



Pennsylvania Compensation Rating Bureau

30 South 17th Street • Suite 1500
Philadelphia, PA 19103-4007
(215)568-2371 • FAX (215)564-4328 • www.pcrb.com

October 5, 2020

VIA SERFF

The Honorable Jessica Altman
Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
11311 Strawberry Square
Harrisburg, PA 17120

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

**RE: PCRB Filing No. 319 – Proposed Effective April 1, 2021
Proposed Classification Procedural Change – Revision to Code 664, Heating,
Ventilating or Air Conditioning Contractor, and Concurrent Section 2 Manual
Language Amendments**

Dear Commissioner Altman:

Resulting from a staff review and on behalf of the members of the Pennsylvania Compensation Rating Bureau (PCRB), we hereby submit the proposed filing for revisions to the Pennsylvania Workers' Compensation Manual of Rules, Classifications and Rating Values for Workers' Compensation and Employers Liability Insurance (Basic Manual). These revisions are proposed for policies with effective dates of 12:01 a.m., April 1, 2021 or later. This proposed effective date coincides with changes resulting from PCRB's normal annual comprehensive loss cost revision, which will be filed with the Insurance Department at a later date. This coordination consolidates necessary changes that our members and other constituents must make to policies, forms and systems so that they occur once annually. This proposal will not impact any classification's PCRB loss cost but will impact the premium of effected employers.

This proposal revises the classification procedure related to Code 664 following a PCRB study of Code 676, Sheet Metal Installation, which was concluded in 2019. At the outset of that study, Code 676 was structured so that it applied to both the shop fabrication and the installation payroll developed by an employer engaged in both the shop fabrication and installation of sheet metal products. This was whether or not the employer had separate shop fabrication and installation crews, and regardless of the percentage of the employer's overall operation that was attributable to shop fabrication versus installation. Pursuant to Code 676 study results, staff proposed that the scope of Code 676 be restructured so that an employer engaged in both the shop fabrication and installation of sheet metal products may have payroll developed in the shop fabrication work separately rated to Code 454, Sheet Metal Products Fabrication, Shop Only. The Commissioner approved the PCRB's Code 676 study proposals effective for policies with effective dates of April 1, 2020 and later.

Subsequent to the Commissioner's approval of the PCRB's Code 676 study proposals, it occurred to staff that the Code 664 "Duct Fabrication and Installation – Heating, Ventilating or Air Conditioning Contractor" Underwriting Guide entry presented the same issues that led staff to propose that Code 676 be revised to allow a division of payroll with Code 454 for shop fabrication

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work. Code 664 is categorized by the PCRB as a construction or erection classification. Under present procedure, the entire payroll of an employer engaged in both the shop fabrication and installation of duct must be assigned to Code 664, whether or not the employer has separate shop fabrication and installation crews, and regardless of the percentage of the employer's overall operation that is attributable to shop fabrication versus installation. Accordingly, staff recommends that for policies with effective dates of April 1, 2021 and later, the Code 664 "Duct Fabrication and Installation – Heating, Ventilating or Air Conditioning Contractor" Underwriting Guide entry be revised so that payroll developed in the shop fabrication of duct by an employer engaged in both the shop fabrication and installation of duct work may be separately rated to Code 454. On the basis of the approved April 1, 2020 PCRB loss costs (\$1.73 for Code 454 and \$2.41 for Code 664), the approval of Code 454 for employers presently classified to Code 664 and who are engaged in both the shop fabrication and installation of duct results in a rating value decrease of 28.22%. The approved April 1, 2020 maximum permissible decrease for an Industry 2 classification is 35%.

Details of this filing are provided in PCRB's June 10, 2020 staff memorandum which is included as part of this filing. The memorandum describes and explains the reasoning for the proposed revisions to the Basic Manual language. The memorandum and proposals were reviewed by the PCRB Classification and Rating Committee at the Committee's June 10, 2020 meeting.

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

Sincerely,

William V. Taylor
President

Enclosure: June 10, 2020 Staff Memorandum
Revisions to Section 2



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TO: Pennsylvania Compensation Rating Bureau (PCRB)
Classification and Rating Committee

FROM: Robert Ferrante – Senior Classification Analyst, Technical Services
PCRB Classification Department

DATE: June 10, 2020

RE: Proposed Section 2 Classification Procedural Revision – Code 664, Heating,
Ventilating or Air Conditioning Contractor

This revision will not impact any classification's proposed April 1, 2021 loss cost but will impact the classification assignment and premium of affected employers. The PCRB recommends that the revision proposed in this memorandum become effective for policies with effective dates of April 1, 2021 and later.

