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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 Chestnut Room, 7th Floor, Holiday Inn Express Midtown, 1305 Walnut Street, Philadelphia, Pennsylvania on Tuesday, November 29, 2005 at 10 a.m.

The following members were present:

Actuarial Committee

Ms. M. Gaillard.	American Home Assurance Company
Mr. A. Yashar	Continental Casualty Company
Mr. E. Connell	Erie Insurance Company
Ms. M. Sperduto	Harleysville Mutual Insurance Company
Mr. S. Warfel	Insurance Company Of North America
Mr. D. Lawton*	Liberty Mutual Insurance Company
Mr. D. Miller	Penn National Insurance Company
Mr. K. Brady	PMA Insurance Company
Mr. J. Schmidt	Travelers Property & Casualty Company

Classification and Rating Committee

Ms. B. O’Hara	American Home Assurance Company
Mr. J. McGuire	Amguard Insurance Group
Ms. M. Provasnik	Argonaut Insurance Company
Ms. M. Baumhauer	Graphic Arts Association
Mr. H. Jacobs	Harleysville Mutual Insurance Company
Not Represented	Lehigh Valley Business Conference on Health Care
Mr. D. Lawton*	Liberty Mutual Insurance Company
Mr. J. Devlin	Pennsylvania Automotive Association
Not Represented	Pennsylvania Chamber of Business & Industry
Not Represented	Pennsylvania Food Merchants Association
Not Represented	Pennsylvania Newspaper Association
Not Represented	Pennsylvania Retailers’ Association
Mr. D. Austin	Penn National Insurance Company
Mr. K. Miller	Westport Insurance Company
Mr. T. Wisecarver	Chair - Ex Officio

Also present were:

Mr. R. Butera	AmeriHealth Casualty Company
Ms. C. Marks	AmeriHealth Casualty Company
Mr. D. Broadwater	Coal Mine Compensation Rating Bureau of PA
Mr. S. Cooley	Duane Morris LLP
Ms. D. Brasley	Hartford Accident & Indemnity Company
Ms. C. Costa	Mercer Oliver Wynan (Office of Small Business Advocate)
Mr. D. Asmus	Office of Small Business Advocate
Mr. K. Creighton	Pennsylvania Insurance Department
Mr. M. McKenney	Pennsylvania Insurance Department
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

* Member of 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.

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 size of loss analysis and its supporting materials. Questions were posed, responses were given and/or discussion ensued as indicated by the offset "Question," "Response," "Discussion" and "Comment" entries inserted below:

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.

The April 1, 2005 Loss Cost Filing did not include updates to excess loss factor tables, loss elimination ratios or state and hazard group relativities. That omission occurred when PCRB staff observed some unusual and counterintuitive results in preliminary analysis and determined that additional research was warranted before proceeding to update the rating values in question.

Staff briefly described reviews of PCRB data and calculations and comparisons of rating values and procedures from other jurisdictions that had been accomplished since the submission of the April 1, 2005 filing. As a result of that work staff was proposing revisions to Hazard Group assignments for a number of classifications, most notably impacting the population of classes and rating value parameters applicable to Hazard Group I.

Question: Were the classifications that shifted between hazard groups concentrated in any particular industry group?

Answer: The classifications affected by the changes in hazard group assignments included representation from all industry groups. The analysis concerning appropriate hazard group assignments was conducted without special emphasis or notice with respect to industry group. Staff recalled that the construction industry group might have been most commonly represented in the proposed changes of hazard group. The classifications for which changes in hazard group assignments were proposed were identified on Page 8 of Exhibit 24.

Question: Was the average cost of claims in each classification a determining factor in decisions to change hazard group?

Answer: Average cost was one of the considerations involved in this analysis, but the number of claims reported in each classification (a measure of the credibility of the average claim value) and practices in other jurisdictions for counterpart or comparable classifications were also factors in the decisions about whether and, if so, where to move classifications between hazard groups.

Question: The National Council on Compensation Insurance, Inc. (NCCI) is or may be in the process of changing the number of hazard groups used in its jurisdictions to seven. What is the Bureau doing in this regard?

