



Antitrust Notice

- **The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.**
- **Under no circumstances shall CAS seminars be used as a means for competing companies or firms to reach any understanding – expressed or implied – that restricts competition or in any way impairs the ability of members to exercise independent business judgment regarding matters affecting competition.**
- **It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.**

Casualty Actuarial Society

Ratemaking & Product Management Seminar

WC-2: Workers Compensation – Selected State Issues

Pennsylvania & Delaware 2011/2012 Filings

March 20, 2012

presented by

Tim Wisecarver

WC2: Workers Compensation – Selected State Issues

Pennsylvania & Delaware 2011/2012 Filings

- Pennsylvania WC System Features
 - Loss Cost State Since 1993
 - Medical Reforms in 1993
 - Fee Schedule
 - Utilization Review
 - Peer Review
 - Indemnity Reforms in 1996
 - Determining Wages for Benefit Computations
 - Social Security and Employer-Funded Pension Offsets
 - AMA Guides to Evaluation of Permanent Partial Impairment
 - Compromise & Release Authority (Indemnity & Medical)
 - April 1 Annual Loss Cost Filing Effective Date

WC2: Workers Compensation – Selected State Issues

Pennsylvania & Delaware 2011/2012 Filings

- Pennsylvania WC System Features
 - Medical Fee Schedule Started @ 113% of Medicare
 - Since 1995 Medical Fees Have Been Indexed to SAWW
 - AMA Guidelines Recognized in Statute, Very Seldom Used
 - Compromise & Release Settlements Are Method of Choice in Resolving Claims
 - Stable & Generally Declining Loss Costs Since 1993

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Pennsylvania Approved Loss Cost Changes Since 1999

– April 1, 2000	+4.50%	– April 1, 2006	(8.58)%
– April 1, 2001	(1.55)%	– April 1, 2007	+2.95%
– April 1, 2002	+2.12%	– April 1, 2008	(10.22)%
– April 1, 2003	(2.41)%	– April 1, 2009	(3.00)%
– April 1, 2004	+3.32%	– April 1, 2010	+0.68%
– April 1, 2005	(2.89)%	– April 1, 2011	+0.87%
– April 1, 2012	Filed: (5.66)%		

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Pennsylvania Notable Issues in Prior Filings
 - Loss Development Methods
 - Paid Loss, Case Incurred Loss, Average of Paid and Case Incurred
 - Historically Paid Method Gave Higher Estimates for Indemnity
 - In 2010 Filing Paid Method Began To Give Higher Estimates for Medical As Well
 - Trend Approach
 - Loss Ratio vs. Separate Frequency/Severity Trends
 - Number of Points
 - Special Handling (if any) For Frequency Trend and Implications for Severity Trend

WC2: Workers Compensation – Selected State Issues

Pennsylvania & Delaware 2011/2012 Filings

Claim Frequency Perceptions – Oldies but Goodies!

Good Economy, Good Claim Frequency:

In boom times workers are able to earn high wages and advancement in their employment, and have less incentive to file WC claims as a matter of economic need or preference.

Good Economy, Bad Claim Frequency:

In good economic times inexperienced workers are pressed into service and all workers tend to work longer shifts, precipitating more injuries out of lack of familiarity with the environment and/or fatigue.

Bad Economy, Good Claim Frequency:

In periods of economic downturn the more experienced, arguably safer, workers are retained in the workplace, and they are working less hours and so are fresher while on the job. Their experience and working conditions lead to fewer accidents.

Bad Economy, Bad Claim Frequency:

In poor economies workers may see workers compensation claims as a means of survival, replacing wages with benefits. This leads to the filing of claims in response to actual or feared layoffs, reductions in work hours, etc.

WC2: Workers Compensation – Selected State Issues

Pennsylvania & Delaware 2011/2012 Filings

More Recent Claim Frequency Perceptions

Change is Bad:

The general long-term outlook is for claim frequency to improve. Sudden and/or rapid shifts in economic conditions, however, may temporarily disrupt this long-term trend.

Bad Change is Good:

The general long-term outlook for claim frequency is for it to improve. During periods of particular economic stress this improvement tends to accelerate. When a recovery is in progress the claim frequency rate may level off, or even increase slightly and briefly.

