

**CHAPTER 120. LOSS COSTS ADJUSTMENT FILINGS—
STATEMENT OF POLICY**

Sec.	
120.1.	Workers' compensation loss costs and loss costs adjustment filings.
120.2.	Definitions.
120.3.	Rates/loss costs.
120.4.	Insurer action.
120.5.	Supplementary rate information: rating organization action.

Source

The provisions of this Chapter 120 adopted August 27, 1993, effective August 28, 1993, 23 Pa.B. 4113, unless otherwise noted.

§ 120.1. Workers' compensation loss costs and loss costs adjustment filings.

(a) Under the conditions of the act, rating organizations will no longer develop or file final rates, but instead will develop and file for approval prospective loss costs and supporting actuarial and statistical data. Each insurer shall individually determine and file the rates it will use as a result of its own independent company decision making process. Rating organizations will continue to develop and file rules, relativities and supplementary rating information as identified in this chapter on behalf of their members, subscribers or service purchasers. Rating organization filings should be limited to loss costs and should not contain provisions for expenses.

(b) After the initial required filing specified in the act, a participating insurer of a rating organization is authorized to continue to use the rates and deviations filed and approved for its use until disapproved, or until the insurer makes its own filing to change its rates, either by making an independent filing or by filing a nonadoption letter of the rating organization filing. Nonresponse by a company to the Department to a rating organization filing will be considered adoption of that filing.

§ 120.2. Definitions.

The following terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

Act—The Workers' Compensation Act (___ P. S. ___).

Commissioner—The Insurance Commissioner of the Department.

Department—The Insurance Department of the Commonwealth.

Developed losses—Losses adjusted, using standard actuarial techniques, to recognize the effect of differences between current payment or reserve estimates, or both, and those estimated to be needed to provide actual ultimate loss.

Expenses—The portion of a rate attributable to acquisition, field supervision, collection expenses, general expenses, taxes, licenses, fees, loss adjustment expenses, other operating expenses and assessments.

Loss trending—A procedure for projecting developed losses to the average date of loss for the period during which the policies are to be effective.

Profit and contingency—The amounts that when considered with net investment and other income, provide an appropriate total after-tax return.

Prospective loss costs—That portion of a rate that does not include provisions for expenses or profit and are based on historical aggregate losses adjusted through development to their ultimate value and projected through trending to a future point in time.

Rate—The rate of premium, policy and membership fee, or other charge made by an insurer for or in connection with a contract or policy of insurance of the kind to which the act applies.

Supplementary rating information—The term includes a manual or plan of rates, classification system, rating schedule, minimum premium policy fee, rating rule, rate-related underwriting rule, experience rating plan, statistical plan and other information needed to determine the applicable rate in effect or to be in effect.

§ 120.3. Rates/loss costs.

(a) Rating organizations will no longer develop or file advisory final rates that contain provisions for expenses and profit, including investment income or consideration of the time value of money, or both. Instead, for workers compensation insurance, rating organizations will develop and file for approval with the Commissioner in accordance with Article VII of the act (___ P. S. ___) a reference filing containing advisory prospective loss costs and supporting actuarial and statistical data, including a discussion of those considerations enumerated in the Statement of Principles of the Casualty Actuarial Society regarding property and casualty loss reserving.

(b) Loss costs filings will contain the advisory prospective loss costs and the underlying loss data and other supporting actuarial information for calculations or assumptions underlying those loss costs. It is anticipated that loss based assessments will be included in prospective loss costs.

(c) After a loss costs filing has been filed with the Department and approved, the rating organization will provide its participating insurers with a copy of the approved reference filing.

(d) The rating organization may print and distribute manuals of prospective loss costs as well as rules and other supplementary rating information described in section 2 A of the Calculation of Company Loss Cost Multiplier Form which appears in Appendix A.

(e) With the initial prospective loss costs reference filing, rating organizations will no longer develop or file minimum premiums, minimum premium formulas, loss constants, premium discounts or expense constants.

§ 120.4. Insurer action.

