

Pennsylvania State of the Line Report 2023

**AN OVERVIEW OF THE COMMONWEALTH'S
WORKERS COMPENSATION SYSTEM**



Table of Contents



01. ●▶ **Pennsylvania Workers Compensation Insurance Market Results**
02. ○▶ **Loss Costs and Market Pricing**
03. ●▶ **Claim Frequency and Severity Trends**
04. ○▶ **Distributions of the Pennsylvania Workers Compensation System**
05. ●▶ **Measures of Claim Reporting and Case Reserve Changes**
06. ○▶ **Premium Adjustment Programs**

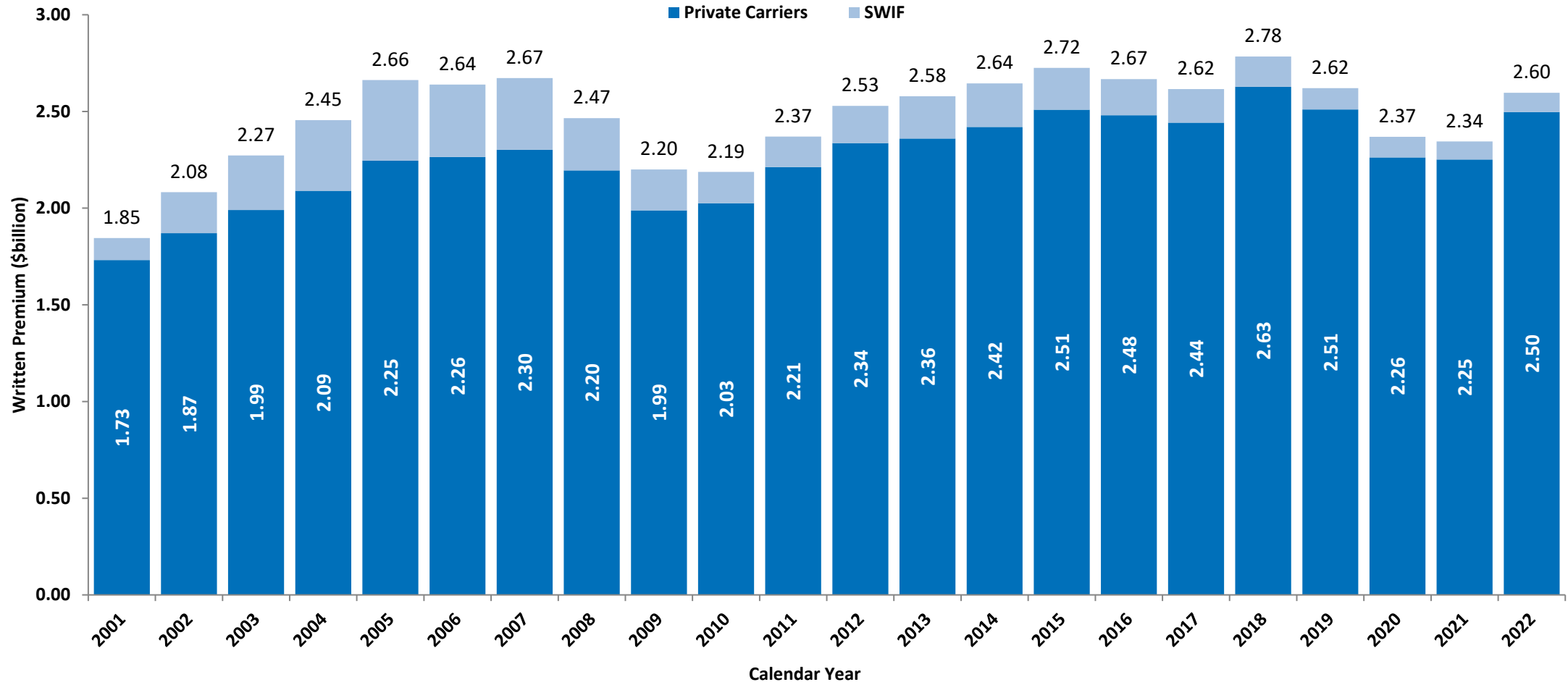
01

Pennsylvania Workers Compensation Insurance Market Results



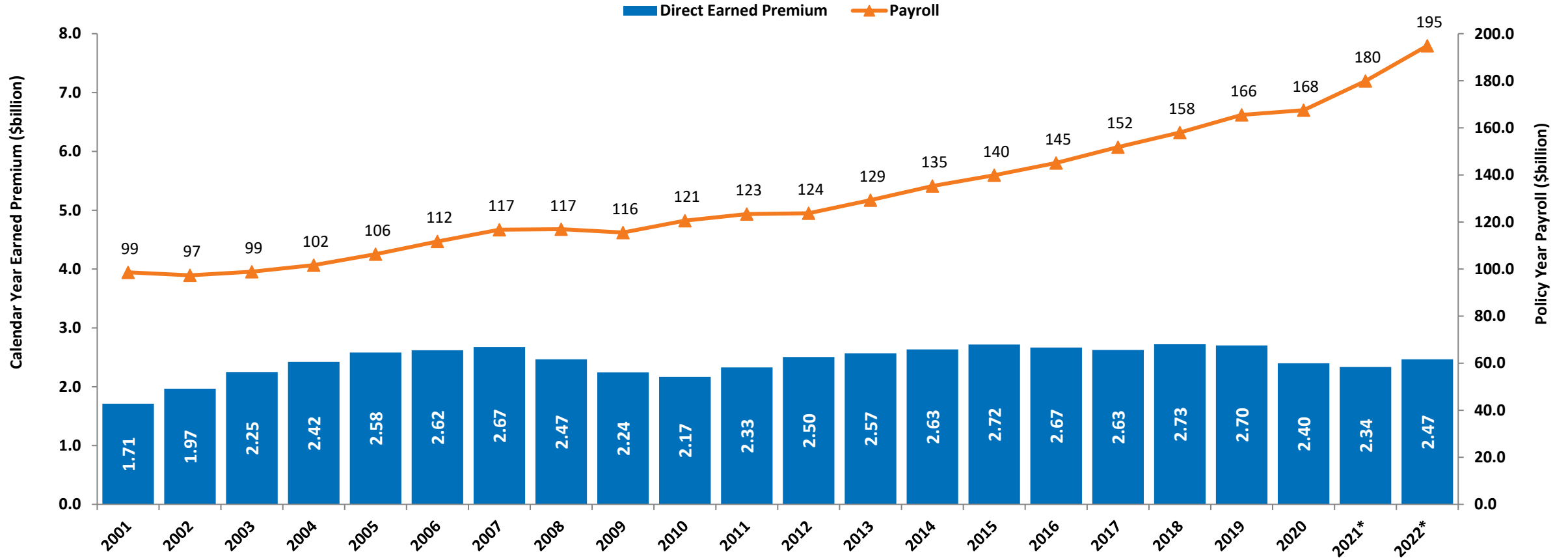
Pennsylvania Direct Written Premium

The level of written premium has fluctuated over the period shown, however remained at around \$2.7 billion for the 2014 to 2019 period. The observed drop in 2020 and 2021 are driven by the COVID-19 pandemic and associated shutdowns with strong recovery in 2022.



Pennsylvania Earned Premium and Payroll History

Earned premiums have dropped to around \$2.5 billion, while payroll has been consistently increasing and has doubled over the same period.



Source:

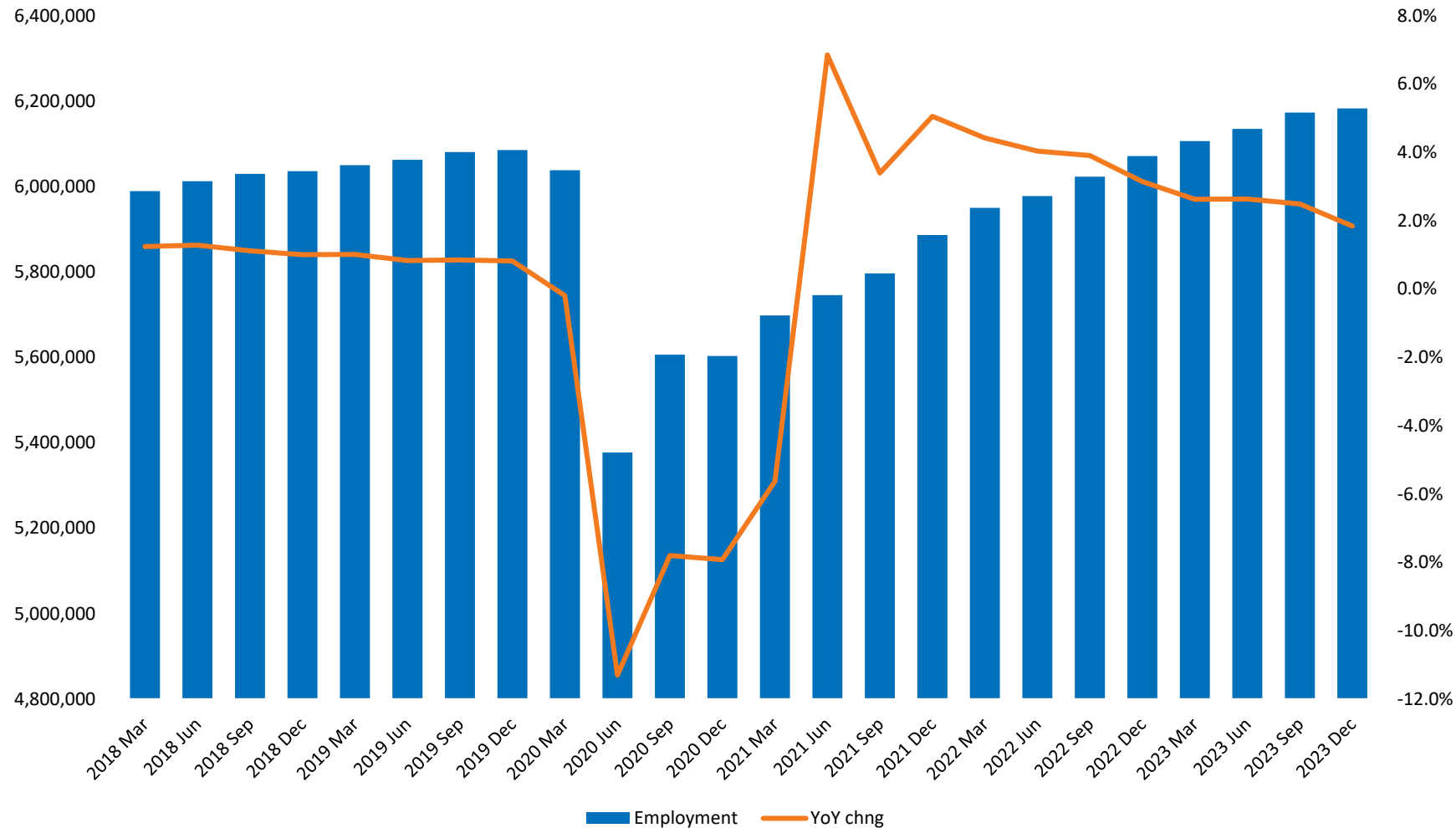
Premium: A.M. Best, Inc.: Best's State/Line Report; Calendar Year Basis

Payroll: Unit Statistical Data; PCRB Financial Data Calls as of 12/31/2022, adjusted to an "effective" level to reflect deductible discounts; Policy Year Basis.

* Payroll for Policy Years 2021 and 2022 is projected using the Statewide Average Weekly Wage.