Answer: In the analysis supporting the changes in hazard group assignments currently being proposed, the Bureau used information based on currently available NCCI hazard groups. While any pending or new hazard group structure had not been part of the Bureau's analysis for this filing, it was presumed that significant changes in other states would be taken into account in future Bureau reviews and filings.

Question: Did the Bureau conduct an underwriting review of classifications considered for changes in hazard group assignments?

Answer: The technical director of the Bureau's Classification & Field Services Department had conducted a crosswalk between specified classifications in the other jurisdictions studied and Pennsylvania, recognizing the often material differences in classification systems between states. The proposed changes in hazard group assignments had then been presented to that individual for comment, and he had almost universally concurred with the changes advanced on a preliminary basis.

Question: What impact(s) do changes in hazard group assignments have on ratemaking and pricing?

Answer: Hazard group assignments come into play only with respect to excess loss (pure premium) factors, loss elimination ratios and certain steps involved in the application of retrospective rating plans. Hazard group assignment per se does not affect the promulgation of loss costs, experience modifications or other rating values.

Comment: It was noted that in some circumstances terms of issuing reinsurance quotations and the acceptability of risks under specified terms might be affected by hazard group assignments.

Exhibit 21 presented results of a methodology previously provided to the PCRB by the NCCI. This method had been used to calculate excess loss (pure premium) factors in some previous PCRB filings. More recent filings had relied heavily upon empirical Pennsylvania data as the basis for these rating values; however, staff had continued to apply the NCCI methodology in order to review its results as compared to the empirical indications and in order to be able to use relativities derived from the NCCI methods for selected loss values where historical Pennsylvania data was either unavailable or of very limited volume and statistical credibility.

Question: In Exhibit 21, what was the difference(s) between Section A and Section B?

Answer: Pages A-8 to A-11 and B-8 to B-11 were identical except for average cost statistics from NCCI. Section A pertained to excess loss parameters applied on a per occurrence basis, while Section B reflected per claim loss limitations. In Section A, the ratios to average claim values had been divided by 1.1 to adjust to a per occurrence basis. In Section B, the ratio to average claim values had been used without further adjustment. Staff noted that recent NCCI analysis had indicated that the differences between per occurrence and per claim excess factors might have become smaller than previously thought, and the Bureau will continue to monitor that research.

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.

Exhibit 23 showed current and proposed excess loss (pure premium) factors computed using results from Exhibits 21 and 22, together with the indicated percentage changes therein by loss limitation and hazard group.

Question: Is the seven-point exponential severity trend shown elsewhere in the filing consistent with the approach used in this analysis?

Answer: The trends applied here were derived from unit statistical data. Elsewhere in the filing, loss ratio and severity trends were based on financial data. While these sources do not and are not expected to coincide, the trend parameters thus obtained in this filing had not been markedly different.

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. But for some technical differences pertaining to the date to which various calculations were trended, the procedures used to establish these state and hazard group relativities was the same as that used in the NCCI excess loss (pure premium) factor calculations. 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. Exhibit 24 presented the derivation of state and hazard group relativities for the proposed filing and included a list of classifications for which hazard group assignment changes were proposed with this 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 per-claim 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.

Staff directed attention to Exhibit 32, a copy of NCCI's Item Filing No. R-1395. The PCRB proposed filing the Table of Expected Loss Size Ranges shown as Exhibit 2 on Page 5 of that filing memorandum for use in Pennsylvania effective April 1, 2006.

<u>Trended Ultimate Loss Ratios - Indemnity</u>

Exhibit 5 was identified as providing historical financial data upon which the proposed filing's analysis was based. The exclusion of large deductible experience and Catastrophe Code 48 (September 11, 2001) losses from Exhibit 5 was noted.

Participants were reminded that, for numerous previous loss cost filings, the Bureau had adopted an approach of adjusting financial data to "post-law" levels, as respects the medical provisions of Act 44 of 1993 (Act 44) and the indemnity provisions of Act 57 of 1996 (Act 57). This methodology, which offered efficiencies in the overall filing analysis, was continued for purposes of the analysis offered for discussion at this meeting.