(a) Each insurer shall individually determine the final rates it will file for approval, for filings submitted before December 1, 1994, and the effective date of rate changes. Individual insurer loss costs adjustment filings are not subject to approval after December 1, 1994, unless they are found in violation of sections 704 and 711 of the act (___ P. S. ___). This will be the result of the independent company decision making process of each insurer. For the initial loss costs adjustment filing, the Commissioner “ . . . shall publish an aggregate factor reflecting the experience of stock insurance companies and including the effect of applicable premium discount programs, for loss adjustment, or claim management expenses, other operating expenses, assessments, taxes and profit or contingency allowances which all insurers may use in the foregoing initial filings. Any insurer filing which uses an aggregate factor not in excess of the appropriate foregoing factor shall be deemed approved upon filing for purposes of this section.” (See section 24(5) of the act of July 2, 1993 (P. L. ___ , No. 44).) An insurer shall submit its filing for the Commissioner’s aggregate factor in writing to the Department in duplicate with a stamped, self-addressed return envelope. The Department will acknowledge receipt of the filing, and send a copy of the acknowledgment to the company. If an insurer’s loss costs adjustment filing is disapproved, under section 705(b) of the act (___P. S. ___), it “ . . . may not make or issue a contract or policy of insurance of the kind to which this article applies, except in accordance with the filings which are in effect for the insurer as provided in this article.” This provision would require an insurer to use the rates approved as of December 1992 until its initial loss costs adjustment filing is approved.

(b) If an insurer that is a member, subscriber or service purchaser of a rating organization decides to use the prospective loss costs in the approved reference filing in support of its own initial filing, the insurer should make a filing for approval using the reference filing adoption form. The insurer’s rates are the combination of the prospective loss costs and the loss costs adjustments contained in the reference filing adoption form, which should be completed even if adopting the aggregate factor. After the approval of an initial filing, the insurer shall notify the Department if it chooses not to use an approved rating organization loss costs filing.

(c) Insurers may file modifications of the prospective loss costs in the approved reference filing based on their own anticipated experience. Supporting documentation will be required for modifications, upwards or downwards, of the prospective loss costs in the approved reference filing.

Examples

The “summary of supporting information form,” this refers to the forms in Appendix A, contains a reference to examples of how to apply a company’s loss costs modification factor (this and other terms that are a part of Appendix A are defined in the context with which they are used on the forms) to the rating organization’s prospective loss costs. Two examples follow:

Example 1: Loss costs modification factor: If your company’s loss costs modification is -10% , a factor of $.90$ ($1.000 - .100$) should be used.

Example 2: Loss costs modification factor: If your company’s loss costs modification is $+15\%$, a factor of 1.15 ($1.000 + .150$) should be used.

(d) Insurers may vary expense loads by individual classification or grouping. Insurers may use variable or fixed expense loads or a combination of these to establish their expense loadings. The loss costs methodology shall be filed with the Department. Insurers are required to file data in accordance with the uniform statistical plan approved by the Commissioner. Insurers may offer premium discount plans that shall be filed with the Department. For the purpose of the initial filing, insurers may choose to adopt the premium discount plan approved and currently on file with the Department.

(e) At a minimum, the Department will require the following data to support the loss costs adjustment filing by insurers: an explanation of the derivation of expense loadings including documentation of data sources relied on to derive the actual loadings and documentation showing how the company arrived at its underwriting profit loading and how it reflected investment income in the derivation of the profit loading. In addition, an exhibit showing the company’s estimated payout pattern including data and methodology that documents its derivation and an exhibit showing how the loss adjustment expense factor was derived using historical state specific and countrywide data will be required. Loss constants should be filed as a separate item under “Other” on the form.

(f) If an insurer wishes to use minimum premiums, it shall file with support, and obtain approval for, the minimum premium rules, formulas or amounts it proposes to use.

(g) The insurer may request to have its loss costs adjustments remain on file and refer to all subsequent loss costs reference filings. Under such a request, the insurer’s rates will be the combination of prospective loss costs, subsequently approved under the rating organization’s reference filings, and the loss costs adjustments contained in the insurer’s reference filing adoption form on file with the Department. These rates will be effective on the effective dates of those prospective loss costs.

(1) If an insurer that has filed to have its loss costs adjustments remain on file with the Department intends to delay, modify or not adopt a particular rating organization’s reference filing, the insurer shall make an appropriate filing with the Department.

