Pennsylvania Compensation Rating Bureau
United Plaza Building • Suite 1500
30 South 17th Street • Philadelphia, PA 19103-4007
(215)568-2371 • FAX (215)564-4328 • www.pcrb.com

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 offices of Duane Morris LLP, Conference Room 12KL, 12th Floor, United Plaza Building, 30 South 17th Street, Philadelphia, Pennsylvania on Friday, November 16, 2012 at 10 a.m.

The following members were present:

Actuarial Committee

Mr. A. Iuliano	Amerihealth Casualty Insurance Company
Ms. M. Gaillard	American Home Assurance Company
Mr. C Szczepanski	Donegal Mutual Insurance Company
Ms. L. Thorne	Fireman's Insurance Company of Washington, D.C.
Mr. S. Woomer	Harleysville Insurance Company
Mr. D. Savage*	Hartford Accident & Indemnity Company
Ms. N. Treitel-Moore	Liberty Mutual Insurance Company
Mr. K. Brady	PMA Insurance Company
Mr. J. Schmidt*	Travelers Property and Casualty Company

Classification and Rating Committee

Mr. I. Feuerlicht	American Home Assurance Company
Ms. M. Innoccenti	Crum & Forster Insurance Company
Ms. M. Baumhauer*	Graphic Arts Association
Not Represented	Harleysville Insurance Company
Mr. K. VanElswyk*	Insurance Company of North America
Mr. T. Mehaffie	Malt Beverage Distributors Association
Mr. P. Stocker	National Federation of Independent Business
Not Represented	Pennsylvania Automotive Association
Mr. D. McCorkle*	Pennsylvania Food Merchants Association
Ms. P. Knudsen	Pennsylvania Newspaper Association
Not Represented	Pennsylvania Retailers' Association
Mr. R. Edmunds	PMA Insurance Company
Mr. D. Glowaski	Westfield Insurance Company
Mr. J. Binkowski	XL Insurance Company

Mr. T. Wisecarver	Chair - Ex Officio

Also present were:

Mr. C. Romberger*	Coal Mine Compensation Rating Bureau of Pennsylvania
Mr. S. Cooley	Duane Morris LLP
Ms. K. Greo	Eastern Alliance Insurance Company
Ms. S. Hendricks	Eastern Alliance Insurance Company
Mr. J. Hanna	Mutual Benefit Insurance Company
Ms. K. Ayres	National Council on Compensation Insurance, Inc.
Mr. K. Creighton	Pennsylvania Insurance Department
Mr. G. Zhou	Pennsylvania Insurance Department
Mr. A. Becker	Selective Insurance Company of America
Ms. F. Barton	PCRB Staff
Ms. D. Belfus	PCRB Staff
Mr. B. Decker*	PCRB Staff
Mr. M. Doyle	PCRB Staff
Ms. B. Piacentino	PCRB Staff
Mr. D. Rawson*	PCRB Staff
Mr. P. Yoon	PCRB Staff

* - Present for part of meeting

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.

A discussion package of materials was provided to attendees for reference during the presentation of key findings from staff's work and to facilitate discussion. The meeting discussion proceeded to address the loss cost change indication and its supporting materials. Questions were posed, responses were given and/or discussion ensued as indicated by the "Question," "Answer," "Discussion" and "Comment" entries inserted below:

<u>Overall Loss Cost Change Indication</u>

The basis for the overall loss cost change was described as beginning with the evaluation of ultimate costs of prior policy years. The underlying data for that evaluation was obtained from aggregate financial calls as summarized in Exhibit 5. This data was presented on a consistent basis reflecting effects of Act 44 of 1993 (a law containing a variety of changes to the processes and parameters used to determine medical benefits for workers compensation cases in Pennsylvania) and Act 57 of 1996 (primarily consisting of changes to the system controlling indemnity benefits for workers compensation claims in Pennsylvania). Continuing practices of

prior Pennsylvania filings, Exhibit 5 excluded data for policies written on a large deductible basis. Staff described procedures used to assemble reported data from consistent groups of companies for each age-to-age comparison supported by Exhibit 5, noting that some companies either did not report data at certain evaluations or reported data that was not used in the filing analysis for a variety of reasons related to data quality.

Exhibit 6 was noted as a key element of the PCRB's analyses of both loss development and trend. Premium development was presented on Page 6.1 of this exhibit. Loss development analyses for indemnity and medical benefits had been performed using both paid-loss and case-incurred loss methods. Calculations for indemnity benefits were shown on Pages 6.2 through 6.6, while the counterpart pages for medical benefits were 6.14 through 6.18. Tail factors for loss development calculations were derived using a methodology presented in Exhibit 7 of the agenda materials.

Exhibit 12 of the agenda materials was referenced. The second mailing's version of this exhibit was replicated as the first three pages of the discussion package for ease of access and reference.

Loss ratios selected for indemnity and medical benefits had been posted for each of the three most recent available completed policy years, i.e., 2008, 2009 and 2010. These loss ratios and the resultant average ratios were shown on Lines (1) through (4) on Page 12.1 of Exhibit 12, the first page of the discussion package.

Trended loss ratios based on each of the Policy Years 2008, 2009 and 2010 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.

