

April 12, 2023

PCRB CIRCULAR NO. 1794

To All Members of the PCRB:

Re: **THE PENNSYLVANIA WORKERS COMPENSATION PRICING SYSTEM**

This circular is intended to highlight the key elements of the Pennsylvania workers compensation system, including background and discussion regarding loss cost revisions, trends in claim costs and several dynamics affecting the system. This is presented for the benefit of PCRB members and other interested parties, and updates information provided in prior circular versions. The appendix of this circular provides the data underlying the charts.

In addition to the information contained in this circular, other reports will be made available on the PCRB website following the Annual Meeting on April 20, 2023.

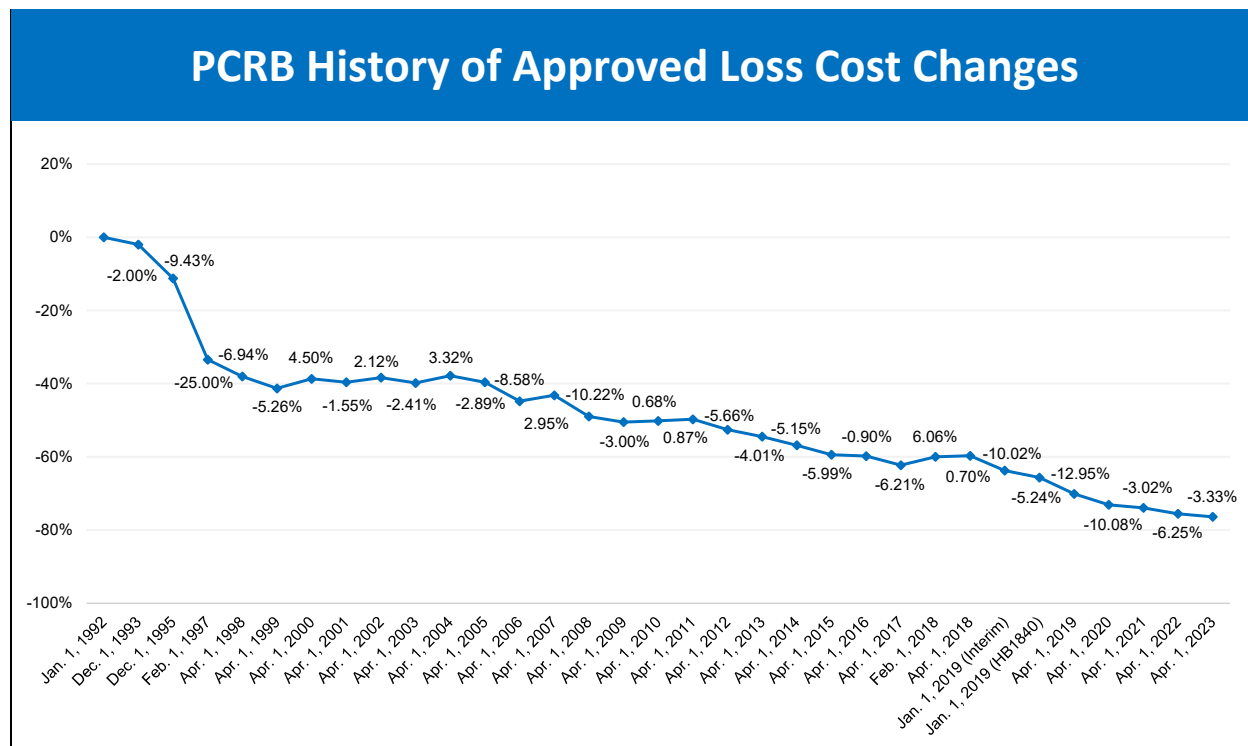
The 2022 reports to be posted on the website include:

- PCRB Annual Report
- State Activity Report
- State of the Line Report
- Medical Activity Report
- Opioid Supplement to the Medical Activity Report
- COVID-19 Activity Report

These reports provide detailed Pennsylvania workers compensation marketplace activity metrics and actuarial results for the past year. They will be made available via the top of the Homepage by accessing the “Industry Resources” link and then the “Industry Reports” link. Additionally, the 2022 PCRB Annual Report will be found using the “About” link and then the “Organization” link.