This proposal to revise classification procedure related to Code 664 follows a PCRB study of Code 676, Sheet Metal Installation, which was concluded in 2019. The results of the PCRB Code 676 study were presented to the Committee at the Committee's June 12, 2019 meeting. Code 676 applies to the installation of sheet metal products specified in the Code 676 Underwriting Guide from the Pennsylvania Workers' Compensation Manual of Rules, Classifications and Rating Values (Basic Manual) i.e., metal downspouts, gutters and metal ceilings, and to the installation of sheet metal products not otherwise classified. Since its inception on January 1, 1933 and at the outset of the study, Code 676 was structured so that it applied to both the shop fabrication and the installation payroll developed by an employer engaged in both the shop fabrication and installation of sheet metal products, whether or not the employer had separate shop fabrication and installation crews, and regardless of the percentage of the employer's overall operation that was attributable to shop fabrication versus installation.

Staff initiated the Code 676 study as a result of several PCRB reviews of individual employer's classification assignments. In the course of those reviews, staff was compelled to assign Code 676 to an employer engaged in the both the fabrication and installation of sheet metal products on the basis of the existing Basic Manual language, even though in certain instances the employer was principally engaged in shop fabrication. The Basic Manual defines the term "principally engaged" as the business activity which generates more than 50% of an employer's overall revenue. It was observed that the objective of the classification procedure is to assign the one basic classification which best describes each distinct business enterprise of an employer in Pennsylvania and that PCRB staff in most cases determines an employer's field of business to be the manner in which the employer is principally engaged. Staff found that the application of Code 676 in instances where an employer is principally engaged in shop fabrication was in conflict with the objective of the classification procedure.

Pursuant to the Code 676 study results the PCRB recommended that Code 676 be restructured so that an employer engaged in both the shop fabrication and installation of sheet metal products may have payroll developed in the shop fabrication work separately rated to Code 454, Sheet Metal Products Fabrication, Shop Only. PCRB staff reasoned that this approach would bring Code 676 in line with the majority of the PCRB's construction or erection classifications, which typically do not include fabrication work, would recognize the differences in process and hazard between fabrication and installation/erection operations, and would bring the classification procedure for impacted employers in line with procedure for other metal working classes that allow fabrication

and installation work to be separately rated. The Pennsylvania Insurance Commissioner (Commissioner) approved the PCRB's Code 676 study proposals effective for policies with effective dates of April 1, 2020 and later.

Subsequent to the Commissioner's approval of the PCRB's Code 676 study proposals, it occurred to staff that the Code 664 "Duct Fabrication and Installation – Heating, Ventilating or Air Conditioning Contractor" Underwriting Guide entry presented the same issues that led staff to propose that Code 676 be revised to allow a division of payroll with Code 454 for shop fabrication work. Code 664 is categorized by the PCRB as a construction/erection classification. Under present procedure, the entire payroll of an employer engaged in both the shop fabrication and installation of duct must be assigned to Code 664, whether or not the employer has separate shop fabrication and installation crews, and regardless of the percentage of the employer's overall operation that is attributable to shop fabrication versus installation. Accordingly, staff recommends that for policies with effective dates of April 1, 2021 and later, Code 664 - specifically the Code 664 "Duct Fabrication and Installation – Heating, Ventilating or Air Conditioning Contractor" Underwriting Guide entry - be revised so that payroll developed in the shop fabrication of duct by an employer engaged in both the shop fabrication and installation of duct work may be separately rated to Code 454. Such restructuring would apply whether or not a business performing both the shop fabrication of duct and duct installation uses separate crews for the shop fabrication and installation work, by way of the PCRB's 'separately rate' procedure. When the term "to be separately rated" or "separately rate" is found in a classification's definition, the payroll of personnel interchanging between that classification's tasks (e.g., duct installation) and also performing the specified function that is designated "to be separately rated" or "separately rate" (e.g., shop fabrication of duct) may be divided between that class and class(es) designated for the specified function, provided the employer's original payroll records show an allocation of payroll to both classifications for each interchanging employee. When separate payroll records are not provided, the entire payroll of the interchanging employees shall be assigned to the insuring carrier's highest-valued classification representing any part of their work. Staff's rationale for this proposal is similar to that of the previously referenced Code 676 study proposals i.e., it will bring Code 664 line with the majority of the PCRB's construction or erection classifications, which typically do not contemplate fabrication work, and would recognize the differences in process and hazard between fabrication and installation/erection operations. It will also restructure Code 664 so that it is not in conflict with the objective of the classification procedure as defined above. Further, it will eliminate what staff sees as an inconsistency in classification procedure i.e., allowing a payroll division between Code 454 and Code 676 for an employer engaged in the shop fabrication and installation of sheet metal products other than duct, but not allowing a payroll division between Code 454 and Code 664 for an employer engaged in the shop fabrication and installation of duct.