Question: ***With respect to the PCRB's severity trend analysis, inquiry was made as to why time series of average cost per case were not employed for this purpose and whether the work supporting PCRB's trends were equivalent to that approach.***

Answer: ***The PCRB derived severity ratios by adjusting loss ratios estimated using financial data for known changes in claim frequency. The claim frequencies employed for that purpose were computed from unit statistical data. While conceptually representing average costs, the severity ratios used by PCRB were effectively residuals of any change(s) in loss ratio not attributable to claim frequency.***

Question: ***An attendee asked why PCRB had not used financial data claim counts to compute average costs per case and observed that such an approach would include some data more current than what is available from unit statistical reports.***

Answer: ***Financial data claim counts had historically been perceived by PCRB staff as inconsistent and unreliable. It was thought that this data had become more accurate in recent reports, and staff expressed a willingness to consider them as an additional resource toward filing analyses.***

***Comment**: An observation was made to the effect that the National Council on Compensation Insurance, Inc. (NCCI) did use claim counts from financial data in their filings.*

***Answer**: Staff reiterated the impression that financial data claim counts had improved as a potential informational source but also noted that credible review of claim frequency would require using common report levels and/or developing claim counts to an ultimate level. In unit statistical data all companies' data is available and is used, while in financial data matching sets of companies at paired sets of calendar year evaluations formed the basis for filing databases.*

***Question**: Staff was asked if it had explored applying loss ratio trend analysis as an alternative to the separate claim frequency and severity trends presented for discussion.*

***Answer**: Within rounding tolerances it was expected that applying a common trend model over a consistent trend period to claim frequency and claim severity would produce the same answer as trending through the loss ratios used to derive severity ratios in the PCRB's work.*

***Question**: An attendee sought confirmation that wage inflation was included in the PCRB's measure of claim frequency trend.*

***Answer**: The answer was affirmative, with the explanation that on-level expected losses were computed using payrolls which reflected wage changes over time. It was pointed out that Exhibit 8 showed claim frequency trends with and without adjustment for changes in overall wage levels represented by the Statewide Average Weekly Wage (SAWW).*

***Question**: As a point of clarification, the impression that PCRB did not separately project wage trend but used data reflecting historical changes in wages was presented for discussion.*

***Answer**: Staff confirmed that its approach used exposures sensitive to wage changes rather than putting wages on-level and then projecting future wage trends.*

***Question**: Inquiry was made as to the meaning and interpretation of the term "collectible premium ratio."*

***Answer**: The explanation described collectible premium ratios as inverses of the average experience modification. Exhibit 19 showed the derivation of the collectible premium ratios by policy year and industry group.*

***Question**: With reference to Page 2 of the discussion package, notable increases in severity ratios were observed in 2007 and again in 2010. Staff was asked what was known that might have caused those changes.*

Answer: ***The changes in severity ratios in question were attributable to the combined effects of relatively modest increases in loss ratios and declines in claim frequency in the years cited. Staff did not have qualitative reasons for the observed changes in loss ratios or claim frequency, but it was noted that to the extent that subsequent data was available the changes had not been recovered in later periods.***

Comment: ***An attendee observed that in some historical periods claim frequency declines had been registered at double-digit percentages.***

Answer: ***Staff concurred with the observation as presented.***

Question: ***An attendee recalled discussion in preparation for the April 1, 2012 Loss Cost Filing suggesting the possibility of using the most recent available two policy years instead of the most recent available three policy years as the basis for calculating the loss cost change indication.***

Answer: ***Staff noted that for the April 1, 2013 filing this approach would appear to have a very small impact on the indication, as the oldest policy year trended loss ratio was 0.9623 in comparison to the three-year trended average of 0.9599.***

Question: ***Staff was asked whether alternative trend periods, including specifically 5-point and 6-point trends, had been considered in addition to the 7-point trend presented as a basis for the April 1, 2013 loss cost change.***

Answer: ***Exhibit 6 showed trended loss ratios using linear and exponential models based on all available trend periods from four to ten points. PCRB staff expressed the view that key components of the filing methodology, such as loss development methods and trend approaches, were best retained over a period of years unless compelling reasons in support of a specific change could be found and articulated.***

Consistent with the approach in recent previous filings, trend procedures applied in the development of this filing had separated historical experience into frequency and severity components by adjusting policy year on-level loss ratios for actual changes in claim frequency to derive time series of claim severity ratios.

Staff had applied an exponential trend model to claim severity ratios for the most recent seven years to derive claim severity trends for this filing. The annual indemnity severity trend thus obtained was noted on Page 12.2 of Exhibit 12, the second page of the discussion package, as +3.86 percent, and the counterpart annual medical severity trend was observed to be +4.32 percent.

Question: ***A Committee member asked for an explanation of the change in claim severity ratios from Policy Year 2006 to Policy Year 2007 if staff had taken notice of that change.***

Comment: ***The observation was made that for Policy Year 2007 claim frequency had declined, while loss ratios had increased by two to three points for both indemnity and medical. In combination these changes produced the change in claim severity.***

***Question**: A follow-up inquiry was made to the effect that, if frequency was down and severity was up, perhaps some change(s) was/were in progress within the system.*

***Answer**: Staff mentioned that some studies had suggested that improvement in claim frequency taking place at certain times had been concentrated in smaller claims, in which case claim severity would be adversely impacted.*

***Comment**: The Committee member expressed concern about the magnitude of the one-year change under discussion.*

***Comment**: Another Committee member opined that severities were necessarily increasing in one or more of the injury types in order for severity to respond in the fashion observed in Policy Year 2007.*

***Answer**: Staff referred to a tabulation of unit statistical data which showed the average incurred claim at third report for Policy Year 2005 was up seven percent from Policy Year 2004, Policy Year 2006 was up four percent from Policy Year 2005, and Policy Year 2007 was up 9.4 percent from Policy Year 2006. Claim severity as measured by the PCRB from financial data was also increasing more rapidly in Policy Year 2007.*

At second report staff cited Policy Year 2008 as being up three percent from Policy Year 2007 and Policy Year 2007 being up ten percent over Policy Year 2006. Thus, Policy Year 2007 was up at a faster rate than the years before or after it. Staff wondered if attendees could identify something within financial data that might merit further review in this context.