Loss Cost Changes

The average change in collectible loss costs approved by the Insurance Commissioner, effective April 1, 2023, was a decrease of 3.33%. The system of filing loss costs was implemented as a result of Act 44 of 1993. The combination of Act 44 and Act 57 of 1996 introduced significant changes in the Pennsylvania workers compensation system. Resulting from these changes is a history of loss cost changes in Pennsylvania since the inception of the present pricing system, as shown in the following chart:



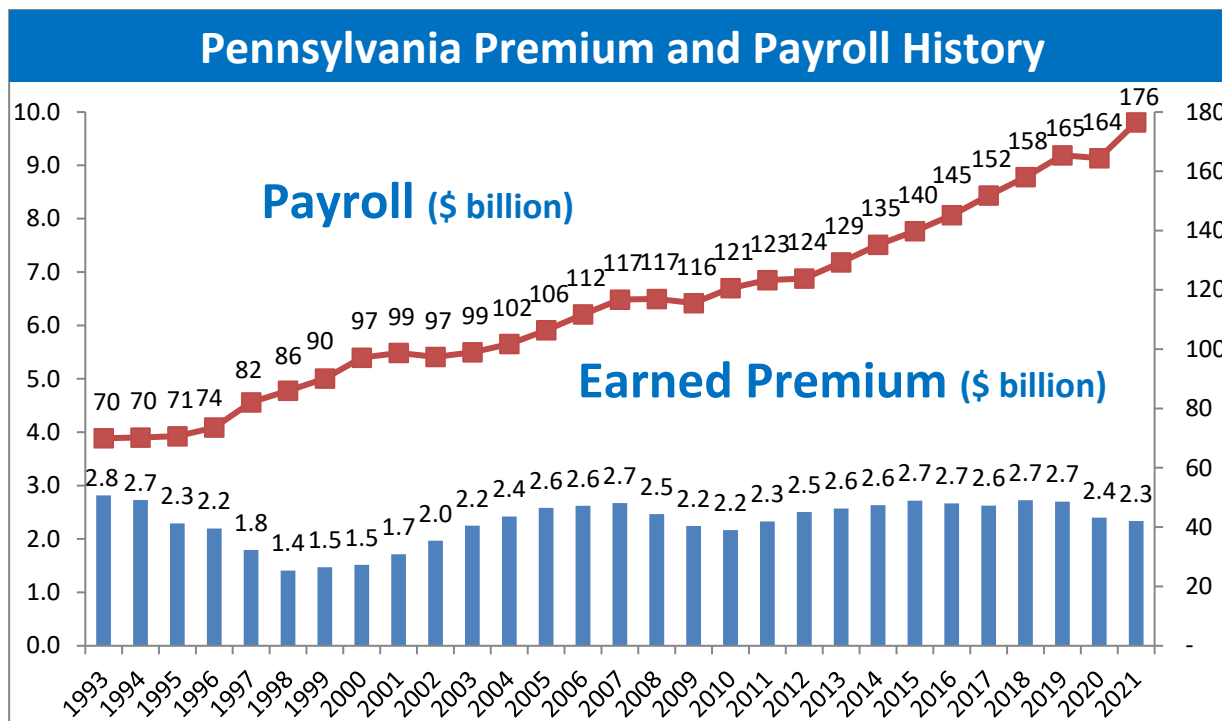
Over this 30-year period, the primary factors underlying the long-term downward trend in Pennsylvania are the improvement in claim frequency, which is decreasing by 6.2% annually, along with the fundamental changes due to Acts 44 and 57. The downward frequency trend has been sufficient to counter upward claim severity trends for indemnity and medical benefits. The approved April 1, 2023 loss costs contemplate that claim frequency will continue to show declines through the end of 2023. The following chart shows the trends underlying the approved April 1, 2023 loss cost filing.