WC2: Workers Compensation – Selected State Issues

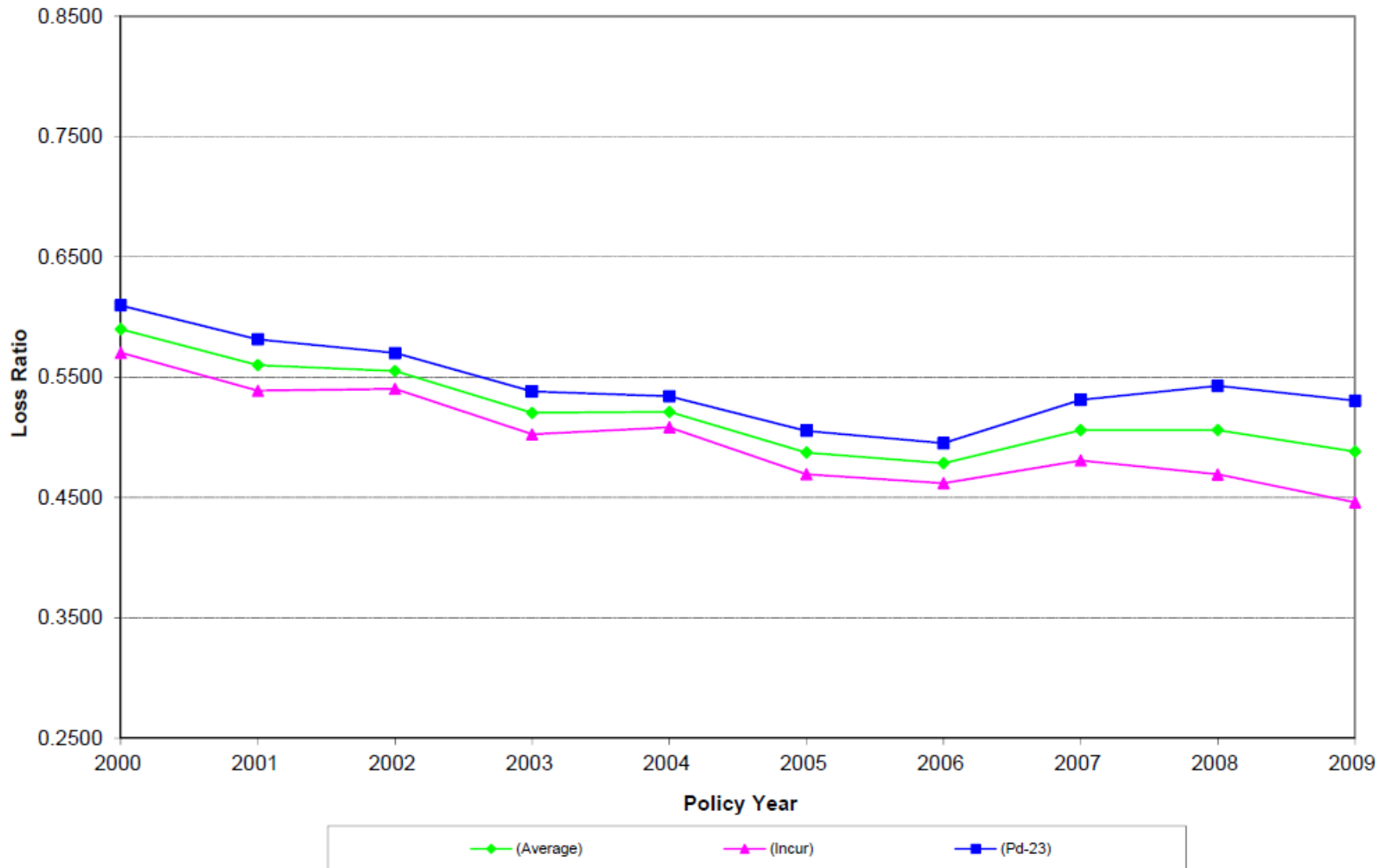
Pennsylvania & Delaware 2011/2012 Filings

A Current Reflection:

Claim frequency improved consistently and significantly for a very long time. This phenomenon cannot have been the result of any one factor, and probably reflected the combined influences of a complex and dynamic set of factors. We cannot explain the entire history of claim frequency with any one theory. We hope the long-term trend for improvement continues!

