

Casualty Actuarial Society  
Ratemaking Seminar  
March 11-12, 2004

**WC-2**

Pennsylvania & Delaware Workers  
Compensation Ratemaking Issues

Timothy L. Wisecarver, FCAS, MAAA, FCA

# CAS Ratemaking Seminar

## PA & DE WC Ratemaking Issues

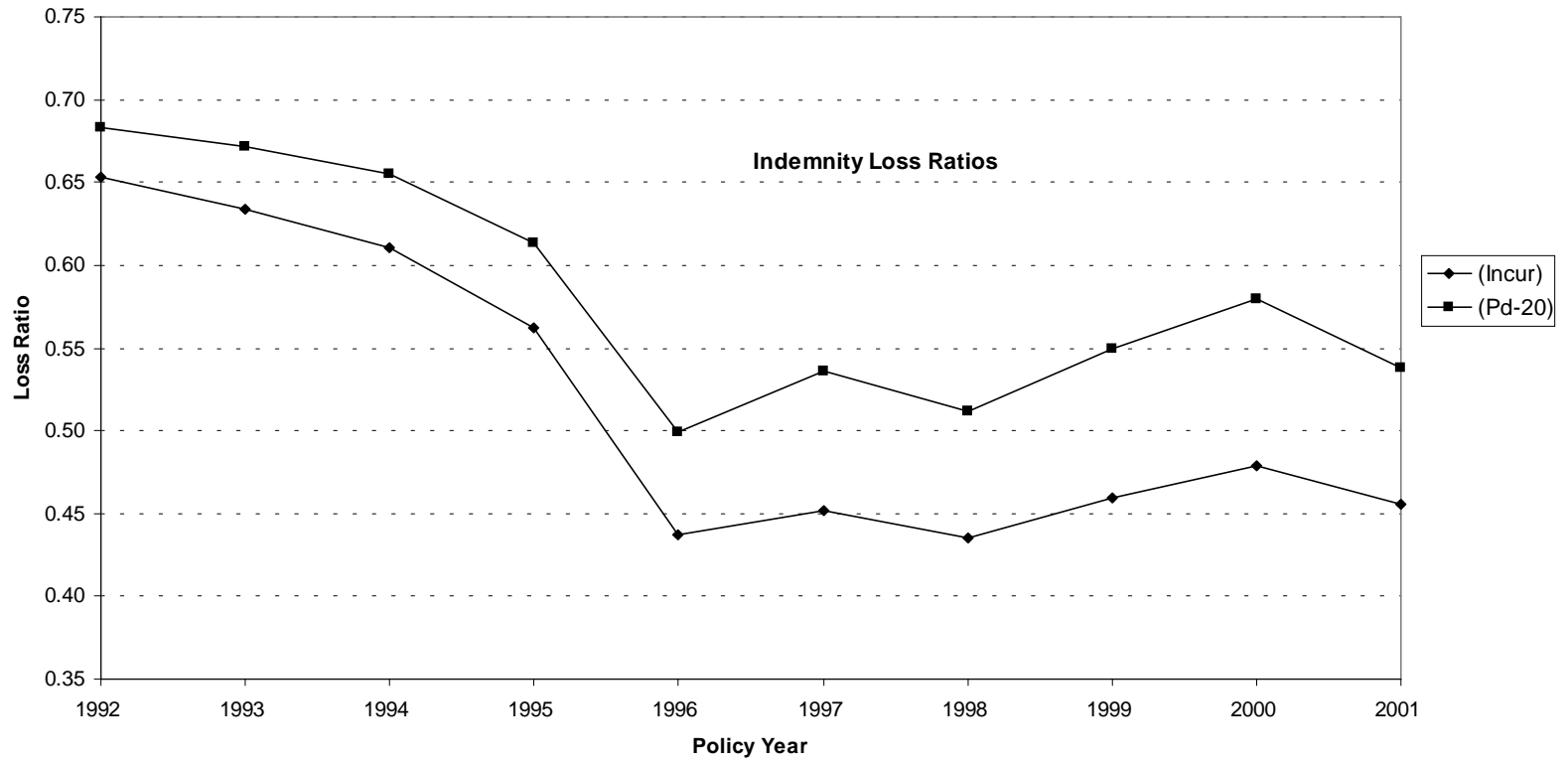
- Estimating Ultimate Losses & Loss Ratios
- Trend
- Delaware Assigned Risk Practices and Experience
- Classification Pricing
- Experience Rating Plan(s)