Pennsylvania Claim Cost Trends			
	Frequency	Severity	Pure Premium
Indemnity	-6.2%	+2.9%	-3.5%
Medical		+3.4%	-3.0%

Premium and Payroll History

The size of the Pennsylvania workers compensation insurance market, as measured by Direct Earned Premium, has fluctuated over the last several decades. Since 2003, the premium has been relatively consistent fluctuating from a low of \$2.2 billion to a high of \$2.7 billion at few points throughout this period. The drop observed in 2020 and 2021 is driven by the COVID-19 pandemic and associated shutdowns. In contrast, effective payroll¹ has more than doubled over the entire time frame and is up 58% since 2006. The chart below illustrates the changing growth patterns. The pattern of premium growth and decline displayed for Pennsylvania is similar to observations seen in broader, multi-state studies.

¹ Payroll in this chart is adjusted to an “effective” level by subtracting an amount that reflects the retained exposure, measured by the premium discount on deductible policies. This provides a better comparison to earned premium in company financial statements, which is net of deductible credits.



Notes: Payroll for large deductible policies is reduced in proportion to the premium reductions due to deductibles.
 Payroll for 2020 and 2021 is estimated based on PA Department of Labor & Industry payroll data.
 Premium data is the aggregate direct earned premium from insurer financial statements, from A.M. Best Database Services.
 Payroll is based on policy year data. Earned premium is based on calendar year data.

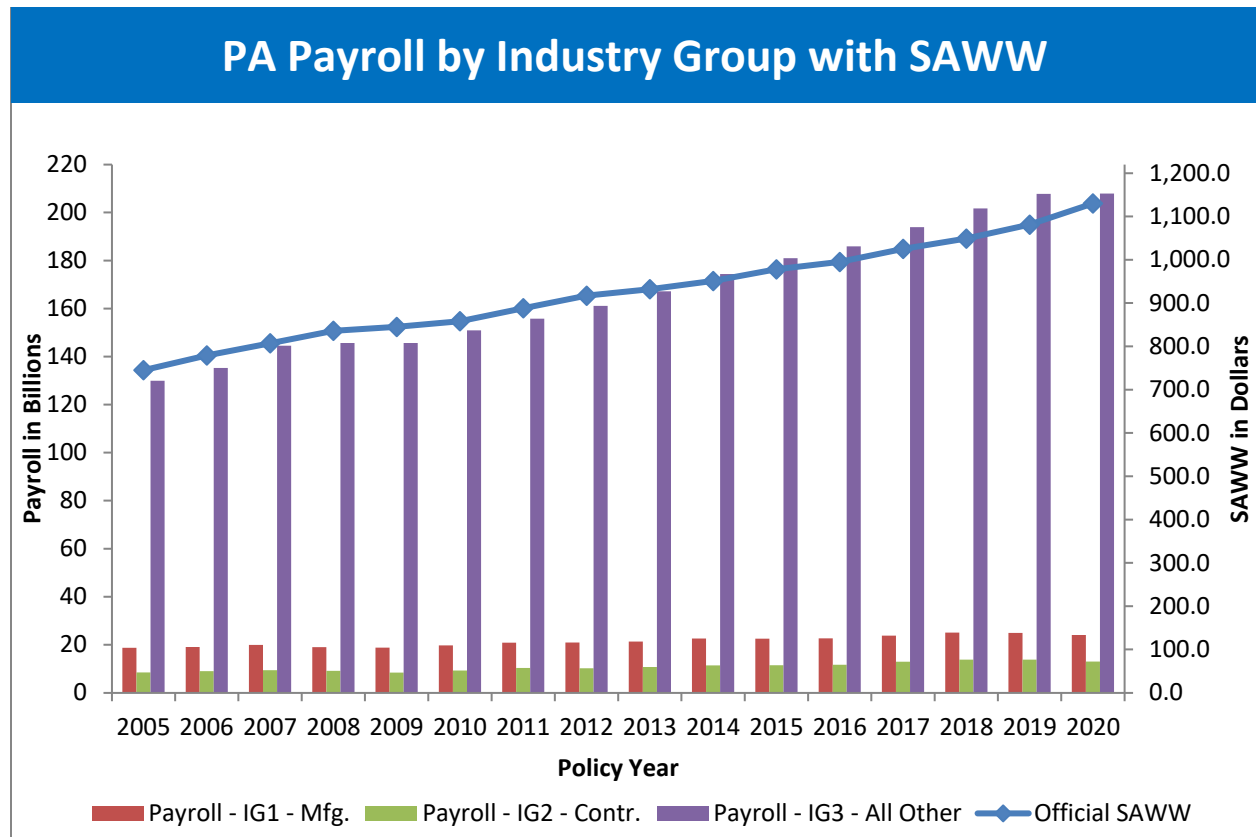
The difference in growth rates for payroll and premium appears to result from several dynamics in Pennsylvania, some of which are similar to trends across the country.