(2) The insurer's filed loss costs adjustments will remain in effect until the insurer withdraws them or files and receives approval of a revised reference filing adoption form.

(h) Insurers may file other information which the company deems relevant and shall provide other information requested by the Department.

(i) To the extent that an insurer's final rates are determined solely by applying its loss costs adjustments, as presented in the reference filing adoption form, to the prospective loss costs contained in a rating organization's reference filing and printed in the rating organization's rating manual, the insurer need not develop or file its final rate pages with the Commissioner. If an insurer chooses to print and distribute final rate pages for its own use, based solely upon the application of its filed loss costs, the insurer need not file those pages with the Commissioner. If the rating organization does not print the loss costs in its manual, the insurer shall submit its rates to the Commissioner.

(j) For future reference filings filed by a rating organization:

(1) If the insurer has filed to have its loss costs adjustments remain on file, and have them applicable to subsequent reference filings, the following conditions apply:

(i) If the insurer decides to use the revision of the prospective loss costs and effective date as filed, the insurer does not file anything with the Department. Rates are the combination of the prospective loss costs and the on-file loss costs adjustments and become effective on the effective date of the loss costs.

(ii) If the insurer decides to use the prospective loss costs as filed but with a different effective date, the insurer shall notify the Department of its effective date before the effective date of the loss costs.

(iii) If the insurer decides to use the revision of the prospective loss costs, but wishes to change its loss cost adjustments, the insurer shall file for approval a revised reference filing adoption form before the effective date of the reference filing.

(iv) If the insurer decides not to revise its rates using the prospective loss costs, the insurer shall notify the Department before the effective date of the loss costs.

(2) If an insurer has not elected to have its loss costs adjustments remain on file, applicable to future prospective loss costs reference filings and a new reference filing is filed and approved, the following conditions apply:

(i) If the insurer decides to use the prospective loss costs to revise its rates, the insurer shall file a reference filing adoption form for approval including its effective date.

(ii) If the insurer decides not to use the revisions, the insurer does not file anything with the Department.

§ 120.5. Supplementary rate information: rating organization action.

(a) *Rating organization filings.* The rating organization files with the Department, for approval, filings containing a revision of rules and supplementary rating information. This includes policy-writing rules, rating plans, classification codes and descriptions and rules which include factors or relativities such as employers liability increased limits factors, classification relativities or similar factors but excludes minimum premiums. A rating organization filing should be limited to loss costs and not contain provisions for expenses.

(1) These filings are made by the rating organization on behalf of insurers that have authorized the rating organization to file rules, relativities and supplementary rating information on their behalf.

(2) Rating organizations may print and distribute manuals of rules and supplementary rating information excluding minimum premiums.

(b) *Insurer action.* If an insurer has authorized a rating organization to file on its behalf, and a new filing of rules, relativities and supplementary rating information is filed and approved, the following conditions apply:

(1) If the insurer decides to use the revisions and effective date as filed, the insurer does not file anything with the Department.

(2) If the insurer decides to use the revisions as filed but with a different effective date, the insurer shall notify the Department of its effective date before the approved rating organization's effective date.

(3) If the insurer decides not to use the revision, the insurer shall notify the Department before the rating organization's effective date.

(4) If the insurer decides to use the revision with modifications, the insurer shall file the modification with the Department, for approval, specifying the basis for the modification and the insurer's proposed effective date filed by the rating organization.

APPENDIX A

Date: _____

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**WORKERS COMPENSATION
INSURER RATE FILING
ADOPTION OF ADVISORY ORGANIZATION
PROSPECTIVE LOSS COSTS
REFERENCE FILING ADOPTION FORM**

1. INSURER NAME _____
 ADDRESS _____

PERSON RESPONSIBLE FOR FILING _____
 TITLE _____ TELEPHONE # _____

2. INSURER NAIC # _____

3. ADVISORY ORGANIZATION _____

4. ADVISORY ORGANIZATION REFERENCE FILING # _____

5. The above insurer hereby declares that it is a member, subscriber or service purchaser of the named advisory organization for this line of insurance. The insurer hereby files to be deemed to have independently submitted as its own filing the prospective loss costs in the caption Reference Filing.

