



Pennsylvania Compensation Rating Bureau

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April 29, 2019

PCRB CIRCULAR NO. 1723

To All Members of the PCRB:

RE: PCRB FILINGS AND THE PENNSYLVANIA WORKERS COMPENSATION PRICING SYSTEM

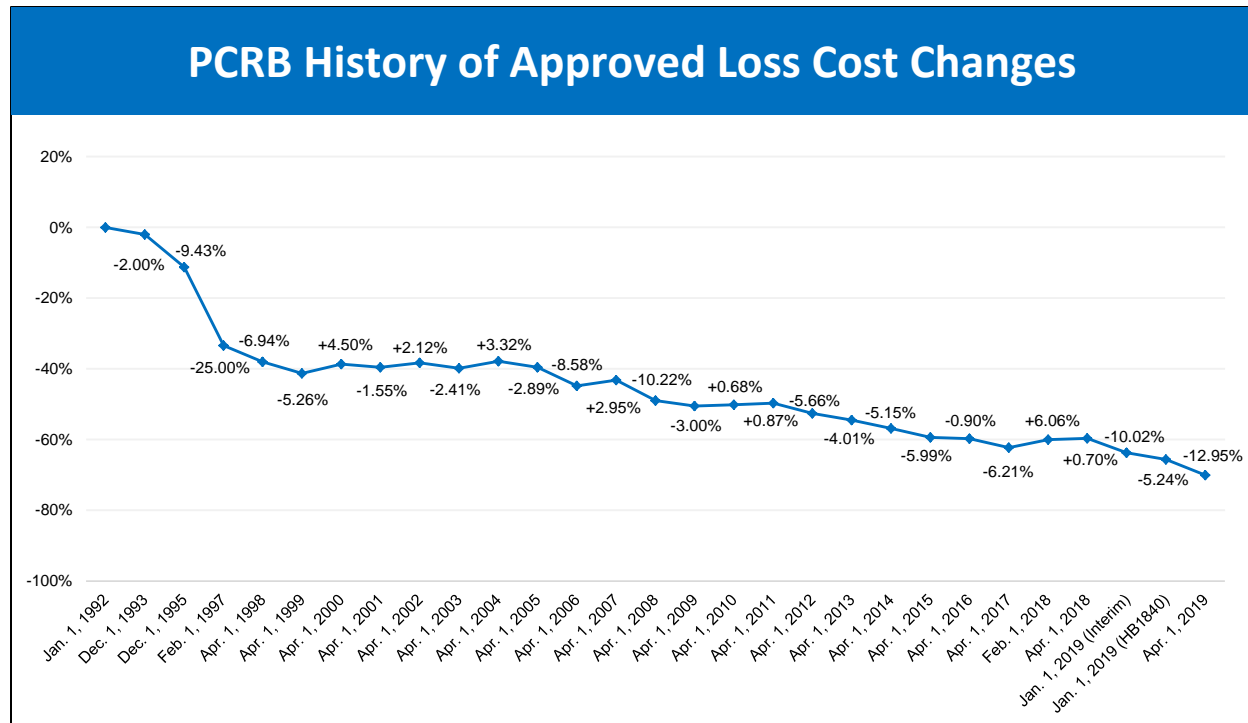
This circular highlights key elements of the Pennsylvania workers compensation system, including background and discussion regarding loss cost revisions, trends in claim costs, and several dynamics affecting the system. It is traditionally provided for the benefit of PCRB members and other interested parties, and updates information provided in prior PCRB circulars, most recently PCRB Circular No. 1703 dated May 10, 2018. The appendix of this circular provides the data underlying the charts.

In addition to the information contained in this circular, we would also like to direct you to recently released reports providing more detailed Pennsylvania workers compensation marketplace activity metrics and actuarial results for the past year. Readers are encouraged to review and obtain the recently published reports from the PCRB website: 2018 State Activity Report, the 2018 State of the Line Report, and the 2018 Medical Activity Report. These noted reports are available on the left side of the Homepage via the “Data Reports / Special Studies” link, and additionally the 2018 PCRB Annual Report is found via the “Organization” link.

