

April 19, 2022

PCRB CIRCULAR NO. 1781

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 available on the PCRB website following the Annual Meeting on April 21, 2022.

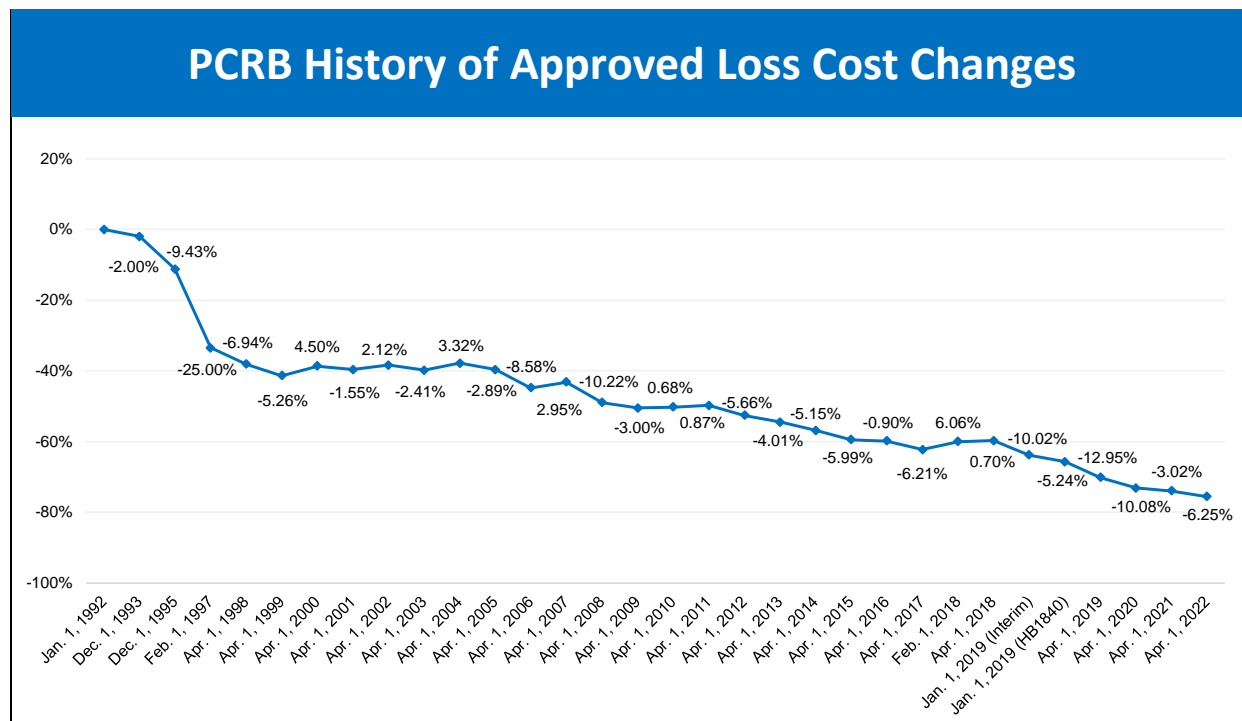
The 2021 reports to be posted on the website include:

- State Activity Report
- State of the Line Report
- Medical Activity Report
- Opioid Supplement to the Medical 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 2021 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, 2022, was a decrease of 6.25 percent. 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:



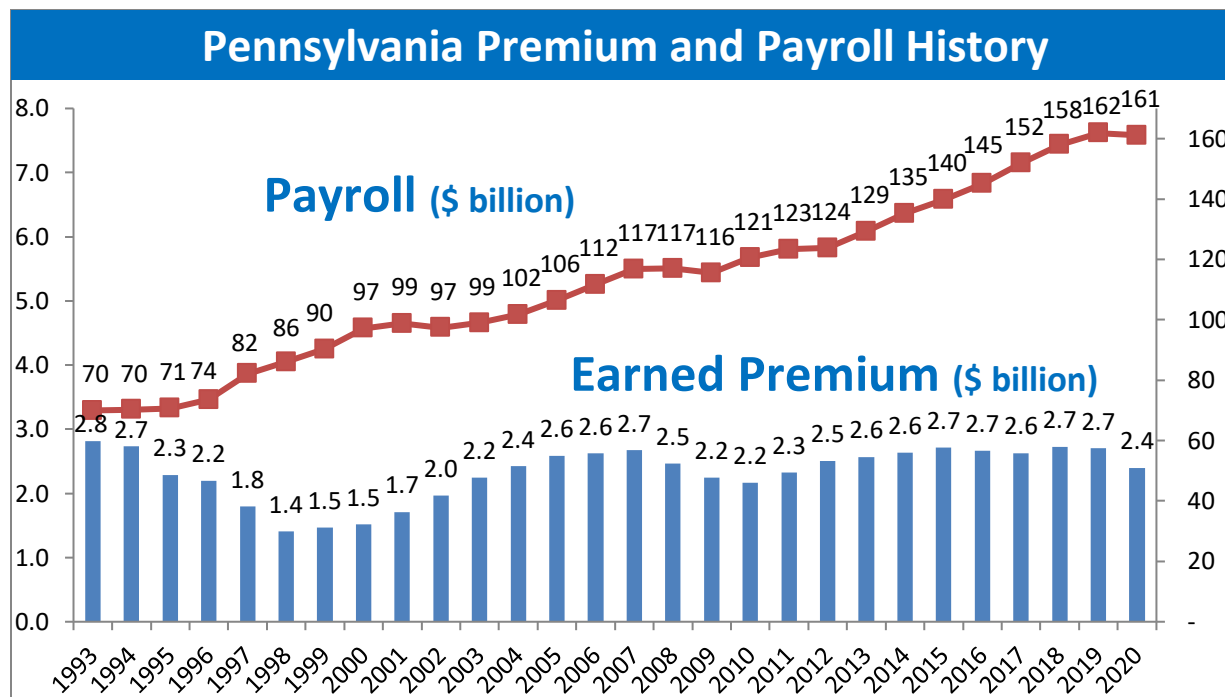
Over this 30-year period, the primary factors underlying the long-term downward trend in Pennsylvania are the improvement in claim frequency, which is decreasing by 6.2 percent annually, along with the fundamental changes due to Acts 44 and 57. The downward frequency trend has been sufficient to counter upward claim severity trends for indemnity and medical benefits. The approved April 1, 2022 loss costs contemplate that claim frequency will continue to show declines through the end of 2022. The following chart shows the trends underlying the approved April 1, 2022 loss cost filing.

Pennsylvania Claim Cost Trends			
	Frequency	Severity	Pure Premium
Indemnity	-6.2%	+1.6%	-4.7%
Medical		+2.4%	-4.0%

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 in 2003 and 2010 to a high of \$2.7 billion in several of the years throughout this period. The drop observed in 2020 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 51% since 2005. The chart below illustrates the different 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 2019 and 2020 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.

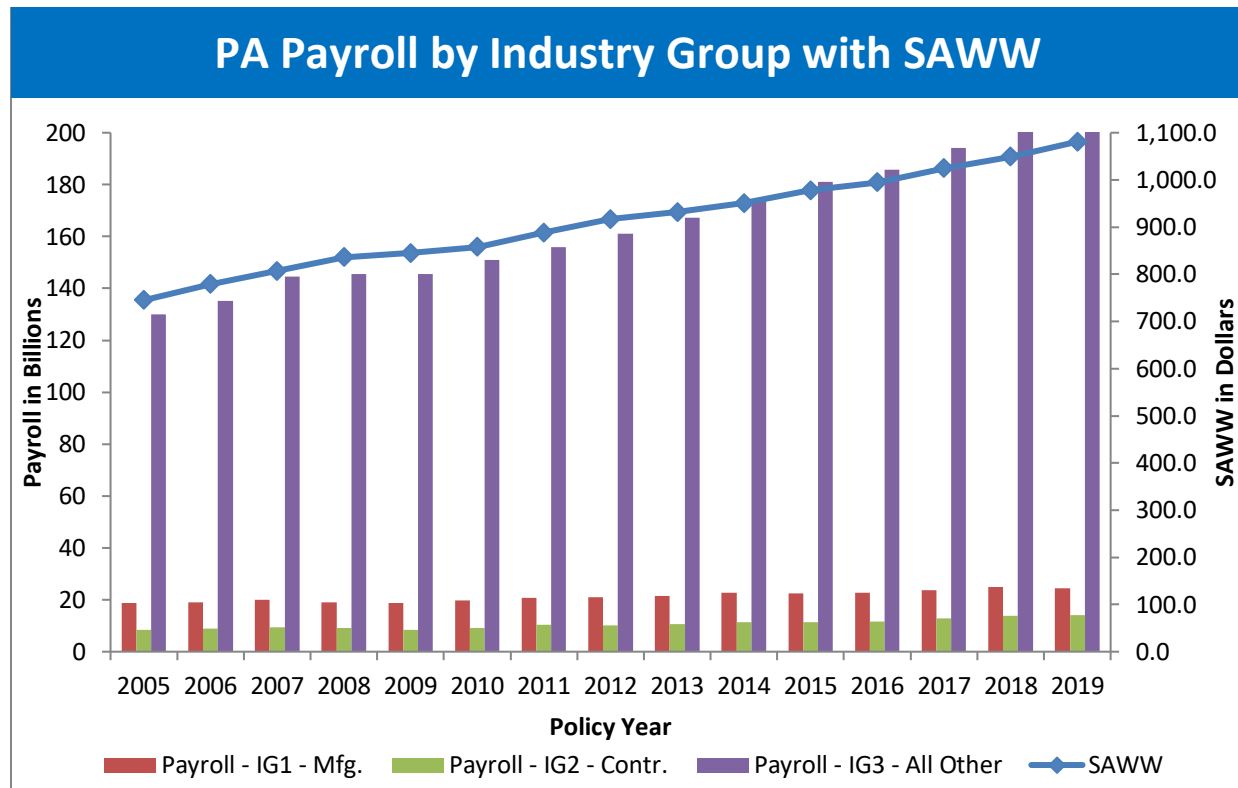
The difference in growth rates for payroll and premium appears to result from several dynamics in Pennsylvania, some of which are similar to trends across the country.