First, total payroll reported by insurers to the PCRB, adjusted to reflect large deductible policies, has risen every year except 2002, 2009 and 2020. The cumulative increase in effective payroll since 1993 is 152%.

Second, as shown in the first chart of this circular, loss costs have generally declined since they were first implemented in 1993. The cumulative loss cost change since then is a decrease of 76%.

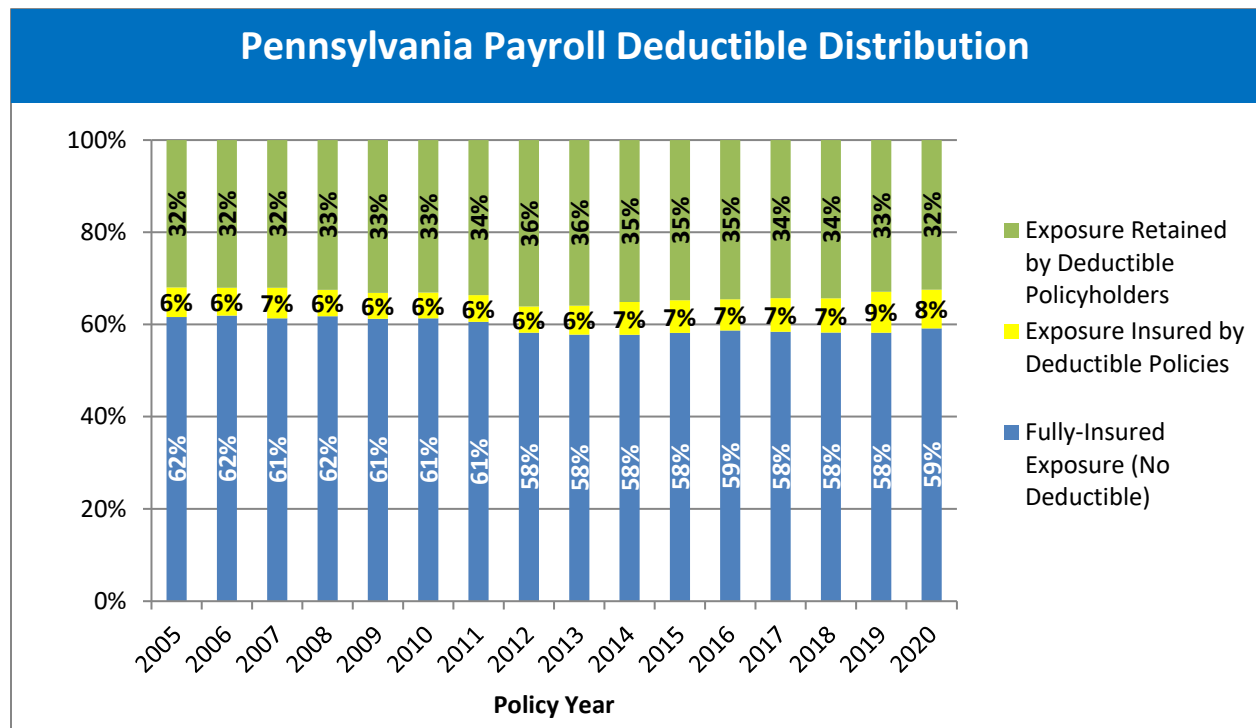
Third, payroll growth differs among the three PCRB industry groups, with manufacturing payroll lagging the other sectors which have kept pace with the growth in the Statewide Average Weekly Wage (SAWW). In the next chart, payroll is included at its full value for deductible policies (i.e., not at the “effective” level), to be comparable to the wage data. The chart shows SAWW growth from 2005 to 2020 of 51.7%.

