



Pennsylvania Compensation Rating Bureau

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July 23, 2001

BUREAU CIRCULAR NO. 1421

To All Members of the Bureau:

Re: **EXCESS LOSS (PURE PREMIUM) FACTORS, STATE AND HAZARD GROUP RELATIVITIES, LOSS ELIMINATION RATIOS, TABLE OF EXPECTED LOSS RANGES**
EFFECTIVE OCTOBER 1, 2001

The Pennsylvania Compensation Rating Bureau has filed and the Insurance Commissioner has approved revisions to excess loss (pure premium) factors (ELFs), state and hazard group relativities, loss elimination ratios (LERs) and the Table of Expected Loss Ranges **effective 12:01 a.m., October 1, 2001** with respect to new and renewal business only.

Revisions to the subject rating values were deferred when the PCRB prepared and submitted its April 1, 2001 loss cost filing in order to allow additional analysis and verification of the proposed values and their supporting methodology. The review was completed and filed with the Insurance Commissioner in June 2001.

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 countrywide 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 ELF (i.e., 1.0 – ELF) at common loss limitations.

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 has obtained permission from NCCI to adopt the new expected loss size ranges for use in Pennsylvania in order to maintain consistency with other jurisdictions countrywide.

The derivation of ELFs, state and hazard group relativities and LERs all rest in primary part on an analysis of loss distributions. The PCRB has updated its empirical loss distribution using the most recent available data. These distributions have been used to promulgate the proposed ELFs and LERs which were submitted to the Insurance Department. Indicated ELFs using procedures developed by the NCCI were utilized as supporting information for this filing.

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

Exhibits showing ELFs, state and hazard group relativities, LERs and the Table of Expected Loss Ranges are attached. Questions concerning any of these can be directed to Michael J. Doyle, Chief Actuary, at Extension 213 or mjdoyle@pcrb.com.

Timothy L. Wisecarver
President

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Attachment

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

PENNSYLVANIA
Effective Date : October 1, 2001
Excess Loss Pure Premium Factors

Loss Limit	Hazard Group			
	I	II	III	IV
\$10,000	0.700	0.720	0.787	0.833
\$15,000	0.648	0.666	0.752	0.797
\$20,000	0.601	0.620	0.712	0.769
\$25,000	0.560	0.582	0.684	0.743
\$30,000	0.525	0.554	0.657	0.720
\$35,000	0.496	0.526	0.631	0.701
\$40,000	0.469	0.499	0.610	0.682
\$50,000	0.430	0.460	0.569	0.641
\$75,000	0.349	0.377	0.490	0.566
\$100,000	0.295	0.324	0.432	0.512
\$125,000	0.250	0.279	0.384	0.461
\$150,000	0.217	0.244	0.340	0.419
\$175,000	0.192	0.216	0.305	0.379
\$200,000	0.171	0.193	0.273	0.342
\$225,000	0.151	0.170	0.245	0.307
\$250,000	0.134	0.152	0.218	0.277
\$275,000	0.122	0.138	0.199	0.253
\$300,000	0.111	0.125	0.180	0.230
\$325,000	0.100	0.114	0.164	0.210
\$350,000	0.093	0.105	0.152	0.194
\$375,000	0.086	0.097	0.141	0.180
\$400,000	0.079	0.090	0.131	0.167
\$425,000	0.075	0.085	0.123	0.157
\$450,000	0.071	0.081	0.116	0.151
\$475,000	0.067	0.076	0.111	0.143
\$500,000	0.064	0.073	0.105	0.136
\$600,000	0.056	0.063	0.091	0.118
\$700,000	0.050	0.056	0.080	0.104
\$800,000	0.046	0.051	0.074	0.095
\$900,000	0.042	0.047	0.068	0.087
\$1,000,000	0.0396	0.0444	0.0640	0.0822
\$2,000,000	0.0246	0.0268	0.0374	0.0470
\$3,000,000	0.0188	0.0210	0.0279	0.0348
\$4,000,000	0.0162	0.0172	0.0231	0.0284
\$5,000,000	0.0135	0.0151	0.0199	0.0242
\$6,000,000	0.0119	0.0135	0.0177	0.0215
\$7,000,000	0.0102	0.0119	0.0166	0.0193
\$8,000,000	0.0096	0.0102	0.0150	0.0182
\$9,000,000	0.0089	0.0096	0.0135	0.0167
\$10,000,000	0.0080	0.0087	0.0126	0.0160

PENNSYLVANIA
 SMALL DEDUCTIBLE PROGRAM
 EFFECTIVE DATE: OCTOBER 1, 2001

Deductible Level	Loss Elimination Ratios			
	Hazard Group			
	I	II	III	IV
\$ 1,000	7.9%	7.6%	4.1%	2.0%
\$ 5,000	22.6%	21.7%	16.0%	12.4%
\$ 10,000	30.8%	29.3%	21.7%	17.6%

PENNSYLVANIA
 STATE AND HAZARD GROUP RELATIVITIES
 EFFECTIVE DATE : OCTOBER 1, 2001

Hazard Group	Factor
I	1.014
II	0.939
III	0.693
IV	0.548

Pennsylvania Compensation Rating Bureau

2001 - TABLE OF EXPECTED LOSS RANGES

The following Table of Expected Loss Ranges is effective October 1, 2001

NCCI ITEM R - 1371 - 2001 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS

Expected Loss Group	Range Rounded Value		Expected Loss Group	Range Rounded Value		Expected Loss Group	Range Rounded Value	
95	430---	671	65	36053---	38938	35	449651---	504854
94	672---	994	64	38939---	42056	34	504855---	566837
93	995---	1312	63	42057---	45422	33	566838---	646366
92	1313---	1735	62	45423---	49058	32	646367---	742956
91	1736---	2257	61	49059---	52985	31	742957---	853981
90	2258---	2725	60	52986---	57238	30	853982---	981599
89	2726---	3290	59	57239---	61888	29	981600---	1166840
88	3291---	3819	58	61889---	66821	28	1166841---	1395287
87	3820---	4433	57	66822---	71996	27	1395288---	1668462
86	4434---	5142	56	71997---	77572	26	1668463---	2056868
85	5143---	5815	55	77573---	83581	25	2056869---	2617424
84	5816---	6574	54	83582---	90374	24	2617425---	3330748
83	6575---	7424	53	90375---	97745	23	3330749---	4256111
82	7425---	8260	52	97746---	105720	22	4256112---	5446097
81	8261---	9191	51	105721---	114342	21	5446098---	6968796
80	9192---	10224	50	114343---	123387	20	6968797---	8917234
79	10225---	11375	49	123388---	133126	19	8917235---	11410444
78	11376---	12553	48	133127---	143703	18	11410445---	15651781
77	12554---	13820	47	143704---	156342	17	15651782---	23148859
76	13821---	15216	46	156343---	170091	16	23148860---	34236979
75	15217---	16721	45	170092---	185049	15	34236980---	50636219
74	16722---	18307	44	185050---	202219	14	50636220---	74890565
73	18308---	20042	43	202220---	221271	13	74890566---	110762548
72	20043---	21944	42	221272---	242119	12	110762549---	173385693
71	21945---	23954	41	242120---	266906	11	173385694---	274365607
70	23955---	26129	40	266907---	294958	10	274365608---	434156275
69	26130---	28499	39	294959---	325958	9	434156276---	& over
68	28500---	30900	38	325959---	360215			
67	30901---	33376	37	360216---	400481			
66	33377---	36052	36	400482---	449650			