



## MEMORANDUM

TO: Delaware Compensation Rating Bureau, Inc. (DCRB) Classification and Rating Committee (Committee)

FROM: David T. Rawson – Technical Director Classification and Field Operations

DATE: August 7, 2015

RE: The Proposed Merger of Code 287, “Publisher, Performs Product Distribution,” into Code 924, Wholesale Store, N.O.C.

The Proposed Merger of Code 442, Hand Tool Mfg. – Non-Forged and Code 443, Saw Blade Mfg. into Code 445, Hardware Mfg., N.O.C.

## BACKGROUND

The Committee is aware of the Delaware Compensation Rating Bureau, Inc.’s (DCRB) longstanding practice of maintaining the separate DCRB and Pennsylvania Compensation Rating Bureau (PCRB) uniform classification plans to be as closely aligned as feasible in light of the different business circumstances in each state. Codes 287, 442 and 443 were proposed to and approved by Delaware’s Insurance Commissioner for use in Delaware shortly after each of those three classifications had been proposed by PCRB and approved for use in Pennsylvania by Pennsylvania’s Insurance Commissioner. PCRB proposed Codes 287, 442 and 443 as “interim classifications” for one or more of the reasons discussed below.

From time to time, classification studies may recommend the creation of one or more “interim” classifications. This occurs when a study’s rigorous statistical analysis results in the following types of findings for one or more of the different employer groups in the classification being studied.

- The statistical analysis first shows that there are significant statistical differences between the employer group(s) in question and the balance of the classification under review for at least two of the three experience statistics to which statistical tests are commonly applied (i.e., reported pure premium, claim frequency and claim severity). Such statistical findings suggest that the employer group should be separated from the classification being studied.
- Pursuant to an underwriting finding of reasonably analogous business operations with another existing PCRB classification(s), separate and additional statistical testing shows that there are no significant statistical differences between the employer group(s) in question and the analogous classification(s) for at least two of the three above-noted statistical tests.

- The PCRB cannot propose that the employer group(s) be reclassified into the analogous PCRB classification(s) at the time of the study because the differences between the existing classification's approved rating value and those of the analogous classification(s) exceed the maximum permissible annual rating value decrease or increase.

The "interim" classification procedure was developed by PCRB to respond to circumstances like those described above. The procedure involves proposing to separate the employer group(s) from the studied classification(s) and reclassifying the group(s) to a new, separate classification(s). Such changes are premised upon the nature of the classification study's findings which support the reclassification by analogy of the studied employer group(s) to another, existing class but recognize that the indicated change(s) in rating values would exceed the permissible maximum annual change. Committee meeting materials and filing documentation further state that staff will continue to monitor the rating values of the "interim" classification(s) so established and of the analogous classification(s) to which the study showed the employer group should be reclassified. In the future event that the rating values of these classifications become sufficiently similar to permit consolidation, staff is generally favorably inclined to recommend such action to the Committee.

PCRB proposed, and the Pennsylvania Department approved, the merger of Code 287 into Code 924 and the merger of Codes 442 and 443 into Code 445 effective for new and renewal policies of December 1, 2008 and later. Since that time, there has been no one-to-one Pennsylvania classification for Delaware Code 287, Code 442 or Code 443. The existence of one-to-one Pennsylvania and Delaware classifications is one of the tools available to assist in creating Delaware class rating values when Delaware class' experience is limited.

DCRB's actuarial staff has recently utilized another method to create the Code 287, Code 442 and Code 443 rating values. Codes 287 and 924 have been combined together for purposes of rating value calculation. DCRB began phasing in the combination of Codes 287 and 924, and the separate combination of Codes 442, 443 and 445, effective with DCRB's December 1, 2009 all classifications rating values revision. Code 287 and Code 924, and Codes 442, 443 and 445, have had identical rating values since DCRB's December 1, 2012 comprehensive rating values revision.