Staff has not conducted a file by file review of Code 664 for this proposal and therefore has not identified the number of potentially impacted employers. In the event that the Commissioner approves the PCRB's Code 664 proposal, interested parties are encouraged to petition the PCRB to review the PCRB files of employers they feel may be impacted by this revision. On the basis of the approved April 1, 2020 PCRB loss costs (\$1.73 for Code 454 and \$2.41 for Code 664), the approval of Code 454 for employers presently classified to Code 664 and who are engaged in both the shop fabrication and installation of duct results in a rating value decrease of 28.22%. The approved April 1, 2020 maximum permissible decrease for an Industry 2 classification is 35%.

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS
AND RATING VALUES FOR WORKERS COMPENSATION AND FOR EMPLOYERS
LIABILITY INSURANCE**

Proposed Effective April 1, 2021

INFORMATION PAGE remains unchanged.

PREFACE remains unchanged.

SECTION 1 – UNDERWRITING RULES remains unchanged.

SECTION 2

RATING VALUES through **DEFINITIONS** remains unchanged.

CLASSIFICATIONS

454 SHEET METAL PRODUCTS FABRICATION, N.O.C., SHOP

Remains unchanged.

UNDERWRITING GUIDE:

Duct Fabrication - ~~No Installation Work~~

No change to Classification Code 456 – METAL FURNITURE OR FURNISHING GOODS MFG., N.O.C. through Classification Code 663 – PLUMBING: GAS, STEAM, HOT WATER OR OTHER PIPEFITTING, INCLUDING HOUSE CONNECTIONS – SHOP PAYROLL, IF ANY, MUST BE INCLUDED

664 HEATING, VENTILATING OR AIR CONDITIONING CONTRACTOR

Applicable to contractors performing forced air heating, ventilating or air conditioning equipment installation required for air comfort control or engaged in the service or repair of such equipment. ~~Further included is any incidental duct or shop work.~~

OPERATIONS NOT INCLUDED:

Remains unchanged.

UNDERWRITING GUIDE:

Duct ~~Fabrication And~~ Installation – Heating, Ventilating or Air Conditioning

No change to Classification Code 665 – PAINTING AND DECORATING, INCLUDING SHOP through Code 9741 – CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM)

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS
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454 SHEET METAL PRODUCTS FABRICATION, N.O.C., SHOP

Remains unchanged.

UNDERWRITING GUIDE:

Duct Fabrication -

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664 HEATING, VENTILATING OR AIR CONDITIONING CONTRACTOR

Applicable to contractors performing forced air heating, ventilating or air conditioning equipment installation required for air comfort control or engaged in the service or repair of such equipment.

OPERATIONS NOT INCLUDED:

Remains unchanged.

UNDERWRITING GUIDE:

Duct Installation – Heating, Ventilating or Air Conditioning

No change to Classification Code 665 – PAINTING AND DECORATING, INCLUDING SHOP through Code 9741 – CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM)

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS AND RATING VALUES FOR WORKERS
COMPENSATION AND FOR EMPLOYERS LIABILITY INSURANCE**

Proposed Effective April 1, 2021

CLASSIFICATION UNDERWRITING GUIDE

No change to Abrasive Paper Or Cloth Preparation – Code 255 through. Duct Cleaning - Grease Exhaust, Air Conditioning, Heating, Ventilating - By Specialist Contractor – Code 971

Duct Fabrication - ~~No Installation Work~~

454

Duct ~~Fabrication And~~ Installation - Heating, Ventilating Or Air Conditioning

664

No change Ductile Iron Foundry – Code 425 through Zoo – Code 969

SECTION 3 – ENDORSEMENTS remain unchanged.

SECTION 4 – RETROSPECTIVE RATING PLANS remains unchanged.

SECTION 5 – EXPERIENCE RATING PLAN remains unchanged.

SECTION 6 – MERIT RATING PLAN remains unchanged.

**PENNSYLVANIA WORKERS COMPENSATION MANUAL OF RULES, CLASSIFICATIONS AND RATING VALUES FOR WORKERS
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Duct Fabrication -

454

Duct Installation - Heating, Ventilating Or Air Conditioning

664

No change Ductile Iron Foundry – Code 425 through Zoo – Code 969

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