

April 4, 2024

PCRB CIRCULAR NO. 1806

To All Members of the PCRB:

Re: **CHANGE TO THREE DECIMALS FOR LOSS COSTS AND EXPECTED LOSS RATES**

The Pennsylvania Compensation Rating Bureau (PCRB) is proposing to extend the decimal precision of ratemaking and experience rating values from two decimal places (X.XX) to three decimal places (X.XXX) for loss costs and expected loss rates. This change will be included in the Annual Loss Cost Filing effective April 1, 2026.

With an increasing payroll exposure base and declining loss costs and rates in the workers compensation system, continued filing of recommended values rounded to two decimal places presents challenges in achieving precise rating values, necessitating a shift to three decimal places.

A transition to three decimal places for loss costs values and expected loss rates enables future revisions based on the latest data and ensures pricing stability. This change allows for more precise adjustments that avoid the disproportional impact of rounding to two decimal places, especially on low loss cost value classification codes. The result will be more frequent and smaller changes instead of less frequent and larger changes.

While the change to three decimals will be premium neutral on an industry group and statewide basis, the final values will be rounded differently for each class.

Please see the following page for additional details. For any questions regarding this circular, please contact Brent Otto, Vice President of Actuarial Services and Chief Actuary, at botto@pcrb.com, or Jesse Marass, Director of Actuarial Services, at jmarass@pcrb.com.

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

X.XX >> X.XXX

THE TRANSITION TO THREE DECIMALS FOR LOSS COSTS AND EXPECTED LOSS RATES

The proposed change involves extending the decimal precision of ratemaking and experience rating values from two decimal places (X.XX) to three decimal places (X.XXX). The proposed implementation is set to begin with the April 1, 2026 Annual Loss Cost filing.

Reason for the Change

The ongoing increase in the workers' compensation system's payroll exposure base, combined with declining loss costs and rates, has accelerated due to trends heightened by the COVID-19 pandemic. Filing recommended values rounded to two decimal places poses challenges in achieving precise percentage changes, necessitating the shift to three decimal places.

Low value loss costs with only two decimal places contain an inherent limitation: the smallest increment of change - \$0.01 - is not sufficiently granular to revise the loss cost value with updated data while also providing pricing stability to Pennsylvania employers.

Impact of the Change

Transitioning to three decimal places for loss cost values and ELRs allows for future revisions based on the latest data while ensuring pricing stability. This change permits more precise adjustments, avoiding the disproportional impact of rounding to two decimal places, especially on low loss cost value classification codes. This will result in more frequent smaller changes rather than less frequent larger changes.

Both our systems and carrier systems may need to be updated to handle 3 decimals for accepting and reporting these values. This is why we are providing ample lead time for any required system changes.

Benefits of the Change



Precision & Responsiveness

More precise and responsive loss cost, rate, and expected loss rates changes across all classification codes, in an environment with decreasing loss costs and rates.



Modernization

Aligning with current economic and industry trends for future positioning.



Premium Neutrality

While this change will be premium neutral on an industry group and statewide basis, the final values will be rounded differently for each class.

Example: Given a current class loss cost value of \$0.05 with an indicated value of \$0.055, the loss cost value would be \$0.06 (rounded to 2 decimals) and results in a 20% increase. Moving to 3 decimals, the value would be \$0.055 resulting in an accurate value and only a 10% increase.