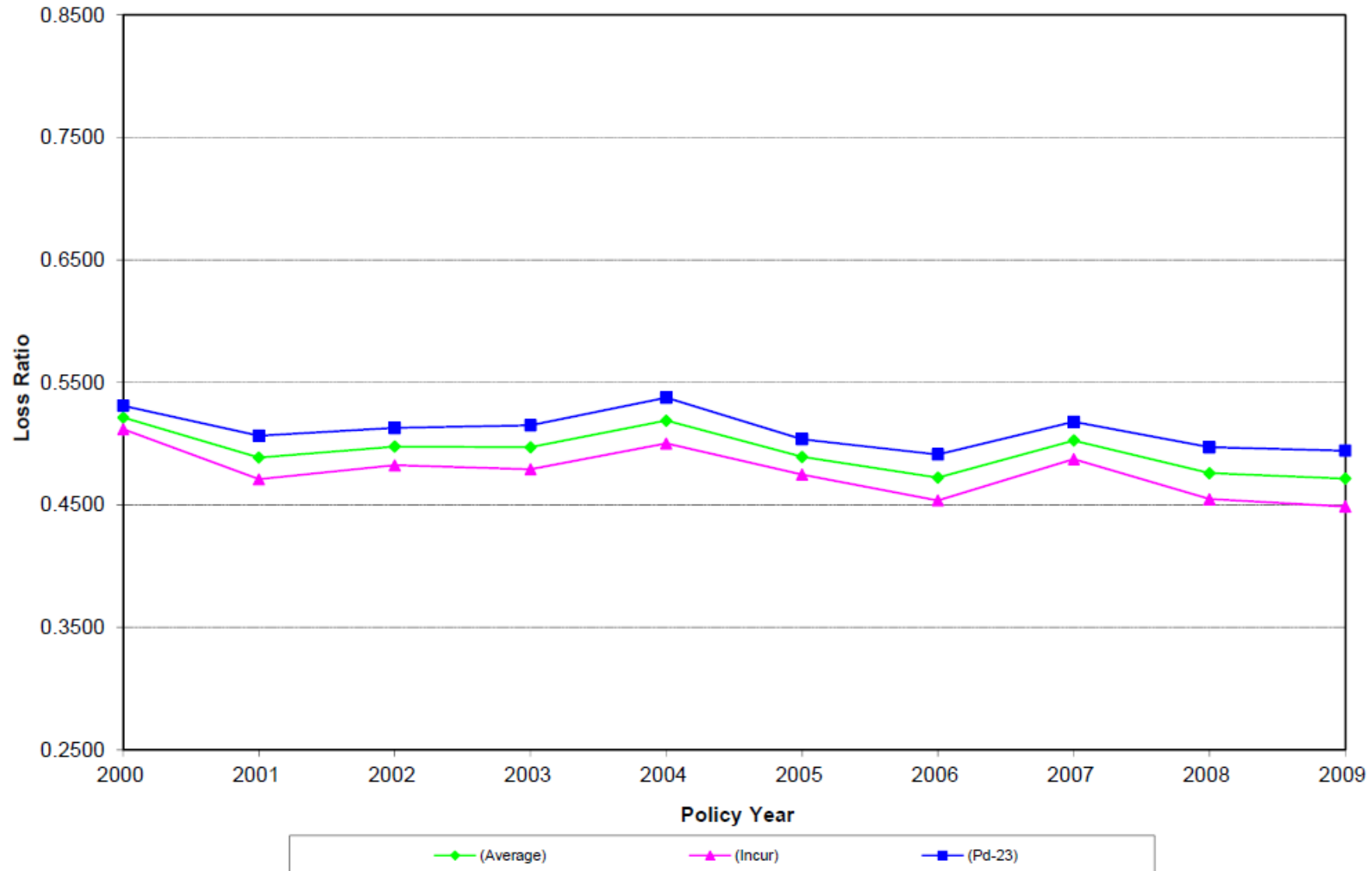
WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

