



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

August 29, 2017

VIA SERFF

The Honorable Jessica Altman
Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
1311 Strawberry Square
Harrisburg PA 17120

Attention: Michael McKinney, Actuarial Supervisor, Property & Casualty Bureau

**RE: PCRB Filing No. 288 – Proposed Effective April 1, 2018
Proposed Revisions to Designated Auditable Payrolls and Concurrent
Sections 1 and 2 Manual Amendments**

Dear Commissioner Altman:

On behalf of the members of the Pennsylvania Compensation Rating Bureau (PCRB), we hereby submit the proposed filing for revisions to the PCRB Workers' Compensation Manual of Rules, Classifications and Rating Values for Workers Compensation and Employers Liability Insurance (Basic Manual). These revisions are proposed to be effective for policies issued on or after 12:01 a.m., April 1, 2018. This proposed effective date is intended to make implementation of these changes concurrent with PCRB's normal annual loss cost revision filing, which will be filed separately at a later date. This coordination will consolidate necessary changes that our members and other constituents must make to policies, forms and systems. This approach traditionally allows changes of this nature to occur once annually.

The Basic Manual designates the following auditable weekly or annual payrolls: 1) the weekly minimum and maximum corporate officer payrolls, 2) the annual taxicab operator payroll, 3) the annual minimum auxiliary or special school police payroll, and 4) the weekly maximum musicians' or entertainers' payrolls. PCRB reviews these designated payrolls annually. The proposed revisions to each of these designated payrolls are a function of Pennsylvania's Statewide Average Weekly Wage (SAWW) effective January 1, 2017 (\$995.00 – an increase of 1.74% in relation to the January 1, 2016 SAWW of \$978.00). Results are rounded to the nearest \$50 for the maximum corporate officer payrolls, the annual taxicab operator payroll, the annual minimum auxiliary or special school police payroll and the weekly maximum musicians' or entertainers' payrolls.

At their November 16, 2012 joint meeting, the Pennsylvania Actuarial and Classification & Rating Committees reviewed a National Council on Compensation Insurance, Inc. (NCCI) proposal to revise the formula for calculating the weekly minimum auditable payroll for a corporate officer. The prior formula had the corporate officer weekly minimum auditable payroll set at 50% of SAWW rounded to the nearest \$50. The new formula proposed an incremental increase in the corporate officer weekly minimum auditable payroll until it reached 100% percent of SAWW. After discussion, the Committees agreed that the appropriate incremental increase

was 10% a year rounded to the nearest \$50. PCRB completed the phasing of the corporate officer weekly minimum auditable payroll to 100% of SAWW effective April 1, 2017. PCRB concurrently discontinued the practice of rounding the proposed corporate officer weekly minimum auditable payroll to the nearest \$50.

PCRB continues to use the formula reviewed and approved by the Committee in 1982 for the calculation of the following auditable payrolls: 1) the corporate officer weekly maximum at 2.5 times SAWW, 2) SAWW times 50 for the annual taxicab driver payroll to be used when cabs are leased and no payroll records are available, and 3) 10% of SAWW times 50 for the auxiliary or special police minimum annual payroll. Each of these calculations is rounded to the nearest \$50.

PCRB's approved maximum weekly payroll to be audited for musicians or entertainers who are not independent contractors was set at \$450 for April 1, 2012. The April 1, 2012 \$450 designated payroll was derived by using half of SAWW in effect at that time rounded to the nearest \$50. This maximum weekly payroll was not revised for April 1, 2013 through April 1, 2016 pursuant to conversations with senior test audit staff which advised that it is rarely used. PCRB reconsidered this approach and concluded that, while rare, issues pertaining to this designated payroll may arise and therefore it should be revised along with the other designated auditable payrolls discussed above. For April 1, 2017 PCRB proposed that this designated payroll be set at 65% of SAWW rounded to the nearest \$50. PCRB also recommended that concurrent with subsequent comprehensive loss cost filings, increases to this designated payroll be proposed until it reaches 100% of SAWW. PCRB intends to achieve this within the next two comprehensive loss cost filings, ending with the April 1, 2019 filing. For the April 1, 2018 filing, PCRB proposes that this designated payroll be set at 83% of SAWW.

This year's review results in the following April 1, 2018 proposals:

- The corporate officer minimum be revised from \$978 per week to \$995 per week.
- The corporate officer maximum be revised from \$2,450 per week to \$2,500 per week.
- The taxicab driver's annual payroll be revised from \$48,900 to \$49,750.
- The auxiliary or special police annual payroll be revised from \$4,900 to \$5,000.
- The maximum auditable payroll for musicians or entertainers be revised from \$650 per week to \$850 per week.

Thank you in advance for your prompt attention to this filing. The PCRB will be pleased to answer any questions that you or the Insurance Department staff may have regarding these proposals.

Sincerely,

William V. Taylor
President

Enclosure: Revisions to Sections 1 & 2



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TO: Pennsylvania Compensation Rating Bureau Classification & Rating Committee

FROM: Robert Ferrante, Senior Classification Analyst – Technical Services

DATE: June 1, 2017

RE: Proposed Revisions to Designated Auditable Payrolls and Concurrent Sections
1 and 2 Manual Amendments – April 1, 2018

The Manual designates the following auditable weekly or annual payrolls: the weekly minimum and maximum corporate officer payrolls, the annual taxicab operator payroll, the annual minimum auxiliary or special school police payroll and the weekly maximum musicians' or entertainers' payrolls. PCR B reviews these designated payrolls annually.