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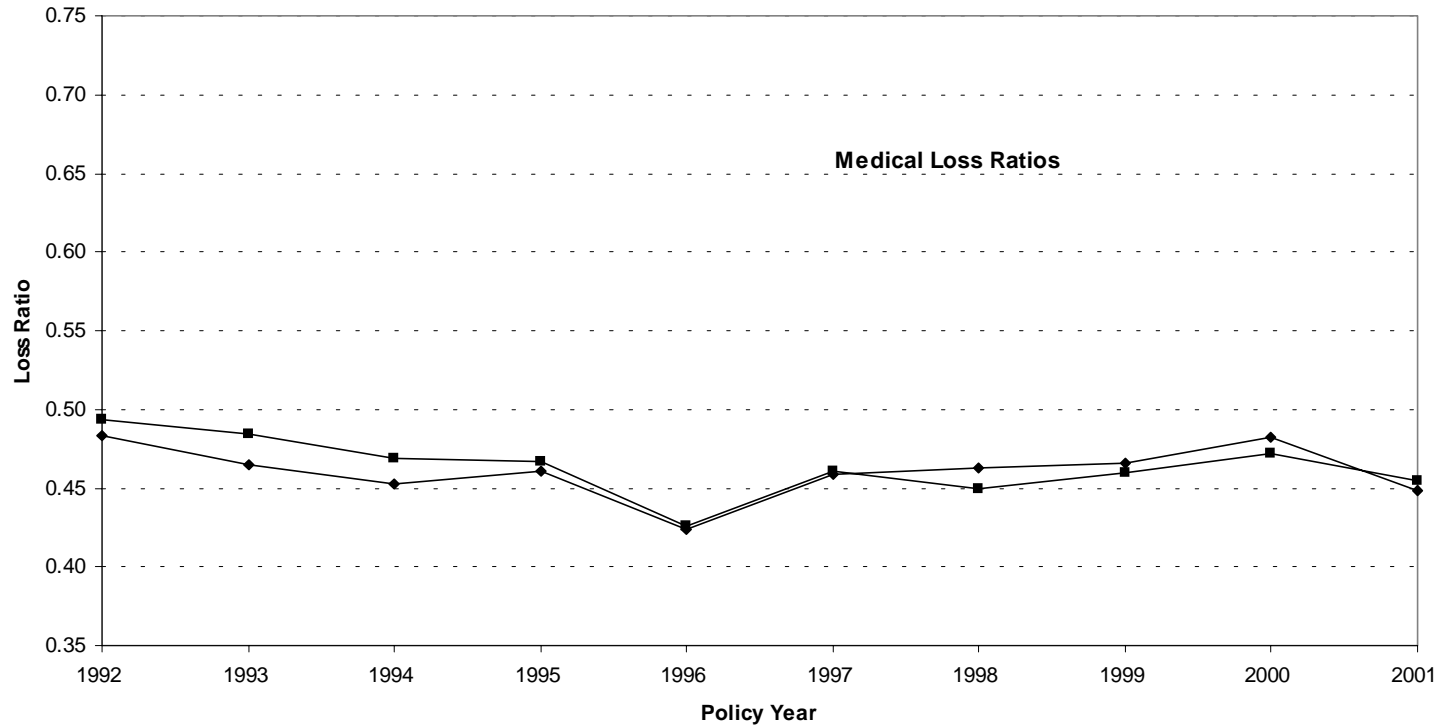
## PA & DE WC Ratemaking Issues

- Estimating Ultimate Losses & Loss Ratios
    - Loss Development Methodology
    - Paid Estimates Historically Higher Than Case Incurred Estimates \*
    - Differences Between Methods Greater for Indemnity than for Medical
- \* Not for Medical in Latest Loss Cost Revision

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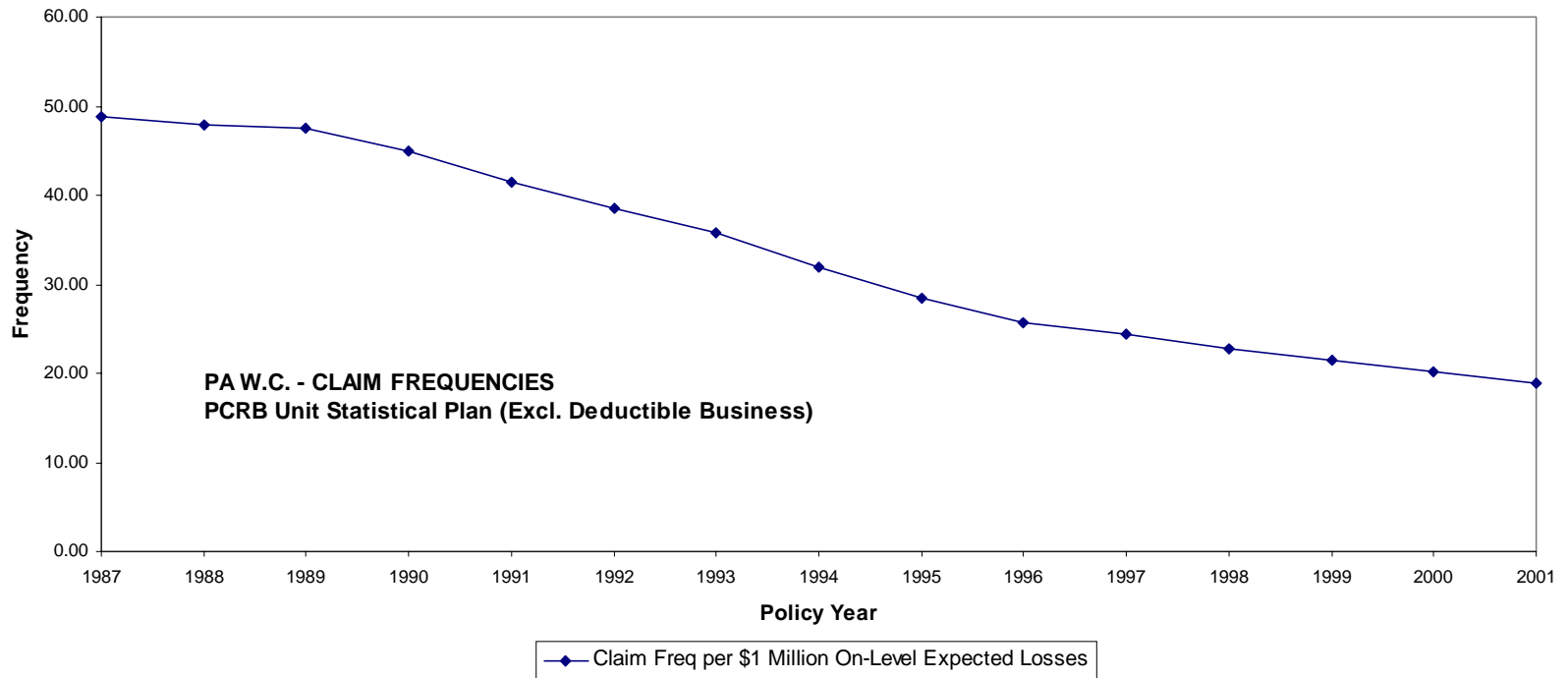