PENNSYLVANIA 4/1/12 FILING
INDEMNITY LOSS RATIOS



WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

PENNSYLVANIA 4/1/12 FILING
MEDICAL LOSS RATIOS



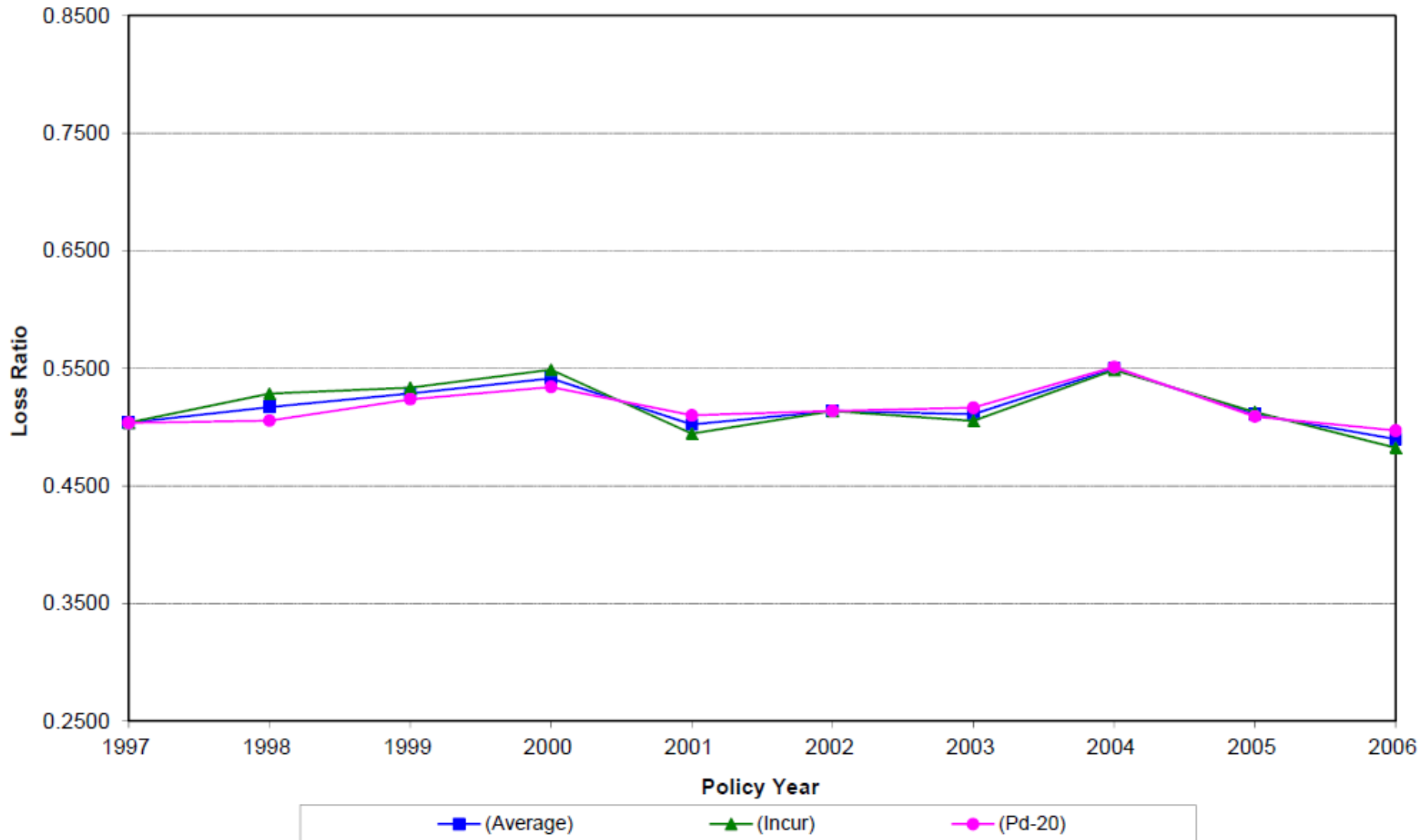
WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