Page 1 of Exhibit 5 provided the two most recent calendar years of premium development data, which staff noted was supplemented by additional older experience taken from previous filings' documentation for the analysis supporting this proposed filing.

Reported indemnity losses were identified as appearing on Page 3 (case-incurred indemnity loss) and Page 5 (paid indemnity loss) of Exhibit 5. Pages 7 through 19 of Exhibit 5 were noted as presenting details of the adjustment of indemnity experience to a post-Act 57 basis. The original such adjustments had been prepared using data from the April 1, 1999 Loss Cost Filing. Those adjustments had been balanced, so that indications obtained using historical data adjusted to a "post-law" level were comparable to alternative indications derived using historical data stated on a "pre-law" level, in combination with savings factors related to legislation. Adjustments for subsequent

calendar years' data had been constructed serially based on policy year distributions of data and impacts attributable to the Act 57 law changes. Adjustments for calendar years prior to 2003 in this filing reflected factors that had been derived in previous Bureau filings. The adjustment for Calendar Year 2003 shown on Page 18 of Exhibit 5 in this filing had been recomputed using the most recent available data, and the adjustment for Calendar Year 2004 shown on Page 19 of Exhibit 5 had been made for the first time in this proposed filing. The revised Calendar Year 2003 adjustments and the Calendar Year 2004 adjustments applied in this filing had been performed in a manner similar to adjustments for prior years using parameters consistent with those prior adjustments and/or ongoing assumptions about the extent to which data had responded to the effects of the law change.

The adjusted indemnity financial data, stated on a post-Act 57 basis, was shown on Pages 35 (incurred loss) and 37 (paid loss) of Exhibit 5.

Question: Are the law change estimates attributed to Acts 44 and 57 changing over time?

Answer: The estimated effects of those law changes are always being applied to different time periods that reflect different mixes of pre- and post-law change data as experience continues to be collected for each annual filing. However, the on-level factors derived in previous analyses of Pennsylvania law changes were being retained and applied consistently in successive filing analyses.

Exhibit 6 presented the Bureau's loss development analysis in support of the filing, as well as significant portions of the special trend procedure proposed for use therein. Staff reviewed the pertinent portions of Exhibit 6 and related supporting documentation for indemnity benefits as follows.

Page 6.1 of Exhibit 6 provided premium and/or expected loss development history and estimated ultimate, on-level expected losses for use in computing loss ratios. Pages 6.2 through 6.6 provided steps in the application of incurred and/or paid loss development approaches to indemnity benefits. Staff advised that, consistent with a proposal advanced and agreed upon during discussion of the April 1, 2005 Loss Cost Filing, the underlying loss data had been adjusted for the limited indemnity provisions of Act 44 for purposes of the analysis presented at this meeting. The benefit factors applied for the purpose of stating indemnity loss data on a post-Act 44 basis were shown on Page 6.4.

One of the approaches shown in Exhibit 6 used a case-incurred loss development method to estimate ultimate indemnity losses. A series of additional alternative estimates had been constructed using a combination of paid loss development and case-incurred loss development methods. By applying a paid loss development method to indemnity benefits for varying periods of initial development, then converting cumulative paid losses to equivalent case-incurred losses and applying case-incurred loss development for the remaining development period(s) to ultimate, the Bureau had constructed a series of ultimate indemnity loss estimates. Finally, the Bureau had derived estimates using the average of a case-incurred loss development method and the paid loss development method that relied on the longest available period of paid loss experience (in this case, a paid loss development method applied to 20th report).

Exhibit 7 presented the Bureau's derivation of "tail factors" for use in its array of possible loss development methods. The methodology applied had been used in prior PCRB filings in response to recommendations in regulatory examinations. Pages 2, 4, 6 and 8 of this exhibit each provided a tail factor estimate for indemnity benefits based on a different calendar year of development experience. An indemnity tail factor for the proposed filing had been selected as the average of these four separate indications, as summarized on Page 1 of Exhibit 7.

