



Pennsylvania Compensation Rating Bureau

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November 6, 1998

BUREAU CIRCULAR NO. 1382

To All Members of the Bureau:

Re: CARRIER LOSS COST, LOSS COST MULTIPLIER (LCM), SUBCLASSIFICATION AND SCHEDULE RATING FILINGS AND PROCEDURES

The Bureau is encountering substantial confusion on the part of some members with regard to the referenced topics. This circular is to inform all carriers of key features of Pennsylvania filing procedures and/or conditions of application of these pricing parameters or programs. Please be advised that the Bureau has confirmed the following provisions with the Pennsylvania Insurance Department.

Carrier Loss Cost, LCM, Subclassification and/or Schedule Rating Filings

To date, Bureau member filings with the Pennsylvania Insurance Department have not been subject to a requirement that the carrier file an informational copy with the Bureau. Unfortunately, the lack of such informational copies has caused numerous instances in which policy and/or unit filings have been criticized by the Bureau because the Bureau was unaware of carrier filings on a timely basis. **Accordingly, for carrier loss cost, LCM, subclassification and/or schedule rating filings made with the Pennsylvania Insurance Department on or after January 1, 1999, the Bureau is requiring that carriers provide the Bureau with an informational copy of those filings.**

Filings may be made electronically with the Insurance Department using forms available on the PCRB web site (www.pcrb.com). Such filings may also be copied to the Bureau in electronic form, using the following e-mail address: **bcampbell@pcrb.com**

Loss Costs

Under current Pennsylvania law carriers may adopt approved Bureau loss costs by reference, deviate from approved Bureau loss costs or file independent carrier loss costs on a classification-by-classification basis. Regardless of the option(s) taken in this regard, each carrier filing must clearly set forth the basis for the carrier's proposed loss costs by classification.

Loss Cost Multiplier (LCM)

All carrier manual rates by classification must be derived as the product of an LCM and the carrier's proposed loss costs. LCMs may differ by classification for a given carrier. Regardless of whether a carrier uses one universal LCM for all classifications or different LCMs for some or all classifications, each carrier filing must clearly set forth the LCM(s) to be applied.

The Bureau continues to encounter situations in which carriers describe their pricing parameters using a combination of an LCM(s) and one or more "deviations." For example, a carrier may state that its prices reflect an LCM of 1.1000 and a deviation of -10 percent. This practice produces confusion, often precipitates needless Bureau criticisms of carrier policy filings and is both inappropriate and unnecessary under current Pennsylvania law.

"Deviations" were uniform percentage departures from approved Bureau rates prior to the adoption of a competitive rating law in Pennsylvania in 1993. The hypothetical carrier described above is effectively using an LCM of 0.9900 (i.e., $1.1000 \times 0.90 = 0.9900$), and the carrier should recognize this algebraic inevitability in its filing. If a carrier filing states that the LCM is 1.1000, the Bureau is most likely to capture that (incorrect) LCM in the database which supports its policy and unit statistical review functions. Policies priced using the LCM of 1.1000 and the "deviation"

of 0.90 will then be criticized as using incorrect rates, producing needless time, effort and expense for both the carrier and the Bureau. In order to avoid this potential confusion carrier filings should state only the LCM(s) which, in conjunction with their proposed loss costs by classification, will produce the carrier's proposed rates.

Note that this prescribed procedure does not impair or limit in any way a carrier's ability to propose and apply any desired rate in any given classification(s). In fact, the prescribed filing forms for use in submitting LCM filings with the Pennsylvania Insurance Department include a "Loss Cost Modification" section (see attached copy of the Workers' Compensation Insurer Rate Filing Form, Items 2 through 2D on the Calculation of Company Loss Cost Multiplier page). By adhering to uniform standards, however, this procedure will avoid errors, conserve resources otherwise consumed by the issuance, review and response to criticism letters and reduce confusion for all concerned.

Subclassifications

Pennsylvania law allows carriers to develop subclassifications. Filings for subclassifications require prior approval by the Insurance Department, and carriers proposing subclassifications must demonstrate that they will continue to be able to report statistical data to the Bureau in accordance with the approved Bureau classification plan. Carrier subclassification filings must specify the loss costs and LCM(s) which will apply to business written in each subclassification.