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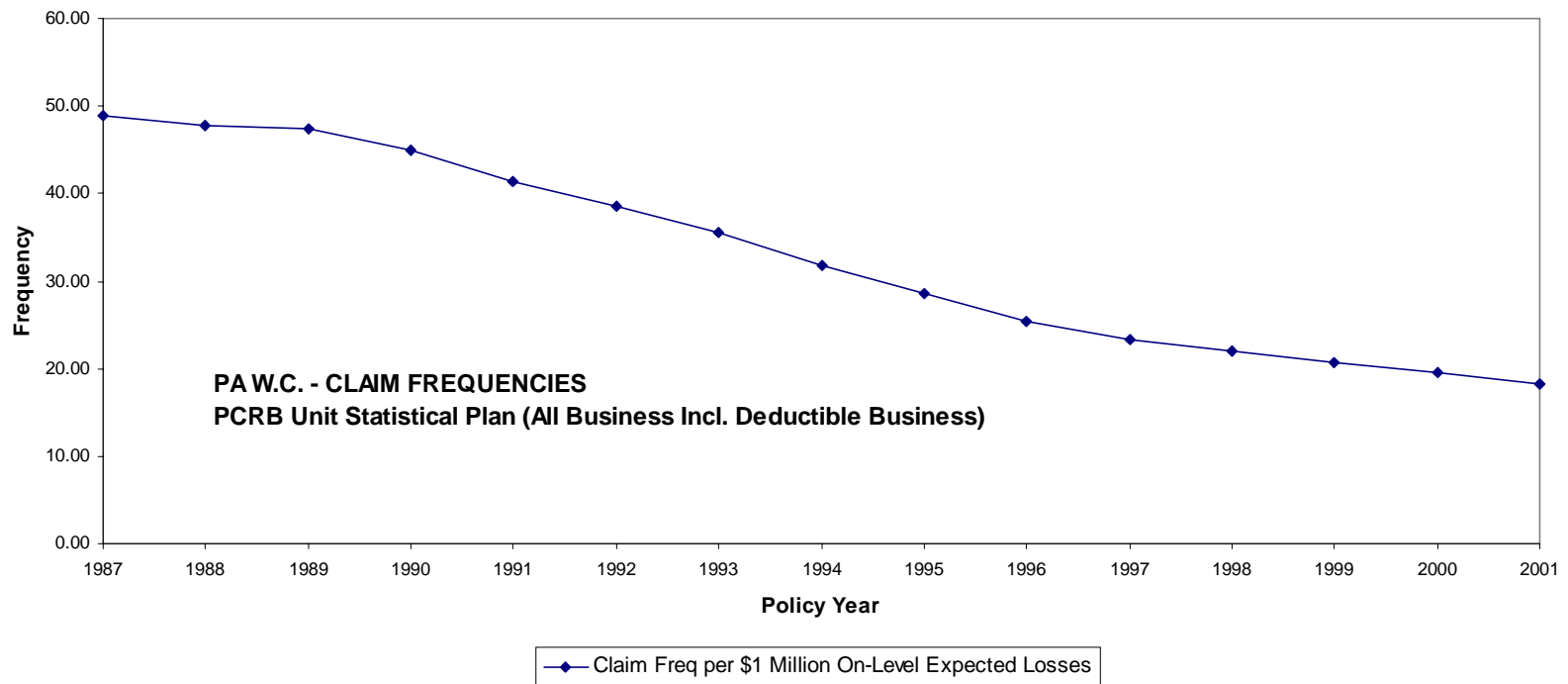
## PA & DE WC Ratemaking Issues

- Trend
  - Separately Review Frequency and “Severity”
  - Claim Frequency – Onward and Downward?
  - “Severity”
    - Everything Other than Frequency
    - For 2004 Filing, Indemnity Trend > Medical Trend
    - Severity Increasing While Settlement Rates are Improving
      - » Allocation / Accounting of Compromise & Releases ?
      - » More Aggressive Settlement Strategies ?