Exhibit 8 provided claim frequency experience that the Bureau had used in support of its trend analysis for the proposed filing.

Staff had obtained counts of indemnity claims and exposures (measured by expected losses at a constant set of Bureau loss costs) from unit statistical reports. This data was available by policy year from 1987 through 2003, with the last year having a mid-point of January 1, 2004. Compilations of this experience were provided separately for non-deductible business (Pages 3 and 4 of Exhibit 8) and for all business including deductible coverages (Pages 5 and 6 of Exhibit 8.) Staff had also reviewed trends in claim frequency by industry group, and indications for that review were provided on Pages 8 and 9 of Exhibit 8.

Previous PCRB filings had included reference to data provided by the Department of Labor & Industry regarding counts of injuries and illnesses reported in the Commonwealth, together with non-federal payrolls. The work injuries and illnesses shown in those reports were incidents resulting in lost time beyond the day or shift of occurrence. For this filing, updates had been received from the Department of Labor & Industry through June 30, 2005. The history of these injury reports and payrolls was available on a calendar year basis from 1985 through 2004 and for the 12-month periods ending June 30 of each year from 1996 through 2005 inclusive.

Staff noted that, in providing its data for counts of injuries and illnesses in recent years, the Department of Labor & Industry had cautioned the Bureau that this data had been influenced to an unknown extent by changes in reporting practices by some of that Department's data sources. In the main, the changes so noted had been thought by the Department representatives to have involved changing from a practice of reporting only indemnity claims to the intended procedure of included injury and illness reports for any case having lost time beyond the date or shift of occurrence and had first become significant during the Calendar Year 2001.

For reference purposes, the historical data from the Department of Labor & Industry was provided on Pages 1 and 2 of Exhibit 8. In reviewing the more recent data from the Department of Labor & Industry, staff noted that reported claim frequencies had again begun to decline (a pattern continuing to be observed in the Bureau's own data) with Calendar Year 2004, suggesting that the temporary effects of the above-described change in reporting practices may have been substantially, if not wholly, absorbed in the data.

For use in conjunction with the indemnity severity trend factors, the Bureau had selected a prospective frequency trend based on non-deductible business over the Policy Years 1997 – 2003 inclusive from Exhibit 8, resulting in a frequency trend of –6.2 percent which had been used in trending claim frequency through the mid-point of the prospective rating period (April 1, 2007). The frequency trend factors consistent with this procedure were set forth on Page 6.6 of Exhibit 6.

Staff described the proposed filling's approach to trend analysis in the following fashion. Estimated ultimate on-level loss ratios derived in Exhibit 6 had been adjusted for the effects of changes in claim frequency presented in the Bureau data, excluding deductible business from Exhibit 8. The results of these adjustments were referred to as "severity ratios" and were presented on Page 6.6 of Exhibit 6. The Bureau had then applied its customary linear and exponential trend models to the severity ratios so derived over numbers of data points ranging from four to ten. For each trend model and loss development method in combination, severity trend factors were calculated for each of the three most recent policy years. This severity trend analysis was shown on Pages 6.7 through 6.10 of Exhibit 6.

In Exhibits 9a and 9b, goodness-of-fit tests had been applied to trend models applied to loss ratios (Exhibit 9a) and severity ratios (Exhibit 9b). Staff opined that using severity ratios had nominally improved the results of fitting tests, with seven-point fits showing greater numbers of points where fitted values were proportionally closer to actual points for severity ratio fits as compared to loss ratio fits. Exhibits 11a and 11b, respectively, provided further examinations of the effectiveness of trend models by testing predictive abilities of the respective models and trend periods prepared in support of this proposed filing. Staff opined that using severity ratios had materially improved the results of projection tests, with all such tests resulting in severity projections proportionally closer to actual points than for loss ratio projections.

Indemnity loss ratio trend factors computed as the product of the indemnity severity trend factors and frequency trend factors describe above were shown on Page 6.11 of Exhibit 6. The resulting trended indemnity loss ratios were presented on Pages 6.12 (linear trend model) and 6.13 (exponential trend model).