Loss Cost Changes

There were several changes in loss costs approved by the Insurance Commissioner since the April 1, 2018 annual filing. The first was submitted in Filing No. C-372, an interim loss cost filing decrease of 10.02 percent. This filing was made in response to the PCRB’s determination that the financial data valued as of December 31, 2016, reported by a PCRB member and used in the development of April 1, 2018 filing, were incorrect. The second change, contained in Filing No. C-373, was a decrease of 5.24 percent in average collectible loss costs also effective January 1, 2019, to reflect the impact of House Bill 1840 of 2017 (signed into Pennsylvania law as Act 111 of 2018). This filing was also referred to as the Protz Adjustment Filing. The combined impact of both filings was an overall average decrease of 14.74 percent. The third change seen in Filing No. C-374, the annual filing, was an overall decrease of 12.95 percent.

The system of filing loss costs was implemented as a result of Act 44 of 1993, with the first loss cost filing effective December 1 of that year. Act 44, along with Act 57 of 1996, introduced significant changes in the Pennsylvania workers compensation system. Resulting from these changes is a history of loss cost changes in Pennsylvania since the inception of the present pricing system, as shown in the following chart:



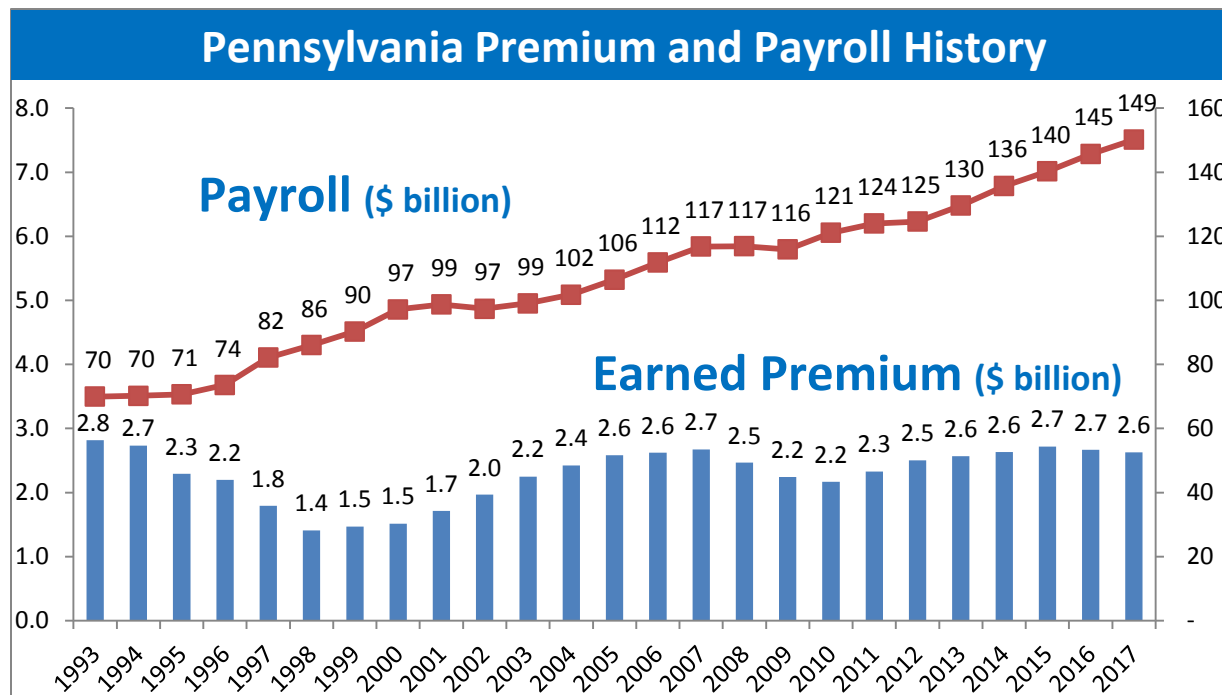
Over this 27-year period, the primary factors underlying the long-term downward trend in Pennsylvania are the improvement in claim frequency, which is decreasing by 6.3 percent annually, along with the fundamental changes due to Acts 44 and 57. The downward frequency trend has been sufficient to counter upward claim severity trends for indemnity and medical benefits. The approved April 1, 2019 loss costs contemplate that claim frequency will continue to show declines through the end of 2019. The following chart shows the trends underlying the approved April 1, 2019 loss cost filing.