Carrier Manual Rates by Classification

At any given time a carrier may have only one authorized manual rate for each classification or subclassification. The Bureau has encountered some instances in which the same carrier has attempted to apply different rates within the same classification or subclassification based on various underwriting criteria. While pricing programs such as schedule rating are available in Pennsylvania as a means of differentiating between risks within a given classification(s), a single carrier cannot simultaneously maintain more than one authorized rate for any given classification or subclassification in Pennsylvania.

Schedule Rating

Carriers are reminded that there is a Bureau schedule rating plan which has been approved by the Insurance Department for use by all members. The Bureau schedule rating plan is contained within the uniform Experience Rating Plan (see Section 6 of the Pennsylvania Manual). Schedule credits or debits derived in accordance with the Bureau schedule rating plan may be applied to total risk premium regardless of the premium size of the risk in question.

Carriers may also file their own schedule rating plans with the Insurance Department. However, schedule credits or debits derived in accordance with such individual carrier schedule rating plans may only be applied to the expense portion of premium for any risk(s) qualified for experience rating in Pennsylvania.

Carriers are reminded that they are required to maintain documentation of the application of any schedule rating plan to any risk.

Questions regarding any of the above matters may be directed to Betty Ann Campbell, Director of Rating Rules and Policy Reporting at Extension 218.

Timothy L. Wisecarver
President

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Attachment: Workers Compensation Insurer Rate Filing Form

Space Reserved for Insurance Department Use	Date: <input style="width: 60%;" type="text"/>
	Workers Compensation Insurer Rate Filing Adoption of Advisory Organization Prospective Loss Costs Reference Filing Adoption Form

1 Insurer Name	<input style="width: 60%;" type="text"/>
Address Line 1	<input style="width: 60%;" type="text"/>
Address Line 2	<input style="width: 60%;" type="text"/>
Address Line 3	<input style="width: 60%;" type="text"/>
Address Line 4	<input style="width: 60%;" type="text"/>
Person Responsible For Filing	<input style="width: 60%;" type="text"/>
Title	<input style="width: 60%;" type="text"/>
Telephone #	<input style="width: 60%;" type="text"/>

2 Insurer NAIC #	<input style="width: 60%;" type="text"/>
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3 Advisory Organization	Pennsylvania Compensation Rating Bureau
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4 Advisory Organization Reference Filing #	<input style="width: 60%;" type="text"/>
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5 The above insurer hereby declares that it is a member, subscriber or service purchaser of the named advisory organization for this line of insurance. The insurer hereby files to be deemed to have independently submitted as its own filing the prospective loss costs in the captioned Reference Filing.

The insurer's rates will be the combination of the prospective loss costs and the loss cost multipliers and, if utilized, the expense constants specified in the attachments.

6A Proposed Rate Level Change	<input style="width: 80%;" type="text"/>	<u>Space Reserved for Insurance Department Use</u>
Effective Date	<input style="width: 80%;" type="text"/>	
6B Proposed Premium Level Change	<input style="width: 80%;" type="text"/>	
Effective Date	<input style="width: 80%;" type="text"/>	
7A Prior Rate Level Change	<input style="width: 80%;" type="text"/>	
Effective Date	<input style="width: 80%;" type="text"/>	
7B Prior Premium Level Change	<input style="width: 80%;" type="text"/>	
Effective Date	<input style="width: 80%;" type="text"/>	

8 Attach "Summary of Supporting Information Form."
(Use a separate Summary for each insurer-selected loss cost multiplier.)

9 The insurer hereby files to have its loss costs multipliers and, if utilized, expense constants be applicable to future revisions of the advisory organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the advisory organization's prospective loss costs and the insurer's loss cost multipliers and, if utilized, expense constants specified in the attachments. The rates will apply to policies written on or after the effective date of the advisory organization's prospective loss costs. The authorization is effective until disapproved by the Commissioner, or amended or withdrawn by the insurer.

The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable only to the above Advisory Organization Reference Filing.

* The premium level change is the change in the insurer's annual collectible premium.