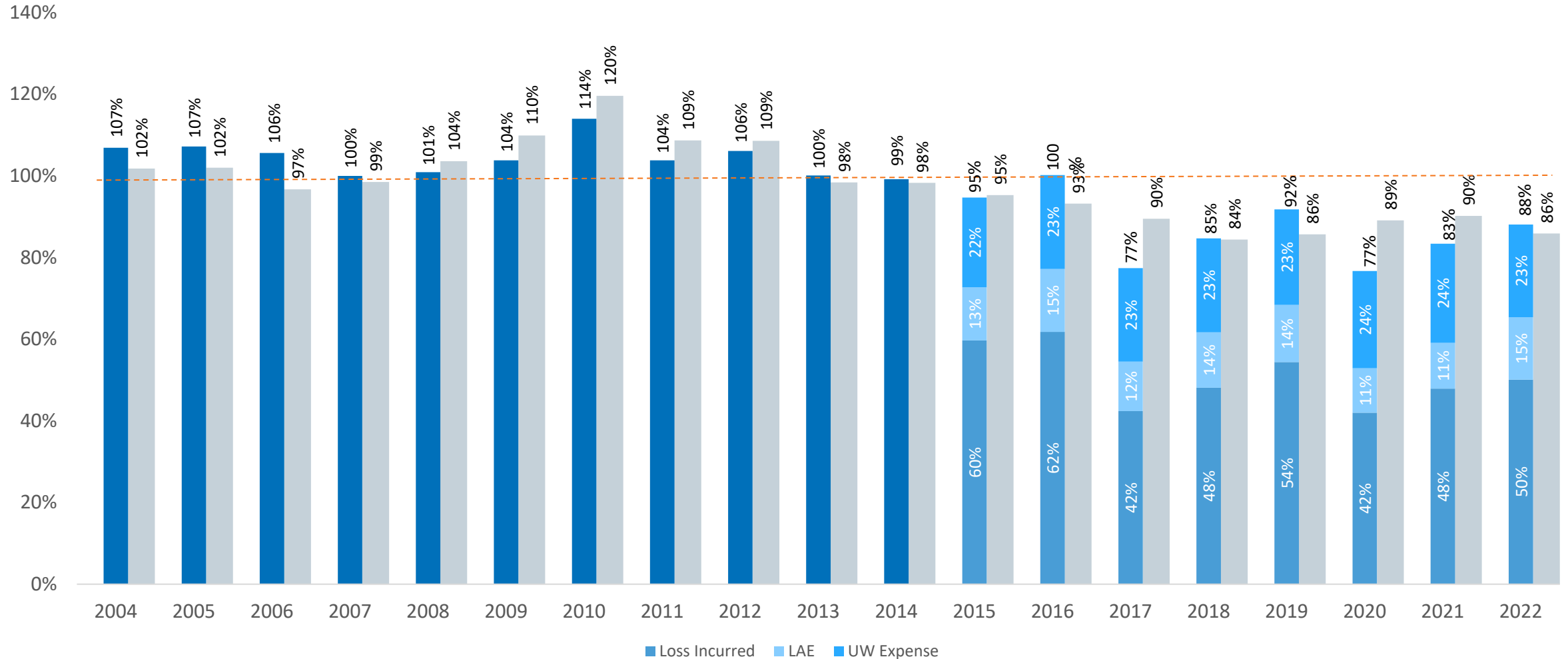
Pennsylvania Nonfarm Employment

Nonfarm employment data is a critical economic indicator to gauge the overall health of the economy and its workforce. Employment levels are currently higher than pre-pandemic levels.



Combined Ratios - Pennsylvania and Countrywide

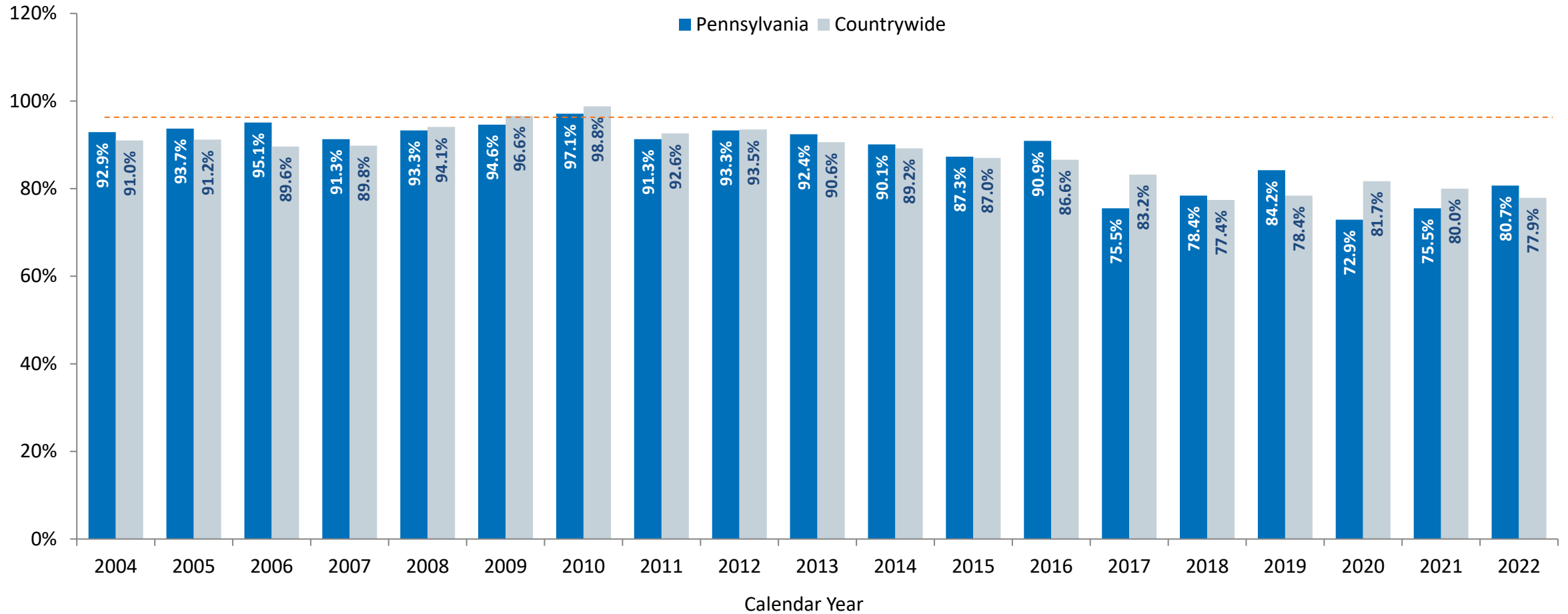
The Combined Ratio is the sum of the loss, LAE and underwriting expense ratios to premium, and does not include investment income.



Source:
2023 NAIC Profitability by Line by State in 2022

After-tax Operating Ratios - Pennsylvania and Countrywide

The After-tax Operating Ratio is the Combined Ratio less the Investment Gain on Insurance Transactions and a reduction for Federal Tax on Insurance Transactions. An operating ratio of less than 100 indicates an overall operating profit.

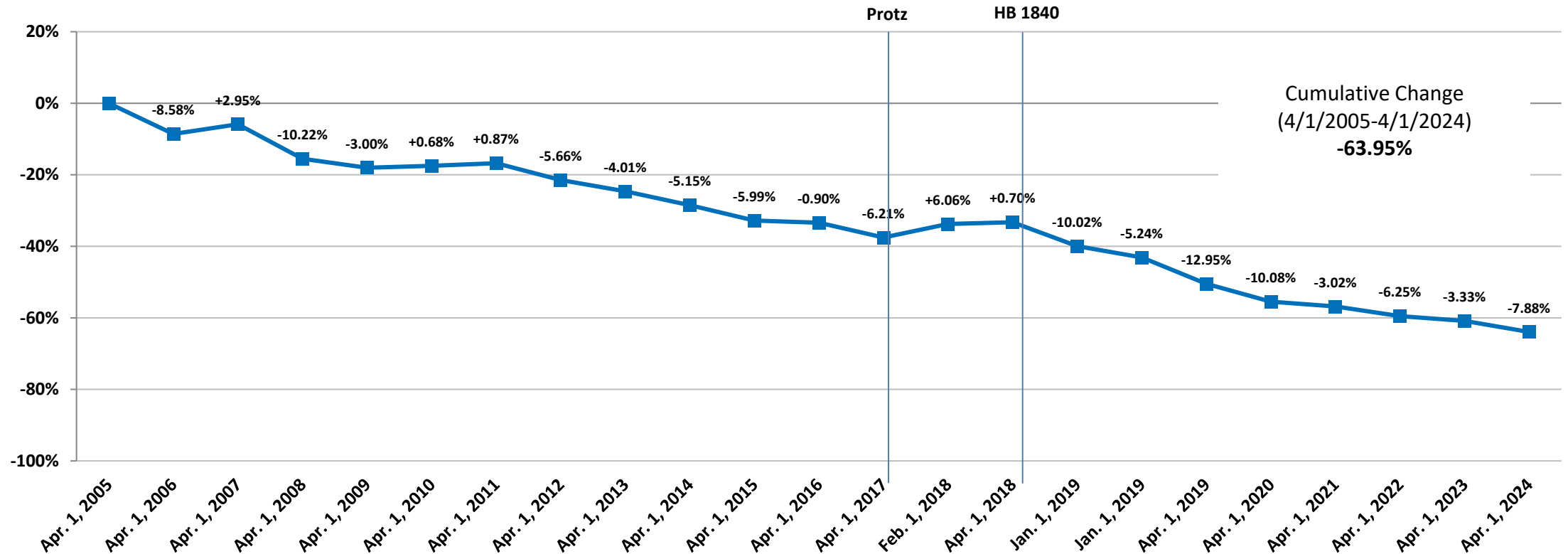


02

Loss Costs and Market Pricing



Pennsylvania Approved Loss Cost Change History

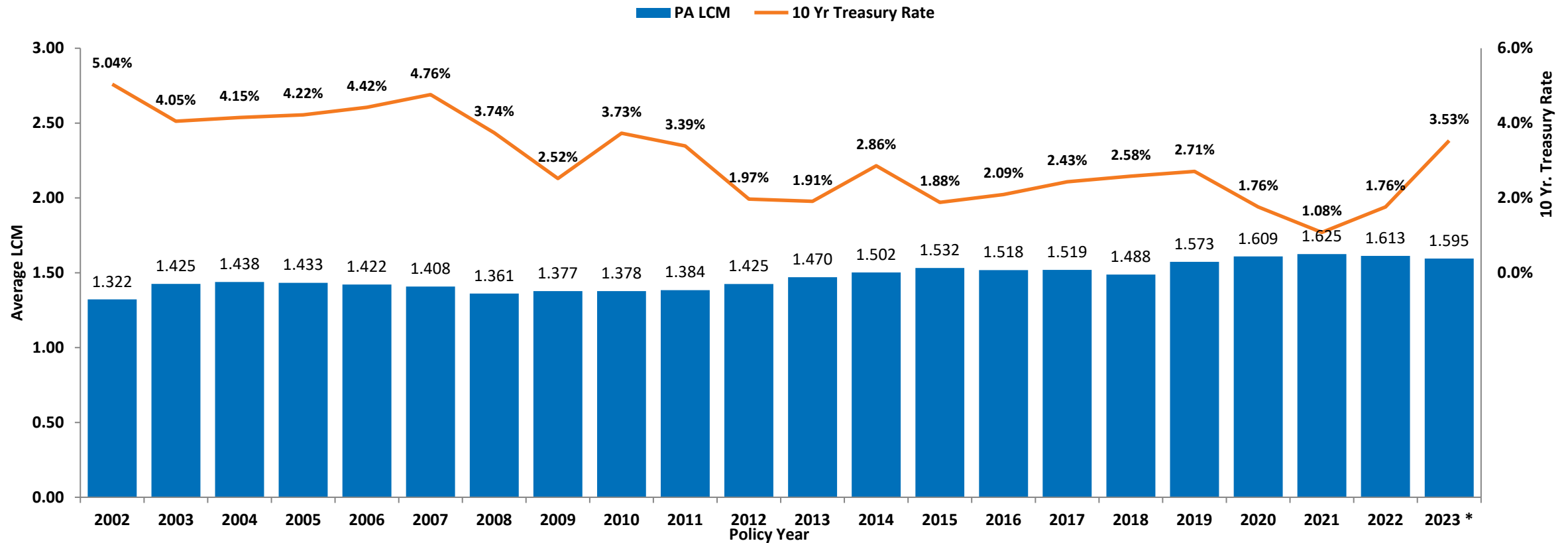


Significant Legislation:

Since the significant reforms in the mid 1990s (Act 44 and Act 57) that reshaped the state's Workers Compensation system, no significant reforms occurred until the Protz v. WCAB (Derry Area School District), decision June 2017, which eliminated the provisions in the Workers Compensation Act that provided for Impairment Rating Evaluations. Subsequently, HB 1840 of 2017 (Act 111 of October 2018) reinstated the Impairment Rating Evaluation (IRE) process and lowered the impairment threshold percentage for making a change in disability status from 50% to 35%.

