF CONTENTS remains unchanged.

SECTION 1 through **SECTION 4** remains unchanged.

SECTION 5 – EXPERIENCE RATING PLAN

SECTION I – INSTRUCTIONS through **SECTION II – DEFINITIONS** remain unchanged.

SECTION III – GENERAL PROVISIONS

1. **Eligibility Requirements.** A risk shall qualify for rating under this Plan if the premium developed by the audited payrolls or other exposures of the experience period, extended at current PCRB Loss Costs, is ~~\$10,000~~ \$5,000 or more.

Items 2 through Item 10 remain unchanged.

SECTION IV – APPLICATION OF EXPERIENCE MODIFICATION through **SECTION V – TABULATION OF EXPERIENCE** remains unchanged.

SECTION VI – RATING PROCEDURE

1. Actual Primary Losses. Actual Primary Losses (A_p), as tabulated in accordance with the provisions of Rules 4 and 5 of Section V, shall be used in the rating.
2. Expected Losses. Expected Losses (E) shall be determined from the application of the appropriate Expected Loss Factor, shown in Table A, to the payrolls or other exposures for each classification for the experience period.
3. Credibility. The Credibility (C) of the experience of the risk shall correspond to Expected Losses (E), as shown in Table B.
4. ~~Maximum Value Limit~~ Charge. A ~~limitation~~ charge (L) reflecting the loss dollars eliminated by the ~~Maximum Value split point~~ placed on One Accident, shall be included in calculating the modification. The Charge times Credibility, or $L \times C$, shall be determined by entering Table B at the level of Expected Losses for the experience period.

5. Credibility Complement (1-C). The Credibility Complement is computed by subtracting the Credibility (C) from unity (1.0).

6. 5. Experience Modification. The Experience Modification (~~M~~) shall be determined from the formula: $[A_p \times C + E \times C \times L \times C + E(1.000 - C)] / E = \text{Indicated Modification, Final Modification Capped to } \pm 25\% \text{ of Prior Modification, except that where the indicated Modification is less than unity (1.000) and the Capped Modification is greater than unity (1.000), then the Final}$

~~Modification shall be set equal to unity (1.000)~~ The indicated modification will be subject to capping based on the Maximum Modification formula below:

$$1.10 + 0.0004 \times (E / G), \text{ where } G=10$$

If the indicated modification, after application of the Maximum Modification formula, still exceeds +40% compared to the prior final experience modification, the Final Modification will be capped at 40% of the prior modification.

7. Transition Rules: During the transition period based on the RED between 4/1/2024 to 3/31/2026, the current capping rules will remain in effect, which limit changes (up or down) to no more than +/-25% of the prior Final Modification and the application of the Double Swing Cap (Secondary Capping) defined below. Additionally, the maximum modification, calculated using the formula above, will be applied to the Final Modification. The Final Modification factor will be determined by selecting the lower value between the modification calculated based on the current capping rule and the Maximum Modification.

The Double Swing Cap recognizes the favorable experience of the risk by setting the Final Modification to 1.0 in specific situations. When the 25% swing limit is applied to a previous experience modification factor that is above 1.0 but the Indicated Modification is below 1.0, the Final Modification shall be set at 1.0. The Double Swing Cap will be eliminated once the two-year transition period concludes.

The experience modification shall be rounded to three decimal places.

SECTION VII – SCHEDULE RATING PLAN remains unchanged.

SECTION 6 – MERIT RATING PLAN remains unchanged.

PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS, AND RATING VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS LIABILITY INSURANCE

Proposed Effective April 1, 2024

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SECTION I – INSTRUCTIONS through **SECTION II – DEFINITIONS** remain unchanged.

SECTION III – GENERAL PROVISIONS

1. **Eligibility Requirements.** A risk shall qualify for rating under this Plan if the premium developed by the audited payrolls or other exposures of the experience period, extended at current PCRB Loss Costs, is \$5,000 or more.

Items 2 through Item 10 remain unchanged.

SECTION IV – APPLICATION OF EXPERIENCE MODIFICATION through **SECTION V – TABULATION OF EXPERIENCE** remains unchanged.

SECTION VI – RATING PROCEDURE

1. **Actual Primary Losses.** Actual Primary Losses (Ap), as tabulated in accordance with the provisions of Rules 4 and 5 of Section V, shall be used in the rating.
2. **Expected Losses.** Expected Losses (E) shall be determined from the application of the appropriate Expected Loss Factor, shown in Table A, to the payrolls or other exposures for each classification for the experience period.
3. **Credibility.** The Credibility (C) of the experience of the risk shall correspond to Expected Losses (E), as shown in Table B.
4. **Limit Charge.** A limit charge (L) reflecting the loss dollars eliminated by the split point placed on One Accident, shall be included in calculating the modification. The Charge times Credibility, or L x C, shall be determined by entering Table B at the level of Expected Losses for the experience period.
5. **Credibility Complement (1-C).** The Credibility Complement is computed by subtracting the Credibility (C) from unity (1.0).
6. **Experience Modification.** The Experience Modification shall be determined from the formula:
[Ap x C + E x C x L + E(1.0 – C)] / E The indicated modification will be subject to capping based on the Maximum Modification formula below:

$$1.10 + 0.0004 \times (E / G), \text{ where } G=10$$

If the indicated modification, after application of the Maximum Modification formula, still exceeds +40% compared to the prior final experience modification, the Final Modification will be capped at 40% of the prior modification.

7. Transition Rules: During the transition period based on the RED between 4/1/2024 to 3/31/2026, the current capping rules will remain in effect, which limit changes (up or down) to no more than +/-25% of the prior Final Modification and the application of the Double Swing Cap (Secondary Capping) defined below. Additionally, the maximum modification, calculated using the formula above, will be applied to the Final Modification. The Final Modification factor will be determined by selecting the lower value between the modification calculated based on the current capping rule and the Maximum Modification.

The Double Swing Cap recognizes the favorable experience of the risk by setting the Final Modification to 1.0 in specific situations. When the -25% swing limit is applied to a previous experience modification factor that is above 1.0 but the Indicated Modification is below 1.0, the Final Modification shall be set at 1.0. The Double Swing Cap will be eliminated once the two-year transition period concludes.

The experience modification shall be rounded to three decimal places.

SECTION VII – SCHEDULE RATING PLAN remains unchanged.

SECTION 6 – MERIT RATING PLAN remains unchanged.