***Comment**: An attendee opined that, if smaller claims were being dropped out of the loss data at a higher rate than large ones, higher loss development could be expected in the future.*

***Question**: A Committee member perceived different trends in claim frequency for recent periods as compared to older ones and asked if staff had considered using two different claim frequency trends based on distinct periods of historical experience.*

***Answer**: Staff recalled prior filings which had incorporated various attempts to posit changes in claim frequency attributable to a variety of considerations and observed that to a great extent those efforts had proven unsuccessful.*

***Comment**: With regard to Page 8.3 of the agenda materials, an attendee identified slower improvement in claim frequency for Policy Years 2009 and 2010 compared to periods immediately before those years. They were concerned about applying an annual claim frequency trend of -5.1 percent in light of the most recent experience.*

***Answer**: Staff acknowledged the comparative changes in claim frequency raised by the Committee member but felt that a longer-term measure based on data was still likely to be as accurate an indicator as was available for claim frequency and that the regulator might be unwilling to accept judgmental imposition of a lower trend and/or changes in*

trend procedure resulting in a lower trend value. Some discussion of recent countrywide experience with respect to claim frequency ensued, with staff noting that Pennsylvania had not seen increases that had manifested themselves in other states including Delaware.

Comment: It was noted that NCCI was showing less substantial changes in claim frequency after adjustments and with claim frequency expressed net of wage changes.

Answer: Staff asked attendees for suggestions that might improve the filing and/or its supporting analysis with respect to trend.

Comment: One suggestion was to seek additional and/or better information about claim severities and average costs.

Historical claim frequencies and the derivation of a prospective claim frequency trend were presented on Page 12.3 of Exhibit 12, the third page of the discussion package

Question: An explanation was requested with regard to which column from Exhibit 8 had been used to derive the filing's indication for claim frequency trend.

Answer: Staff pointed to the top portion of the exhibit and specifically to Column (5).

Question: An attendee wanted clarification of the source that staff had made reference to earlier in citing changes in average claims.

Answer: Staff described a study based on unit statistical data for 1st through 10th report levels which provided a variety of metrics about reported loss experience.

Question: The attendee wondered what the unit statistical data showed with respect to indemnity and medical severity trends derived from financial data.

Answer*: Pages 18 and 19 of the discussion package showed comparative frequency, severity and loss ratio trends. Medical severity trend was a little higher than that attributed to indemnity. PCRB did not yet have Policy Year 2010 unit statistical data. The unit data tabulations showed first report level changes in average incurred cost of +8.7 percent for Policy Year 2005, +4.6 percent for Policy Year 2006, +12.4 percent for Policy Year 2007, +3.9 percent for Policy Year 2008 and -0.2 percent for Policy Year 2009.*

Comment: An attendee remarked about the apparent inconsistency for Policy Year 2009.

Answer: Staff observed that the changes for the last two available policy years were both lower than the claim severity trends derived from financial data but that the values for previous policy years were higher, often significantly so.

Comment: Attendees urged a further review of comparisons between unit statistical data and financial data with respect to average claims and changes in average claims.

Answer: ***Staff reiterated that financial data loss ratios were the starting point for the separation of claim frequency and claim severity in the PCRB's analysis. If and to the extent that a different set of claim frequencies were adopted, then the implied claim severities would also change.***

Question: ***An attendee asked for an explanation of "normalized frequency" on Page 2 of the discussion package.***

Answer: ***Staff referred to Page 3 of the discussion package, which presented the calculation of normalized frequency.***

The average trended on-level loss ratio obtained by applying the combined claim frequency and severity trends was shown on Line (9) of Page 12.1 of Exhibit 12, and at 0.9599 this ratio produced an indicated 4.01 percent decrease in collectible loss costs.

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.

Page 4 of the discussion package provided attribution of the effects of selected components of experience on the overall loss cost change indication. As illustrated on that exhibit, indemnity loss and trend experience each contributed improvement to the indication, and in combination those factors essentially accounted for the indicated loss cost change. Medical loss experience had contributed a very slight improvement, while medical trend had caused an offsetting increase, with overall medical experience being flat.

Staff described the PCRB's approach to loss development and the role of that analysis in the filing preparation. PCRB customarily used the average of the two most recent calendar years of development as a basis for deriving age-to-age factors in its filings. For each successive filing a new calendar year of data was added and loss development factors from the older of the two years used in the previous filing were dropped from the analysis. This process effectively replaced the older of the two years used in the most recent previous filing with the newest available year. For the April 1, 2013 filing the newest available calendar year of loss development data available was that of Calendar Year 2011. The older of the two development periods relied upon in preparing the April 1, 2012 filing had been Calendar Year 2009. Calendar year 2010 had been included in the work supporting the 2012 filing and was retained for use in the 2013 filing.

Page 5 of the discussion package presented graphs of the Calendar Years 2011 and 2009 age-to-age factors less unity for paid indemnity losses, covering the five development maturities from 1st report (policy year at 24 months) to 6th report (policy year at 84 months). This comparison illustrated the change in loss development experience for paid indemnity losses for the 2013 filing in comparison to the filing underlying present loss costs, since the 2011 factors were replacing the 2009 factors with the 2010 factors having been used for the 2012 filing and being used again for the 2013 filing.