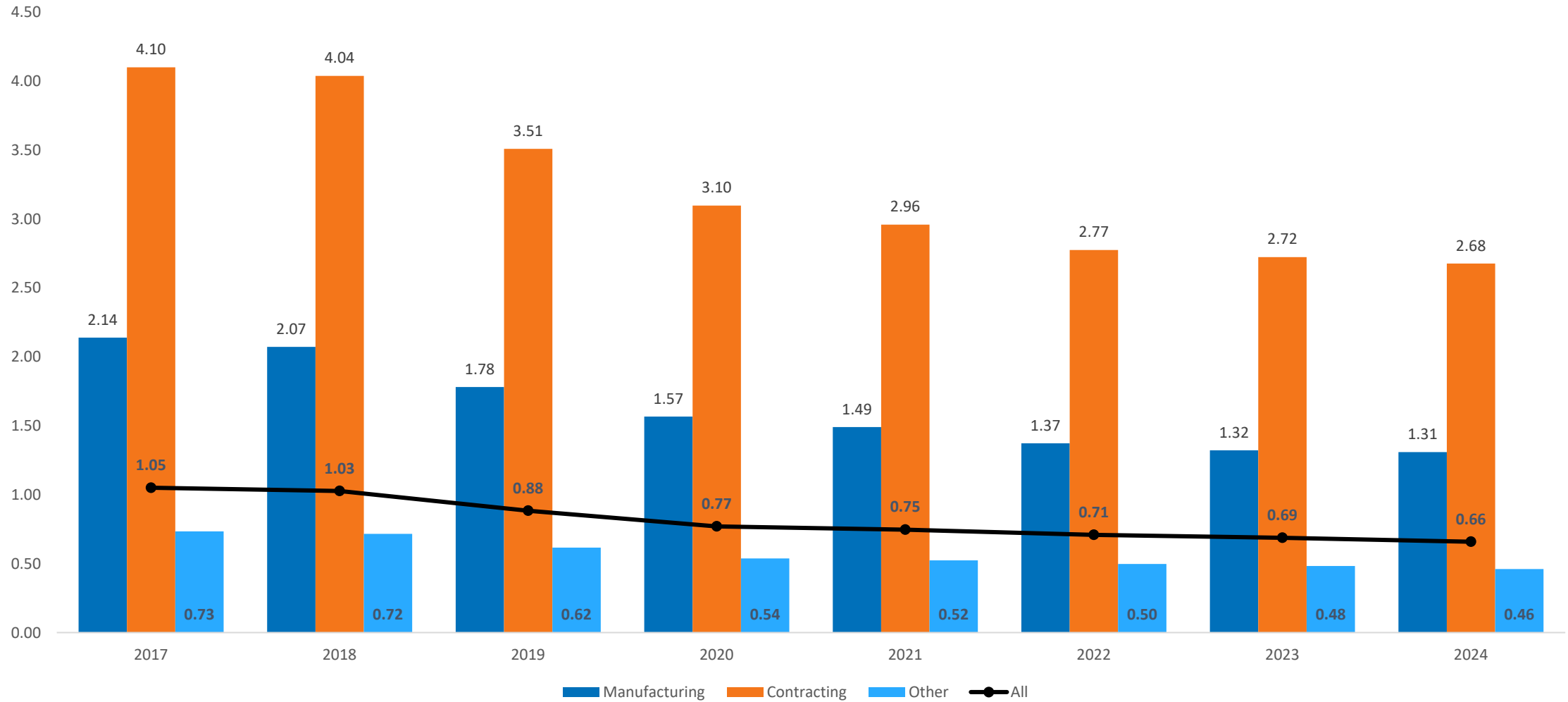
Pennsylvania Average Loss Cost Multiplier

The Average Loss Cost Multiplier (LCM) is the ratio of Total Carrier Manual Premium to Total Loss Costs at PCRB Level, as reported to the PCRB. Investment returns, measured here by the 10-year Treasury Rate, have some correlation (coefficient, $\rho = -69\%$) with the magnitude of the average loss cost multiplier. The implication is that, in times of higher investment returns, average loss cost multipliers tend to be lower, which has been observed to some degree the last few years.



Sources:
 PCRB Market Profile Report; US Treasury
 * Preliminary

Pennsylvania Average Loss Cost



Source:
Annual PCRB Loss Cost Revisions (2018 pre-surcharge loss costs are based on the 1/1/2019 filing).

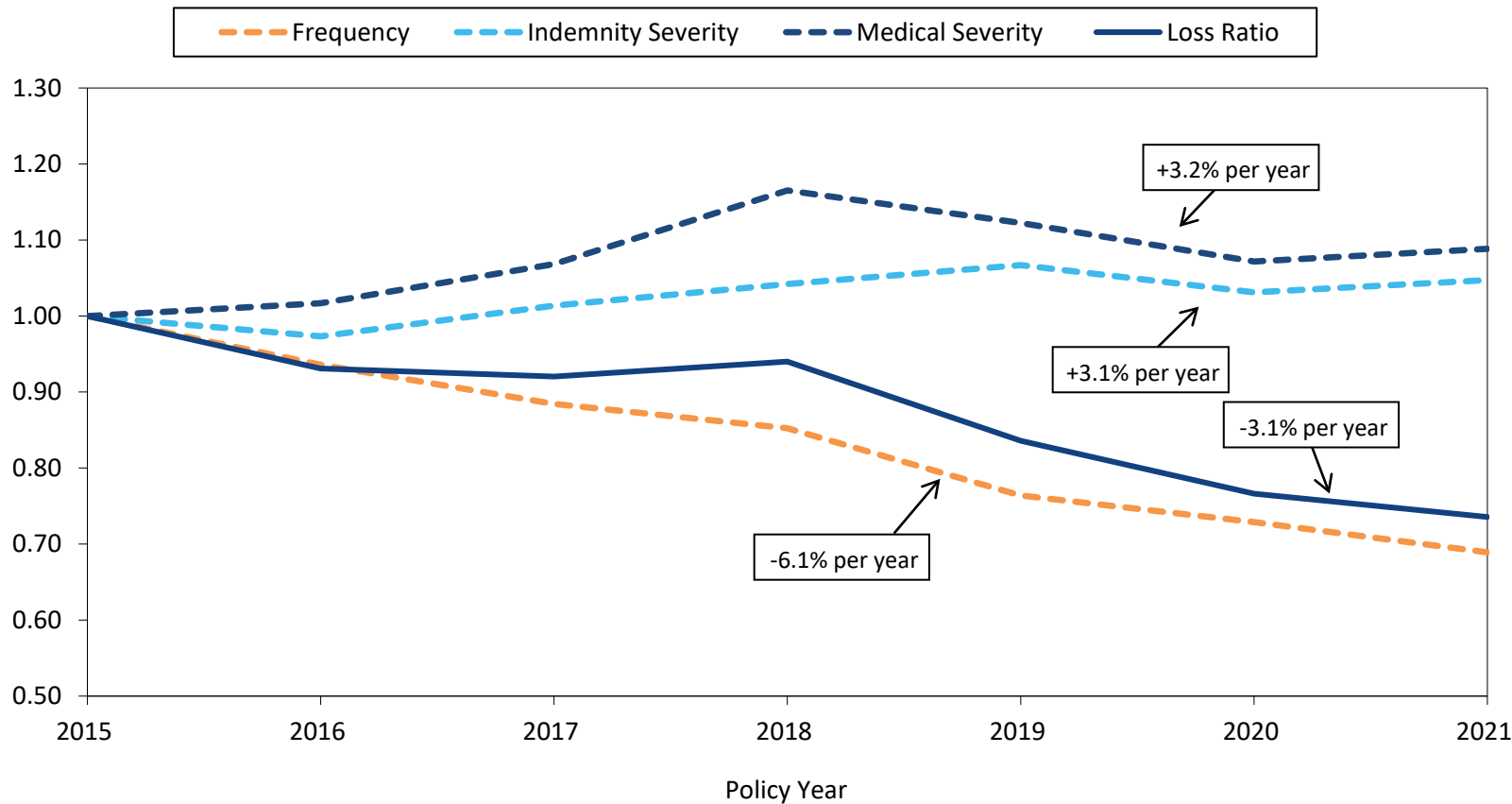
03

Claim Frequency and Severity Trends



Pennsylvania Loss Components

Frequency, Indemnity Severity, Medical Severity



Selected frequency and severity trends consider COVID-19 impacts not yet contained in the historical data:

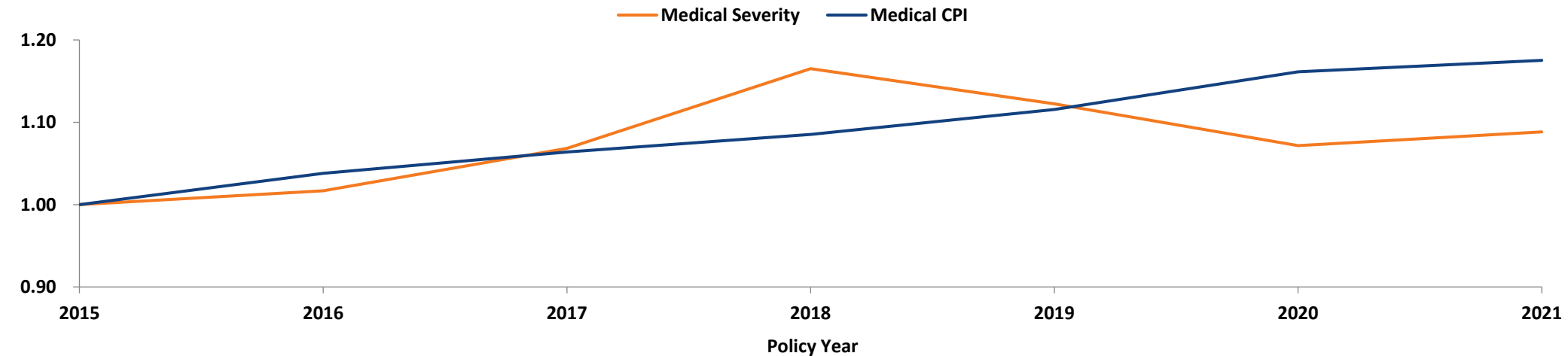
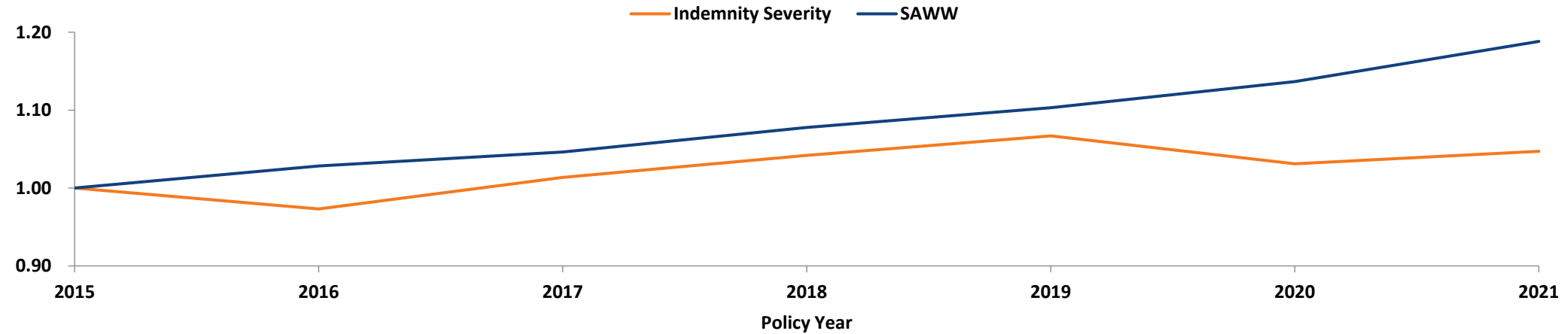
	Historical	SAWW	Selected
Indemnity:	1.1%	5.0%	3.1%
Medical:	1.5%	5.0%	3.2%
Frequency:	-6.1%	NA	NA

The combined impact of Frequency, Indemnity Severity, and Medical Severity Trends is a Loss Ratio Trend of -3.1%.