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 130 percent.

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 percent.

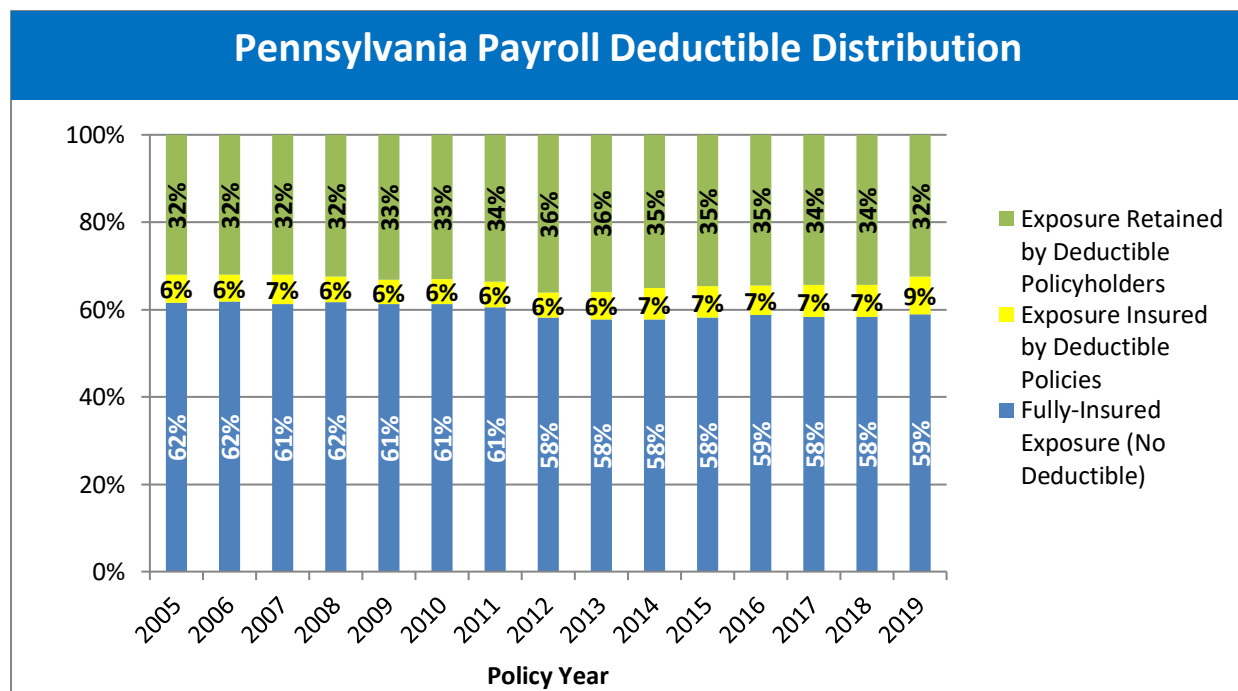
Third, payroll growth differs among the three PCRB industry groups, with manufacturing payroll lagging the other sectors which have kept pace with the growth in the Statewide Average Weekly Wage (SAWW). In the next chart, payroll is included at its full value for deductible policies (i.e., not at the “effective” level), to be comparable to the wage data. The chart shows SAWW growth from 2005 to 2019 of 45 percent.