Exhibit 10 provided graphs of indemnity loss ratios (Page 10.1) and indemnity severity ratios (Page 10.3). In addition, Exhibit 10 provided a graph of indemnity loss ratios, indemnity severity ratios and claim frequency each indexed to a common starting point (Policy Year 1992) on Page 10.5. These graphs illustrated the point that, since Policy Year 1997, indemnity claim severity in Pennsylvania had been generally increasing at a rate that was slightly higher than the offsetting improvement in claim frequency.

Pages 6.12 and 6.13 of Exhibit 6 showed arrays of possible trended indemnity loss ratios produced by the methods described above, with the Bureau's selected result (0.4739) highlighted with a border on Page 6.13. The selected result was produced using the average of a case-incurred loss development approach and the paid loss development method to 20th report loss development. An exponential seven-point severity trend was used in combination with the selection of an annual claim frequency trend rate of –6.2 percent to trend selected policy year results forward through the mid-point of the prospective rating period, April 1, 2007.

Trended Ultimate Loss Ratios - Medical

Staff indicated that the analysis done for medical losses paralleled that described above for indemnity losses in most important respects. The pertinent exhibit and page references were provided as follow:

Exhibit	Content	Page(s)
5	Medical financial data - Table I reported data	4 (case incurred), 6 (paid)
	Adjustment of medical financial data to post-Act 44 basis	20 through 32
	Adjusted medical financial data	36 (case incurred), 38 (paid)
6	Medical loss development	6.14 through 6.18
	Trending of medical severity ratios	6.19 through 6.22
	Medical loss ratio trend factors	6.23
	Trended medical loss ratios	6.24 (linear), 6.25 (exponential)
7	Medical loss development tail factors	Summary on Page 1, detail on Pages 3, 5, 7 and 9
8	Claim frequency	Per indemnity discussion
9a, 9b	Goodness-of-fit tests	9a1, 9a4, 9a5, 9a8 and 9a9
	9a for loss ratios, 9b for severity ratios	9b1, 9b4, 9b5, 9b8 and 9b9

NOTE: Test fits for medical severity ratios, using seven-point projections, have nominally more results proportionally closer to actual values than do loss ratio fits.

Exhibit	Content	Page(s)
11a, 11b	Retrospective tests of prediction for loss ratios (Exhibit 11a) and severity ratios (Exhibit 11b)	11a6 – 11a10 and 11b6 – 11b10

NOTE: Test projections using severity ratios were much closer than loss ratio projections for one test, with results comparable for the other two possible comparisons using seven-point projections.

Exhibit	Content	Page(s)
10	Graphs of medical loss ratios	10.2
	Graphs of medical severity ratios	10.4
	Graph of indexed medical loss ratios, severity ratios and frequency trends combined	10.6

Staff noted that the trend model used for medical severity ratios was an exponential fit through the most recent seven policy year data points estimated based on the average of the case incurred and paid to 20th report development methods. In combination with the selected claim frequency trend previously described with the analysis of indemnity experience, this approach gave the trended medical loss ratio (0.4403) highlighted with a border on page 6.25 of Exhibit 6.

Indicated Overall Change in Loss Costs

Exhibit 12 of the agenda materials supported this section of the meeting discussion. It was noted that two versions of Exhibit 12 had been provided to attendees, one with each of two transmissions of agenda materials. The second mailing had added detail concerning manual rating value changes by industry group that had been unavailable for the initial mailing, and the discussion used the second mailing's version for reference purposes. Staff described the construction and interpretation of Exhibit 12 as follows.

Loss ratios selected for indemnity and medical benefits had been posted for each of the three most recent available completed policy years, i.e., 2001, 2002 and 2003. 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 2001, 2002 and 2003 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.

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: Noting the selected frequency trend of –6.2 percent per year, did the Bureau have or seek any other information pertaining to current trends in frequency to corroborate that expectation? What did carriers have to say about claim frequency in their responses to the Bureau's carrier survey?