## **BACKGROUND AND SCOPE OF CODE 287**

Among the classification questions addressed in the separate DCRB and PCRB class studies of Code 281, Printing, N.O.C. and Code 282, Newspaper Publishing and Printing was how to classify publishers who performed the necessary prepress tasks (preparing documents for reproduction), who then outsourced the actual printing of their publication(s), and who received delivery of the printed publication(s) and distributed the publication(s) to customers. This matter had been the subject of previous staff discussions and at least one employer appeal before a PCRB Appeals Subcommittee. Pursuant to the information available at that time, the Subcommittee had assigned the appellant to Code 281. Staff's report had gone on to note that the Code 281 classification study was the first time that the question of how to classify such businesses had been studied with the benefit of rigorous statistical analysis. Separate statistical analyses showed that there were significant statistical differences between this employer group

and the remainder of Code 281, and also between the employers assigned to Code 282 and the remainder of Code 282. A third statistical analysis showed that there were no significant statistical differences between publishers assigned to Code 281 or to Code 282. Staff argued from both operational and employment profile bases that there was a reasonable analogy between publishers who performed prepress tasks and outsourced printing, but performed printed product distribution, and Code 924. A third statistical analysis showed no significant statistical differences between these types of publishers and Code 924. Staff thus proposed an “interim” classification (Code 287) be created, because the difference between the approved Code 281 and Code 924 rating values exceeded the then-permissible rating value change.

Based on the Class Book that was a part of DCRB’s December 1, 2014 comprehensive rating values revision, Code 287’s five-year payroll was \$823,000 (rounded to the nearest thousand dollars). Approximately 99% of the combined Codes 287 and 924 five-year payroll and loss experience has been reported to Code 924. DCRB’s records show that five employers have reported experience to Code 287. Four of them have records of current coverage. Three are attributing payroll to Code 287 on their current workers’ compensation policies. The fourth employer shows Code 287 on an “if any” basis.

### **BACKGROUND AND SCOPES OF CODES 442 & 443**

Discussion of the classification applicable to businesses principally engaged in manufacturing non-forged hand tools or saw blades and/or industrial knives took place in PCR’s study of Code 441, Tool Mfg., N.O.C. DCRB’s separate Code 441 study report found a single employer performing the manufacture of nonforged hand tools, and no Delaware business(es) making saw blades and/or industrial knives.

PCR’s study report separately discussed the five-year experience incurred by each employer group. Separate statistical analyses first showed significant statistical differences for reported pure premium and claim frequency between the five-year experience of the hand tool makers and the remainder of Code 441. There was no significant statistical difference between these respective groups for claim severity. A second statistical analysis showed that there were no significant statistical differences between the five-year experience of the hand tool makers and Code 445.

The saw blade or industrial knife makers’ five-year experience and separate statistical testing showed that there were significant statistical differences between the saw blade or industrial knife makers and the remainder of Code 441 for reported pure premium and claim frequency, but that there was no significant statistical difference for claim severity. Another statistical test showed that there were no significant statistical differences between the saw blade and industrial knife makers’ five-year experience and Code 445. Staff again proposed that “interim” classifications (Codes 442 and 443) be created because the difference between the approved Code 441 and Code 445 rating values exceeded the then-permissible rating value change.

Based on the Class Book that was a part of DCRB’s December 1, 2014 comprehensive rating values revision, only a single employer reported payroll to Code 442. That employer last reported payroll to Code 442 in 2002 and has been without workers’ compensation coverage (and likely out of business) since September 21, 2009. DCRB’s records also show no Delaware employer has reported payroll to Code 443.

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**RECOMMENDATIONS:**

1. That Code 287 be merged into Code 924, and Codes 442 and 443 be merged into Code 445, with each classification merger becoming effective concurrent with DCRB's forthcoming 2015 annual comprehensive classification rating values revision. That proposal will have a proposed effective date for new and renewal policies of December 1, 2015 and later.

**PREMIUM IMPACT** – There is no premium impact to any of the classification mergers being proposed.

First, Codes 287 and 924 have been combined for purposes of class rating values calculation since DCRB's December 1, 2009, and the two classifications have had the same rating values since DCRB's December 1, 2012 rating values filing as filed with and approved by the Commissioner.

Regarding Codes 442 and 443, there is no current Delaware experience in either classification. Also, Codes 442 and 443 have had the same class rating values as those of Code 445 since DCRB's December 1, 2012 comprehensive rating values revision as filed with and approved by the Commissioner.

The enabling Section 2 Manual language proposals for the class revision proposals herein are attached.