Pennsylvania Claim Cost Trends			
	Frequency	Severity	Pure Premium
Indemnity	-6.3%	+1.8%	-4.6%
Medical		+2.9%	-3.6%

Premium and Payroll History

The size of the Pennsylvania workers compensation insurance market, as measured by Direct Earned Premium, has fluctuated over the last several decades: dropping from \$2.8 billion in 1993 to \$1.4 billion in 1998; then growing steadily to \$2.7 billion in 2007; dropping to \$2.2 billion by 2010; rising to \$2.7 billion in 2015 and, most recently, was \$2.6 billion in 2017. In contrast, effective payroll¹ has doubled over the same time frame. The chart below illustrates the different growth patterns. The pattern of premium growth and decline displayed for Pennsylvania is similar to patterns seen in broader, multi-state studies.

¹ Payroll in this chart is adjusted to an “effective” level by subtracting an amount that reflects the retained exposure, measured by the premium discount on deductible policies. This provides a better comparison to earned premium in company financial statements, which is net of deductible credits.



Notes: Payroll for large deductible policies is reduced in proportion to the premium reductions due to deductibles.
 Payroll for 2016 and 2017 is estimated based on PA Department of Labor & Industry payroll data.
 Premium data is the aggregate direct earned premium from insurer financial statements, from A.M. Best Database Services.
 Payroll is based on policy year data. Earned premium is based on calendar year data.

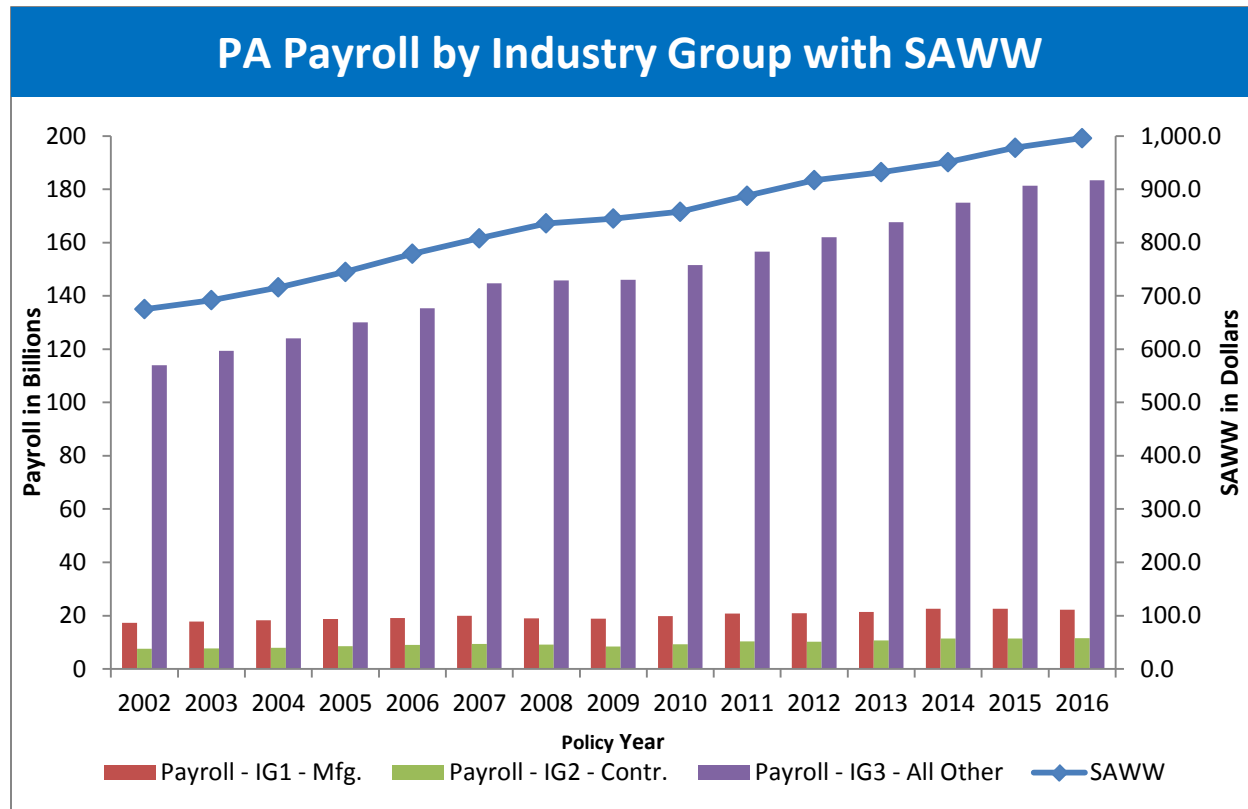
The difference in growth rates for payroll and premium appears to result from several dynamics in Pennsylvania, some of which are similar to trends across the country.

