

**CHAPTER 116. DISCOUNTING OF WORKER'S COMPENSATION  
LOSS RESERVES**

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**Authority**

The provisions of this Chapter 116 issued under The Insurance Department Act of 1921 (40 P. S. §§ 1—321), unless otherwise noted.

**Source**

The provisions of this Chapter 116 adopted February 20, 1987, effective February 21, 1987, 17 Pa.B. 806, unless otherwise noted.

**Cross References**

This chapter cited in 31 Pa. Code § 118.1 (relating to definitions).

**§ 116.1. Definitions.**

The following words and terms, when used in this chapter, have the following meanings:

*Actuary*—A member of the American Academy of Actuaries or an individual who has demonstrated to the satisfaction of the Department that he has the educational background necessary for the practice of actuarial science and that he has not less than 7 years' actuarial experience.

*Annual statement*—The National Association of Insurance Commissioners (NAIC) convention blank for property and casualty companies adopted by the Commissioner under section 320 of The Insurance Company Law of 1921 (40 P. S. § 443).

*Commissioner*—The Insurance Commissioner of the Commonwealth.

*Department*—The Insurance Department of the Commonwealth.

*Insurance company*—A licensed stock or mutual fire or casualty insurer, licensed reciprocal insurance exchange, employers mutual liability insurance association organized under section 636 of the Insurance Company Law of 1921 (40 P. S. § 781) or the State Workmen's Insurance Fund.

*Loss adjustment expense reserves*—The amount set aside as of the annual statement date to provide for the future costs of settling worker's compensation losses whether or not specifically allocated to a given claim.

*Loss reserves*—The amount set aside as of the annual statement date to provide for the payment of future losses under worker's compensation policies issued by insurance companies.

**Cross References**

This section cited in 31 Pa. Code § 118.1 (relating to definitions).

**§ 116.2. [Reserved].**

**Source**

The provisions of this § 116.2 reserved August 10, 2001, effective August 11, 2001, 31 Pa.B. 4423. Immediately preceding text appears at serial page (254694).

**§ 116.3. [Reserved].**

**Source**

The provisions of this § 116.3 reserved August 10, 2001, effective August 11, 2001, 31 Pa.B. 4423. Immediately preceding text appears at serial pages (254694) to (254695).

**§ 116.4. Restrictions on discounting loss reserves.**

The discounting of workers' compensation loss reserves is subject to the following limitations:

- (1) The loss reserves on the insurance company's annual statement calculated under this section may not be less than those required in section 313 of The Insurance Department Act of 1921 (40 P. S. § 112).
- (2) Unless otherwise permitted by paragraphs (3) and (4), an insurance company is not permitted to assume an interest rate greater than the current yield to maturity on a United States Treasury debt instrument with maturities consistent with the expected payout of the liabilities.
- (3) An insurance company may request an exception to the maximum interest rate in paragraph (2) if the insurance company can demonstrate to the satisfaction of the Commissioner that its investment yield justifies a higher interest rate assumption. The Commissioner may require the insurance company to submit additional documentation to support its request for approval of a higher interest rate assumption. The Commissioner will act upon requests for exceptions made under this paragraph within 90 days of the date the request is received by the Department.
- (4) Insurers having used the previous allowed maximum discount of 6% may continue to use the discount factors previously allowed for accident years 2001 and prior, pertaining to policies issued on or prior to August 11, 2001, as long as they continue to demonstrate that they hold sufficient assets to support the 6% interest rate assumption.

**Authority**

The provisions of this § 116.4 amended under The Insurance Company Law of 1921 (40 P. S. §§ 341—999); The Insurance Department Act of 1921 (40 P. S. §§ 1—321); and sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P. S. §§ 66, 186, 411 and 412).

**Source**

The provisions of this § 116.4 amended August 10, 2001, effective August 11, 2001, 31 Pa.B. 4423. Immediately preceding text appears at serial page (254695).

**§ 116.5. Actuarial statement of opinion.**

(a) The actuarial statement of opinion required to be submitted with the annual statement shall include the opinion of an actuary with respect to the following:

- (1) The adequacy of workers compensation loss reserves on an undiscounted basis.
- (2) The sufficiency of the investment yield on invested assets to fund the discount.
- (3) The reasonableness of the matching of the invested assets and loss reserves attributable to the workers' compensation business to provide an adequate income stream to fund the discount.

(b) The actuarial statement of opinion, as it pertains to discounting, shall be determined in accordance with *Actuarial Standard of Practice No. 20, Discounting of Property and Casualty Loss and Loss Adjustment Expense*.

**Authority**

The provisions of this § 116.5 amended under The Insurance Company Law of 1921 (40 P. S. §§ 341—999); The Insurance Department Act of 1921 (40 P. S. §§ 1—321); and sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P. S. §§ 66, 186, 411 and 412).

**Source**

The provisions of this § 116.5 amended August 10, 2001, effective August 11, 2001, 31 Pa.B. 4423. Immediately preceding text appears at serial pages (254695) to (254696).

**Cross References**

This section cited in 31 Pa. Code § 116.6 (relating to reserves for loss adjustment expenses).

**§ 116.6. Reserves for loss adjustment expenses.**

(a) Loss adjustment expense reserves shall be calculated with the following standards:

- (1) Insurance companies are not permitted to discount loss adjustment expense reserves which are not applicable to specific claims.
- (2) Insurance companies are permitted to discount loss adjustment expense reserves which are allocable to specific claims if they can demonstrate, to the satisfaction of the Commissioner, the validity of their assumptions underlying the calculation of the reserves. The insurance company shall provide an actuarial statement of opinion which includes the opinion of the actuary with respect to the criteria in § 116.5 (relating to actuarial statement of opinion).

(b) In evaluating an insurance company's request to discount allocated loss adjustment expense reserves, the Commissioner will consider the company's specific loss adjustment expense pattern and the interest rate assumption.

**Authority**

The provisions of this § 116.6 amended under The Insurance Company Law of 1921 (40 P. S. §§ 341—999); The Insurance Department Act of 1921 (40 P. S. §§ 1—321); and sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P. S. §§ 66, 186, 411 and 412).

**Source**

The provisions of this § 116.6 amended August 10, 2001, effective August 11, 2001, 31 Pa.B. 4423. Immediately preceding text appears at serial page (254696).

**Cross References**

This section cited in 31 Pa. Code § 116.8 (relating to increased loss reserves and loss adjustment expense reserves).

**§ 116.7. [Reserved].**

**Source**

The provisions of this § 116.7 reserved August 10, 2001, effective August 11, 2001, 31 Pa.B. 4423. Immediately preceding text appears at serial page (254696).

**§ 116.8. Increased loss reserves and loss adjustment expense reserves.**

The Commissioner may require an insurance company to maintain loss reserves at a greater level than those which result from the application of this chapter, and allocated loss adjustment expense reserves at a level greater than those calculated under § 116.6 (relating to reserves for loss adjustment expenses) when the Commissioner determines it is necessary to insure that reserves are established at an adequate level.

**Authority**

The provisions of this § 116.8 amended under The Insurance Company Law of 1921 (40 P. S. §§ 341—999); The Insurance Department Act of 1921 (40 P. S. §§ 1—321); and sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P. S. §§ 66, 186, 411 and 412).

**Source**

The provisions of this § 116.8 amended August 10, 2001, effective August 11, 2001, 31 Pa.B. 4423. Immediately preceding text appears at serial page (254697).

**§ 116.9. [Reserved].**

**Source**

The provisions of this § 116.9 reserved August 10, 2001, effective August 11, 2001, 31 Pa.B. 4423. Immediately preceding text appears at serial page (254697).

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