Source:
PCRB 2024 Loss Cost Revision.
Indexed to 1.00 at Policy Year 2015

Pennsylvania Severity Compared to Selected Indices

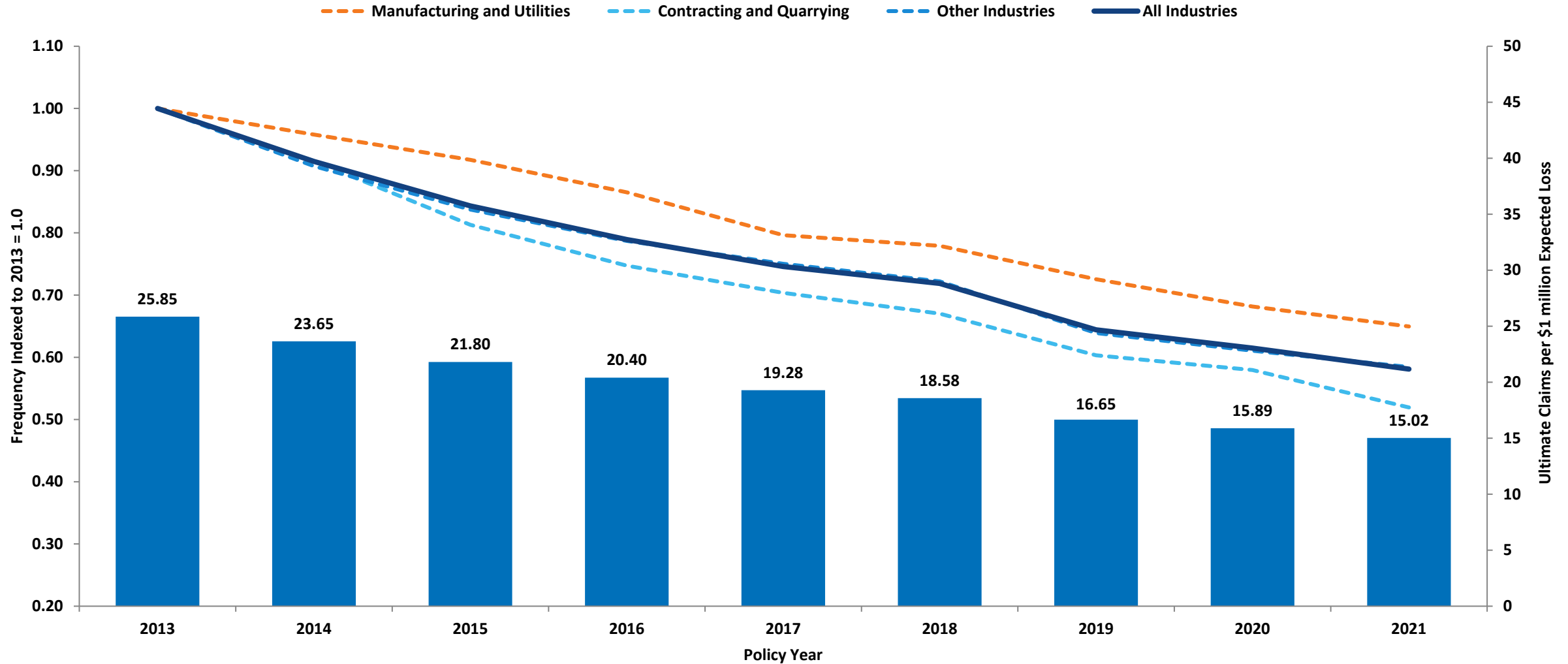
Changes in indemnity severity appear lower than the changes to the state's average weekly wage. Changes in medical severity are similar to the Medical Consumer Price Index (CPI) over this period. Policy Years 2020 and 2021 dropped temporarily due to the impacts from the pandemic.



Source:
PCRB 2024 Loss Cost Revision, PA Department of Labor & Industry, and US Bureau of Labor Statistics.
Indexed to 1.00 at Policy Year 2015

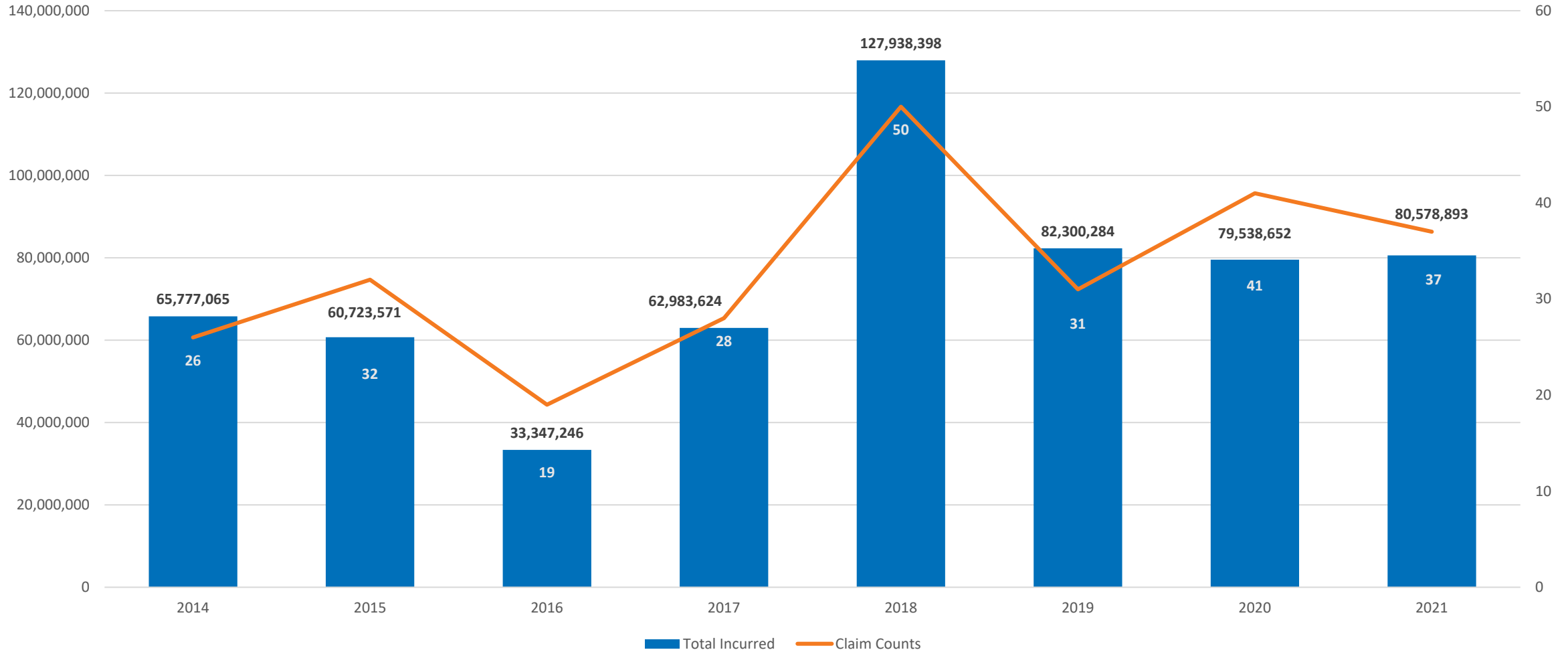
Claim Frequency Trend is Consistent by Industry Group

Claim frequency (excluding large deductible business) is measured by the number of ultimate claims per \$1 million of expected losses. Decreasing frequency contributes significantly to reductions in statewide loss cost levels.



Pennsylvania Large Claims in Excess of \$1 Million at 1st Report Level

High-dollar workers compensation claims are infrequent, but the cost of these claims has a significant impact on workers compensation costs. The number of large claims with losses in excess of \$1 million have averaged 33 claims and \$74 million the last three years .



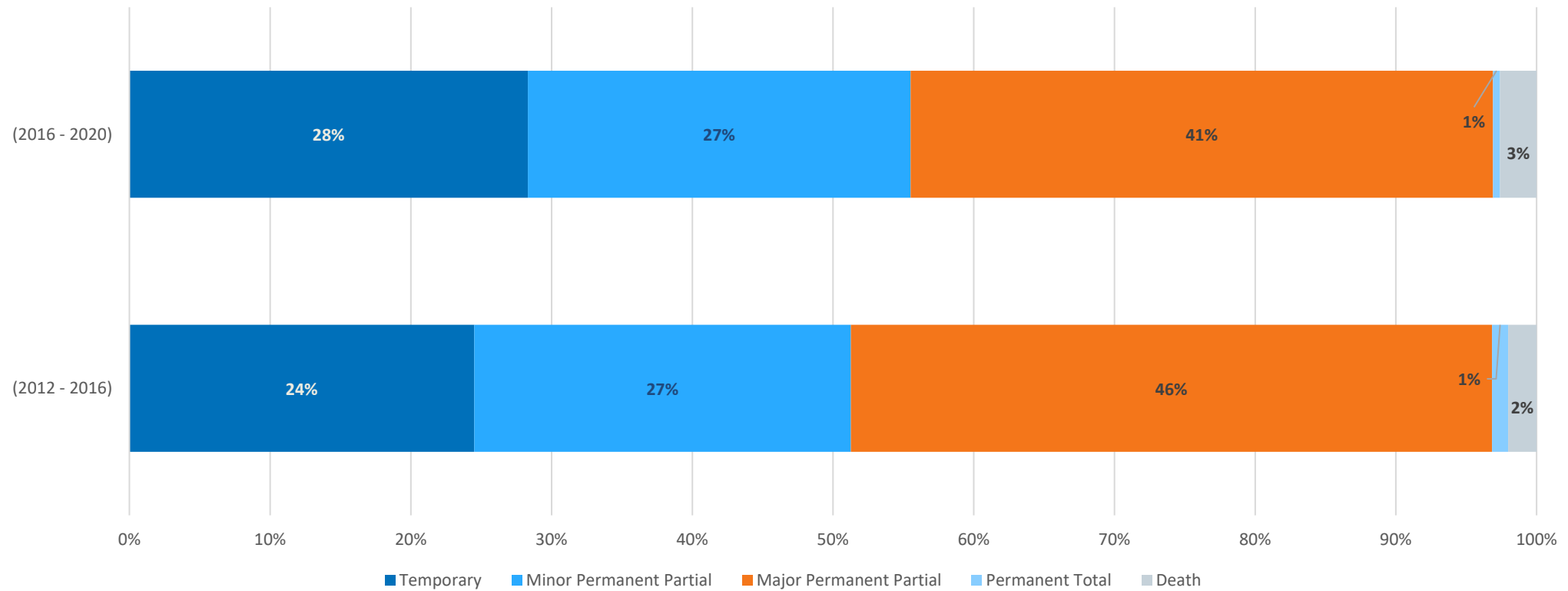
Distribution of the Pennsylvania Workers Compensation System



Indemnity Benefits by Type of Injury

For these two periods, the portion of Indemnity benefits attributable to Major Permanent Partial injuries decreased by 5 percentage points, while the portion attributable to Temporary Total injuries increased by 4 percentage points. The other types of injury exhibited smaller changes.