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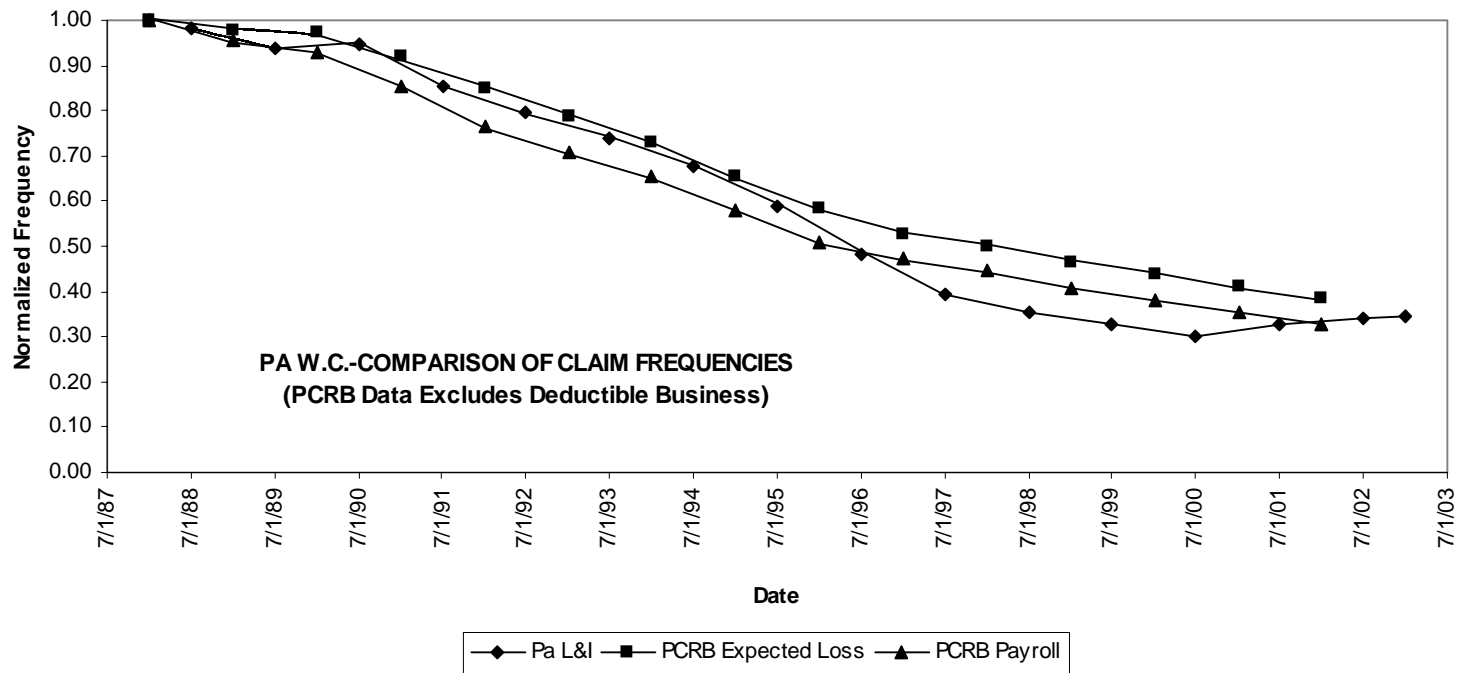


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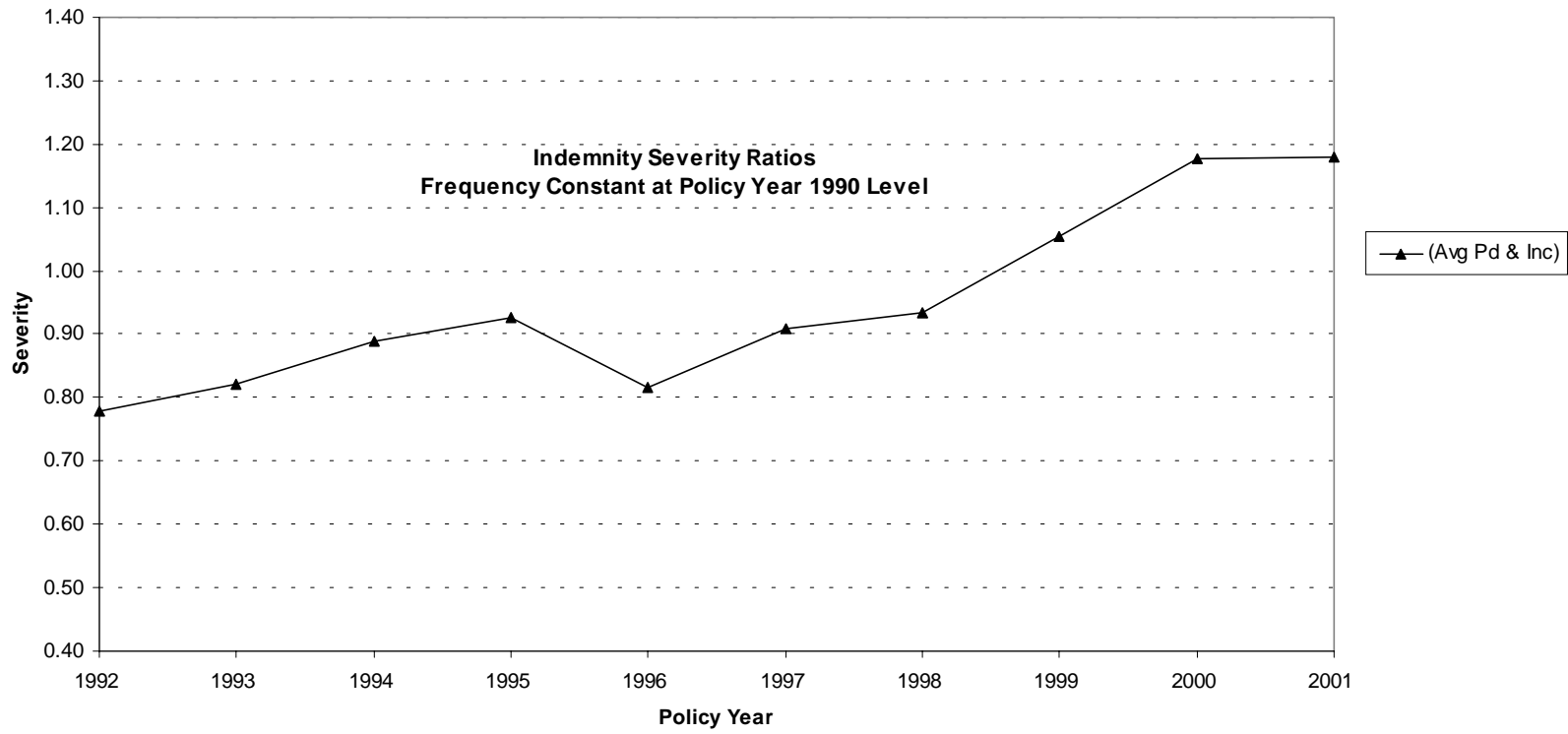