PENNSYLVANIA 4/1/09 FILING
INDEMNITY LOSS RATIOS



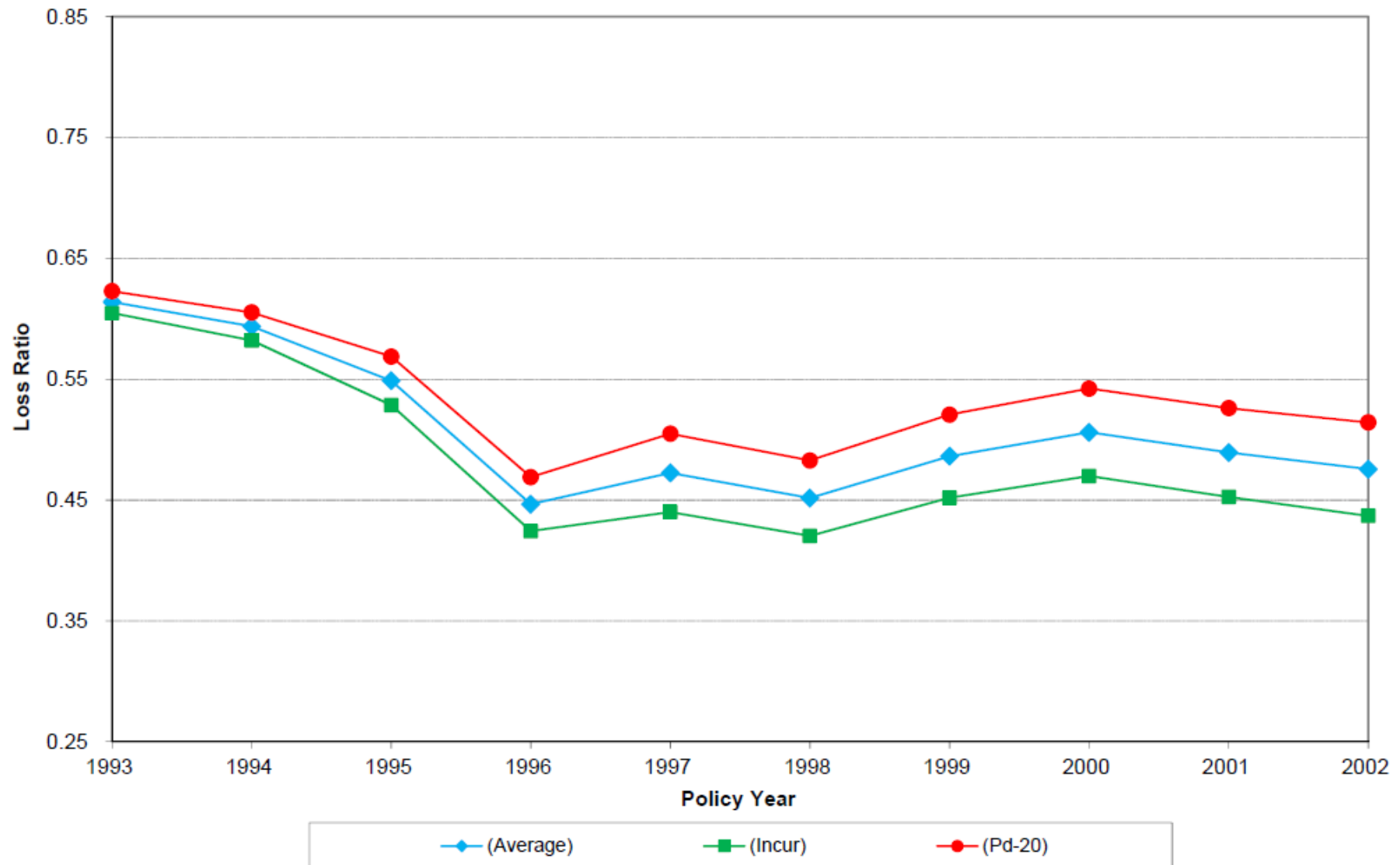
WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

