

Henderson Brothers, Inc. White Paper

Evaluating the Impact of the New Pennsylvania Workers Compensation Rates

On January 1, The Pennsylvania Insurance Department approved a new workers compensation rate filing which reduced rates an average of 10%. This unusual mid-year rate change was the result of two independent circumstances. The first was an erroneous company report that was filed as part of the November 2017 loss cost calculation. The second was the implementation of Act 111 of 2018, which allows insurance carriers to utilize Impairment Rating Evaluations (IREs) to manage their exposure on certain workers compensation claims.

So, does this change mean you should experience an immediate 10% decrease in your workers compensation premium? Not necessarily. To understand how this filing will impact you, you'll need to understand how your workers compensation premium is developed.

The Pennsylvania Insurance Department has approved an amended workers compensation rate filing effective January 1, 2019.

In addition to the state rates, several other factors, primarily past losses, determine your workers compensation premium.

Insurance companies consider many factors when establishing the premium for a workers compensation policy. If you examine the schedule included in your policy, you will see your payroll broken down by job classification and multiplied by a “rate per \$100” of payroll. The result of this calculation is the *estimated manual premium*. The “rate per \$100” of payroll is where you can expect to see a 10% decrease effective January 1.

Looking past the manual premium, there are eight to ten lines of additional adjustments applied before arriving at the final premium. Of those adjustments, the two which have the most influence on your premium, the experience modification and the scheduled debit or credit, will also be the two impacted by the rate changes.

Experience modifications in Pennsylvania are calculated by comparing your *actual losses* to your *expected losses* as well as applying some other actuarial factors. As part of the recent rate filing, the expected loss factors decreased. For the subsequent calculation of experience mods, any insured who incurred claims during the previous three policy years will likely see an increase in the experience mod due to decreased expected losses. This mod increase will offset a portion of the premium savings that would otherwise result from the overall rate decrease.

In Pennsylvania, every insurance company and their underwriters can deviate from their filed rates by adjusting the scheduled debit or credit based upon an insured’s loss experience. In theory, this gives insurance companies the discretion to offset rate changes filed by the State, as well as to lessen the impact of any large experience modification swings.

As part of the annual workers compensation renewal process, carriers review at least three to five years’ worth of loss data in addition to estimated payrolls for the upcoming policy year. They

input your historical loss information into their systems and develop what is known as a “loss pick.” The loss pick is the estimation of future losses based on past claim experience.

After they develop the loss pick and review the renewal exposures, insurance companies determine the amount of premium they believe is necessary to profitably write your workers compensation coverage based on your loss ratio and their profitability goals and underwriting standards.

If your insurance broker has properly advocated on your behalf, each year your workers compensation premium should be close to the minimum premium the insurance company needs to charge to meet their goals. Consequently, once the ten percent rate reduction takes place, your insurance company will likely adjust their scheduled credit factor to maintain their required premium, and your premium will remain relatively unchanged.

In summary, the ability to capitalize on these recent rate reductions will be determined by the same qualities that have always defined a well-run workers compensation program. Do you manage your claims? Do you have a light duty/return to work program? Do you have a proactive safety culture? Has your broker aggressively negotiated your premium based on these factors and your loss history? Choosing the right broker is an important step in obtaining the best pricing for your risk.

Because insurance carriers price policies based on your loss experience, it is unlikely that you will see a significant premium change resulting from these new rates.