5 Year Policy Average



Sources:

2012-2016: PCRB 2020 Loss Cost Revision

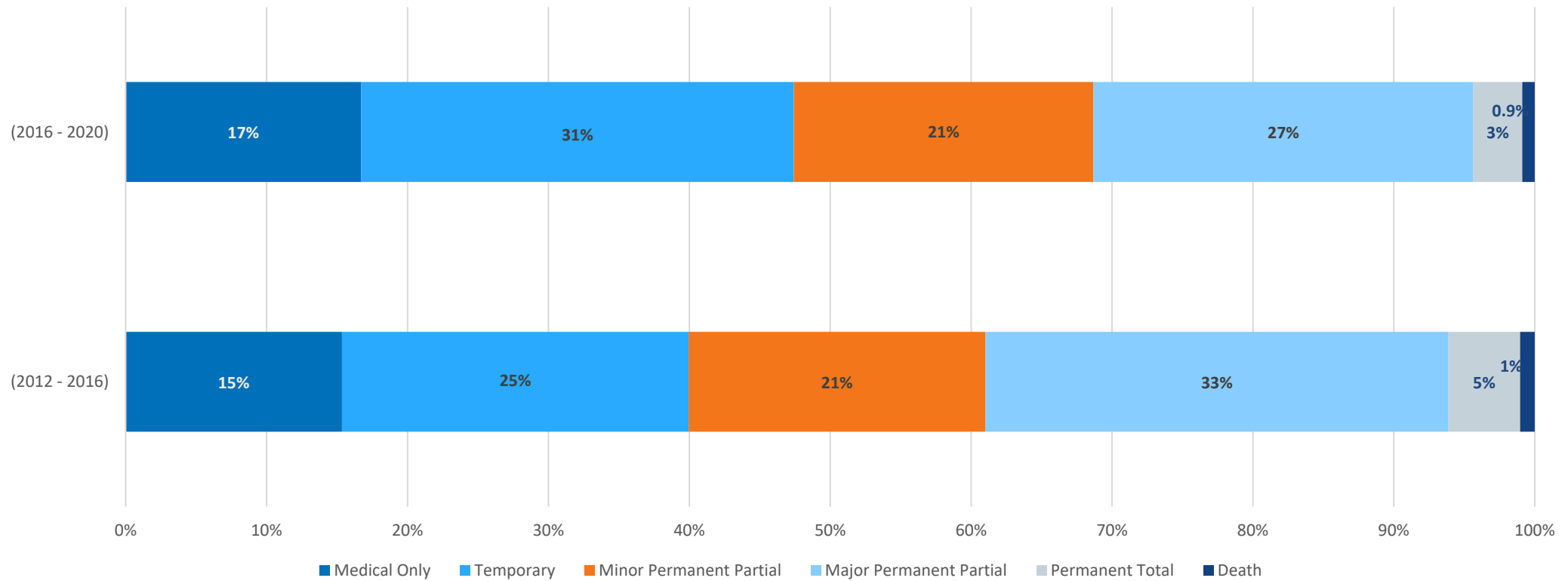
2016-2020: PCRB 2024 Loss Cost Revision

* Percentages are based on losses developed to projected ultimate values.

Medical Benefits by Type of Injury

For these two periods, the portion of Medical benefits attributable to Major Permanent Partial decreased by 6 percentage points, while Temporary Total injuries increased by 6 percentage points. The other types of injury exhibited smaller changes.

5 Year Policy Average



Sources:

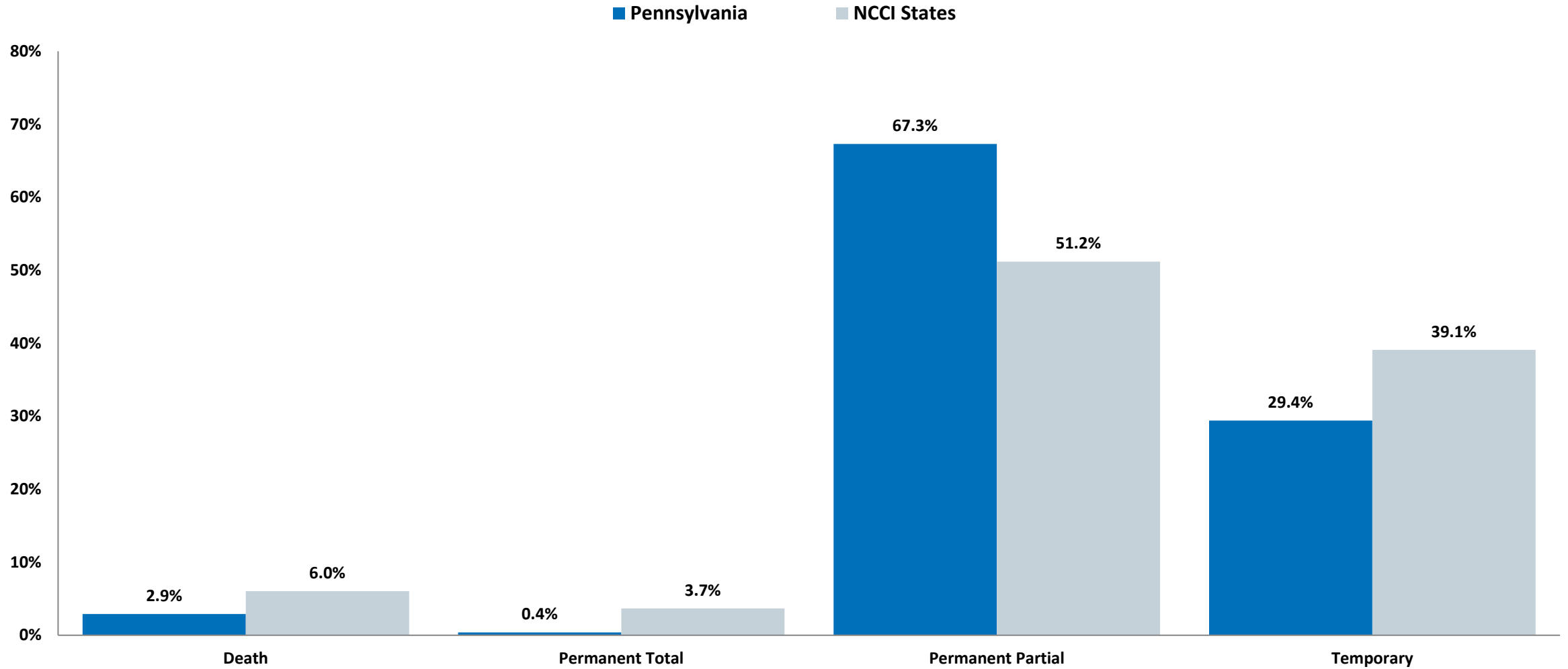
2012-2016: PCRB 2020 Loss Cost Revision

2016-2020: PCRB 2024 Loss Cost Revision

* Percentages are based on losses developed to projected ultimate values.

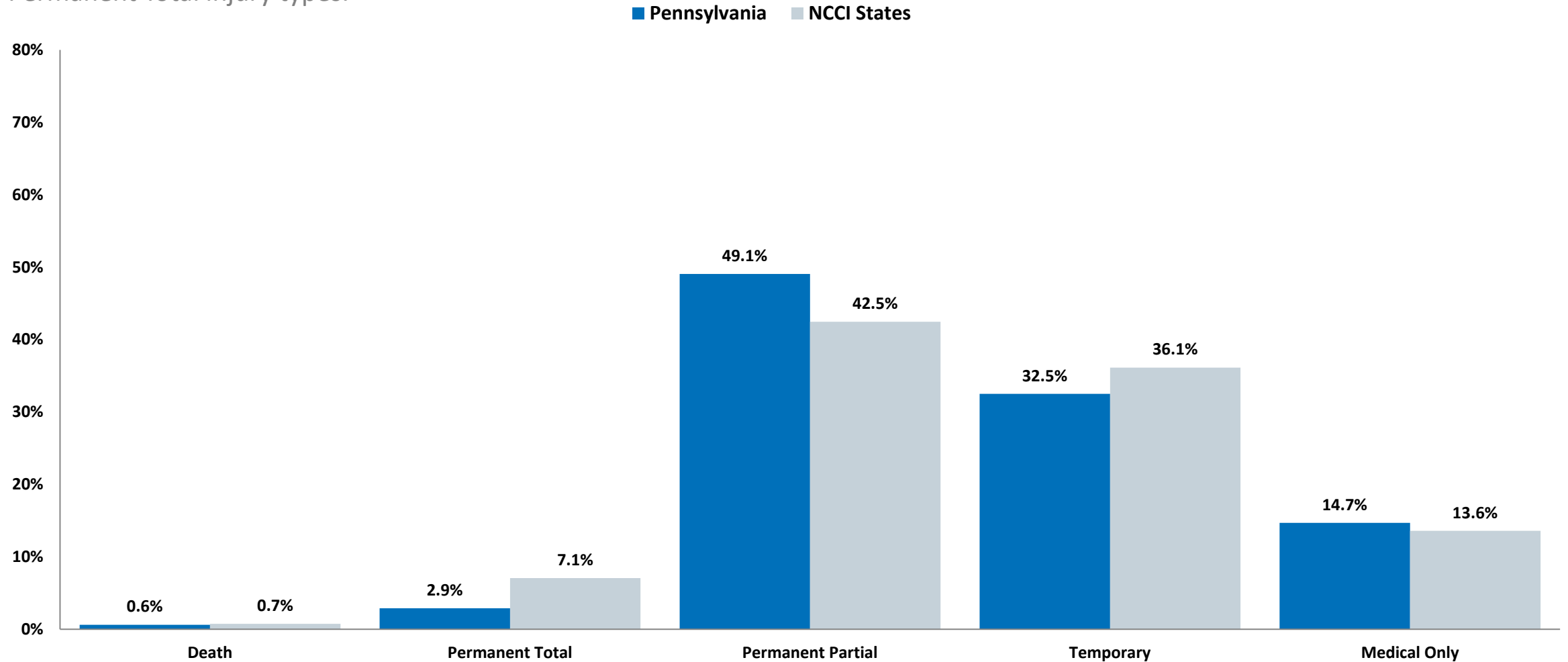
Ultimate Indemnity Benefits by Type of Injury

Pennsylvania has a higher percentage of Permanent Partial benefits and a lower percentage of Temporary benefits in comparison to the NCCI states.

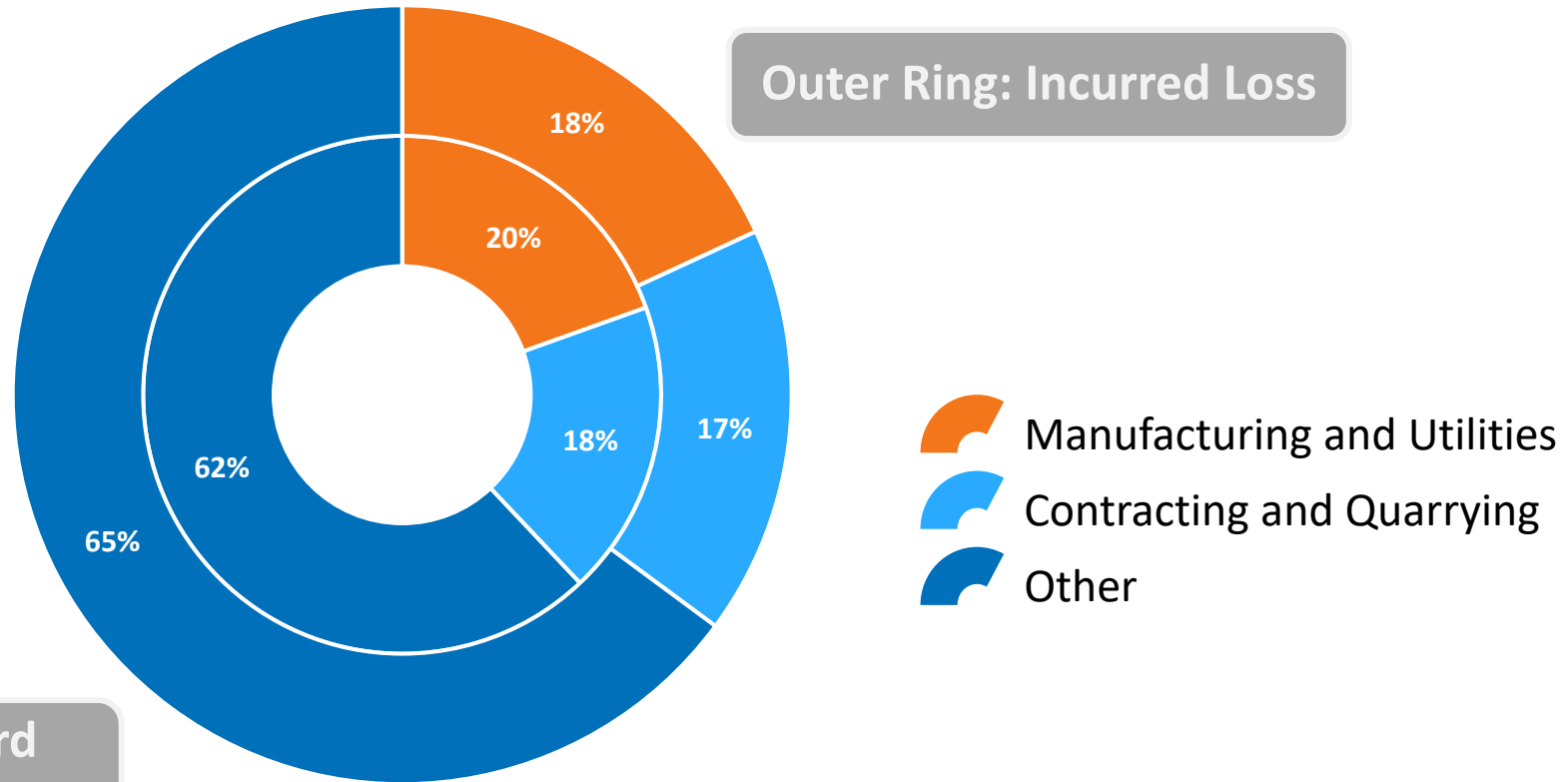


Ultimate Medical Benefits by Type of Injury

About half of the medical costs is payments for Permanent Partial. The distribution between the NCCI states and Pennsylvania is similar for several of the injury types, however Pennsylvania is relatively higher for Permanent Partial and lower for Temporary and Permanent Total injury types.