The insurer's rates will be the combination of the prospective loss costs and the loss cost multipliers and, if utilized, the expense constants specified in the attachments.

6A. PROPOSED RATE LEVEL CHANGE _____% EFFECTIVE DATE _____

6B. PROPOSED PREMIUM LEVEL CHANGE* _____% EFFECTIVE DATE _____

7A. PRIOR RATE LEVEL CHANGE _____% EFFECTIVE DATE _____

7B. PRIOR PREMIUM LEVEL CHANGE* _____% EFFECTIVE DATE _____

8. ATTACH "SUMMARY OF SUPPORTING INFORMATION FORM"
(Use a separate Summary for each insurer - selected loss cost multiplier.)

9. CHECK ONE OF THE FOLLOWING:

- The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable to future revisions of the advisory organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the advisory organization's prospective loss costs and the insurer's loss cost multipliers and, if utilized, expense constants specified in the attachments. The rates will apply to policies written on or after the effective date of the advisory organization's prospective loss costs. This authorization is effective until disapproved by the Commissioner, or amended or withdrawn by the insurer.
- The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable only to the Advisory Organization Reference Filing.

*The premium level change is the change in the insurer's annual collectible premium.

**SUMMARY OF SUPPORTING INFORMATION FORM
WORKERS COMPENSATION - INSURER RATE FILING
ADOPTION OF ADVISORY ORGANIZATION
PROSPECTIVE LOSS COSTS (Excluding LAE)**

Date:
Insurer Name:
NAIC #:

CALCULATION OF COMPANY LOSS COST MULTIPLIER

- | | YES | NO |
|---|-----|-----|
| 1. Does this filing apply to all classes contained in item 4 of the Reference Filing Adoption Form?
<i>If no, attach a list of affected classes.</i> | [] | [] |
| 2. Loss Cost Modification: | | |
| A. The insurer hereby files to adopt the prospective loss costs in the captioned reference filing: (CHECK ONE) | | |
| <input type="checkbox"/> Without modification. (factor = 1.000) ENTER IN 2B. | | |
| <input type="checkbox"/> With the following modification(s). (Cite the nature and percent modification to the advisory organization's loss experience. Attach supporting data and/or rationale.) ENTER IN 2B. | | |
| B. Loss Cost Modification Expressed as a Factor: (See examples in bulletin.) | | [] |
| C. Loss Adjustment Expense (LAE) Factor: | | [] |
| D. Combined Loss Cost Modification and LAE Factor: $2B \times 2C =$ | | [] |
| 3. Development of Expected Loss and Loss Adjustment Expense (Target Cost) Ratio.
<small>(Attach exhibit detailing insurer expense data, impact of premium discount plans, and other supporting information.)</small> | | |
| <i>PROJECTED EXPENSES: compared to standard premium at company rates.</i> | | |
| A. Total Production Expense | | % |
| B. General Expense | | % |
| C. Taxes, Licenses & Fees | | % |
| D. Profit & Contingencies including offset for Investment Income | | % |
| E. Other (explain) | | % |
| F. TOTAL | | % |
| 4. Expected Loss & Loss Adjustment Expense (Target Cost) Ratio:
<i>ELR = 1.000 - 3F (expressed in decimal form)</i> | | |
| 5. Overall impact of expense constant & minimum premiums:
<i>(A 2.3% impact would be expressed as 1.023)</i> | | |
| 6. Overall impact of size-of-risk discounts plus expense gradation recognition in retrospective rating:
<i>(A 8.6% avg. discount would be expressed as 0.914)</i> | | |
| 7. Company Formula Loss Cost Multiplier: $2D / [(6 - 3F) \times 5] =$ | | |
| 8. Company Selected Loss Cost Multiplier:
<i>Attach exhibit explaining any differences between 7 & 8.</i> | | |
| 9. Are you amending your minimum premium formula?
<i>If yes, attach documentation including rate level impact as well as changes in multipliers, expense constants, maximum minimums, etc.</i> | [] | [] |
| 10. Are you changing your premium discount schedules?
<i>If yes, attach schedules and support detailing premium or rate level change.</i> | [] | [] |

[Next page is 121-1.]