The proposed revisions to each of these designated payrolls are a function of Pennsylvania's Statewide Average Weekly Wage (SAWW) effective January 1, 2017 (\$995.00 – an increase of 1.74% in relation to the January 1, 2016 SAWW of \$978.00) with results rounded to the nearest \$50 for the maximum corporate officer payrolls, the annual taxicab operator payroll, the annual minimum auxiliary or special school police payroll and the weekly maximum musicians' or entertainers' payrolls. PCR B recommends that all of the designated payroll revisions discussed herein become effective concurrent with the implementation of PCR B's April 1, 2018 comprehensive loss cost revision.

At their November 16, 2012 joint meeting, the Pennsylvania Actuarial and Classification & Rating Committees reviewed a National Council on Compensation Insurance, Inc. (NCCI) proposal to revise the formula for calculating the minimum auditable payroll for a corporate officer. The new formula proposed an incremental increase in the corporate officer minimum until the auditable minimum reached 100% of SAWW. PCR B adopted the new formula and completed the phasing of the corporate officer auditable minimum to 100% of SAWW concurrent with the implementation of PCR B's April 1, 2017 comprehensive loss cost revision. For April 1, 2018, PCR B proposes an increase to the corporate officer auditable minimum from the current \$978 per week to the January 1, 2017 SAWW of \$995.

PCR B continues to use the formula reviewed and approved by the Committee in 1982 for the calculation of the following auditable payrolls: the corporate officer weekly maximum at 2.5 times SAWW, SAWW times 50 for the annual taxicab driver payroll to be used when cabs are leased and no payroll records are available, and ten percent of SAWW times 50 for the auxiliary or special police minimum annual payroll. Each of these calculations is rounded to the nearest \$50. Use of these formulas produces the following April 1, 2018 proposals:

- That the corporate office maximum be revised from \$2,450 to \$2,500.
- That the taxicab driver's annual payroll be revised from \$48,900 to \$49,750.
- That the auxiliary or special police payroll be revised from \$4,900 to \$5,000.

Pennsylvania Classification & Rating Committee

RE: RE: Proposed Revisions to Designated Auditable Payrolls and Concurrent Sections 1 & 2
Manual Amendments – April 1, 2018

June 1, 2017

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The maximum payroll to be audited for musicians or entertainers who are not independent contractors was set at \$450 effective for new and renewal business as of April 1, 2012. The \$450 was derived by using half of SAWW in effect at that time rounded to the nearest \$50. PCRB did not propose revisions to this designated payroll for April 1, 2013, April 1, 2014, April 1, 2015 or April 1, 2016 as it was thought to be rarely invoked. PCRB reconsidered this approach and concluded that while issues pertaining to this designated payroll were rare, such may arise and as a result it should be revised along with the other designated payrolls discussed above. For April 1, 2017 PCRB proposed that this designated payroll be set at 65% of SAWW rounded to the nearest \$50, resulting in an increase from \$450 per week to \$650 per week. Beginning with the April 1, 2017 filing, PCRB also determined to propose incremental increases to this designated payroll concurrent with subsequent comprehensive loss cost revisions until it reaches 100% of SAWW. PCRB aims to achieve this by April 1, 2019. Thus, for April 1, 2018 PCRB proposes that this designated payroll be set at 83% of the January 1, 2017 SAWW rounded to the nearest \$50. This produces a proposed increase from the current \$650 per week to \$850 per week.

MANUAL LANGUAGE PROPOSALS

SECTION 1

RULE IX - SPECIAL CONDITIONS OR OPERATIONS AFFECTING COVERAGE

A. EXECUTIVE OFFICERS

6. Premium Determination

Premium for executive to Section 1, Rule IX).

- a. The requirements of Rule V-E.
- b. The minimum individual payroll for an executive office is ~~\$995~~^{\$978} per week.
- c. The maximum individual payroll for an executive officer is ~~\$2,500~~^{\$2,450} per week.
- d. These limitations.....average weekly payroll.
- e. A part of a week.....weekly payroll.

RULE V – PREMIUM BASIS

B. REMUNERATION

2. INCLUSIONS

Remuneration includes:

No changes to Items a. through m.

- n. Musicians or entertainers who are not independent contractors shall be included in computation of premiums of hotels or restaurants (**maximum of ~~\$850~~^{\$650} per week for each musician or entertainer**);

No changes to Items o. through t.

Pennsylvania Classification & Rating Committee

RE: RE: Proposed Revisions to Designated Auditable Payrolls and Concurrent Sections 1 & 2
Manual Amendments – April 1, 2018

June 1, 2017

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SECTION 2

803 TAXICAB COMPANY.

Applicable to a business.....by zone or meter.

When cabs are leased to operators and no payroll records are available, an amount of ~~\$48,900~~ **\$49,750** per annum may be taken as payroll per operator provided the insurer has made a determination of employment status. This amount may be prorated if the operator does not work a full year.

985 POLICE OR FIREFIGHTERS, SALARIED Employees of Cities, Townships, Boroughs or Counties.

OPERATIONS ALSO INCLUDED:

1. Auxiliary police or special school police appointed by municipalities or townships. For such personnel, premium shall be based upon the actual remuneration subject to a minimum payroll of ~~\$4,900~~ **\$5,000** per year for each employee performing services at any time during the year.
2. No change
3. No change



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