Answer: In the carrier survey conducted in support of this filing, carrier observations about past experience were generally consistent with the Bureau's aggregate data. Often, when asked to discuss expectations concerning future frequency trends, carriers tended to be somewhat pessimistic, anticipating lesser declines than had been observed in the recent past or predicting a flattening of frequency trends. The Bureau recalled previous filings in which observed claim frequency trends had been tempered for a variety of reasons but noted that the moderation of claim frequency improvement thus derived had not materialized.

The Bureau had again considered data provided by the Department of Labor & Industry, and, although that data was thought to still be in a process of restabilizing after recent changes in reporting practices, the most recent available data supported an expectation that recent frequency trends would continue at least through the short term.

The Bureau was of the impression that NCCI's most recent available accident year data showed claim frequencies continuing to decline at rates not dissimilar to past experience and even declining at relatively favorable rates.

While the long term improvements in claim frequency that had been seen countrywide in workers compensation were likely the composite result of a variety of factors working together, staff opined that various business practices, including automation and increased economic efficiency, had produced ancillary declines in workers' exposures to injury.

Finally, staff noted that, if and when claim frequency does begin to behave differently than has been seen over the extended past and evidence of that change becomes visible in reported experience, the industry will be better able to expect regulatory responses to that change if filings had consistently reflected actual experience while such experience was favorable.

Question: How does the Bureau define and measure claim frequency?

Answer: In the Bureau's analysis, claim frequency is measured as the number of indemnity claims per unit of on-level expected losses. Thus, this measure includes the effects of wage increases and shifts between classifications and industry groups. It was noted that, in combination with the Bureau's measures of claim severity, this index of claim frequency would produce a measure of loss ratios appropriate for the promulgation of overall loss cost change indications.

Question: Did the Bureau have or was it aware of alternative or additional data sources to help measure current claim frequency trends and predict such future trends?

Answer: The Bureau was not aware of additional or more current sources for claim frequency experience than those that had been applied in support of the proposed filing under discussion.

Comment: The opinion was expressed that the Bureau's severity trends were somewhat inconsistent with (and lower than) countrywide statistics, particularly for medical trends.

Answer: While staff acknowledged that medical trends in other jurisdictions were somewhat higher than those measured in this filing, it did not perceive the differences to be remarkable in light of information available about the Pennsylvania system.

Question: What did the Bureau find about the Pennsylvania system that would reconcile the differences in observed medical severity trends?

Answer: Pennsylvania medical prices were indexed to changes in the statewide average weekly wage. In addition, staff had been advised in each of the past two carrier surveys that all or a preponderance of settlements paid under compromise and release agreements are often reported as being entirely indemnity losses. Staff thought that this practice, although apparently affecting somewhat fewer companies in the more recent year than had previously been the case, would tend to inflate indemnity severity trends and suppress medical severity trends.

Question: Staff was asked how significant compromise and release settlements were in the context of overall system costs and whether the bias toward indemnity benefits described could materially affect loss trends.

Answer: Staff noted that compromise and release settlements had become a very important and frequently-applied part of the claims administration process in Pennsylvania, and, since such settlements often arose on relatively significant individual cases, staff thought that the effect could be rather significant.

Comment: It was observed that the Coal Mine Compensation Rating Bureau's most recent available Statistical Plan data, Accident Year 2004 valued as of April 30, 2005, was generally consistent with the Bureau's observations about severity trends. A year ago the CMCRB's measured indemnity severity trend had been +7.0 percent, and the comparable figure in the most recent data was +6.1 percent. Last year's medical severity trend in the CMCRB data had been +5.0 percent, while the most recent data showed a medical severity trend of +4.0 percent.

Question: The CMCRB representative was asked whether the data and trends under discussion pertained to state traumatic losses.

Answer: The response was in the affirmative.

Question: What period of time was included in application of what the filing described as a "seven point" trend?

Answer: Each point represented a separate policy year, so that a seven-point trend period would cover seven consecutive policy years.

