

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

The PCCPAP program 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 PCRFB has assembled 2005 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 2005 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, Pre PCCPAP: The Standard Premium attributable to policies that did not qualify for PCCPAP credit in 2005. 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 2005. For example, an average credit of .0899 indicates that the average qualifying risk in Code 601 received an 8.99 percent reduction in standard premium by operation of the PCCPAP plan’s tabular credit and experience rating plan adjustment.

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 210 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 3.35 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 01/01/05 Through 12/31/05

100% Credibility =
 Partial Credibility =

210 Policies
 # of Policies / 210

Class	# of Policies (Total) (2)	# of Policies (PCCPAP) (3)	Payroll (Total) (4)	Payroll (PCCPAP) (5)	***PCCPAP Policies***		**Non-PCCPAP Policies**		Indicated Surcharge (10)	Average PCCPAP Credit (11)	Class "Z" (12)	Formula Surcharge (13)	TCF (14)	Final Surcharge (15)
					Premium Pre-PCCPAP (6)	Premium Post-PCCPAP (7)	Premium Pre-PCCPAP (8)	Premium Post-PCCPAP (9)						
601	688	107	198,292,514	47,829,522	3,204,422	2,916,342	10,087,596	10,087,596	1.0222	0.0899	1.00	1.0222	0.99932	1.0215
602	212	57	131,764,984	32,120,170	1,521,354	1,338,256	4,605,353	4,605,353	1.0308	0.1204	1.00	1.0308	0.99932	1.0301
603	310	101	94,619,666	39,124,670	2,299,341	2,045,065	2,767,131	2,767,131	1.0528	0.1106	1.00	1.0528	0.99932	1.0521
605	39	2	18,908,800	1,219,017	72,741	66,194	1,313,751	1,313,751	1.0047	0.0900	0.19	1.0280	0.99932	1.0273
606	22	1	21,207,242	904,970	109,818	97,738	2,796,104	2,796,104	1.0042	0.1100	0.10	1.0306	0.99932	1.0299
607	292	23	93,082,857	9,694,635	686,390	591,169	7,611,853	7,611,853	1.0116	0.1387	1.00	1.0116	0.99932	1.0109
608	2,816	410	449,739,744	136,603,388	8,915,112	7,907,152	20,369,118	20,369,118	1.0356	0.1131	1.00	1.0356	0.99932	1.0349
609	2,783	274	620,646,579	114,825,718	6,298,665	5,577,713	26,134,770	26,134,770	1.0227	0.1145	1.00	1.0227	0.99932	1.0220
611	22	11	2,579,075	1,164,577	107,687	93,470	121,958	121,958	1.0660	0.1320	0.10	1.0368	0.99932	1.0361
615	4	0	1,959,452	0	0	0	216,565	216,565	1.0000	0.0000	0.02	1.0328	0.99932	1.0321
617	307	89	136,567,079	31,418,815	1,911,633	1,708,350	6,268,826	6,268,826	1.0255	0.1063	1.00	1.0255	0.99932	1.0248
645	886	224	250,461,882	130,910,966	8,737,114	7,643,002	8,209,967	8,209,967	1.0690	0.1252	1.00	1.0690	0.99932	1.0683
646	409	67	79,579,218	23,427,240	1,135,020	950,392	3,152,249	3,152,249	1.0450	0.1627	1.00	1.0450	0.99932	1.0443
647	163	10	39,373,729	1,234,080	76,791	67,326	2,917,719	2,917,719	1.0032	0.1233	0.78	1.0099	0.99932	1.0092
648	1,265	102	131,125,275	26,934,232	1,489,762	1,277,606	6,199,343	6,199,343	1.0284	0.1424	1.00	1.0284	0.99932	1.0277
649	262	125	79,591,734	51,259,007	1,598,155	1,393,276	952,958	952,958	1.0873	0.1282	1.00	1.0873	0.99932	1.0866
651	2,709	431	564,473,943	158,958,010	10,341,549	9,103,169	28,628,293	28,628,293	1.0328	0.1197	1.00	1.0328	0.99932	1.0321
652	8,250	145	654,113,044	28,803,213	2,327,145	2,049,537	53,851,386	53,851,386	1.0050	0.1193	1.00	1.0050	0.99932	1.0043
653	2,332	307	339,216,467	111,536,767	8,276,315	7,266,641	16,982,987	16,982,987	1.0416	0.1220	1.00	1.0416	0.99932	1.0409
654	675	193	174,055,657	55,502,797	4,679,311	4,022,061	9,755,181	9,755,181	1.0477	0.1405	1.00	1.0477	0.99932	1.0470
655	372	88	91,387,929	12,409,331	1,602,397	1,329,395	9,174,977	9,174,977	1.0260	0.1704	1.00	1.0260	0.99932	1.0253
656	88	9	80,351,372	2,774,197	187,538	149,931	5,065,054	5,065,054	1.0072	0.2005	0.42	1.0225	0.99932	1.0218
657	42	5	6,843,818	961,602	78,900	75,730	585,854	585,854	1.0048	0.0402	0.20	1.0278	0.99932	1.0271
658	474	122	54,616,062	17,727,467	1,515,905	1,261,699	3,265,813	3,265,813	1.0561	0.1677	1.00	1.0561	0.99932	1.0554
659	912	108	111,266,219	29,189,483	4,483,202	3,993,168	13,683,449	13,683,449	1.0277	0.1093	1.00	1.0277	0.99932	1.0270
660	890	99	257,669,367	36,227,272	716,311	605,752	4,131,316	4,131,316	1.0233	0.1543	1.00	1.0233	0.99932	1.0226
661	3,172	527	891,813,585	397,915,963	13,275,299	11,113,536	17,555,825	17,555,825	1.0754	0.1628	1.00	1.0754	0.99932	1.0747
662	228	6	44,596,653	2,439,422	166,586	151,796	2,464,765	2,464,765	1.0057	0.0888	1.00	1.0057	0.99932	1.0050
663	3,651	515	839,347,685	248,585,710	10,205,743	8,703,794	26,859,323	26,859,323	1.0422	0.1472	1.00	1.0422	0.99932	1.0415
664	2,494	356	659,342,655	215,661,207	8,887,412	7,404,562	19,604,148	19,604,148	1.0549	0.1668	1.00	1.0549	0.99932	1.0542
665	1,559	123	144,962,401	23,967,703	1,863,722	1,614,469	10,052,386	10,052,386	1.0214	0.1337	1.00	1.0214	0.99932	1.0207
666	303	61	51,623,514	17,241,253	1,180,950	1,023,839	2,115,847	2,115,847	1.0500	0.1330	1.00	1.0500	0.99932	1.0493
667	324	37	28,515,311	7,130,191	171,638	153,349	440,950	440,950	1.0308	0.1066	1.00	1.0308	0.99932	1.0301
668	449	71	57,504,333	17,268,395	947,222	824,803	2,099,285	2,099,285	1.0419	0.1292	1.00	1.0419	0.99932	1.0412
669	197	38	15,811,799	5,480,385	410,701	361,137	798,036	798,036	1.0428	0.1207	0.94	1.0422	0.99932	1.0415
670	561	71	55,074,255	17,673,795	897,081	731,966	1,891,552	1,891,552	1.0629	0.1841	1.00	1.0629	0.99932	1.0622
673	204	4	31,509,300	1,019,838	51,171	45,227	1,697,636	1,697,636	1.0034	0.1162	0.97	1.0043	0.99932	1.0036
674	223	2	24,709,758	472,734	24,948	23,195	1,265,254	1,265,254	1.0014	0.0703	1.00	1.0014	0.99932	1.0007
675	1,492	141	444,917,616	79,663,184	3,722,526	3,271,902	18,230,398	18,230,398	1.0210	0.1211	1.00	1.0210	0.99932	1.0203
676	329	64	54,323,202	19,322,372	950,885	801,700	1,764,369	1,764,369	1.0581	0.1569	1.00	1.0581	0.99932	1.0574
677	58	10	64,125,205	5,016,849	220,850	182,977	2,360,687	2,360,687	1.0149	0.1715	0.28	1.0283	0.99932	1.0276
679	20	0	9,133,141	0	0	0	673,738	673,738	1.0000	0.0000	0.10	1.0302	0.99932	1.0295
681	76	0	5,014,738	0	0	0	266,106	266,106	1.0000	0.0000	0.36	1.0214	0.99932	1.0207
682	73	0	7,758,850	0	0	0	1,081,613	1,081,613	1.0000	0.0000	0.35	1.0218	0.99932	1.0211
691	25	0	5,092,411	0	0	0	212,369	212,369	1.0000	0.0000	0.12	1.0295	0.99932	1.0288
693	42	0	2,449,834	0	0	0	281,982	281,982	1.0000	0.0000	0.20	1.0268	0.99932	1.0261
695	44	0	3,705,940	0	0	0	176,346	176,346	1.0000	0.0000	0.21	1.0265	0.99932	1.0258
Total	42,748	5,136	8,124,825,894	2,161,620,147	115,349,312	99,938,386	360,742,186	360,742,186	1.0335	0.1336		1.0342	0.99932	1.0335