The comparisons on Page 5 showed a general improvement in paid indemnity loss development for the 2013 filing, since the 2011 age-to-age factors were lower than the comparable 2009 values except for the development from 4th to 5th report, for which the two sets of factors were approximately equal.

Comment: Some discussion about the relative values and comparisons presented on this page ensued.

Answer: Specific values underlying the graph on Page 5 were available from Exhibit 6. Staff noted that in deriving the draft filing indication ultimate loss estimates had been computed as the average of the paid and case-incurred loss development methods.

Page 6 of the discussion package presented graphical comparisons of the Calendar Years 2011 and 2009 age-to-age factors less unity for paid indemnity losses, covering development maturities subsequent to 6th report (policy year at 84 months). This separation of maturities from those reflected on Page 5 allowed the graph scale to be more informative of differences for later maturities, for which age-to-age factors become relatively small. As described with regard to Page 5 of the discussion package, the 2011 factors were replacing the 2009 factors with the 2010 factors having been used for the 2012 filing and being used again for the 2013 filing.

The comparisons on Page 6 continued to show a general improvement in paid indemnity loss development for the 2013 filing, since the 2011 age-to-age factors were lower than the comparable 2009 values for a substantial majority of the development periods shown, with the exceptions being instances for which the 2011 and 2009 values were approximately equal.

Pages 7 and 8 of the discussion package presented comparative indemnity loss development factors less unity for case incurred losses. Page 7 included development to 6th report in annual increments, and Page 8 presented development after 6th report. Page 7 suggested improvement in indemnity incurred loss development at the earliest maturities and roughly equivalent development for 4th through 6th report. Page 8 showed alternating periods of development within which 2009 or 2011, respectively, had better indemnity incurred loss development experience, with a majority of the comparisons being in favor of 2009.

Pages 9 and 10 of the discussion package addressed paid medical loss development in the same fashion as Pages 5 and 6 had dealt with paid indemnity data. Page 9 showed generally better paid loss development in 2011 for medical than had been in effect in 2009. The comparisons for maturities after 6th report shown in Page 10 included a couple of points for which 2009 development was better than 2011, but on balance 2011 showed lower development than had 2009 for paid medical losses.

Pages 11 and 12 of the discussion package addressed case-incurred paid medical loss development in the same fashion as Pages 7 and 8 had dealt with case-incurred indemnity data. Page 11 showed more favorable development points for 2011 than for 2009, with the development from 4th to 5th report being the notable exception and development from 3rd to 4th report being essentially the same for the two development periods being compared. Page 12 showed fairly comparable case-incurred loss development for medical between 2009 and 2011, except for the tail development which was notably higher for 2011 than 2009.

Question: A Committee member noted the change in the tail factor illustrated on Page 12 of the discussion package and asked for staff's perspective on that value.

Answer: Acknowledging the volatility of tail factor calculations, staff noted that the PCRB used four calendar years of development data in establishing tail factors for its filings.

Question: An attendee asked whether Exhibit 7, the tail factor exhibit, included a separate page for each of the four years used in computing the tail factor.

Answer: The answer was affirmative. The four-year average was a tail provision of approximately 4.5 percent. The newest development period had produced a point much higher than the one that had been dropped from the previous filing.

Question: The representative of NCCI was asked how many years NCCI used in their assessments of tail loss development.

Comment: NCCI reported using various periods of time in tail factor analysis, ranging from five-to-eight years depending on the state(s).

Answer: Staff provided a general discussion of the current tail factor methodology in Pennsylvania and contrasted that with the approach used before the current method had been implemented. Expected growth in policy year losses and attrition in loss development at older maturities were both incorporated into the current model and methodology.

Pages 13 and 14 of the discussion package presented information also contained in part on Pages 10.1 and 10.2 of Exhibit 10 of the filing materials, that being comparisons of the estimated ultimate loss ratios derived using paid loss and case-incurred loss development approaches. Page 13 showed comparisons for indemnity loss in which newer policy year estimates were nominally lower using the case-incurred development method than the paid loss development method. These small differences became less significant for older policy years, and the two methods converged for the oldest policy years illustrated on Page 13.

Page 14 of the discussion package presented comparisons of the estimated ultimate loss ratios for medical derived from using paid loss and case-incurred loss development approaches. The pattern of comparisons was very similar to that observed for indemnity loss on Page 13, with newer policy years showing the case-incurred loss development method having nominally lower estimates than the paid loss development method and with the differences becoming less significant for older policy years.

The patterns illustrated on Pages 13 and 14 of the discussion package were noted as being similar to results from other recent PCRB filings.

Question: Staff was asked whether the differences between loss development methods' estimates of ultimate loss were narrowing or widening compared to other recent filings.

Answer: ***Staff recalled that the differences between methods were narrowing but agreed to review previous filings to determine with certainty how these difference were changing. Staff also recalled that the paid estimate had given higher estimates in prior filings, as was the case for the current analysis.***

Exhibit 8 of the agenda materials derived the filing's metric for claim frequency trend. Alternative data sets relevant to claim frequency experience and estimates were compared. The PCRB's derivation of claim frequency trend was described as using unit statistical data excluding large deductible policies. Pennsylvania's claim frequency improvement had moderated in recent years but had yet to illustrate an increase(s) as had been observed in some other jurisdictions. The basis of the draft filing's indication for claim frequency trend was noted as an exponential fit through the most recent available seven policy year points, giving an annual rate of claim frequency decrease of 5.1 percent. Page 15 of the discussion package illustrated the PCRB's long-term experience with regard to claim frequency with a line graph.