DTR

Section 2

CHANGES:

<p><b>Code 441 TOOL Mfg., N.O.C.</b></p> <p>Applies to a business.....by hand or machine.</p> <p><b>OPERATIONS NOT INCLUDED:</b>          Paragraphs 1 through 6 remain unchanged.          7. <u>Assign Code 445 to [T]the manufacture of non-forged and non-powered hand tools, such as screwdrivers, pliers, hammers or chisels, and/or non-forged bench tools [shall be assigned to Code 442].</u>          8. <u>Assign Code 445 to [S]saw blade (all types) or industrial knife manufacture [shall be assigned to Code 443].</u>          Paragraphs 9 through 13 remain unchanged.</p>												
<p><b>Code 445 HARDWARE MFG., N.O.C.</b></p> <p><u>Applies to businesses principally engaged in the manufacture of hardware. The term encompasses a variety of products manufactured by different production techniques including but not necessarily limited to: machining (including screw machining), stamping, and foundry. Please see the Underwriting Guide entries below for a representative listing of hardware products and the in-shop specialist contractors (e.g., coating of parts, polishing and buffing and spray painting) assigned to this classification.</u></p> <p><b><u>OPERATIONS ALSO INCLUDED:</u></b></p> <ol style="list-style-type: none"> <li><u>1. The secondary machining of hardware castings by the foundry employer.</u></li> <li><u>2. A business principally engaged in machining or assembling non-forged or non-powered hand or bench tools such as screwdrivers, pliers, hammers, chisels or wrenches.</u></li> <li><u>3. A business principally engaged in the manufacture of any type of saw blade or applying carbide tips or diamond cutting segments onto saw blades.</u></li> <li><u>4. A business principally engaged in manufacturing any type of industrial knife.</u></li> </ol> <p><b><u>OPERATIONS NOT INCLUDED:</u></b></p> <ol style="list-style-type: none"> <li><u>1. Assign Code 433 to a business principally engaged in forging hand tools.</u></li> <li><u>2. Assign Code 473 to a business principally engaged in making portable powered hand tools.</u></li> </ol>												
<table border="0"> <tr> <td>File, Tool (Non-Forged) Mfg.....</td> <td>[442]</td> <td><u>445</u></td> </tr> <tr> <td>Hand Tool Mfg. – Non-Forged (Excluding Axes, Agricultural Tools, Sledgehammers Or Wheelbarrows).....</td> <td>[442]</td> <td><u>445</u></td> </tr> <tr> <td>Industrial Knife Mfg. – All Types.....</td> <td>[443]</td> <td><u>445</u></td> </tr> <tr> <td>Saw Blade Mfg. – All Types.....</td> <td>[443]</td> <td><u>445</u></td> </tr> </table>	File, Tool (Non-Forged) Mfg.....	[442]	<u>445</u>	Hand Tool Mfg. – Non-Forged (Excluding Axes, Agricultural Tools, Sledgehammers Or Wheelbarrows).....	[442]	<u>445</u>	Industrial Knife Mfg. – All Types.....	[443]	<u>445</u>	Saw Blade Mfg. – All Types.....	[443]	<u>445</u>
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<p><b>Code 924 WHOLESALE STORE, N.O.C.</b>  <u>Applies to dealers principally engaged in the wholesale distribution of merchandise not specifically assigned to another wholesale store classification. Please see the Underwriting Guide entries below for a representative listing of the types of wholesale dealers contemplated by this classification. Please see the Wholesale/Retail Mail Order House Or Internet Sales Definitions entry in the General Auditing &amp; Classification Information section for the definition of wholesale sales.</u></p> <p><u>OPERATIONS ALSO INCLUDED:</u></p> <p>1. <u>Publishers of any type of publication performing the pre-press work, outsourcing the actual printing of the publication and then receiving and distributing the publication.</u></p>
<p>Publisher – Outsources Printing, Performs Product Distribution.....[287] <b>924</b></p>

DELETIONS

<p><b>[Code 287 PUBLISHER – Printing Outsourced, PERFORMS PRODUCT DISTRIBUTION</b>          Applicable to businesses.....Rule IV, Paragraph C. 3. a. 2.]</p>
<p><b>[Code 442 HAND TOOL MFG – NON-FORGED</b>          Applies to a business.....powered hand tools.]</p>
<p><b>[Code 443 SAW BLADE OR INDUSTRIAL KNIFE MFG.</b>          Applies to a business.....grind the knife’s edge.]</p> <p>Underwriting Guide          [Knife Mfg. – Industrial All Types.....443]</p>

GENERAL AUDITING AND CLASSIFICATION INFORMATION

CHANGE:

EMPLOYMENT CONTRACTOR – TEMPORARY STAFFING

<p>Temporary staffing is a.....business classification(s).</p> <p>Code 544 chart <b>deletions: 287, 442, 443</b>          Code 682 chart unchanged          Code 929 chart unchanged          Code 946 chart unchanged          Code 947 chart unchanged          Code 949 chart unchanged</p>
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