

Discussion of any limitations that may have had a substantive impact on the unpaid claims estimates included in the filing as noted in the Statement of Principles Regarding Property and Casualty Unpaid Claims Estimates promulgated by the Casualty Actuarial Society regarding the PCRB's April 1, 2016 Loss Cost Filing.

Introduction

In support of the April 1, 2015 Loss Cost Filing (and other prior loss cost filings), the Pennsylvania Compensation Rating Bureau (PCRB) offered narrative discussions of the Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves published by the Casualty Actuarial Society (Principles) in partial support of those filings before the Pennsylvania Insurance Department (Department). The PCRB provided these discussions because the Department requested these discussions from the PCRB in support of prior loss cost filings.

Since the Casualty Actuarial Society revised the Principles in late 2014, the PCRB now offers a discussion of limitations that may have had a substantive impact on the unpaid claims estimates included in the filing as noted in the Statement of Principles Regarding Property and Casualty Unpaid Claims Estimates promulgated by the Casualty Actuarial Society. The PCRB provides this discussion because the Department has requested this discussion from the PCRB in support of this loss cost filing.

The PCRB notes that the estimates for unpaid claims included in the referenced filing are inherently uncertain. This uncertainty stems from a dependence of the amount of future claims payments on facts and circumstances that are unknown at this time. The PCRB believes that the following additional limitations may also apply.

Aggregate Data

The PCRB's filing contains data and information for the combined experience of carriers in the PCRB's database. The policy year data valued as of December 31, 2014 used to calculate the overall loss cost indication in this filing is based on a majority of companies in the PCRB's database. The total Pennsylvania workers compensation market share of those companies is approximately 97.1%. This compares to market shares of 98.4% and 98.9% in the April 1, 2015 and April 1, 2014 loss cost filings, respectively. Not all companies' financial call data is used in the filing due to data quality issues or because certain companies/groups did not submit financial calls to the PCRB. Data by carrier or insured is not disclosed in the filing to protect the proprietary and trade secret information of these entities. However, the PCRB acknowledges that the experience of the PCRB's individual member companies or insureds may be different (or may be perceived to be different) from the aggregate experience of the PCRB's total membership.

House Bill 1846 of 2014

House Bill 1846 was signed into law on October 27, 2014 and became effective on December 26, 2014. Last year's loss cost filing included an adjustment due to the impact of House Bill 1846 on workers compensation medical costs of approximately 1.16% (or a 0.9884 adjustment factor) for the policies effective from April 1, 2015 through March 31, 2016. The adjustment factor was comprised of a medical savings factor of approximately 0.9908 and a medical severity trend deflection factor of approximately 0.9976 ($0.9884 = 0.9908 * 0.9976$). The adjustment factor for medical costs can be found in the April 1, 2015 Filing Exhibit 12, Page 12.1, Line 9.

This year's filing also includes an adjustment due to the impact of House Bill 1846 on workers compensation medical costs. The total impact of House Bill 1846 on workers compensation medical costs in this filing is approximately 1.32% (or 0.9868) for the policies effective from April 1, 2016 through March 31, 2017. This impact is comprised of a medical savings factor of approximately 0.9908 and the impact of medical severity trend deflection of approximately 0.9960 ($0.9868 = 0.9908 * 0.9960$). The medical

savings factor can be found in Exhibit 12, Page 12.1, Line 9. The impact on medical severity trend can be found in Exhibit 12, Page 12.2, Medical Trend columns 4 through 6.

Pension Claims

The Department approved the use of revised pension tables effective October 1, 2014 for evaluating death and permanent total indemnity claims. The revision of the pension tables adopted recent changes in pension table values in use in other jurisdictions nationally. These tables were based on the 2007 United States Life Tables. The tables reflect a discount for interest of 3.5 percent. The previous tables were based on the 1999 United States Life Tables, also discounted at 3.5 percent interest.

The 2014 financial calls promulgated by the PCRB included Call #10, Call for Indemnity Pension Claim Experience. That Call allows the PCRB to measure the impact on loss development of changes in the pension tables used to evaluate indemnity pension claims.

Specifically, the December 31, 2014 case reserves for pension claims that were reserved using the 2007 United States Life Tables discounted at 3.5 percent interest, were adjusted to be consistent with reserves that would have been determined using the 1999 United States Life Tables, discounted at 3.5 percent. This was done so that calculation of loss development factors using the December 31, 2014 valuation as compared to the December 31, 2013 valuation would remove the effects of the change in pension tables on case reserves between the two valuations. The total adjustment to the December 31, 2014 case reserves was a decrease of \$1,036,654.