PENNSYLVANIA 4/1/09 FILING
MEDICAL LOSS RATIOS



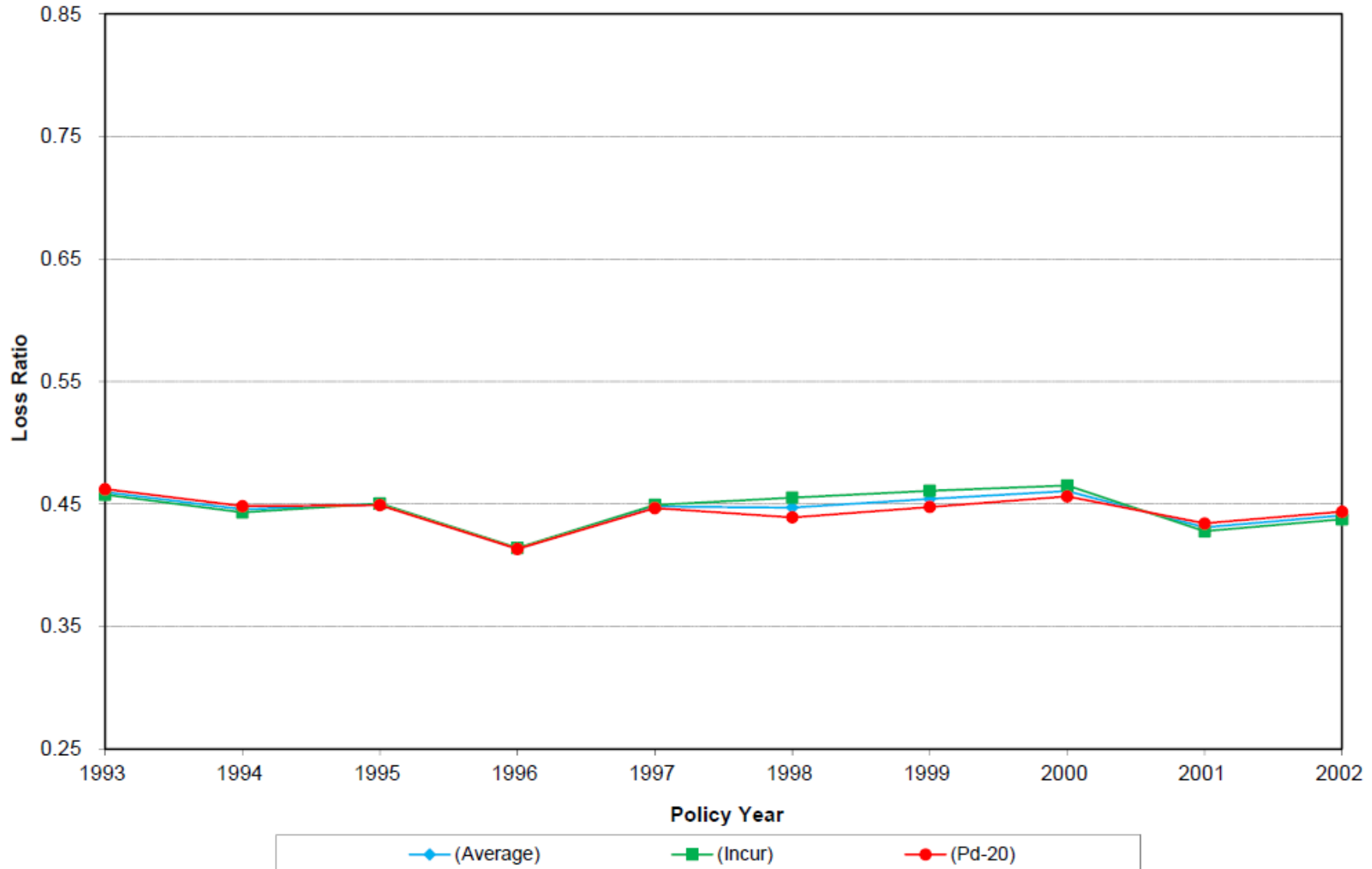
WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