Staff provided a brief overview of the PCRB's customary trending procedures, which separated loss ratio trends into claim frequency and claim severity components. The calculation of "severity ratios" by adjusting loss ratios for observed changes in claim frequency was outlined, with reference to Pages 6.6 and 6.18 of Exhibit 6. Estimation of severity trends was accomplished in Exhibit 6 (Pages 6.6 through 6.10 for indemnity severity ratios and Pages 6.18 through 6.22 for medical severity ratios). Pages 10.3 and 10.4 of Exhibit 10 displayed time series of severity ratios thus derived.

Pages 16 and 17 of the discussion package showed graphs of historical severity ratios and trend lines projecting future severity ratios based on prior policy years. Page 16 addressed indemnity severity ratios, with historical ratios being based on the average of the paid loss and case-incurred loss development methods and shown connected by a solid line and trended ratios based on a seven-point exponential trend line fit through Policy Years 2004 through 2010 and represented by a dotted line on the discussion package page.

Page 17 addressed medical severity ratios, with historical ratios being based on the average of the paid loss and case-incurred loss development methods and shown connected by a solid line and trended ratios based on a seven-point exponential trend line fit through Policy Years 2004 through 2010 and represented by a dotted line on the discussion package page.

In evaluating the filing proposal's treatment of trend the PCRB had replicated prior filings' tests of the goodness-of-fit of various trend methods and experience periods applied to loss ratios and severity ratios, respectively, and those tests were presented in Exhibits 9a (loss ratios) and 9b (severity ratios). In addition, PCRB had reviewed the efficacy of alternative trend methods and experience periods in forecasting subsequent policy year loss ratios and severity ratios, with the results of those reviews contained in Exhibits 11a (for loss ratios) and 11b (for severity ratios).

Page 18 of the discussion package presented graphs of historical and projected indemnity loss ratios, claim frequency and claim severity derived in accordance with the procedures and methods previously discussed. This presentation replicated Page 10.5 of Exhibit 10, and illustrated gradually declining indemnity loss ratios which resulted from claim severity increasing modestly slower than claim frequency had declined.

Page 19 of the discussion package presented graphs of historical and projected medical loss ratios, claim frequency and claim severity derived in accordance with the procedures and methods previously discussed. This presentation replicated Page 10.6 of Exhibit 10 and illustrated slightly higher severity ratios for medical than for indemnity loss but with loss ratios still declining over time due to the net favorable effects of claim frequency improvement.

In the context of Pennsylvania system outcomes, Page 20 of the discussion package illustrated settlement rates derived from unit statistical data. This page contained a set of line graphs tracking the portions of reported indemnity claims that remained open at various report levels for a series of prior policy years. With the exception of 1st report these graphs generally showed a pattern of improving or at worst stable settlement rates over the past three-to-four years.

Question: Staff asked attendees whether it would be helpful to include a table of values reflected in the graphs to assist in interpreting and understanding the presentation.

Answer: Responses evidenced satisfaction with the graphs without backup tables of values.

Discussion next addressed selected agenda exhibits pertaining to pricing programs as identified following.

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 PCRB loss costs, had been removed from those loss costs. Consistent with requirements of HB 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 PCRB loss costs under provisions of this law.

With the enactment of HB 2738, an Uninsured Employers Guaranty Fund had been established, with initial funding granted by legislative appropriation and authority given to the Bureau of Workers' Compensation to issue assessments to insurers and self-insurers for additional funding as the need might arise. Consistent with past practice, the PCRB continued to include offset provisions for merit rating and credits granted under the Certified Safety Committee Program in published and proposed PCRB loss costs.

Exhibit 13 provided parameters used to compute the proposed employer assessment factor effective April 1, 2013 (0.0262) and the proposed loading to PCRB 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, 2013 (0.0150).

Staff noted that the proposed employer assessment factor was higher than the current level (0.0225) due to increases in budgetary provisions for the Administration Fund and Supersedeas Fund.

The loading in PCRB loss costs for the remaining factors listed above was noted as being up nominally from 0.0146 due to increases in credit activity in the Certified Safety Committee Credit Program and in the Merit Rating Plan increment factor.

Question: ***Interest was expressed in the increases in budgetary provisions for the Administration Fund and the Supersedeas Fund for this filing.***

Answer: ***Staff advised attendees that the figures used in Exhibit 13 were provided by the responsible agency (Department of Labor and Industry). In general terms, the Administration Fund provides resources for the Department's oversight functions with regard to workers compensation, including maintaining the forums for hearings on controverted cases. The Supersedeas Fund is used to reimburse carriers and employers for certain benefits paid while claims await determinations in the petition or appeal processes.***

Question: ***The inquirer pressed for more insight into the significant increases from the previous year's filing. The increases at hand (Administration Fund increasing from approximately $50 million to some $63 million and the Supersedeas Fund going from approximately $13 million to about $17 million) were noted. Staff agreed to follow up on this question and advise attendees of any additional information thus obtained.***

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 in statewide average wage levels, with such filings subject to review and approval by the Insurance Department and typically effective each October 1.

Staff noted that the average PCCPAP loading indicated, based on the most recent available data, was nominally lower than that currently in effect (2.50 percent proposed vs. 2.75 percent current). This was attributed to the effects of continuing small declines in participation in the program.