Following the discussion of the overall loss cost change indication, the Committees continued discussion of additional topics related to staff analysis or potential areas for additional review as outlined below.

Terrorism Provisions in Pricing

Staff noted that the PCRB had implemented a loss cost rating value related to terrorism effective April 1, 2003. That implementation had been supported by terrorism modeling analysis done by and/or for the NCCI. The PCRB has subsequently understood that NCCI has generally held rating values related to TRIA level at their original filing levels Under these circumstances, the PCRB had also elected to retain the existing loss cost rating value for terrorism in Pennsylvania.

Consistent with countrywide practices recognizing the reliance upon specific legislation (the Terrorism Risk Insurance Act of 2002) in Manual language, staff advised attendees that the Bureau had submitted a separate filing (Bureau Filing C-349), effective January 1, 2006, that had been approved by the Insurance Department on a new and renewal basis effective January 1, 2006.

Domestic Terrorism, Natural Catastrophes and Major Industrial Accidents

Staff noted an NCCI Item Filing, B-1393 and provided a brief overview of the exposures addressed therein. Bureau Filing No. C-349, previously submitted and approved by the Pennsylvania Insurance Department effective January 1, 2006, had addressed Manual language, endorsement forms and rating values applicable to those exposures.

Question: What do the Bureau's rating values for terrorism coverages represent? Are these expressed in terms of cents per hundred dollars of payroll?

Answer: Yes. The terrorism rating values are loss costs expressed as dollar amounts per hundred dollars of payroll, with the magnitude of currently-approved values amounting to cents per hundred dollars of payroll. Under the Bureau filings, no terrorism charges apply for non-payroll exposure classifications. It was noted that some carrier-specific programs treating terrorism coverages and charges differently than did the Bureau filings were in use.

Loss-Based Assessments and Employer Assessment Factor

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 Bureau loss costs had been removed from those loss costs. Consistent with requirements of H.B. 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 Bureau loss costs under provisions of this law. Also consistent with past practice, the Bureau continued to include offset provisions for merit rating and credits granted under the Certified Safety Committee Program in published and proposed Bureau loss costs.

Exhibit 13 provided parameters used to compute the proposed employer assessment factor effective April 1, 2006 (0.0198) and the proposed loading to Bureau 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, 2006 (0.0111). Staff noted that the proposed employer assessment factor was nominally higher than the current level (0.0191) due to increases in budgetary amounts for both the Administration Fund and Supersedeas Fund as compared to the previous year. The loading in Bureau loss costs for the remaining factors listed above was noted as being up from 0.0088, predominantly reflecting increased participation 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 (2.53 percent proposed vs. 2.80 percent current). This was attributed to the effects of nominal decreases 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.

Question: Why might the PCCPAP study on the Bureau's website show that higher-wage construction employers failed to earn the PCCPAP credits and actually indicated a nominal surcharge to balance experience with other employers? Could this result arise because the participating employers were larger, experience-rated risks for which the rating plan had already effectively accounted for experience differences including wage levels?

Answer: Although the process used to recognize the effects of experience rating had changed during the course of the PCCPAP program, the intent had been to apply wage differential adjustments only to the extent that an employer was not credible in the rating plan (and thus to avoid duplicate credits).

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, which was shown to have remained stable at the level currently in effect (0.35 percent).

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 – 2003 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 change in the loading to offset ongoing credits from 0.52 percent to 0.75 percent.

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.

Hepatitis C Surcharges for Selected Classifications

Staff noted legislation enacting a presumption of work-related causality for Hepatitis C incurred by selected sets of workers (H.B. 1633) that was passed in 2002. For its April 1, 2003 Loss Cost Filing, the Bureau had conducted an analysis based on available statistics concerning incidence of HCV in the general population in concert with projected costs for Hepatitis C cases in healthcare workers under various scenarios by an independent consulting group (Milliman U.S.A., formerly Milliman & Robertson, Inc.). These projections had been compared with existing loss cost estimates for affected classifications and indicated surcharges had been derived. The Insurance Department's review of the April 1, 2003 filing had suggested that the incidence of HCV in the affected classifications could arguably be comparable to those of the general U.S. population and thus lower than those originally proposed by the Bureau. Ultimately, the Bureau had adjusted the applicable surcharges to be consistent with the incidence of HCV in the general U.S. population. This filing proposed to continue maintaining surcharges at the approved levels, as presented in Exhibit 31.