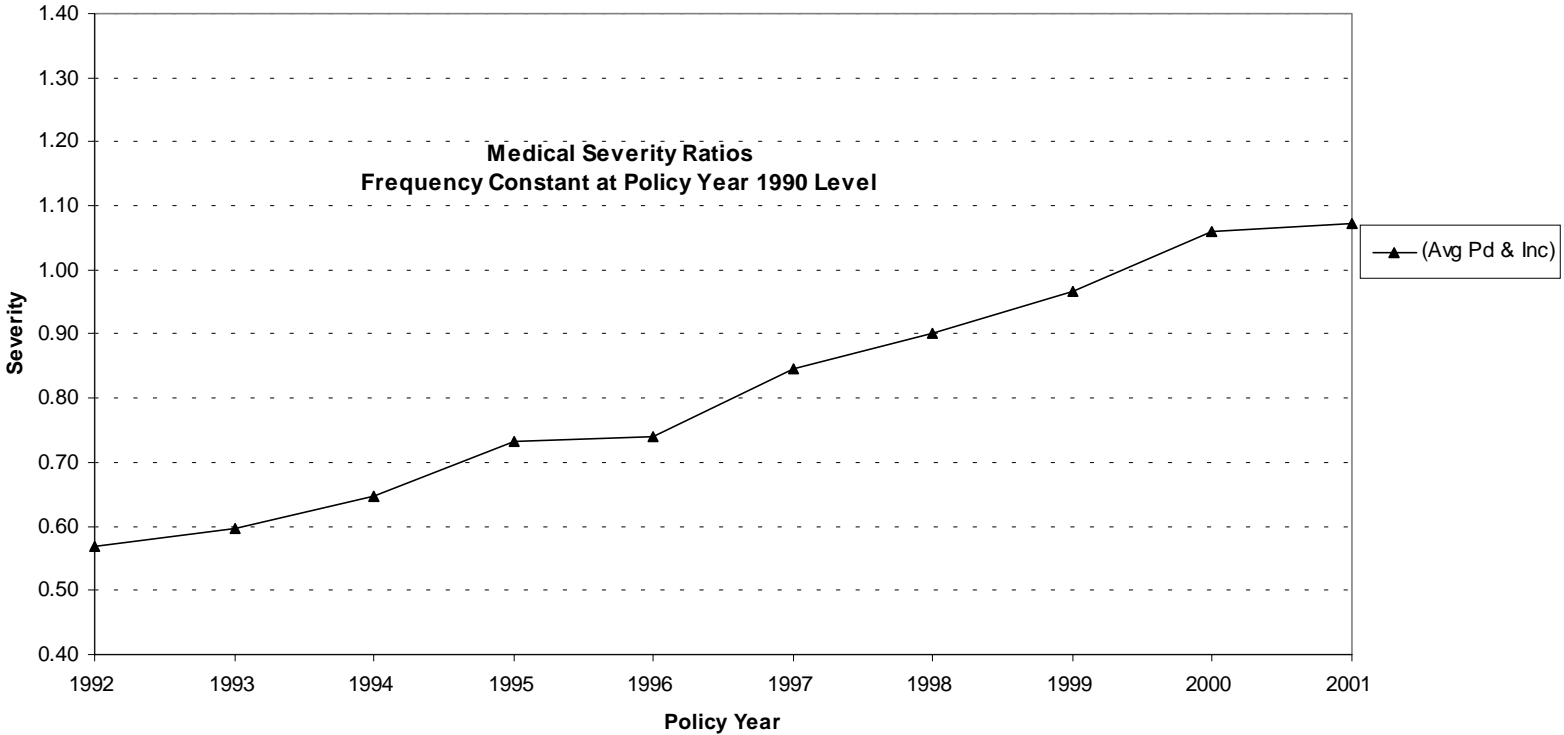
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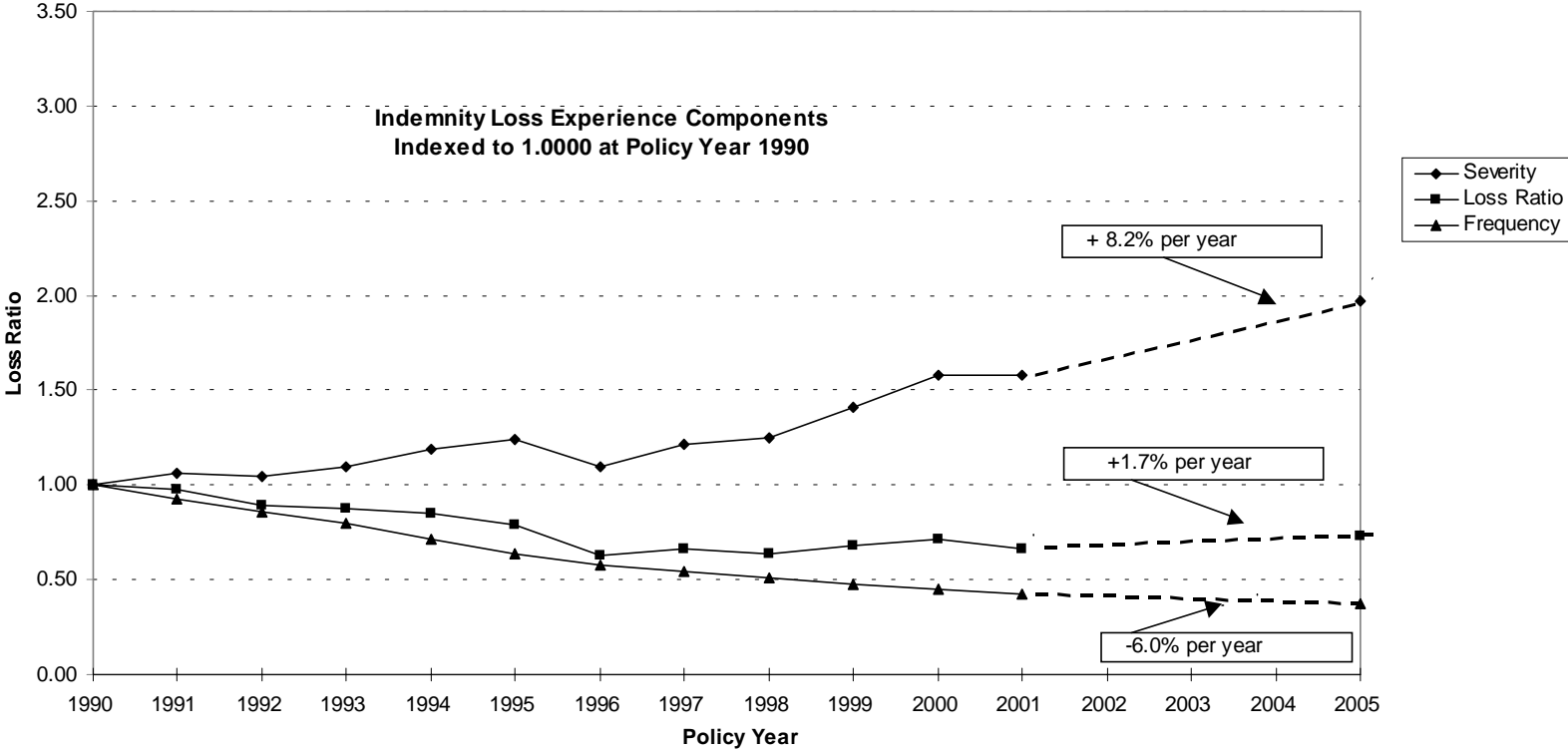
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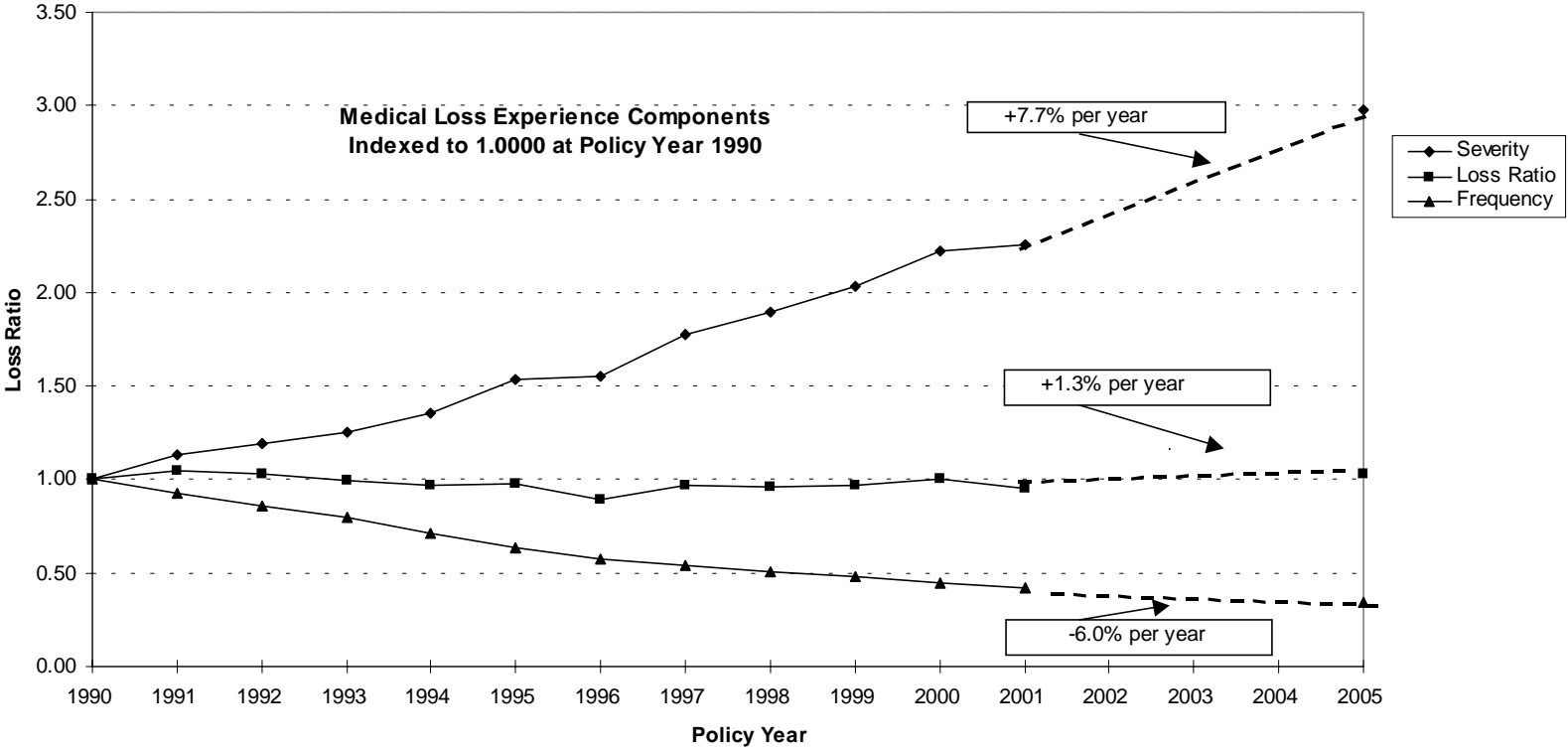
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