First, total payroll reported by insurers to the PCRB, adjusted to reflect large deductible policies, has risen every year except 2002, 2008 and 2009. The cumulative increase in effective payroll since 1993 is 114.7 percent.

Second, as shown in the first chart of this circular, loss costs have generally declined since they were first implemented in 1993. The cumulative loss cost change since then is a decrease of 70.1 percent.

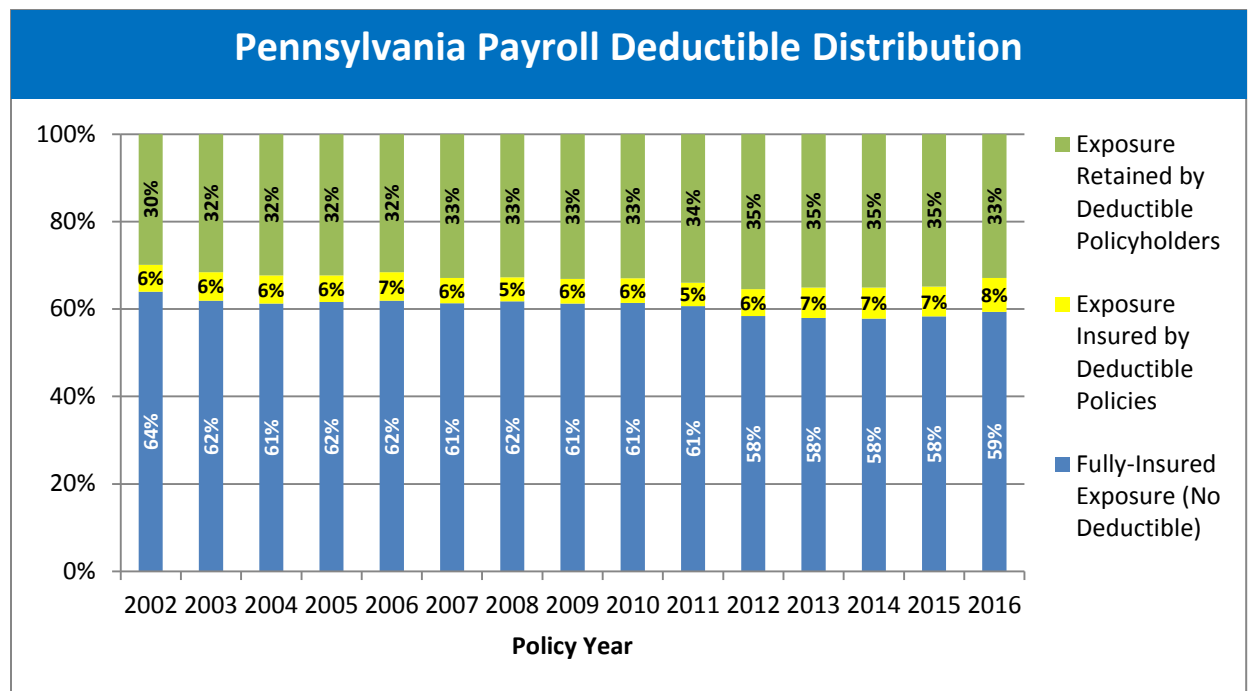
Third, payroll growth differs among the three PCRB industry groups, with manufacturing payroll lagging the other sectors which have kept pace with the growth in the Statewide Average Weekly Wage (SAWW). In the next chart, payroll is included at its full value for deductible policies (i.e., not at the “effective” level), to be comparable to the wage data. The chart shows SAWW growth from 2002 to 2016 of 47.6 percent.