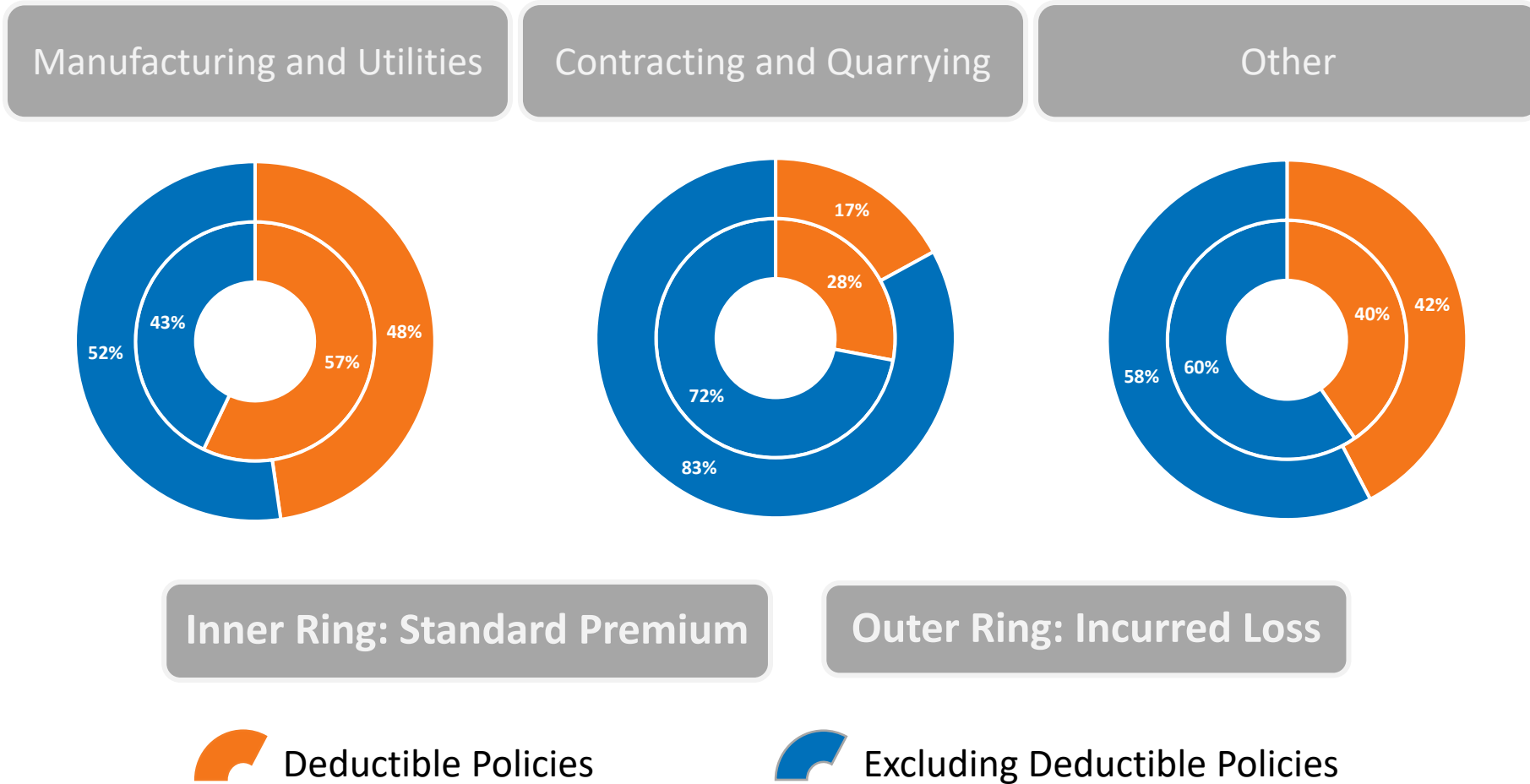


Premium and Loss by Industry Group



Source:
PCRB 2024 Rate Revision, Policy Year 2020

Premium and Loss by Industry Group



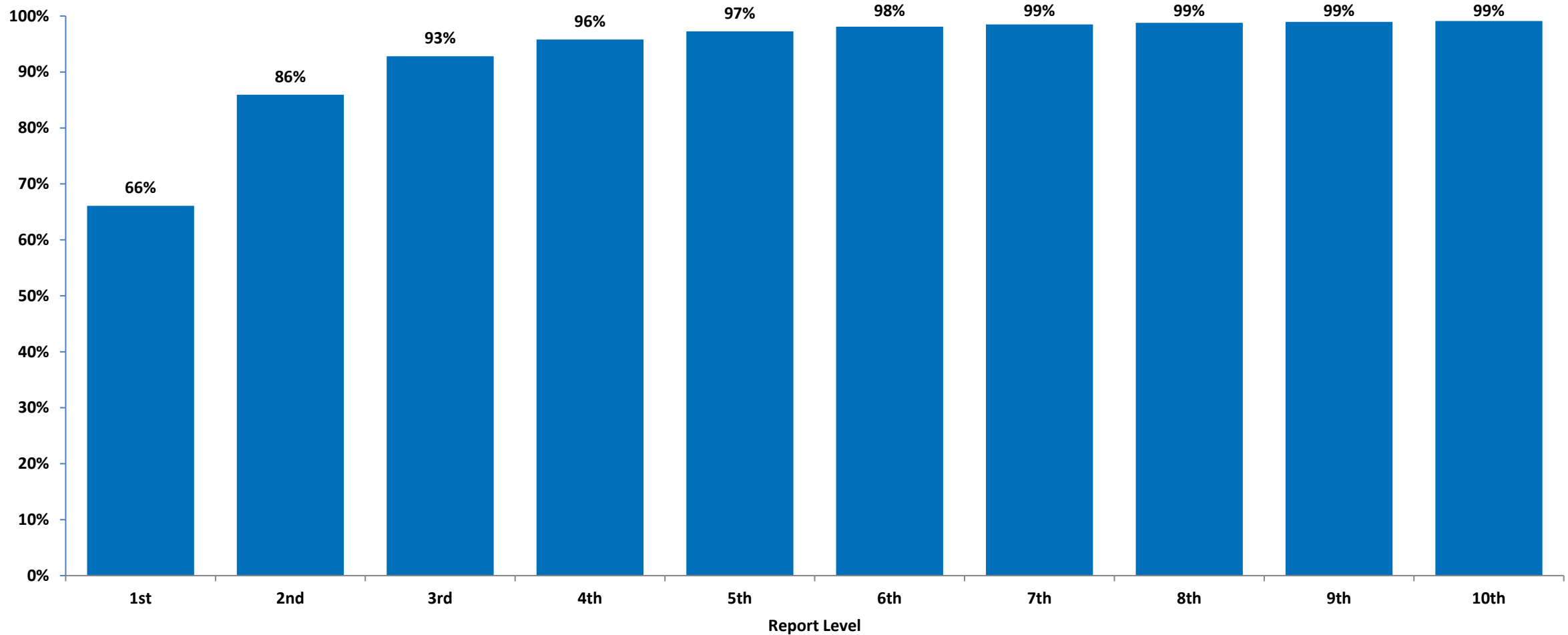
05

Measures of Claim Reporting and Case Reserve Changes

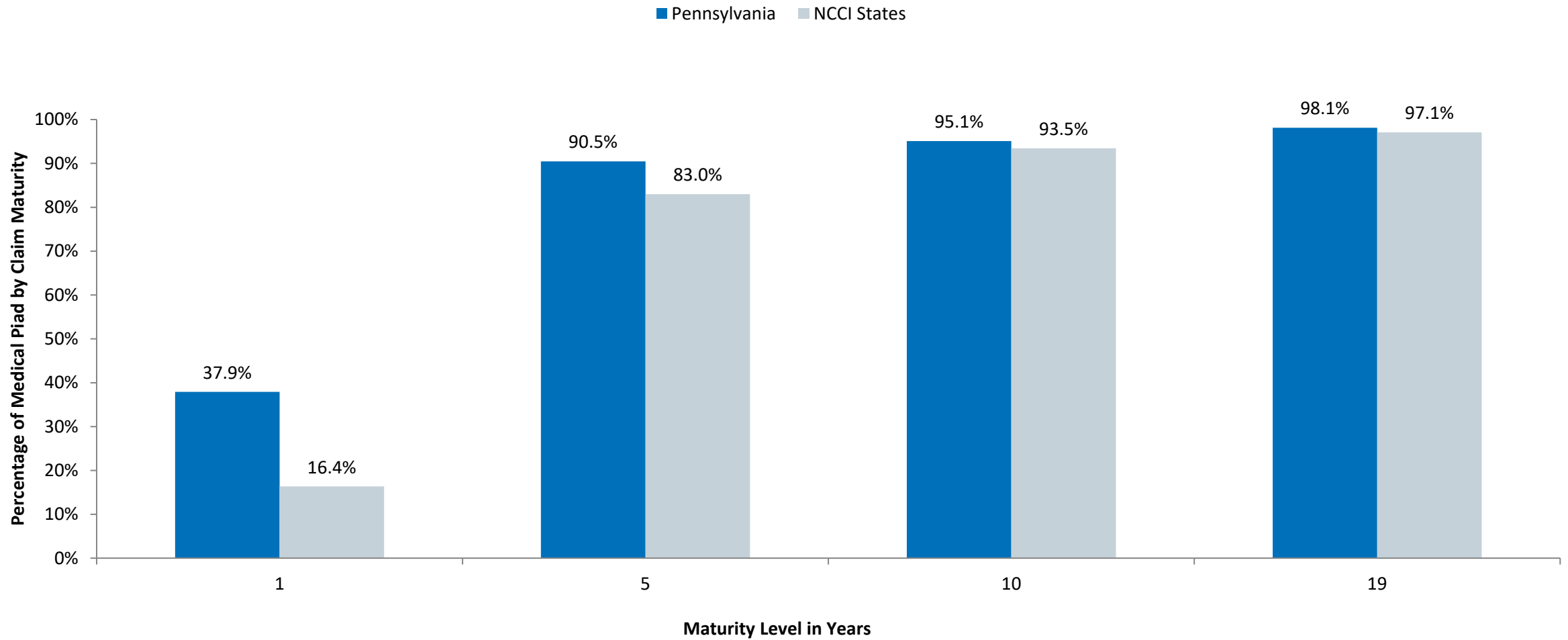


Portion of Reported Indemnity Claims Closed

The rate at which claims are settled impacts the ultimate claim costs. The percentage of indemnity claims that are closed at each report level indicates that approximately 3% of these claims remain open at 5th report.