For the three PCRB industry groups, the growth over that same period varies. For Industry Group 1 – Manufacturing, payroll rose from \$18.7 billion to \$24.1 billion, or by 29%. For Industry Group 2 – Contracting, payroll grew from \$8.5 billion to \$13.0 billion, or by 53%. For Industry Group 3 – All Other, payroll grew from \$129.9 billion to \$207.9 billion, an increase of 60%. The growth rate for Manufacturing is well below that of the other industry groups and the SAWW.



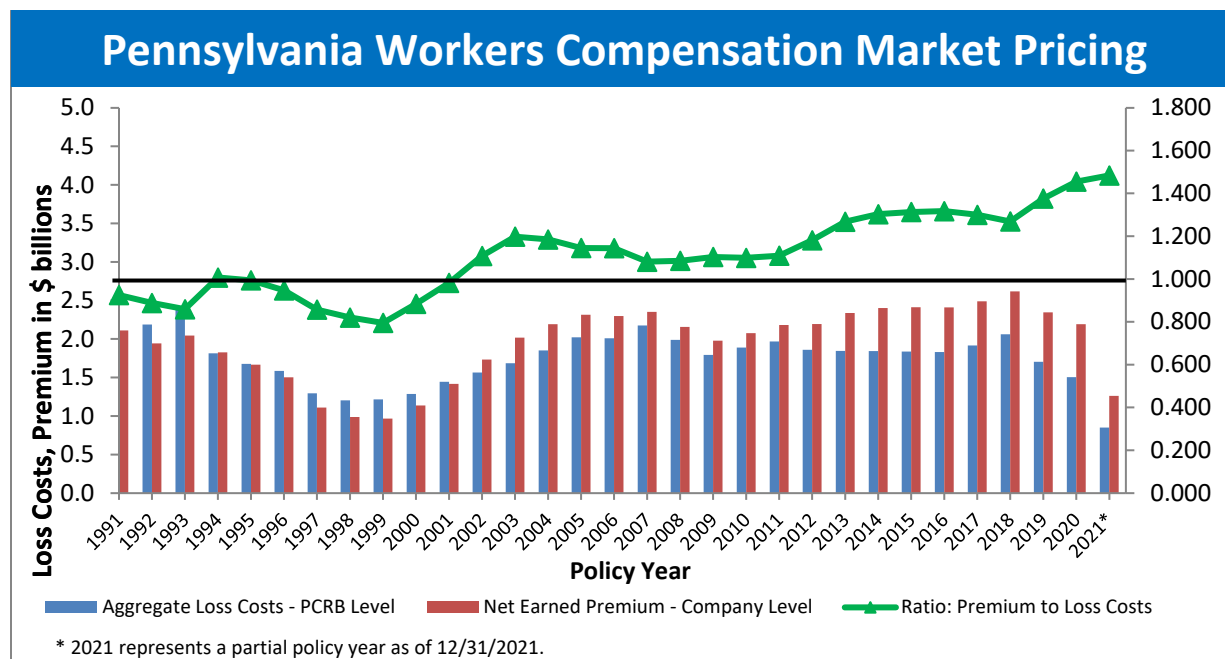
Growth in Use of Large Deductible Policies

A fourth dynamic is the growth in the use of large deductible policies. In 2020, 41% of payroll was reported on large deductible policies, where the average portion of risk retained by policyholders is about 80%. The next chart shows the history from 2005 to 2020.



Loss Costs and Industry Earned Premium

Another factor to consider is the industry pricing strategy in Pennsylvania and the across the country. Pricing strategy is impacted by market cycles, competitiveness, legislation, investment income and many other factors. The chart below shows the relationship between aggregate loss costs at PCRB level and net earned premium at company level by policy year from 1991 through the first half of Policy Year 2021. Prior to 2002, carriers wrote business in Pennsylvania at levels below, and sometimes significantly below, PCRB loss costs. This is evidenced by the ratio of carrier prices to PCRB loss costs which reached a low point in 1999 at 0.80. However, since 2002, the ratios appear less volatile and have been generally increasing with the incomplete Policy Year 2021 ratio estimated at 1.48.