For the three PCRB industry groups, the growth over that same period varies. For Industry Group 1 – Manufacturing, payroll rose from \$17.3 billion to \$22.2 billion, or by 28.2 percent. For Industry Group 2 – Contracting, payroll grew from \$7.6 billion to \$11.6 billion, or by 52.3 percent. For Industry Group 3 – All Other, payroll grew from \$114.0 billion to \$183.3 billion, an increase of 60.9 percent. The growth rate for Manufacturing is well below that of the other industry groups and the SAWW.



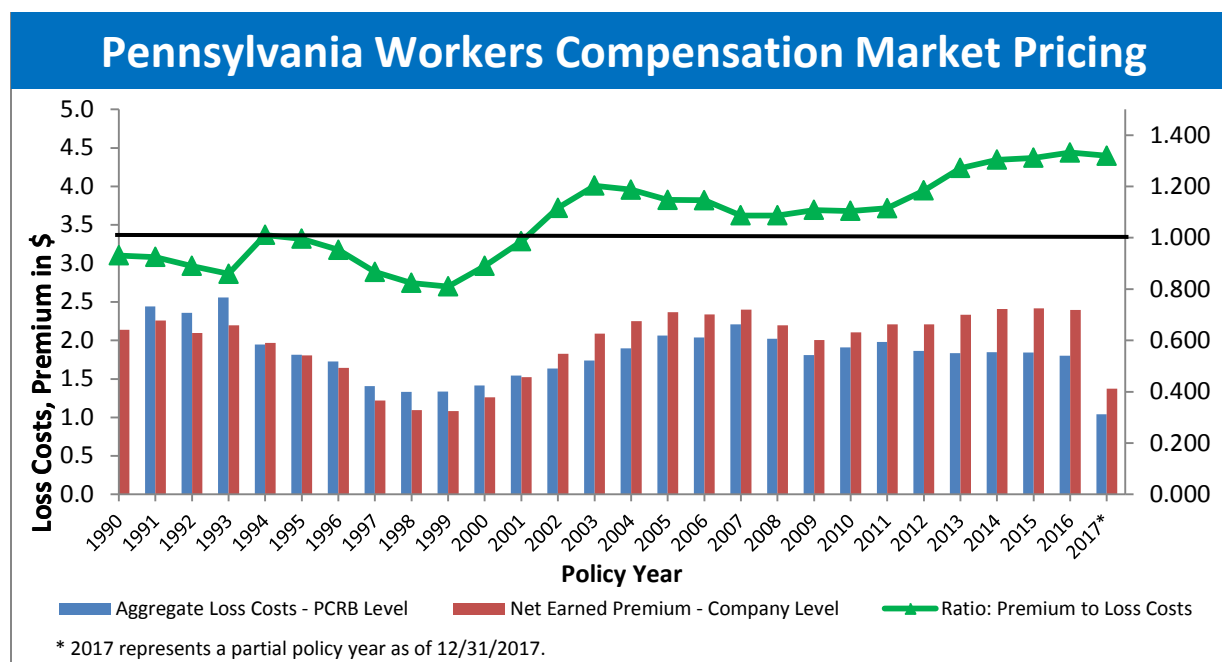
Growth in Use of Large Deductible Policies

A fourth dynamic is the growth in the use of large deductible policies. In 2016, 41 percent of payroll was reported on large deductible policies, where the average portion of risk retained by policyholders is nearly 81 percent. The next chart shows the history from 2002 to 2016.



Loss Costs and Industry Earned Premium

Another factor to consider is the pricing strategy across the industry in Pennsylvania and the country. Pricing strategy is impacted by market cycles, competitiveness, investment income and many other factors. The chart below shows the relationship between aggregate loss costs at PCRB level and net earned premium at company level by policy year from 1990 through the first half of Policy Year 2017. Prior to 2002, carriers wrote business in Pennsylvania at levels below, and sometimes significantly below, PCRB loss costs. The ratio of carrier prices to PCRB loss costs reached a low point in 1999 at 0.810, rose to a peak in 2003 at 1.203, dropped each year through 2008 to 1.087, continued slightly higher but relatively stable through 2011 reaching 1.115, and has increased to its highest level of 1.332 through Policy Year 2016. The incomplete Policy Year 2017 shows a decrease to a 1.319 ratio.