Question: ***A Committee member asked staff whether the qualifying wage for PCCPAP credit was adjusted regularly for effects of wage inflation.***

Answer: ***Staff answered that the qualifying wage had been indexed to the Pennsylvania SAWW since the inception of the program.***

Question: ***A follow-up question addressed whether the available experience data under the PCCPAP showed whether credits granted under the program were warranted by performance of the employers receiving them.***

Answer: ***Staff referred to a special study posted on the PCRB website which reflected experience in Policy Years 1994 through 2008. Based on that collective experience staff believed that the published study showed that high wage construction employers would qualify for little if any credit compared to lower-wage businesses.***

Question: ***A Committee member suggested that PCRB staff investigate whether a higher wage threshold might serve to restrict participation in the PCCPAP to employers whose actual experience would support credits granted under the program.***

Answer: ***Staff was uncertain about the logistics of such a review but indicated that it would consider possibilities in such regard. It was noted that any change(s) to the PCCPAP would require prior approval by the Pennsylvania Insurance Department.***

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 (0.30 percent), nominally more than the level currently in effect (0.29 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 1995 – 2009 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 nominal change in the loading to offset ongoing credits from 1.16 percent to 1.19 percent.

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 be expected to improve the accuracy of the modifications thus issued.

Illustration of effects of the Experience Rating Plan was provided by reference to Pages 21 and 22 of the discussion package, which replicated materials included in Exhibit 18a.

Exhibit 18b was referenced as a summary page formatted identically to Exhibit 18a but reflecting the impacts of capping procedures adopted incrementally with initial swing limits adopted in 2004 and additional transition capping procedures added effective April 1, 2006.

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.

Comment: Comparisons were made of features of the respective Experience Rating Plans in use by NCCI and PCRB. One Committee member expressed concern over the respective split points between the two plans and the fact that in PCRB's plan no credibility was attributed to losses in excess of the prescribed claim limit of $42,500.

Answer: Staff observed that there were many differences between the NCCI and PCRB Experience Rating Plans. PCRB was in the process of reviewing the performance of its existing plan.

Comment: It was suggested that PCRB should include the NCCI model in future testing of its Experience Rating Plan.

Answer: Staff invited observations about the merits of specific features of alternative Experience Rating Plans and bases upon which those features were perceived as being desirable.

Question: ***Staff was asked why construction risks received relatively favorable experience modifications from the PCRB plan.***

Answer: ***It was noted that Exhibit 19 showed collectible premium ratios which confirmed the more favorable ratings assigned to construction employers, but that exhibit did not identify the cause(s) for those differences.***

Question: ***One attendee wondered whether the Experience Rating Plan results for construction risks might be related to PCRB's loss limitations.***

Answer: ***Staff acknowledged that a more uniform level of Experience Rating Plan adjustment across industry groups would be desirable.***

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.

Staff further noted that many of the size-of-loss studies and rating values proposed in the filing vary by hazard group and that the hazard groups were modified and expanded from four (designated I, II, III and IV) to seven (designated A, B, C, D, E, F and G) hazard groups as part of the April 1, 2009 filing. The PCRB continued to publish information based on both seven and four hazard groups during a three-year transition period. Beginning with the April 1, 2012 filing, the transition program ended, and this filing will continue to support analysis for the seven hazard groups (A-G) only.

Staff briefly noted that the April 1, 2008 filing analysis had determined that actual loss experience could be used over a significant portion of the size-of-loss range for each type of injury. Various commonly-used distributions had been considered in fitting the empirical size-of-loss distributions. Separate analyses of claim frequency and loss severity were performed. For loss severity a Single Parameter Pareto distribution for all injury types combined has been used since the initial analysis was performed. For claim frequency a Pareto distribution is used for each separate type of injury except permanent total (PT) where a lognormal distribution is chosen. In generating final loss distributions and excess loss factors, actual data (claim counts and dollars of loss) for limits below $500,000 had been combined with fitted counts and dollars above $500,000 and re-accumulated.

Staff then described analysis conducted for the April 1, 2013 filing to support hazard groups and excess loss factors applicable thereto. The methods and distributions employed are similar to the approach first introduced with the April 1, 2008 filing.

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. Losses were trended to the midpoint of the prospective rating period. The exhibit also includes actual excess loss factors based on empirical loss distributions by type of injury (death,

permanent total, permanent partial, and temporary total), along with excess loss ratios tied to fitted curves for loss limitations of $500,000 and higher. For the April 1, 2013 filing separate medical-only data has been included in the analysis. Medical-only claim distributions have not been fitted and actual excess ratios are used in the analysis.

Question: A question was posed concerning PCRB's approach to developing losses in the empirical distribution to an ultimate basis.

Answer: It was explained that only open claims were subject to development under the PCRB procedures.

Comment: The opinion was expressed that the PCRB approach would produce a smaller development tail than would actually emerge as losses developed. It was also observed that NCCI used a stochastic approach to loss development and suggested that PCRB consider such an approach or possibly ask NCCI to apply its procedures to PCRB data to obtain a sense for the effects of the alternative procedures.

Exhibit 23 derives proposed excess loss (pure premium) factors computed using results in Exhibit 22. Note that the process for calculating excess factors in Exhibit 23 is unchanged from prior years but for the inclusion of medical-only data as previously described, although the loss distributions on which the analysis relies have been updated, and the average costs and weights by type-of-injury and hazard group reflect the most recent data.