SUMMARY OF SUPPORTING INFORMATION FORM

WORKERS COMPENSATION - INSURER RATE FILING

ADOPTION OF ADVISORY ORGANIZATION

PROSPECTIVE LOSS COSTS (Excluding LAE)

Date:

Insurer Name:

NAIC #:

CALCULATION OF COMPANY LOSS COST MULTIPLIER

1 Does this filing apply to all classes contained in item 4 of the Reference Filing Adoption Form? If no, attach a list of affected classes.	Yes	No
	<input type="text"/>	<input type="text"/>
2 Loss Cost Modification:		
2A The insurer hereby files to adopt the prospective loss costs in the captioned reference (check one)		
<input type="checkbox"/> Without modification. (factor = 1.000) ENTER IN 2B.		
<input type="checkbox"/> With the following modification(s). (Cite the nature and percent modification to advisory organization's loss experience. Attach supporting data and/or rational) ENTER IN 2B.		
2B Loss Cost Modification Expressed as a Factor: (See examples in bulletin.)		<input type="text"/>
2C Loss Adjustment Expense (LAE) Factor:		<input type="text"/>
2D Combined Loss Cost Modification and LAE Factor: 2B X 2C =		0.000
3 Development of Expected Loss and Loss Adjustment Expense (Target Cost) Ratio. (Attach exhibit detailing insurer expense data, impact of premium discount plans, and other supporting information.) PROJECTED EXPENSES: compared to standard premium at company rates.		
3A Total Production Expense		<input type="text"/>
3B General Expense		<input type="text"/>
3C Taxes, Licenses & Fees		<input type="text"/>
3D Profit & Contingencies including offset for Investment Income		<input type="text"/>
3E Other (explain)		<input type="text"/>
3F TOTAL		0.000
4 Expected Loss & Loss Adjustment Expense (Target Cost) Ratio: ELR = 1.000 - 3F		1.000
5 Overall impact of expense constant & minimum premiums: (A 2.3% impact would be expressed as 1.023)		<input type="text"/>
6 Overall impact of size-of-risk discounts plus expense gradation recognition in retrospective rating: (A 8.6% average discount would be expressed as 0.914)		<input type="text"/>
7 Company Formula Loss Cost Multiplier: 2D / [(6 - 3F) X 5] =		#DIV/0!
8 Company Selected Loss Cost Multiplier: Attach exhibit explaining any difference between 7 & 8.		<input type="text"/>
9 Are you amending your minimum premium formula? If yes, attach documentation including rate level impact as well as changes in multipliers, expense constants, maximum minimums, etc.	Yes	No
	<input type="text"/>	<input type="text"/>
10 Are you changing your premium discount schedules? If yes, attach schedules and support detailing premium or rate level change.	Yes	No
	<input type="text"/>	<input type="text"/>

SUMMARY OF INSURER SPECIFIC RATING VALUES

WORKERS COMPENSATION - INSURER RATE FILING

Date:

Insurer

Name:

NAIC #:

1. Premium Discount Table is being adopted as follows:

Total Workers Compensation Standard Premium	Discounts applicable to Pennsylvania Portion
First \$5,000	None
Next 95,000	10.9%
Next 400,000	12.6%
Over 500,000	14.4%

2. Minimum Premium Calculations

A. Minimum Premium Formula = (Minimum Premium Multiplier) X (Rate)

Minimum Premium Multiplier =

Maximum Minimum Premium =

B. **Class exceptions to the formula and factors of 2.A.**

- a. For the following classifications with associated disease or catastrophe elements, the base rate and disease or catastrophe element rate should be added before applying the standard rule: 615, 810, 4773, 4774, 4775, 4776, 4779, 7405, and 7413.
- b. Classification 982 should use 52 (weeks per year) as the Minimum Premium Multiplier in 2.A.
- c. Classifications 993, 994, 996, and 9108 do not have minimum premiums.
- d. The following farm classifications use 1/2 of the regular multiplier in applying the standard rule: 0006, 0016, 0034, 0036, 0083, and 0170.
- e. Per capita classifications (0901, 0902, 0908, 0909, 0912, and 0913) use a multiplier of 1 in 2.A.