PCRB loss cost filings, which address only the provision for claim payment, represent the projected average cost for each classification. They do not provide indications of either past or prospective price trends. Insurance carriers must independently evaluate information and factors beyond PCRB filings to determine the rates they will use in the Pennsylvania market, subject to regulatory approval.

As previously noted in PCRB circulars and further reinforced by the above narrative and information, PCRB rating values can serve as meaningful benchmarks within an overall pricing approach. However, numerous other very important factors must also be carefully accounted for on an ongoing basis in each carrier's pricing analysis.

Questions regarding the information in this circular should be directed to Ken Creighton, Chief Actuary, at extension 4924, or kcreighton@pcrb.com.

William V. Taylor
President

WVT/dn

Remember to visit our web site at www.pcrb.com for more information about this and other topics.

Appendix

Data Underlying the Charts

History of Approved Loss Cost Changes in Pennsylvania		
Policy Year Effective Date	Average Change in Loss Costs	Cumulative Change in Loss Costs
Dec. 1, 1993	-2.00%	-2.00%
Dec. 1, 1995	-9.43%	-11.24%
Feb. 1, 1997	-25.00%	-33.43%
Apr. 1, 1998	-6.94%	-38.05%
Apr. 1, 1999	-5.26%	-41.31%
Apr. 1, 2000	4.50%	-38.67%
Apr. 1, 2001	-1.55%	-39.62%
Apr. 1, 2002	2.12%	-38.34%
Apr. 1, 2003	-2.41%	-39.82%
Apr. 1, 2004	3.32%	-37.83%
Apr. 1, 2005	-2.89%	-39.62%
Apr. 1, 2006	-8.58%	-44.80%
Apr. 1, 2007	2.95%	-43.18%
Apr. 1, 2008	-10.22%	-48.98%
Apr. 1, 2009	-3.00%	-50.51%
Apr. 1, 2010	0.68%	-50.18%
Apr. 1, 2011	0.87%	-49.74%
Apr. 1, 2012	-5.66%	-52.59%
Apr. 1, 2013	-4.01%	-54.49%
Apr. 1, 2014	-5.15%	-56.83%
Apr. 1, 2015	-5.99%	-59.42%
Apr. 1, 2016	-0.90%	-59.78%
Apr. 1, 2017	-6.21%	-62.28%
Feb. 1, 2018	6.06%	-60.00%
Apr. 1, 2018	0.70%	-59.72%
Jan. 1, 2019 (Interim)	-10.02%	-63.75%
Jan. 1, 2019 (HB1840)	-5.24%	-65.65%
Apr. 1, 2019	-12.95%	-70.10%

Pennsylvania Premium and Payroll History		
Policy/Calendar Year	Direct Earned Premium by Calendar Year (\$000)*	Effective Payroll by Policy Year (\$000)
1993	2,817,651	69,960,888
1994	2,730,858	70,222,604
1995	2,290,920	70,649,222
1996	2,196,055	73,588,426
1997	1,794,790	82,120,076
1998	1,408,597	86,056,936
1999	1,469,706	90,266,811
2000	1,514,995	97,173,836
2001	1,712,165	98,709,006
2002	1,966,766	97,391,574
2003	2,249,933	99,062,438
2004	2,421,470	101,795,528
2005	2,581,581	106,461,084
2006	2,620,364	111,798,691
2007	2,672,758	116,786,004
2008	2,465,389	116,900,883
2009	2,244,791	115,892,732
2010	2,167,273	121,125,154
2011	2,328,257	124,021,520
2012	2,504,225	124,606,348
2013	2,569,218	129,603,952
2014	2,634,727	135,707,031
2015	2,717,988	140,265,556
2016	2,666,022	145,695,487
2017	2,625,831	150,198,817