PENNSYLVANIA 4/1/05 FILING
INDEMNITY LOSS RATIOS



WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

PENNSYLVANIA 4/1/05 FILING
MEDICAL LOSS RATIOS



WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Pennsylvania April 1, 2012 Filing
 - Year-to-Year Claim Frequency Changes – Insured Business Excluding Large Deductible
 - Policy Year 2008 to 2009: (3.1)%
 - Policy Year 2007 to 2008: (7.7)%
 - Policy Year 2006 to 2007: (5.7)%
 - Policy Year 2005 to 2006: (3.9)%
 - Policy Year 2004 to 2005: (7.1)%
 - Policy Year 2003 to 2004: (5.6)%
 - Policy Year 2002 to 2003: (8.3)%
 - Policy Year 2001 to 2002: (4.0)%

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Pennsylvania April 1, 2012 Filing
 - Filed Indication -5.66%
 - Claim Frequency Improvement Moderating Somewhat in Most Recent Period **but Continuing to Decline** (Trend Rate (7-point) -5.7%)
Includes effect of wage changes. (Wage increases contribute to our improvement in claim frequency)
 - Severity Trends Still Up, but at Lower Rates Than in Previous Filing
Indemnity +5.2%, Medical +4.8% (Prior Year +6.2% & 5.9%)
(Higher Indemnity Trend May Reflect Accounting for Lump Sum Settlements)

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Pennsylvania April 1, 2012 Filing (continued)
 - Filed Indication -5.66%
 - Loss Development - Average of Case Incurred and Paid Loss Development Methods
 - Trend - Separate Claim Frequency and Severity Trends, Indemnity and Medical Using 7-Point Regressions
 - These Methods Were the Same as Had Been Used for the PCRB's April 1, 2011 Filing

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Pennsylvania April 1, 2012 Filing
 - Challenges to Filing (Public Comments)
 - Loss Development Method (Case Incurred Only)
 - Trend Period (6 Point Loss Ratio vs. 7 Point Frequency & Severity)

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Pennsylvania April 1, 2012 Filing
 - Insurance Department Approved This Filing as Submitted on January 31, 2012

WC2: Workers Compensation – Selected State Issues

Pennsylvania & Delaware 2011/2012 Filings

- Delaware WC System Features
 - Loss Cost State Since 1994
 - Reforms Enacted in 2007
 - Fee Schedule Effective in Fall 2008
 - Practice Guidelines
 - Provider Certification
 - Independent Contractor Status
 - Out-of-State Employer Coverage Requirements
 - Data Collection Mandate

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware WC System Features (continued)
 - Rating Indications Subject to Considerable Volatility
 - Residual Market Rates are VERY Competitive
 - December 1 Annual Loss Cost Filing Effective Date

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware Procedures Inspired by Small Body of Experience Data
 - More Age-to-Age Development Periods Used (4)
 - Smoothing of Age-to-Age Factors Along Maturity Curve
 - Development and Trend Analyses Done on Limited Loss Basis
 - Class Relativities Supplemented with Pennsylvania Information for (Many) Smaller Classes

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware Approved Loss Cost Changes Since 1999
 - March 1, 2001 (9.21)%
 - December 1, 2001 +17.80%
 - December 1, 2002 +6.18%
 - December 1, 2003 (6.72)%
 - December 1, 2004 +16.70%
 - December 1, 2005 +7.10%
 - December 1, 2006 0.00%
 - December 1, 2007 (17.75)%
 - October 1, 2008 (11.57)%
 - December 1, 2008 (11.13)%
 - December 1, 2009 (7.72)%
 - December 1, 2010 (12.30)%
 - December 1, 2011 +11.30%

Note: Filings shown in red font are/were subject to further adjustment based upon 2009 Chancery Court Decision

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware Approved Residual Market Rate Changes Since 1999
 - March 1, 2001 (11.15)%
 - December 1, 2001 +28.50%
 - December 1, 2002 +6.67%
 - December 1, 2003 (7.09)%
 - December 1, 2004 +13.53%
 - December 1, 2005 +8.10%
 - December 1, 2006 +2.57%
 - December 1, 2007 (22.00)%
 - October 1, 2008 (11.57)%
 - December 1, 2008 (9.74)%
 - December 1, 2009 (8.49)%
 - December 1, 2010 (3.75)%
 - December 1, 2011 +16.50%

Note: Filings shown in red font are/were subject to further adjustment based upon 2009 Chancery Court Decision

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- 2009 Chancery Court Decision
 - Requires that savings on claims incurred prior to the effective date of 2007 reform law due to implementation of a medical fee schedule must be returned to employers in the form of reduced rates. Total refund required is 23% of 2008 premium, allocated at 6% of 2008 rates for 2008, 2009 and 2010 filings and 5% of 2008 rates for 2011 filing.