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. With respect to certain "test correction factors," which had historically been applied as matrices of factors differing by type of loss and industry group, the Bureau's April 1, 2003 Loss Cost Filing had

completed a transition begun with the April 1, 2001 filing to implement a process of applying test correction factors uniformly across all types of loss and industry groups. The proposed filing would maintain and continue the procedure first used in final form with last year's 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 Bureau 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.

Experience Rating Plan

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 revised 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 existing and proposed capping procedures. Staff noted that, in response to some specific instances brought to the Bureau's attention, the proposed filing would revise capping procedures presently in effect to allow experience modifications to be set at unity (1.000) in instances where the indicated modification was less than 1.000 but the capped modification was above 1.000. Some illustrations of the cases of which the Bureau was mindful in proposing this change were briefly described.

Question: How many risks would be affected by the proposed revisions to capping procedures in the Experience Rating Plan?

Answer: Approximately 600 risks over a five-year period or somewhat more than 100 employers per year.

Question: Will carriers be told in advance who those risks are? If not, carriers might make underwriting and pricing decisions in the context of a different experience modification than the Bureau would ultimately issue and then be unable to adjust other parameters of the quote in response to the modification change.

Answer: The Bureau's intention has been and would continue to be to issue experience modifications significantly in advance of renewal. Where the capping procedures have been applied, experience rating worksheets will show both the indicated and capped modifications.

Question: What would the typical size of the affected risks be?

Answer: In order to produce modification swings invoking the capping procedure risks would have to be relatively large accounts.

Question: Why couldn't alternatives such as schedule rating be used to address the circumstances cited by the Bureau as the basis for the new proposal in capping modifications?

Answer: While various carrier programs could be applied to this purpose, there would be no assurance that they would be so applied or that they would be applied consistently.

Question: How does the experience rating procedure, including the proposed capping methodology, take into account differences between carriers or changes for a given carrier with regard to reserving practices?

Answer: Such differences can affect experience rating results, and the proposed change in capping procedures would not effectively address those impacts. Staff noted that, while individual instances in which cases close at levels lower than previous reserves do occur, the pronounced tendency is for case reserve values to be exceeded by subsequent developments in open claims.

Question: Would the Bureau propose the same effective date for the new capping procedure as the balance of the filing?

Answer: Yes, the new capping procedure was envisioned as being implemented effective April 1, 2006 on a new and renewal basis. If a filing approval is achieved consistent with Bureau goals, then experience modifications could be released substantially in advance of policy effective dates.

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.

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

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.

Suggested Changes to Formats Used in Providing Classification Information in the Pennsylvania Basic Manual

Staff distributed a handout illustrating possible approaches to consolidating existing Section 2 and Section 5 entries under each classification definition in the Basic Manual and requested comment on those ideas. The intent was described as being to enhance the utility and ease of use of existing Manual language, rather than to change any portion of that existing language.

Comment: It was observed that the effect of the proposed changes produced a Manual format similar to that used in the "SCOPES" manuals in use in other jurisdictions. This was seen as a positive change given the industry's familiarity with and acceptance of that resource.

Question: Would the Bureau consider linking the existing components within the electronic Manuals as an alternative to changing the format of the publication?

Answer: The Bureau tries to apply linking technology to advantage in its Manuals, but, with our existing tools, any change requires a comprehensive review and generally re-establishment of all links. This is a tedious and error-prone process.

Comment: Technology exists that will automatically maintain links within the Manuals when changes are made elsewhere.

Staff expressed interest in learning about the tools thus described for application in Manuals and other resources that are or might be provided on the Bureau's website over time. An exchange of information subsequent to the meeting was suggested.

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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