



Pennsylvania Compensation Rating Bureau

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June 13, 2001

The Honorable M. Diane Koken
Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
1311 Strawberry Square
Harrisburg, PA 17120

Attention: Chester J. Szczepanski

RE: Bureau Filing No. C-342 - Excess Loss (Pure Premium) Factors, State and Hazard Group
Relativities, Loss Elimination Ratios, Table of Expected Loss Ranges

Dear Commissioner Koken:

On behalf of the members of the Pennsylvania Compensation Rating Bureau (PCRB), I am filing herewith proposed revisions to the above referenced rating values. These revisions are proposed to be effective on a new and renewal basis as of 12:01 a.m., **October 1, 2001**.

Revisions to the subject rating values were deferred when the PCRB prepared and submitted its April 1, 2001 loss cost filing (Bureau Filing No. C-341) in order to allow additional analysis and verification of the proposed values and their supporting methodology. That review has now been completed.

Excess loss pure premium factors (ELFs) recognize employers' elections to limit the amount of individual accidents on retrospective rating plan options negotiated with their insurers. Since losses in excess of the selected limit are omitted from the determination of final retrospective premiums, insurers must collect an insurance charge for the expected value of those loss limitations in order to maintain the actuarial balance of the retrospective rating options. ELFs are multiplied times standard premium to determine the applicable excess loss charges and will vary by loss limitation and hazard group of the employer's governing classification.

State and hazard group relativities are parameters used to refine the application of a common table of insurance charges and savings to multiple jurisdictions under retrospective rating plans. These factors are computed based on loss severities in each state and are applied to expected losses prior to determining the expected loss size range used in obtaining insurance charges and savings from the country-wide Table M.

Loss elimination ratios (LERs) are required under Act 44 for specified selections of deductible coverage that must be offered subject to insurer underwriting standards. These small deductible plans operate on a per claim basis, as distinguished from the per accident or occurrence basis underlying excess loss factors; otherwise the LERs would be complementary values to the ELFs (i.e., 1.0 – ELF) at common loss limitations.

The Honorable M. Diane Koken
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Page 2

The National Council on Compensation Insurance, Inc. (NCCI) routinely updates the Table of Expected Loss Ranges for the effects of inflation. NCCI has most recently performed such an update in its Item Filing R-1371. The PCRB, with permission previously obtained from NCCI, is proposing that the new expected loss size ranges be adopted for use in Pennsylvania to maintain consistency with other jurisdictions countrywide.

The derivation of ELF's, state and hazard group relativities and LERs all rest in primary part on an analysis of loss distributions. For this filing the PCRB has updated its empirical loss distribution using the most recent available data. These distributions have been used to promulgate the proposed ELF's and LERs submitted in this filing. Indicated ELF's using procedures developed by the NCCI are provided as supporting information with this filing. (Certain relativities from the national procedure have been used in deriving the proposed values for loss limitations at which available Pennsylvania data is relatively sparse.)

As state and hazard group relativities are intended to reflect comparisons between jurisdictions (rather than absolute levels of state-specific experience), the PCRB has elected to apply the prescribed national procedure for purposes of establishing these relativities for Pennsylvania.

Enclosed as supporting information for this filing are the following exhibits:

- Exhibit 1 – Excess Loss (Pure Premium) Factors – NCCI Methodology
- Exhibit 2 – Empirical Pennsylvania Loss Distribution
- Exhibit 3 – Proposed Excess Loss (Pure Premium) Factors
- Exhibit 4 – State and Hazard Group Relativities
- Exhibit 5 – Loss Elimination Ratios
- Exhibit 6 – NCCI Filing Memorandum

As timely notice of changes in loss costs and related rating values is of key importance in the efficient operation of the workers compensation marketplace in Pennsylvania, the PCRB would respectfully request your office's prompt consideration and approval of Bureau Filing No. C-342 so that the proposed October 1, 2001 effective date can be preserved and implemented in as orderly a manner as possible. Should you have any questions about this amendment letter, I will endeavor to address them immediately upon presentation.

Sincerely,

Timothy L. Wisecarver
President

TLW/kg
Enclosures