Portion of Ultimate Indemnity Loss Paid by Claim Maturity

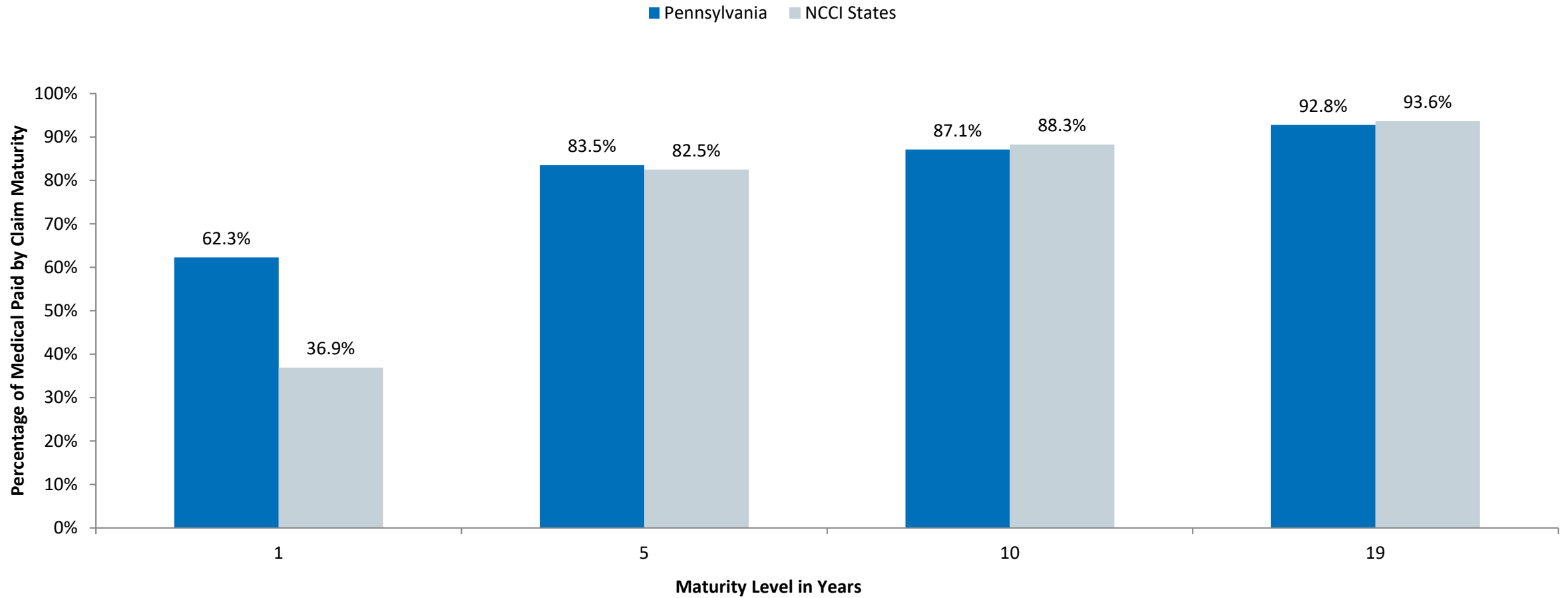


Sources:

PCRB 2024 Loss Cost Revision, on a Policy Year basis

NCCI States: April, 2024, Annual Statistical Bulletin, Interim Exhibits, on an Accident Year basis

Portion of Ultimate Medical Loss Paid by Claim Maturity

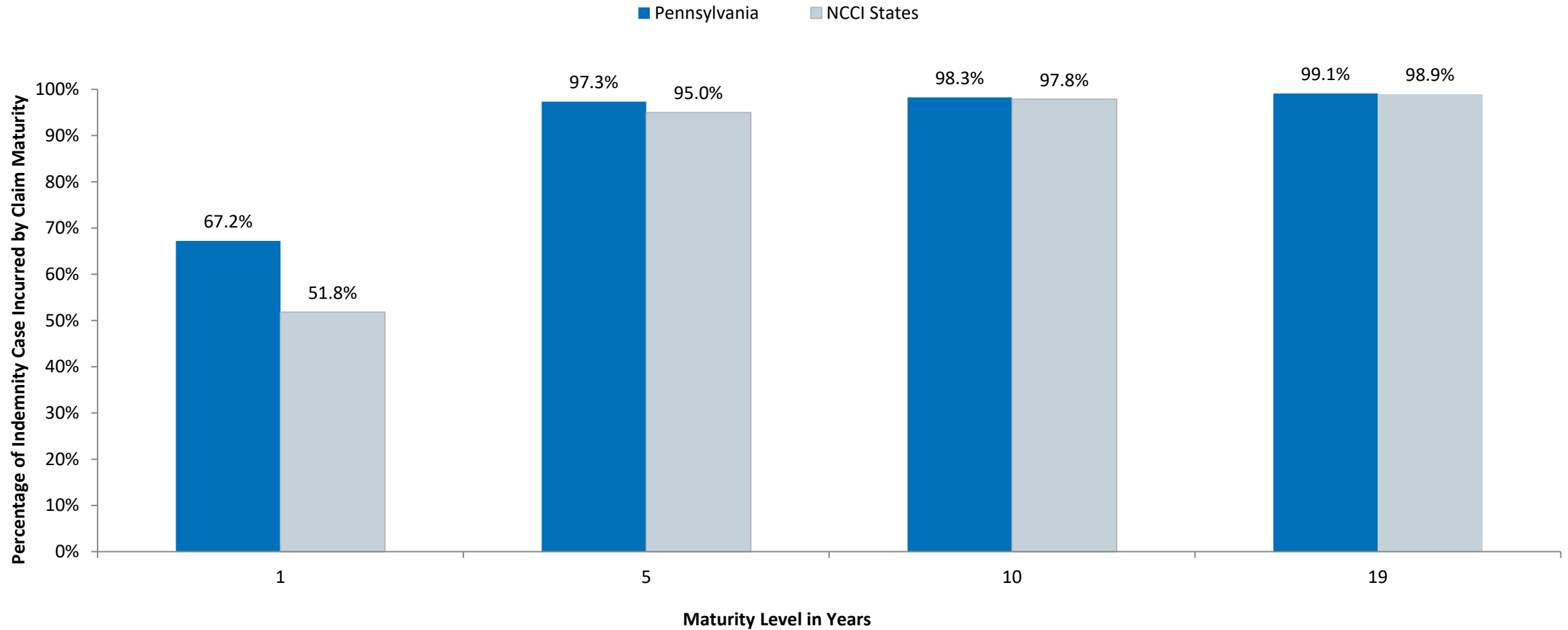


Sources:

PCRB 2024 Loss Cost Revision, on a Policy Year basis

NCCI States: April, 2024, Annual Statistical Bulletin, Interim Exhibits, on an Accident Year basis

Portion of Ultimate Indemnity Case Incurred by Claim Maturity

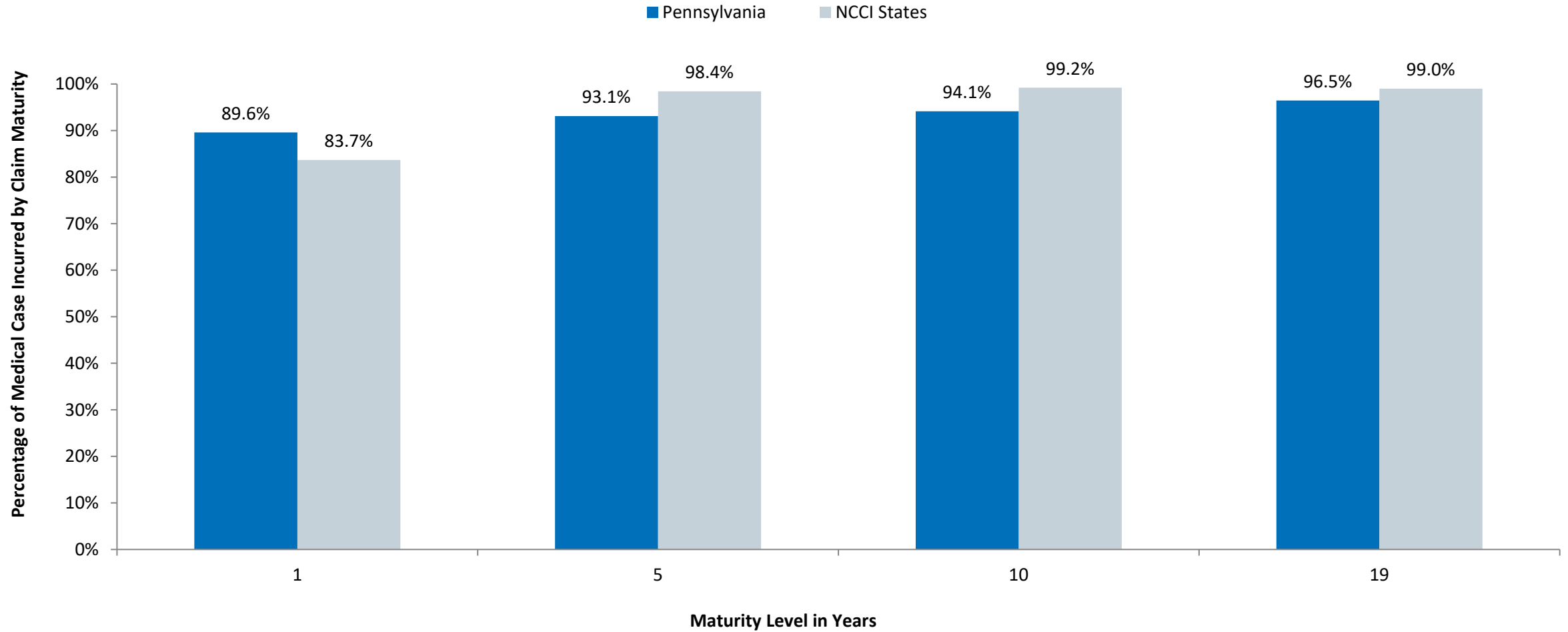


Sources:

PCRB 2024 Loss Cost Revision, on a Policy Year basis

NCCI States: April, 2024, Annual Statistical Bulletin, Interim Exhibits, on an Accident Year basis

Portion of Ultimate Medical Case Incurred by Claim Maturity



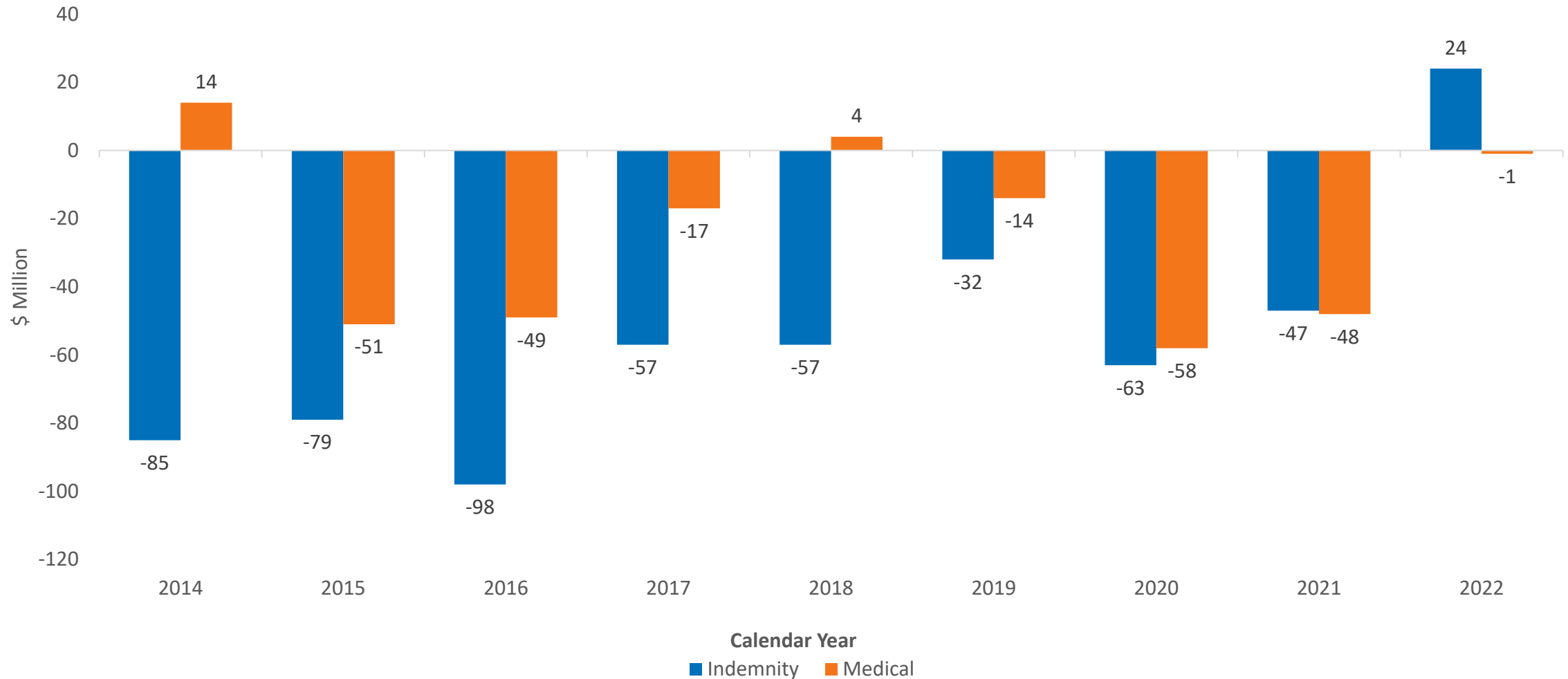
Sources:

PCRB 2024 Loss Cost Revision, on a Policy Year basis

NCCI States: April, 2024, Annual Statistical Bulletin, Interim Exhibits, on an Accident Year basis

Pennsylvania Case Reserve Changes

Case reserves are defined as the sum of the values assigned to specific known claims as of the evaluation date. 2022 is an outlier as there was some claim development, primarily in older years, driven by a large carrier who implemented a new claims system.