Note:
 For each Class:
 Indicated Surcharge = (Total Premium Pre-PCCPAP) / (Total Premium Post-PCCPAP)
 Basis of Credibility: 1 / ((# PCCPAP Policies) / (# Total Policies)) * 25 = 210 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	1.0144	1.0215	0.7%
602	1.0170	1.0301	1.3%
603	1.0530	1.0521	-0.1%
605	1.0229	1.0273	0.4%
606	1.0248	1.0299	0.5%
607	1.0106	1.0109	0.0%
608	1.0306	1.0349	0.4%
609	1.0197	1.0220	0.2%
611	1.0284	1.0361	0.7%
615	1.0267	1.0321	0.5%
617	1.0299	1.0248	-0.5%
645	1.0512	1.0683	1.6%
646	1.0254	1.0443	1.8%
647	1.0101	1.0092	-0.1%
648	1.0218	1.0277	0.6%
649	1.0942	1.0866	-0.7%
651	1.0304	1.0321	0.2%
652	1.0046	1.0043	0.0%
653	1.0278	1.0409	1.3%
654	1.0345	1.0470	1.2%
655	1.0216	1.0253	0.4%
656	1.0204	1.0218	0.1%
657	1.0267	1.0271	0.0%
658	1.0560	1.0554	-0.1%
659	1.0256	1.0270	0.1%
660	1.0178	1.0226	0.5%
661	1.0626	1.0747	1.1%
662	1.0020	1.0050	0.3%
663	1.0335	1.0415	0.8%
664	1.0432	1.0542	1.1%
665	1.0127	1.0207	0.8%
666	1.0401	1.0493	0.9%
667	1.0228	1.0301	0.7%
668	1.0336	1.0412	0.7%
669	1.0329	1.0415	0.8%
670	1.0404	1.0622	2.1%
673	1.0044	1.0036	-0.1%
674	1.0010	1.0007	0.0%
675	1.0158	1.0203	0.4%
676	1.0380	1.0574	1.9%
677	1.0220	1.0276	0.5%
679	1.0245	1.0295	0.5%
681	1.0171	1.0207	0.4%
682	1.0160	1.0211	0.5%
691	1.0237	1.0288	0.5%
693	1.0207	1.0261	0.5%
695	1.0221	1.0258	0.4%
Total	1.0275	1.0335	0.6%