*A.M. Best Database Services

Pennsylvania Payroll by Industry Group with Statewide Average Weekly Wage					
Payroll Gross of Deductible (\$000)					
Policy Year	IG1 - Manufacturing	IG2 - Contracting	IG3 - All Other	Total	SAWW
2002	17,326,837	7,585,637	113,968,668	138,881,142	675.0
2003	17,845,890	7,646,547	119,327,009	144,819,446	692.0
2004	18,312,622	7,974,638	124,081,274	150,368,534	716.0
2005	18,702,443	8,488,035	130,013,797	157,204,275	745.0
2006	19,074,705	9,001,267	135,338,126	163,414,098	779.0
2007	19,907,379	9,424,445	144,681,141	174,012,965	808.0
2008	18,955,714	9,119,548	145,781,708	173,856,970	836.0
2009	18,825,221	8,396,672	146,053,830	173,275,723	845.0
2010	19,812,482	9,267,541	151,558,769	180,638,792	858.0
2011	20,837,939	10,373,612	156,598,481	187,810,032	888.0
2012	20,917,668	10,207,302	161,964,264	193,089,234	917.0
2013	21,367,844	10,725,587	167,630,896	199,724,327	932.0
2014	22,610,719	11,383,204	175,011,852	209,005,775	951.0
2015	22,556,999	11,450,215	181,380,797	215,388,011	978.0
2016	22,219,350	11,552,544	183,332,097	217,103,991	996.0

Pennsylvania Payroll Deductible Distribution (\$000)				
Policy Year	Total Gross of Deductible	Fully Insured Exposure (No Deductible)	Exposure Insured by Deductible Policies	Exposure Retained by Deductible Policyholders
2002	138,881,142	88,833,413	8,558,162	41,489,567
2003	144,819,446	89,690,521	9,371,917	45,757,008
2004	150,368,534	92,057,602	9,737,925	48,573,005
2005	157,204,275	96,867,544	9,593,540	50,743,191
2006	163,414,098	101,151,846	10,646,845	51,615,407
2007	174,012,965	106,687,128	10,098,876	57,226,962
2008	173,856,970	107,397,125	9,503,758	56,956,086
2009	173,275,723	106,161,114	9,731,618	57,382,992
2010	180,638,792	110,868,993	10,256,160	59,513,639
2011	187,810,032	113,980,736	10,040,784	63,788,512
2012	193,089,234	112,710,260	11,896,088	68,482,886
2013	199,724,327	115,747,830	13,856,122	70,120,376
2014	209,005,775	120,800,307	14,906,734	73,298,744
2015	215,388,011	125,635,973	14,629,582	75,122,455
2016	217,103,991	128,836,372	16,859,115	71,408,504

Pennsylvania Workers Compensation Market Pricing			
Policy Year	Collectible Loss Costs at Bureau Level (\$000)	Net Earned Premium at Company Level (\$000)	Ratio
1990	2,298,049	2,139,170	0.931
1991	2,439,753	2,257,236	0.925
1992	2,356,440	2,097,634	0.890
1993	2,559,618	2,197,983	0.859
1994	1,946,394	1,967,036	1.011
1995	1,814,104	1,807,368	0.996
1996	1,725,147	1,643,368	0.953
1997	1,407,158	1,220,686	0.867
1998	1,330,425	1,096,311	0.824
1999	1,336,135	1,081,656	0.810
2000	1,414,202	1,259,125	0.890
2001	1,545,419	1,524,542	0.986
2002	1,636,265	1,826,805	1.116
2003	1,737,031	2,090,134	1.203
2004	1,895,002	2,248,768	1.187
2005	2,064,311	2,367,861	1.147
2006	2,039,031	2,337,712	1.146
2007	2,207,314	2,399,222	1.087
2008	2,019,554	2,195,003	1.087
2009	1,810,671	2,005,416	1.108
2010	1,908,075	2,106,504	1.104
2011	1,980,246	2,208,799	1.115
2012	1,865,046	2,207,850	1.184
2013	1,836,430	2,334,186	1.271
2014	1,846,605	2,408,243	1.304
2015	1,843,081	2,416,906	1.311
2016	1,799,673	2,396,374	1.332
2017*	1,040,148	1,371,574	1.319

* 2017 is an incomplete policy year.