PCRB loss cost filings, which address only the provision for claim payment, represent the projected average cost for each classification. They do not provide indications of either past or prospective price trends. Insurance carriers must independently evaluate information and factors beyond PCRB filings to determine the rates they will use in the Pennsylvania market, subject to regulatory approval.

As previously noted in PCRB circulars, and further reinforced by the above narrative and information, PCRB rating values can serve as meaningful benchmarks within an overall pricing approach. However numerous, other very important factors must also be carefully accounted for on an ongoing basis in each carrier’s pricing analysis.

Questions regarding the information in this circular should be directed to Brent Otto, Vice President & Chief Actuary, at extension 4451, botto@pcrb.com.

William V. Taylor
President

WVT/dn

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

Appendix

Data Underlying the Charts

History of Approved Loss Cost Changes in Pennsylvania		
Policy Year Effective Date	Average Change in Loss Costs	Cumulative Change in Loss Costs
Dec. 1, 1993	-2.00%	-2.00%
Dec. 1, 1995	-9.43%	-11.24%
Feb. 1, 1997	-25.00%	-33.43%
Apr. 1, 1998	-6.94%	-38.05%
Apr. 1, 1999	-5.26%	-41.31%
Apr. 1, 2000	4.50%	-38.67%
Apr. 1, 2001	-1.55%	-39.62%
Apr. 1, 2002	2.12%	-38.34%
Apr. 1, 2003	-2.41%	-39.82%
Apr. 1, 2004	3.32%	-37.83%
Apr. 1, 2005	-2.89%	-39.62%
Apr. 1, 2006	-8.58%	-44.80%
Apr. 1, 2007	2.95%	-43.18%
Apr. 1, 2008	-10.22%	-48.98%
Apr. 1, 2009	-3.00%	-50.51%
Apr. 1, 2010	0.68%	-50.18%
Apr. 1, 2011	0.87%	-49.74%
Apr. 1, 2012	-5.66%	-52.59%
Apr. 1, 2013	-4.01%	-54.49%
Apr. 1, 2014	-5.15%	-56.83%
Apr. 1, 2015	-5.99%	-59.42%
Apr. 1, 2016	-0.90%	-59.78%
Apr. 1, 2017	-6.21%	-62.28%
Feb. 1, 2018	6.06%	-60.00%
Apr. 1, 2018	0.70%	-59.72%
Jan. 1, 2019 (Interim)	-10.02%	-63.75%
Jan. 1, 2019 (HB1840)	-5.24%	-65.65%
Apr. 1, 2019	-12.95%	-70.10%
Apr. 1, 2020	-10.08%	-73.11%
Apr. 1, 2021	-3.02%	-73.93%
Apr. 1, 2022	-6.25%	-75.56%
Apr. 1, 2023	-3.33%	-76.37%

Pennsylvania Premium and Payroll History		
Policy/Calendar Year	Direct Earned Premium by Calendar Year (\$000)*	Effective Payroll by Policy Year (\$000)
1993	2,817,651	69,960,888
1994	2,730,858	70,222,604
1995	2,290,920	70,649,222
1996	2,196,055	73,558,279
1997	1,794,790	82,060,341
1998	1,408,597	85,953,781
1999	1,469,706	90,057,792
2000	1,514,995	97,006,164
2001	1,712,165	98,613,920
2002	1,966,766	97,341,527
2003	2,249,933	98,870,289
2004	2,421,470	101,672,111
2005	2,581,581	106,334,571
2006	2,620,364	111,733,174
2007	2,672,758	116,706,903
2008	2,465,389	116,938,749
2009	2,244,791	115,523,639
2010	2,167,273	120,567,150
2011	2,328,257	123,289,529
2012	2,504,225	123,810,843
2013	2,569,218	129,280,596
2014	2,634,727	135,184,506
2015	2,717,988	139,799,718
2016	2,666,022	145,072,011
2017	2,625,831	151,808,670
2018	2,727,143	158,111,918
2019	2,700,852	165,485,143
2020	2,399,572	165,010,843
2021	2,335,669	176,889,978