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. 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. But for the April 1, 2009 filing, where the revision and expansion of hazard groups required a special treatment, the procedure has been used consistently since the April 1, 2003 filing. The compliment of credibility is assigned to prior year relativities adjusted for overall changes in Pennsylvania and countrywide (NCCI states) average severities. Exhibit 24 presented the derivation of state and hazard group relativities for the proposed filing.

Exhibit 25 - Offering of small deducible coverages at certain specified amounts is mandatory in Pennsylvania. PCRB filings thus provide updated loss elimination ratios computed consistent with the mandatory deductible levels of $1,000, $5,000 and $10,000. 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. More recently, PCRB has segregated individually reported small claims from small claims reported on a grouped basis. This process also allows for a more refined treatment of the distribution of medical-only losses by loss size. For the April 1, 2012 filing staff did not update the approved April 1, 2011 loss elimination ratios for small deductible coverages pending a more thorough review of the segregated data. Exhibit 25 shows the results of the updated analysis.

Question: An attendee asked why the loss elimination ratios had changed so substantially at the $1,000 level.

Answer: ***The explanation involved PCRB utilizing data for individual claims at and below the $1,000 threshold, previously thought to be reported on a bulk basis.***

In order to maintain existing tables of insurance charges and savings for the effects of claim inflation, the expected loss size ranges used to define those tables are regularly updated to keep Pennsylvania's rating values consistent with those of other jurisdictions. Exhibit 32 contained selected portions of NCCI Item Filing R-1405-2012. The PCRB is proposing to file the table of Expected Loss Ranges shown on Page 4 of the exhibit.

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.

Proposed Loss Cost Relativities by Classification

Exhibits 17, 20a, 20b, 20c, 28, 29, 30 and 31 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.

Question: ***A Committee member asked whether PCRB was anticipating adopting a loss development approach with "Likely to Develop" and "Not Likely to Develop" losses based on the types of injury involved, a change recently made by NCCI.***

Answer: ***Staff noted that the PCRB classification pricing procedure separated medical losses into Serious, Non-Serious and Medical-Only components, unlike NCCI's former approach.***

Question: ***An explanation was sought with respect to the procedure used by PCRB to separate permanent partial claims into major and minor categories.***

Answer: ***Staff advised that these splits were based on a schedule of dollar amounts by policy year.***

Question: ***A Committee member asked whether PCRB would look further into the most recent NCCI procedures.***

Answer: ***Staff responded in the affirmative, noting that this effort would involve a substantial effort in programming and analysis before the ratemaking changes per se could be scrutinized.***

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 PCRB 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.

***Question**: An attendee pointed out sign changes in some classifications' loss cost indications when comparing pre-cap to post-cap values. For example, Classification Code 520 changed from an indicated increase of 12.2 percent to a reduction of 8.2 percent. More information was sought about the process involved in capping that would produce such circumstances.*

***Answer**: Staff described a secondary capping process which was designed to avoid instances in which a classification's rating value moved in opposite directions and in significant extents in successive filings. Code 520 was described as a class receiving a large reduction in the April 1, 2012 filing, thus limiting the extent to which that adjustment could be reversed in the following year (2013).*

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. An exhibit labeled "Index and Supporting Classification Exhibits" was provided for use in conjunction with the Class Book.

Effective December 1, 2010 temporary staffing classification Codes 544, 682, 929, 937 and 947 had been discontinued. However, the exposures and losses for the risks in those classifications could not be accurately reassigned to other approved classifications upon their discontinuation. While no new business will be written using these discontinued classifications, the Experience Rating Plan still requires reference to expected loss factors (ELFs) associated with prior periods of exposure in computing experience modifications. Exhibit 31 includes ELFs for the discontinued classes for use in calculating experience modification factors for affected risks.

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. The maximum individual payroll for executive officers was proposed to change from $2,150 to $2,200 per week.

PCRB staff was aware of a transitional program in NCCI jurisdictions which would move minimum individual payroll amounts for executive officers toward 100 percent of the applicable Statewide Average Weekly Wage (SAWW) over a three- to four-year period (NCCI Item Filing B-1420). PCRB's minimum payroll amount for executive officers was currently set at approximately one-half the SAWW. Staff solicited input about the desirability of updating these parameters and possible transitional approaches to doing so.

Comment: ***The perception was raised that the change under consideration would have the greatest impact on smaller accounts.***

Answer: ***Staff agreed, as for smaller accounts corporate officer earnings were likely to represent a greater proportion of total payrolls.***

Question: ***An inquiry followed as to whether application of the minimum and maximum payroll amounts was mandatory.***

Answer: ***Staff reminded attendees that corporate officers could elect out of coverage, thereby rendering the rule pertaining to remuneration levels moot.***

Question: ***An attendee asked for the current value of Pennsylvania's SAWW.***

Answer: ***Staff responded with the value $888.***

Question: ***Staff was asked whether the amount of payroll being reported in accordance with the corporate officer minimum could be determined.***

Answer: ***Staff could not bring to mind a resource or approach to separate corporate officer payrolls, and the NCCI representative agreed that such data was not separately reported or collected.***

Question: ***A related question followed, asking if it was possible to know how many corporate officers elected out of coverage.***

Answer: ***Staff doubted that this information was readily available but intended to explore possible ways of learning the incidence of corporate officer elections out of coverage.***

Comment: ***In terms of the pace at which a transition from the current level of corporate officer minimum payrolls might be accomplished, the sentiment was expressed that a gradual approach was preferred, with annual steps of ten percent of SAWW articulated as an example.***

The annual payroll applicable to taxicab operators in the absence of payroll records was proposed to change from $42,900 to $44,400, and the minimum payroll for auxiliary police or special school police appointed by municipalities or townships was proposed to increase from $4,300 to $4,450 per year. Each of these parameters was maintained annually by reference to Pennsylvania's SAWW, with the convention of rounding results to the nearest $50 applied

The Manual changes set forth in the staff memorandum dated September 11, 2012 were proposed to become effective on a new and renewal basis April 1, 2013.