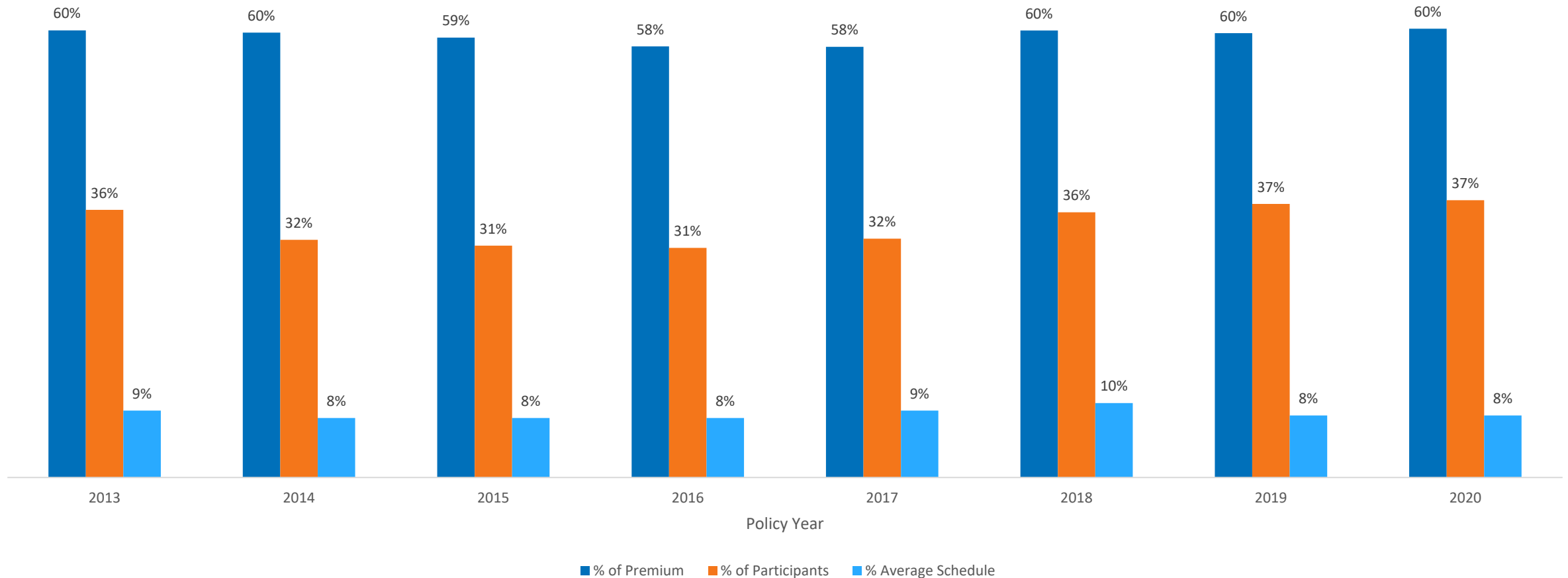
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Premium Adjustment Programs



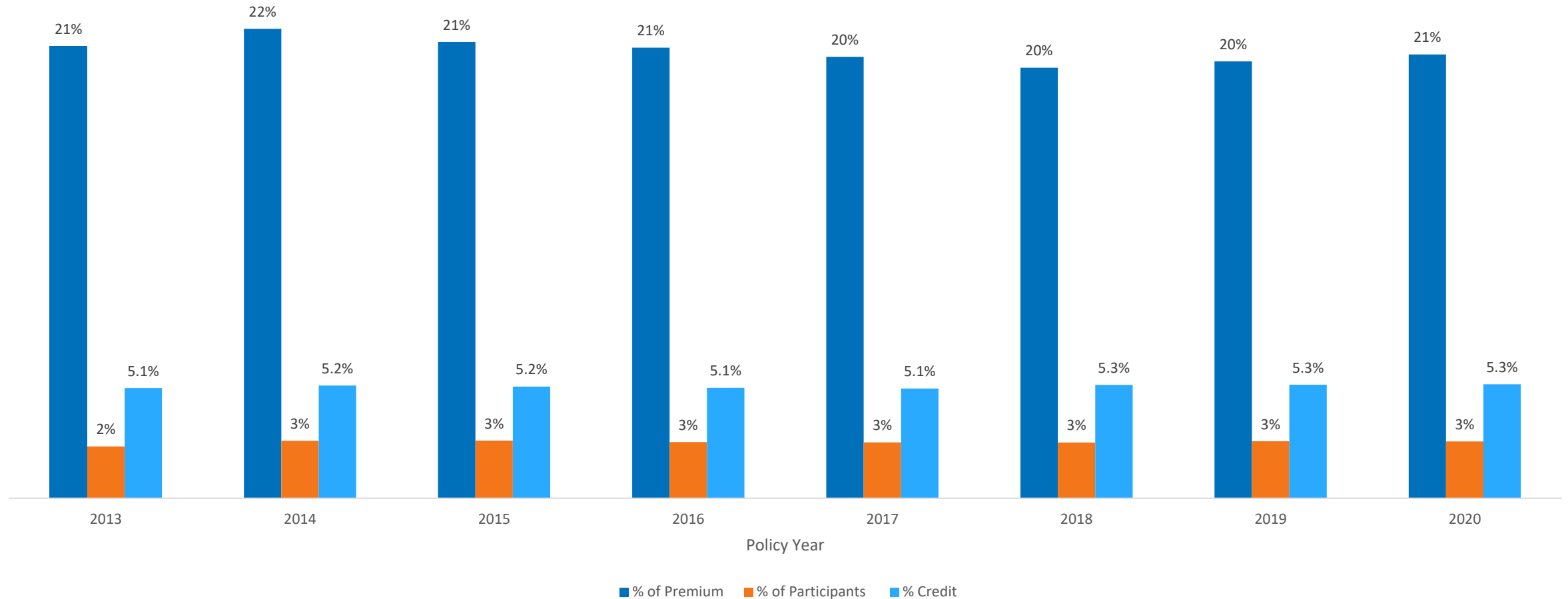
Pennsylvania Schedule Rating Plan

Approximately 60% of eligible total standard premium was subject to schedule rating and the number of policies subject to schedule rating has been increasing since 2016. The overall average schedule rating credit has been between 8% and 10%.



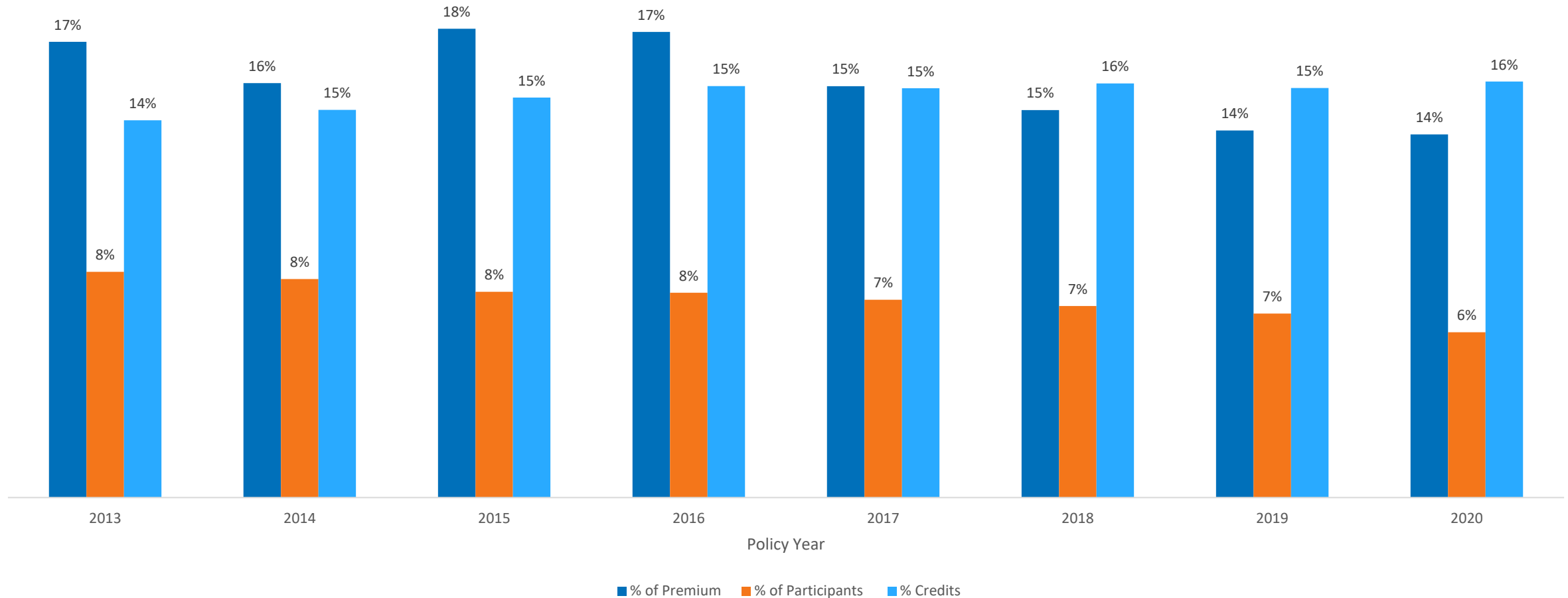
Pennsylvania Certified Safety Credit Program

The percentage of participating employers in the program has been stable at 3% and represents roughly 21% of eligible premiums participated in the program. The average credit provided to participating employers has been approximately 5.2%.



Construction Classification Premium Adjustment Program

For Policy Year 2020, the premium for participating employers represented 14% of total premium for eligible risks and only 6% of eligible employers participated in this program. Both the proportion of eligible employers and the percentage of premium for participants have generally declined. The average program credits given to participating risks have also declined slightly over the period.



ABOUT



TRUSTED | ESSENTIAL | OBJECTIVE

Founded in 1915, the Pennsylvania Compensation Rating Bureau (PCRB) is a nonprofit data collection organization serving as a trusted, essential, and objective resource that supports a healthy workers compensation system for Pennsylvania. PCRB provides data-driven products and services that anticipate and respond to marketplace conditions and identify emerging trends, including accurate and valuable statistical and actuarially-based information, marketplace knowledge, and rating plans. PCRB also conducts innovative research, provides educational services, and engages in outreach that delivers knowledge to empower actionable decisions.

**Pennsylvania Compensation
Rating Bureau**
30 S 17th Street, Suite 1500
Philadelphia, PA 19103
215-568-2371
pcrb.com
LinkedIn: @PCRB