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

Text Excerpted from 2008, 2009, 2010 and 2011 DCRB Filing Letters:

“The rating values submitted herewith do not comply with applicable Standards of Practice of the Casualty Actuarial Society (CAS), in part because they are not expected to be adequate to provide for the cost of providing insurance during the policy period to which they will apply. In addition to Principle 1 of the CAS Statement of Principles Regarding Ratemaking, the prospective adequacy of such rating values is required under the Delaware Code (T. 18., §2604(a)).

The rating values submitted herewith are also not limited to prospective loss costs as defined and required by T. 18., §2610(b)(1) of the Delaware Code and as specified in the first sentence of the Principles Section of the CAS Statement of Principles Regarding Ratemaking.”

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware Notable Issues in Prior Filings
 - Timing of Decisions
 - December 1, 2010 Filing Was Announced **November 24, 2010**
 - December 1, 2009 Filing Was Announced October 27, 2009
 - December 1, 2008 Filing Announced Multiple Times, Last and Final Announcement **September 15, 2009**
 - Loss Development Approaches
 - Trend Methodologies and Assumptions
 - Valuation of 2007-2008 System Reforms
 - Expense Provisions in Residual Market Rates

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware December 1, 2011 Filing
 - Year-to-Year Claim Frequency Changes – Insured Business Excluding Large Deductible
 - Policy Year 2008 to 2009: +1.5%
 - Policy Year 2007 to 2008: (11.7)%
 - Policy Year 2006 to 2007: (6.9)%
 - Policy Year 2005 to 2006: (5.9)%
 - Policy Year 2004 to 2005: (10.5)%
 - Policy Year 2003 to 2004: (11.8)%
 - Policy Year 2002 to 2003: (4.5)%
 - Policy Year 2001 to 2002: +1.3%

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware December 1, 2011 Filing
 - Filed Changes +22.30% Residual Market, +16.81% Loss Cost
 - Claim Frequency Deteriorating Markedly in Most Recent Period
 - Increase of 1.5% Instead of Historical 8+% Decrease
 - Severity Trends Were Up, at Higher Rates Than in Previous Filing
 - Indemnity +2.6%, Medical +6.7% (Prior Year (1.65)% & +5.4%)

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware December 1, 2011 Filing (continued)
 - Loss Development – Average of Case Incurred and Paid Loss Development Using Latest 4 Age-to-Age Factors, Smoothing
 - Frequency Trend – PY 2009 Change (Increase) Applied as Reported, Trend for Other Portions of Trend Period Based on Data through PY 2008
 - Severity Trend – Seven Point Regression Through PY 2009

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware December 1, 2011 Filing (continued)
 - Challenges to Filing (2 Actuarial Consultants Retained by DE Insurance Department)
 - Medical Severity Trend (Impact of Medical Cost Containment Provisions of 2007 Law)
 - Claim Frequency Trend (How PY 2009 Claim Frequency Change Was Reflected in Indication)

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware December 1, 2011 Filing
 - Approval Required Negotiated Amendment, Below Indications of DCRB and Nominally Lower Than Recommendations of Either of Insurance Department's Two Actuarial Consultants
 - Approved Residual Market Change +16.5%
 - Approved Voluntary Market Change +11.3%

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Delaware December 1, 2012 Filing
 - Chancery Court Decision Will No Longer Require Suppression of Rates

(This Amounts to an Embedded Increase of Slightly Less Than **5%** for the Next DCRB Filing)

WC2: Workers Compensation – Selected State Issues Pennsylvania & Delaware 2011/2012 Filings

- Complete PCRB and DCRB Rate/Loss Cost Filings Are Posted on Our Websites

(www.pcrb.com and www.dcrb.com)

- PCRB Filings Since 2002 Are Available
- DCRB Filings Since 2003 Are Available