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 \$24.3 billion, or by 30 percent. For Industry Group 2 – Contracting, payroll grew from \$8.5 billion to \$14.0 billion, or by 65 percent. For Industry Group 3 – All Other, payroll grew from \$129.9 billion to \$204.0 billion, an increase of 57 percent. The growth rate for Manufacturing is well below that of the other industry groups and the SAWW.



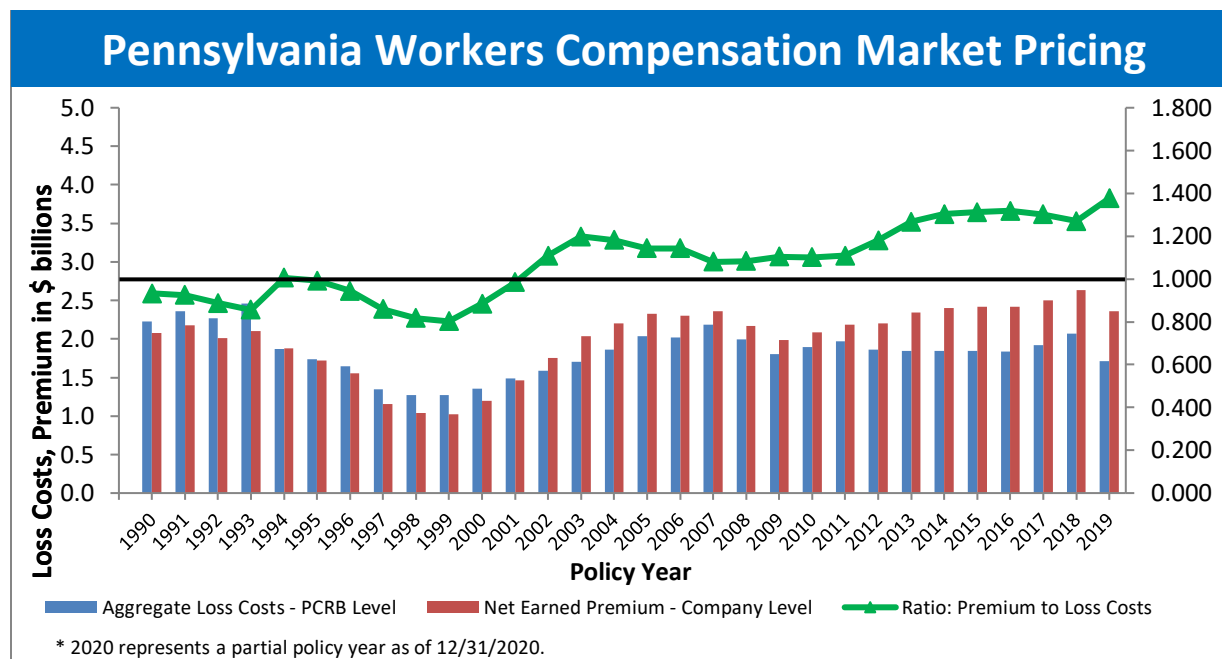
Growth in Use of Large Deductible Policies

A fourth dynamic is the growth in the use of large deductible policies. In 2019, 41 percent of payroll was reported on large deductible policies, where the average portion of risk retained by policyholders is about 79 percent. The next chart shows the history from 2005 to 2019.



Loss Costs and Industry Earned Premium

Another factor to consider is the pricing strategy across the industry in Pennsylvania and 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 1990 through the first half of Policy Year 2020. 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 2020 ratio estimated at 1.45.