Exhibit 33 – Attendant Care Study and Resulting Classification Proposals

Staff described existing classification procedures in Pennsylvania for attendant care services. Two operative models for this industry were identified, those being distinguished based on whether the client receiving services or the fiscal agent coordinating services was considered to be the employer of workers providing the services. Where the client was considered to be the employer, attendant care services were assigned to Codes 0908 and 0913 depending upon whether the workers were engaged full- or part-time. Codes 0908 and 0913 used per capita exposure bases.

Where the fiscal agent was considered to be the employer, Code 943 was the applicable Pennsylvania classification. Code 943 was a payroll-based classification.

PCRB staff encountered classification issues arising from various aspects of this multiplicity of assignable classifications to the attendant care industry and were aware of other jurisdictions having erected comprehensive, payroll-based classifications applicable to this industry. Accordingly, a study effort had been undertaken to explore the viability of such an approach in Pennsylvania.

Known fiscal agents had been surveyed in an effort to obtain payroll data for purposes of establishing an appropriate rating value for an attendant care classification to apply regardless of operational model (client or fiscal agent being designated as the employer) and regardless of the extent of activities performed by any individual employee(s). That effort had obtained a large sample but not the universe of data from fiscal agents having reported exposures during the Calendar Years 2003 through 2008.

Based on relationships between payrolls and per capita exposures demonstrated for fiscal agents reporting payroll data, staff had estimated aggregate payrolls for the attendant care exposures reported under Codes 0908 and 0913 for the Policy Years 2003 through 2007. Payrolls for Policy Years 2008 and 2009 were projected based on reported per capita exposures and known changes in the Statewide Average Weekly Wage.

Estimated payrolls associated with attendant care exposures previously reported in Codes 0908 and 0913 were combined with attendant care payrolls from Code 943, and loss experience for all attendant care services for use in a 2013 Class Book page for attendant care services. Codes 0908, 0913 and 943 were addressed by removing the historical attendant care exposures and losses from their data and producing revised Class Book pages.

Rating values for attendant care (proposed to be assigned to a new classification, Code 972) and the three revised codes in which portions of the attendant care industry had previously been assigned were developed and then balanced, so that the creation of Code 972 was demonstrably revenue-neutral for 2013. Rating value changes were summarized as follow:

Code 0908 – Domestic Workers – Inside -Occasional	$212.33 per person
Code 0913 – Domestic Workers - Inside	$464.75 per person
Code 943 – Home Health Care	$3.78 per $100 payroll
Code 972 – Attendant Care Services	$3.18 per $100 payroll

Staff noted that, by virtue of the proposed creation of Code 972, the indicated loss costs for 0908, 0913 and 943 each realized some level of reduction from their indications under the existing classification structure.

In the event Code 972 was filed for approval, fiscal agents known to the PCRB, together with other interested parties including selected insurers and producers, would be notified of the proposal and advised about the appropriate contact in the Pennsylvania Insurance Department to receive comments thereon.

Input was solicited with respect to the merits of the proposed change in classification procedure for attendant care services.

***Question**: An attendee speculated about possible challenges that might arise in collecting information from clients considered to be the employer for some attendant care arrangements.*

***Answer**: Staff explained that fiscal agents performed necessary paperwork and coordination of services under either attendant care model, so that data collection for Codes 0908 and 0913 was not particularly problematic.*

Other Items:

***Question**: Staff was asked whether PCRB was going to adopt updated Employer Liability increased limits factors consistent with a recent NCCI Item Filing.*

***Answer**: A PCRB filing proposing such adoption was pending before the Pennsylvania Insurance Department at the time of this meeting.*

***Question**: Another attendee asked about the effective date of recently-enacted legislative changes to professional employer organizations and their clients in Pennsylvania, and PCRB efforts to implement those changes.*

Answer: ***PCRB had a filing on this subject proposing an effective date of January 1, 2013, including a complement of endorsements in support of the affected segment of business.***

Question: ***Some Committee members voiced concern about the notices customarily given for PCRB Actuarial and Classification & Rating Committee meetings. Implications for planning and airfares were among the reasons voiced for this concern. Practices among other independent bureaus were cited as allowing much more notice than was associated with PCRB meetings.***

Answer: ***Staff outlined selected performance criteria established by the PCRB Governing Board, which focused on the extent to which filings were submitted in advance of their proposed effective dates and the amount of advance notice that the industry received about approved changes in rules and rating values under PCRB filings. Availability of carrier data, novelties encountered in each filing cycle's analysis, and staffing considerations often posed obstacles to meeting prescribed goals. In effect, staff was trying to accomplish those objectives as fully as possible. While some meeting dates would be relatively achievable under most circumstances and thus could be scheduled far in advance, such dates would generally not provide desired results in terms of submission and/or approval.***

Comment: ***Attendees did not want to cause PCRB meetings to be held later but did want more advance notice of when they would be held. A minimum of six weeks and a more desirable goal of three months' lead time were mentioned.***

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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