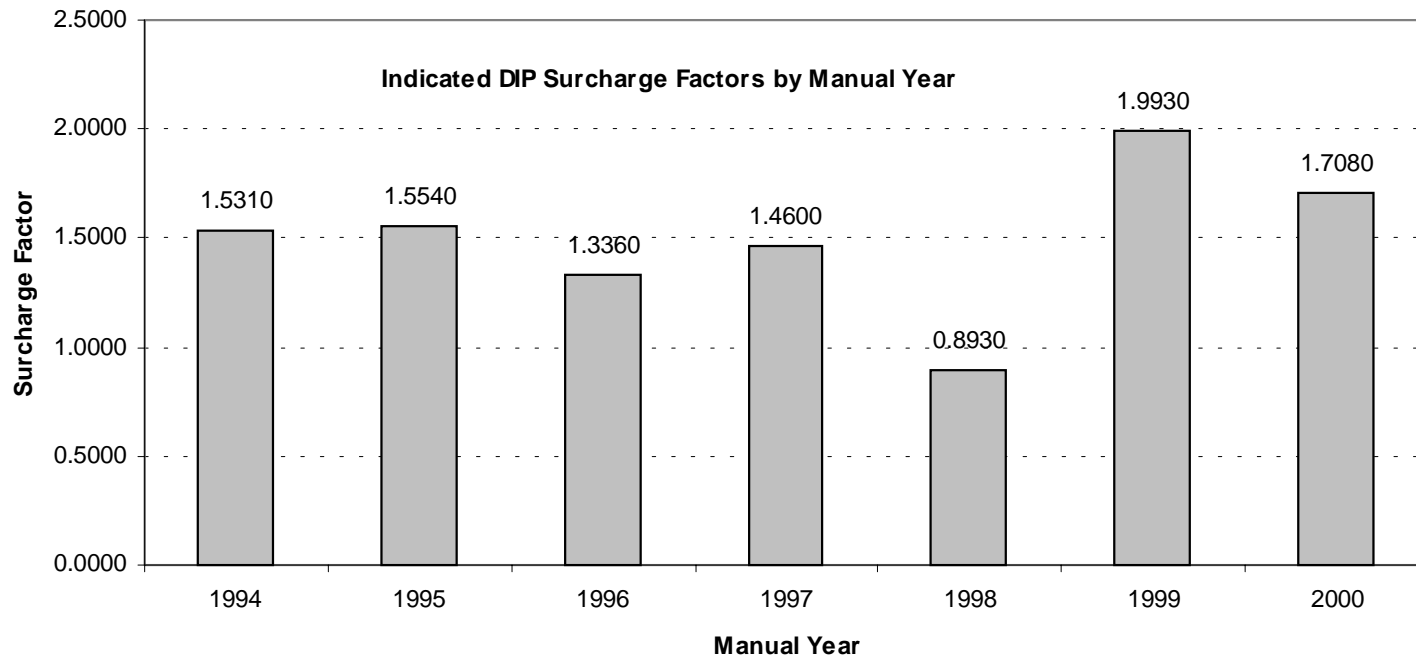
- Delaware Assigned Risk Practices & Experience
- Practices
  - Rating Values for Assigned Risk and Voluntary Markets Based on Statewide Experience and Analysis
  - Strong Regulatory Preference Against Pricing Differentials (Broadly Defined) and Related Initiatives
  - Limited Surcharge Program is Applicable
    - Experience Rated Risks
    - Debit Modifications
    - Surcharge is 50% times Credibility Complement, Limited to Extent of Experience Rating Debit (Modification less Unity)