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 or Ken Creighton, Director of Actuarial Services, at extension 4924, kcreighton@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%

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	69,982,125
1994	2,730,858	70,222,604
1995	2,290,920	70,649,222
1996	2,196,055	73,588,426
1997	1,794,790	82,120,076
1998	1,408,597	86,056,936
1999	1,469,706	90,266,811
2000	1,514,995	97,173,836
2001	1,712,165	98,756,549
2002	1,966,766	97,391,574
2003	2,249,933	98,925,416
2004	2,421,470	101,730,404
2005	2,581,581	106,394,888
2006	2,620,364	111,733,174
2007	2,672,758	116,774,148
2008	2,465,389	116,938,749
2009	2,244,791	115,523,639
2010	2,167,273	120,570,091
2011	2,328,257	123,366,277
2012	2,504,225	123,807,263
2013	2,569,218	129,282,314
2014	2,634,727	135,271,683
2015	2,717,988	139,812,682
2016	2,666,022	145,069,344
2017	2,625,831	151,828,036
2018	2,727,143	157,997,751
2019	2,700,852	161,815,802
2020	2,399,572	161,053,254

*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
2005	18,706,250	8,488,740	129,927,283	157,122,273	745.0
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	173,865,070	807.0
2008	18,982,119	9,116,220	145,637,162	173,735,501	836.0
2009	18,805,867	8,395,345	145,627,760	172,828,972	845.0
2010	19,764,795	9,247,197	150,939,972	179,951,964	858.0
2011	20,854,622	10,345,368	155,799,934	186,999,924	888.0
2012	20,904,419	10,181,637	161,087,156	192,173,212	917.0
2013	21,363,132	10,703,351	167,204,178	199,270,661	932.0
2014	22,619,476	11,363,280	174,344,226	208,326,982	951.0
2015	22,538,968	11,450,124	180,978,656	214,967,748	978.0
2016	22,644,235	11,689,980	185,841,975	220,176,190	995.0
2017	23,780,190	12,943,376	194,015,027	230,738,593	1,025.0
2018	24,942,181	13,776,754	201,651,350	240,370,285	1,049.0
2019	24,345,124	13,994,931	204,005,766	242,345,821	1,081.0

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
2005	157,122,274	96,804,336	10,073,096	50,244,842
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	10,030,771	56,398,178
2009	172,828,972	105,805,190	9,718,448	57,305,333
2010	179,951,964	110,336,638	10,094,222	59,521,104
2011	186,999,924	113,264,528	10,839,103	62,896,293
2012	192,173,212	111,837,197	11,006,034	69,329,981
2013	199,270,661	115,150,052	12,533,971	71,586,638
2014	208,326,982	120,308,549	14,787,097	73,231,336
2015	214,967,748	125,069,344	15,282,729	74,615,675
2016	220,176,191	129,247,805	14,912,255	76,016,130
2017	230,738,593	134,740,349	16,703,695	79,294,550
2018	240,370,286	140,038,331	17,859,088	82,472,867
2019	242,345,821	142,645,499	21,036,768	78,663,555

Pennsylvania Workers Compensation Market Pricing			
Policy Year	Collectible Loss Costs at Bureau Level (\$000)	Net Earned Premium at Company Level (\$000)	Ratio
1990	2,227,063	2,076,481	0.932
1991	2,356,793	2,180,994	0.925
1992	2,265,959	2,012,424	0.888
1993	2,455,482	2,101,830	0.856
1994	1,870,421	1,880,128	1.005
1995	1,733,433	1,718,853	0.992
1996	1,647,047	1,557,203	0.945
1997	1,348,781	1,159,178	0.859
1998	1,269,507	1,037,341	0.817
1999	1,274,691	1,022,512	0.802
2000	1,351,508	1,196,285	0.885
2001	1,483,530	1,460,089	0.984
2002	1,584,685	1,756,731	1.109
2003	1,701,269	2,039,195	1.199
2004	1,861,775	2,201,484	1.182
2005	2,033,212	2,324,860	1.143
2006	2,016,247	2,305,525	1.143
2007	2,183,914	2,360,296	1.081
2008	1,996,669	2,165,115	1.084
2009	1,799,724	1,986,546	1.104
2010	1,895,028	2,085,602	1.101
2011	1,972,524	2,188,507	1.109
2012	1,863,628	2,200,279	1.181
2013	1,845,060	2,338,977	1.268
2014	1,844,312	2,403,713	1.303
2015	1,840,601	2,413,979	1.312
2016	1,832,886	2,415,973	1.318
2017	1,920,228	2,497,477	1.301
2018	2,070,907	2,631,013	1.270
2019	1,713,746	2,359,913	1.377
2020*	851,935	1,231,587	1.446

* 2020 is an incomplete policy year.