



## **Pennsylvania Compensation Rating Bureau**

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### **Pennsylvania Compensation Rating Bureau Trends in Experience – April 1, 2007 Loss Cost Filing**

#### Summary of Responses Received to Questionnaire for Leading Carrier Groups

In preparation for the April 1, 2007 Loss Cost Filing the PCRB developed and distributed a series of questions to larger carrier groups. The questions were intended to solicit information more current than that available from routine data collection resources such as financial data and unit statistical reports and/or to elicit carrier insights into possible causes for observed features of the available experience data.

The survey questions were sent to a total of 38 carrier groups, collectively representing over 93 percent of the Pennsylvania workers compensation market in 2005.

Responses were received from 14 of those carrier groups, representing over 42 percent of the 2005 Pennsylvania market. The responses obtained from the returned surveys are summarized in the attached pages, which replicate the form and sequence of the questions asked for purposes of providing context for the summaries shown. Because some surveys included multiple responses to specific questions, the numbers of responses counted in these summaries may exceed the number of responding carrier groups.



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#### Questionnaire for Leading Carrier Groups

In each of the past several years the Bureau has distributed a series of questions to larger carrier groups as part of its work in developing supporting information for annual loss cost filings. In each of the last four years (2002 - 2005) the Bureau distributed limited sets of questions focused on some key issues identified in its preliminary review of available experience data underlying the April 1, 2003, April 1, 2004, April 1, 2005 and April 1, 2006 Loss Cost Filings. Those questions were distributed electronically, and carriers were asked to reply via e-mail. Any member(s) inclined to also discuss their responses with Bureau staff were encouraged to so indicate in their response.

The Bureau's work toward the April 1, 2007 Loss Cost Filing is presently in the stages of data collection and assembly, so that we cannot pose survey questions in the context of specific findings or trends emerging from our analysis of aggregate data. In the interest of giving carriers more time to prepare and submit their responses and in hopes that the Bureau will, in turn, be able to design, apply and/or interpret various aspects of our analysis based on carrier input to this survey, we are distributing our survey questions for the April 1, 2007 filing at this time.

We have made our best effort to direct this questionnaire to a company representative who can knowledgeably complete it. In the event you know someone else in your company who would be better suited for that purpose, please forward the questionnaire to them and advise us who you sent it to, as well as providing an e-mail address for that individual.

**It is again imperative that responses be returned promptly and in any event not later than Friday, July 28, 2006. Replies should be sent to BOTH of the following e-mail addresses:**

[twisecarver@pcrb.com](mailto:twisecarver@pcrb.com)

[mdoyle@pcrb.com](mailto:mdoyle@pcrb.com)

**Pennsylvania Compensation Rating Bureau**  
Trends in Experience – April 1, 2007 Loss Cost Filing

Questionnaire for Leading Carrier Groups

1. Bureau data from previous filings has shown substantial and persistent downward trends in claim frequency. The trends in question have been measured comparing indemnity claims to on-level expected losses, so that medical-only losses are excluded from the data, and shifts in employment between classifications and/or industry groups are recognized in the frequency calculations over time.

The April 1, 2006 Loss Cost Filing reflected an annual effective rate of decline in claim frequency of 6.2 percent. The April 1, 2007 filing will consider the most recent available data and develop appropriate projections for ingoing claim frequency changes through the mid-point of the proposed schedule of loss costs.

**What has your group observed with respect to claim frequency in the period from 2001 to date?**

*Declining – 11*  
*Increasing – 2*  
*No response – 1*

**To what do you attribute the changes you have seen?**

*Safety program emphasis/incentives, work conditions – 7*  
*Economic conditions – 4*  
*Aging workforce – 4*  
*Technology & productivity advances – 3*  
*Book of business being underwritten – 3*  
*Anti-fraud programs – 2*  
*No response – 2*  
*Claims handling procedures – 1*  
*Maturation of effects of prior system changes – 1*  
*Utilization – 1*

**What do you expect claim frequency data for the period from 2005 through 2008 will show when that experience becomes available?**

*Declining – 7*  
*Flat or mixed – 4*  
*Increasing – 3*  
*No response – 1*

**What factors do you think will cause the claim frequency experience you anticipate and why?**

*Safety program emphasis/incentives, work conditions – 5*  
*Economic conditions – 3*  
*Technology & productivity advances – 3*  
*Aging workforce – 2*  
*Book of business being underwritten – 2*  
*Anti-fraud programs – 2*  
*No response – 2*  
*Claims handling procedures – 2*  
*Maturation of effects of prior system changes – 2*  
*Continuation of prior trends – 1*

2. Bureau data from the April 1, 2006 Loss Cost Filing showed an indemnity severity trend at approximately +6.7 percent per year.