*A.M. Best Database Services

Pennsylvania Payroll by Industry Group with Statewide Average Weekly Wage					
Payroll Gross of Deductible (\$000)					
Policy Year	IG1 - Manufacturing	IG2 - Contracting	IG3 - All Other	Total	SAWW
2006	19,078,259	9,000,344	135,236,842	163,315,445	779.0
2007	19,926,596	9,421,485	144,516,989	173,865,071	807.0
2008	18,982,119	9,116,220	145,637,162	173,735,500	836.0
2009	18,805,867	8,395,345	145,627,760	172,828,972	845.0
2010	19,759,633	9,249,900	150,939,362	179,948,895	858.0
2011	20,848,786	10,346,954	155,801,006	186,996,747	888.0
2012	20,899,313	10,184,760	161,096,110	192,180,184	917.0
2013	21,357,462	10,706,627	167,209,803	199,273,892	932.0
2014	22,613,286	11,367,094	174,347,725	208,328,105	951.0
2015	22,522,212	11,455,034	180,989,080	214,966,327	978.0
2016	22,654,658	11,686,564	185,889,631	220,230,854	995.0
2017	23,776,595	12,955,892	193,920,605	230,653,092	1,025.0
2018	25,039,601	13,768,264	201,699,375	240,507,241	1,049.0
2019	24,915,507	13,823,982	207,736,156	246,475,646	1,081.0
2020	24,079,998	12,998,506	207,862,684	244,941,188	1,130.0

Pennsylvania Payroll Deductible Distribution (\$000)				
Policy Year	Total Gross of Deductible	Fully Insured Exposure (No Deductible)	Exposure Insured by Deductible Policies	Exposure Retained by Deductible Policyholders
2006	163,315,445	101,093,164	9,893,343	52,328,938
2007	173,865,071	106,620,167	11,498,878	55,746,025
2008	173,735,500	107,306,551	9,964,342	56,464,607
2009	172,828,972	105,805,190	9,718,448	57,305,333
2010	179,948,895	110,333,719	10,094,201	59,520,976
2011	186,996,747	113,261,541	10,839,075	62,896,131
2012	192,180,184	111,840,182	10,926,240	69,413,761
2013	199,273,892	115,147,334	12,534,857	71,591,701
2014	208,328,105	120,309,333	14,787,154	73,231,619
2015	214,966,327	125,054,116	15,195,164	74,717,048
2016	220,230,854	129,239,519	14,922,579	76,068,756
2017	230,653,092	134,735,304	16,785,613	79,132,175
2018	240,507,241	140,025,140	17,885,814	82,596,287
2019	246,475,646	143,434,294	22,050,849	80,990,503
2020	244,941,188	144,865,388	21,115,994	78,959,806

Pennsylvania Workers Compensation Market Pricing			
Policy Year	Collectible Loss Costs at Bureau Level (\$000)	Net Earned Premium at Company Level (\$000)	Ratio
1991	2,280,839	2,109,469	0.925
1992	2,187,207	1,941,853	0.888
1993	2,381,393	2,044,812	0.859
1994	1,812,698	1,825,562	1.007
1995	1,677,289	1,666,440	0.994
1996	1,585,950	1,501,493	0.947
1997	1,295,447	1,109,776	0.857
1998	1,203,104	986,808	0.820
1999	1,216,323	967,327	0.795
2000	1,286,235	1,137,592	0.884
2001	1,444,362	1,417,762	0.982
2002	1,563,883	1,732,592	1.108
2003	1,683,973	2,017,761	1.198
2004	1,850,449	2,191,929	1.185
2005	2,020,686	2,314,396	1.145
2006	2,007,709	2,297,423	1.144
2007	2,174,362	2,350,887	1.081
2008	1,988,185	2,156,843	1.085
2009	1,792,129	1,977,591	1.103
2010	1,887,740	2,075,346	1.099
2011	1,966,933	2,181,581	1.109
2012	1,858,681	2,194,474	1.181
2013	1,843,690	2,336,897	1.268
2014	1,842,192	2,400,696	1.303
2015	1,836,474	2,410,478	1.313
2016	1,829,280	2,409,089	1.317
2017	1,914,662	2,489,186	1.300
2018	2,061,163	2,616,241	1.269
2019	1,704,473	2,345,279	1.376
2020	1,505,041	2,190,506	1.455
2021*	849,416	1,260,828	1.484

* 2021 is an incomplete policy year.