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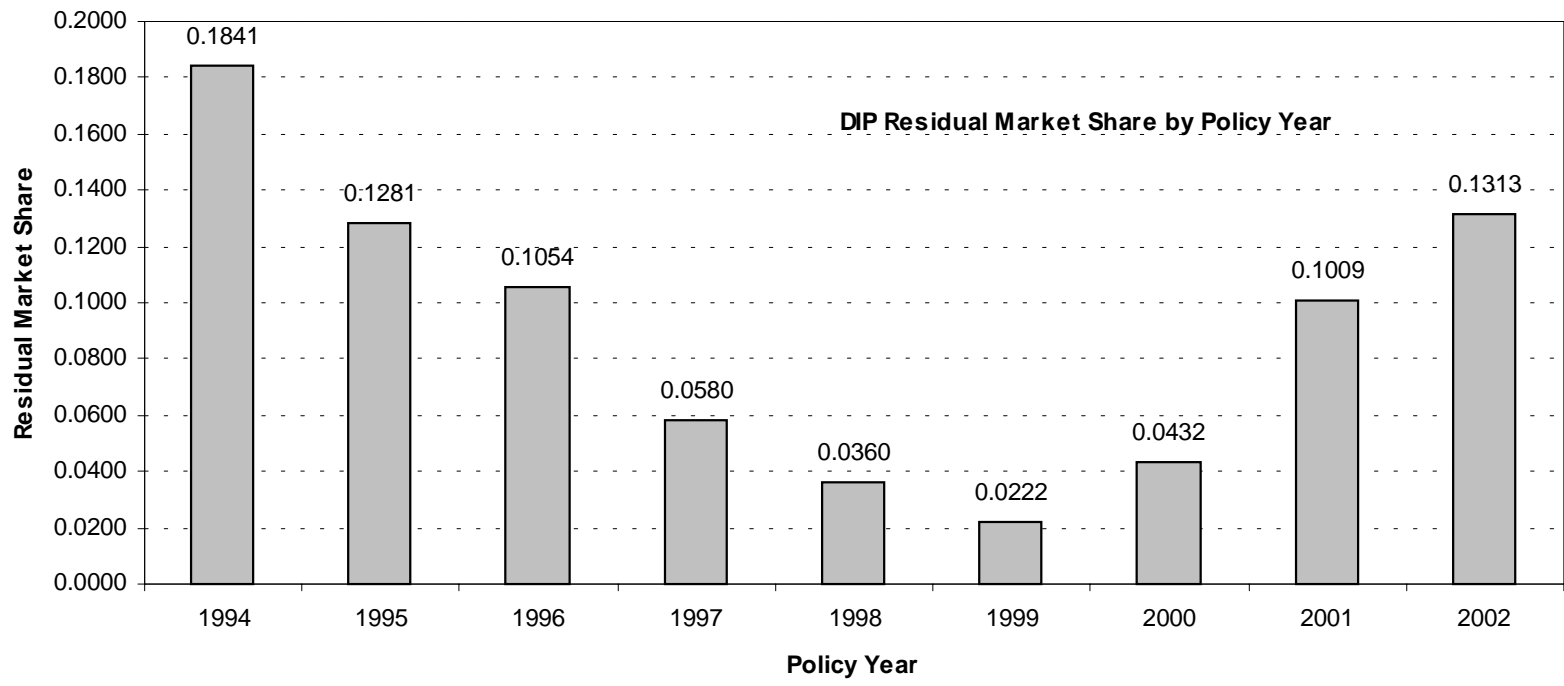
- Delaware Assigned Risk Practices & Experience
- Experience
  - Assigned Risks Have Markedly and Persistently Poor Experience
  - Market Pricing for Voluntary Risks Brackets DIP Rates
  - Market Share for DIP Growing Rapidly

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## PA & DE WC Ratemaking Issues

### Classification Pricing

- 1992 –1995 Insurance Department Exam of PCRB
- 1994 – 1995 Study of Classification Pricing Methods
- 1998 Implementation of Key Changes
  - Using 5 Years of Data Regardless of Class Size
  - Assigning Credibility Based on Payroll Volume
  - Industry Group Utility Limited to Effects of Experience Rating

# CAS Ratemaking Seminar

## PA & DE WC Ratemaking Issues

### Experience Rating

- 1992 –1995 Insurance Department Exam of PCRB
- 1999 – 2002 Study of Legacy Rating Plan
- April 1, 2004 Implementation of Key Changes
  - Credibility Scale Raised for “Smaller” Risks
  - Graded Loss Limits (\$50k - \$324k) Replaced by Flat \$42,500
  - Swing Limits +/- 25% Imposed Year-to-Year for Modifications

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### Experience Rating

- Ongoing and/or Future Issues
  - Monitor and Test “New Plan”
  - Try Payroll-Based Credibility Scale(s)
  - Smooth Transition in and out of Experience Rating
  - Other?

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Questions & Answers