**What has your company seen in terms of changes in indemnity claim severity over the period from 2001 to date?**

*Increasing - 12*  
*Fluctuating between increases and decreases – 1*  
*No response – 1*

**What factors do you find notable in terms of either controlling or increasing indemnity claim severity over this period of time?**

*Benefit administration – 5*  
*No response – 5*  
*Medicare set asides & related issues – 3*  
*Case law precedents – 2*  
*Improved frequency of smaller claims – 2*  
*Litigation volumes and/or delays – 2*  
*Aging workforce – 1*  
*Economic conditions – 1*

**What do you expect indemnity claim severity data for the period from 2005 through 2008 will show when that experience becomes available?**

*Increasing – 12*  
*Flat or mixed – 1*  
*No response – 1*

**What factor(s) do you think will be most important in contributing to the indemnity claim severity changes that you foresee, and why?**

*Benefit administration – 4*  
*Economic conditions – 2*  
*Litigation volumes ad/or delays – 2*  
*No response – 2*  
*Case law precedents – 1*  
*Maturation of effects of prior system changes – 1*  
*Medicare set asides & related issues – 1*  
*Aging workforce – 1*

3. Bureau data from the April 1, 2006 Loss Cost Filing showed a medical claim severity trend of +6.6 percent per year.

**What has your company seen in terms of changes in medical claim severity over the period from 2001 to date?**

*Increasing – 13*  
*No response – 1*

**What factors do you find notable in terms of either controlling or increasing medical claim severity over this period of time?**

*Pharmaceutical prices and utilization – 6*  
*Utilization – 6*  
*Price inflation – 5*  
*Benefit administration – 4*  
*Technological changes – 2*  
*No response – 2*  
*Cost shifting to workers compensation – 1*  
*Increased worker life expectancies – 1*  
*Medical malpractice overlays to workers compensation – 1*  
*Medicare set asides & related issues – 1*  
*Safety program emphasis/incentives, work conditions – 1*  
*Aging workforce – 1*

**What do you expect medical claim severity data for the period from 2005 through 2008 will show when that experience becomes available?**

*Increasing – 13*  
*No response – 1*

**What factor(s) do you think will be most important in contributing to the medical claim severity changes that you foresee, and why?**

*Price inflation – 6*  
*Utilization – 6*  
*Pharmaceutical prices & utilization – 5*  
*Medical malpractice overlays to workers compensation – 4*  
*Benefit administration- 2*  
*No response – 2*  
*Cost shifting to workers compensation – 1*  
*Increasing worker life expectancy – 1*  
*Medicare set asides & related issues – 1*  
*Aging workforce – 1*  
*Technological changes – 1*  
*Continuation of prior trends – 1*

4. As seen in Questions 2 and 3 above, for the April 1, 2006 Loss Cost Filing, the Bureau's measured indemnity trend exceeded our measured medical severity trend. This is the third consecutive filing in which this relationship has been observed. In preparing our April 1, 2007 Loss Cost Filing we would very much like to know as much as possible about the experience underlying our findings as it may pertain to these severity trend measures.

**Are there any factors that you think may be artificially inflating recent indemnity claim severity trends and/or artificially suppressing recent medical claim severity trends in Pennsylvania? If so, what are they?**

*No response – 8*  
*Accounting issues pertaining to compromise & release settlements – 5*  
*Case law precedents – 1*

One possible explanation of these relative trends that surfaced in our previous reviews of this matter and was generally confirmed with our carrier surveys performed in support of the last two years' filings is that the allocation of compromise and release settlements between indemnity and medical losses has been skewed to varying extents over time toward indemnity benefits. Coupled with the large and growing volume of compromise and release settlements being implemented in Pennsylvania, accounting practices that might default entirely to indemnity loss or limit medical loss allocations to near-term and relatively certain payments could serve to inflate apparent indemnity trends and deflate apparent medical trends.

**How does your company determine and report amounts attributable to indemnity and medical loss, respectively, when compromise and release settlements are paid?**

*Compromise & release payments exclusively or predominantly attributed to indemnity – 8*

*Compromise & release payments always or often allocated based on case circumstances – 2*

*No response – 4*

5. What considerations, if any, NOT mentioned in your responses to the above questions do you think will be significant drivers of loss cost experience in Pennsylvania from 2005 through 2008? In particular, significant case law decisions and precedents and/or trends in administrative findings or proceedings that your company finds important in either controlling costs or making it more difficult to manage cases in Pennsylvania would be of interest.

*No response – 10*

*Case law precedents – 2*

*Benefit administration – 1*

*Economic conditions – 1*

*Legislative action – 1*

**How do you think each of these factors will affect loss costs?**

*No response – 10*

*Mixed effect for composite of factors – 2*

*Increasing system costs – 1*

*Decreasing system costs – 1*