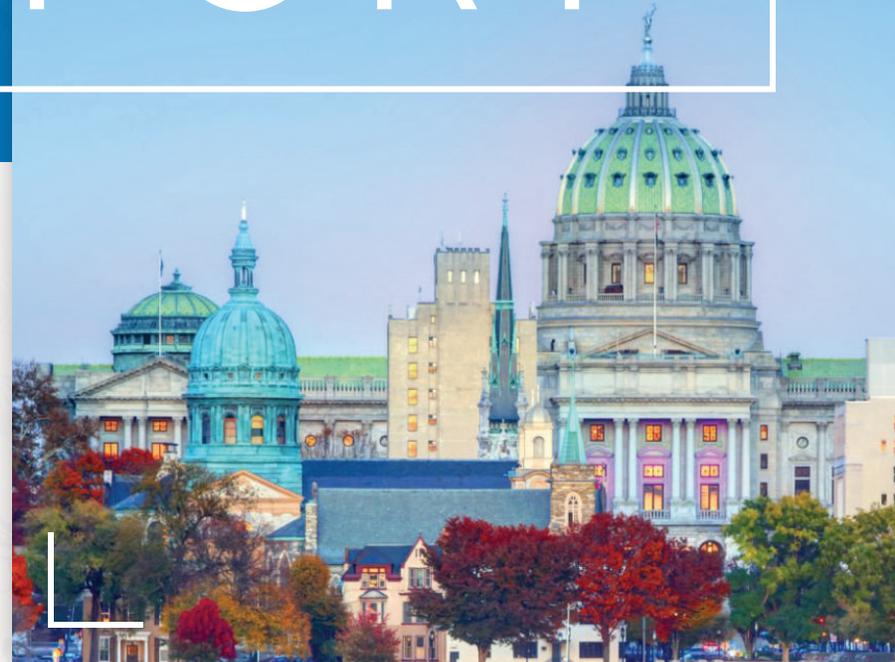


2021

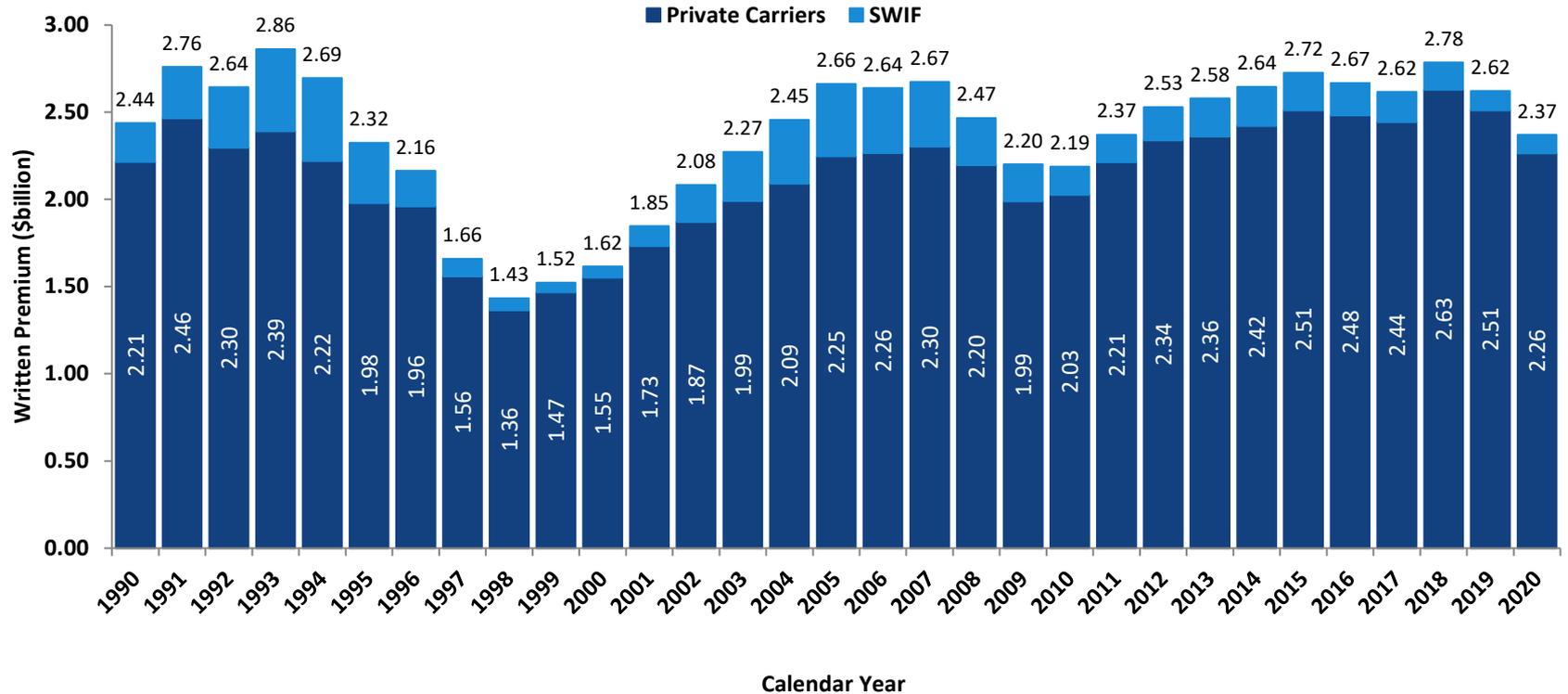
STATE OF THE LINE REPORT

PCRB
PENNSYLVANIA
Compensation Rating Bureau



Pennsylvania Workers Compensation Insurance Market Results

Pennsylvania Direct Written Premium

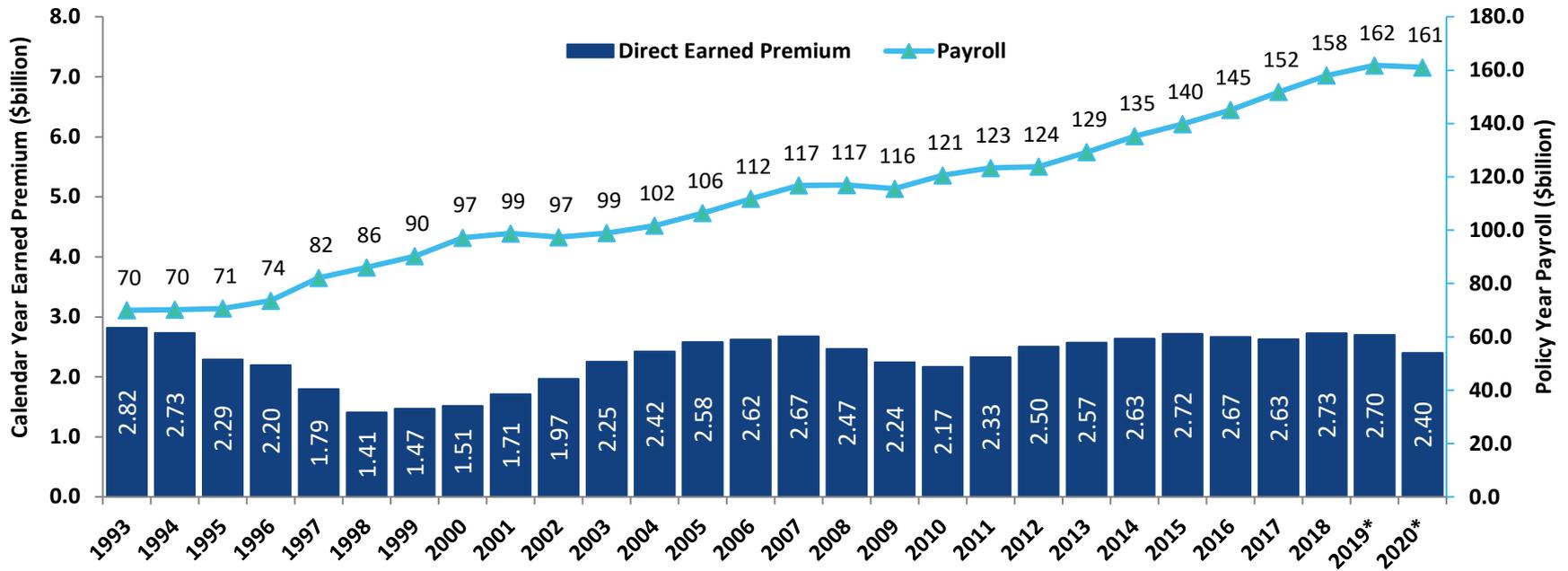


The level of written premium has fluctuated over the 31 years shown. Post the Great Recession, written premium started increasing again in 2010. Since 2014, the premium have fluctuated slightly around \$2.7 billion. The larger drop observed in 2020 is driven by the COVID-19 pandemic and associated shutdowns.

Source:

A.M. Best, Inc.: Best's State/Line Report

Pennsylvania Earned Premium and Payroll History



Earned Premium has risen and fallen over the 28 years shown. Payroll has more than doubled over the same time period.

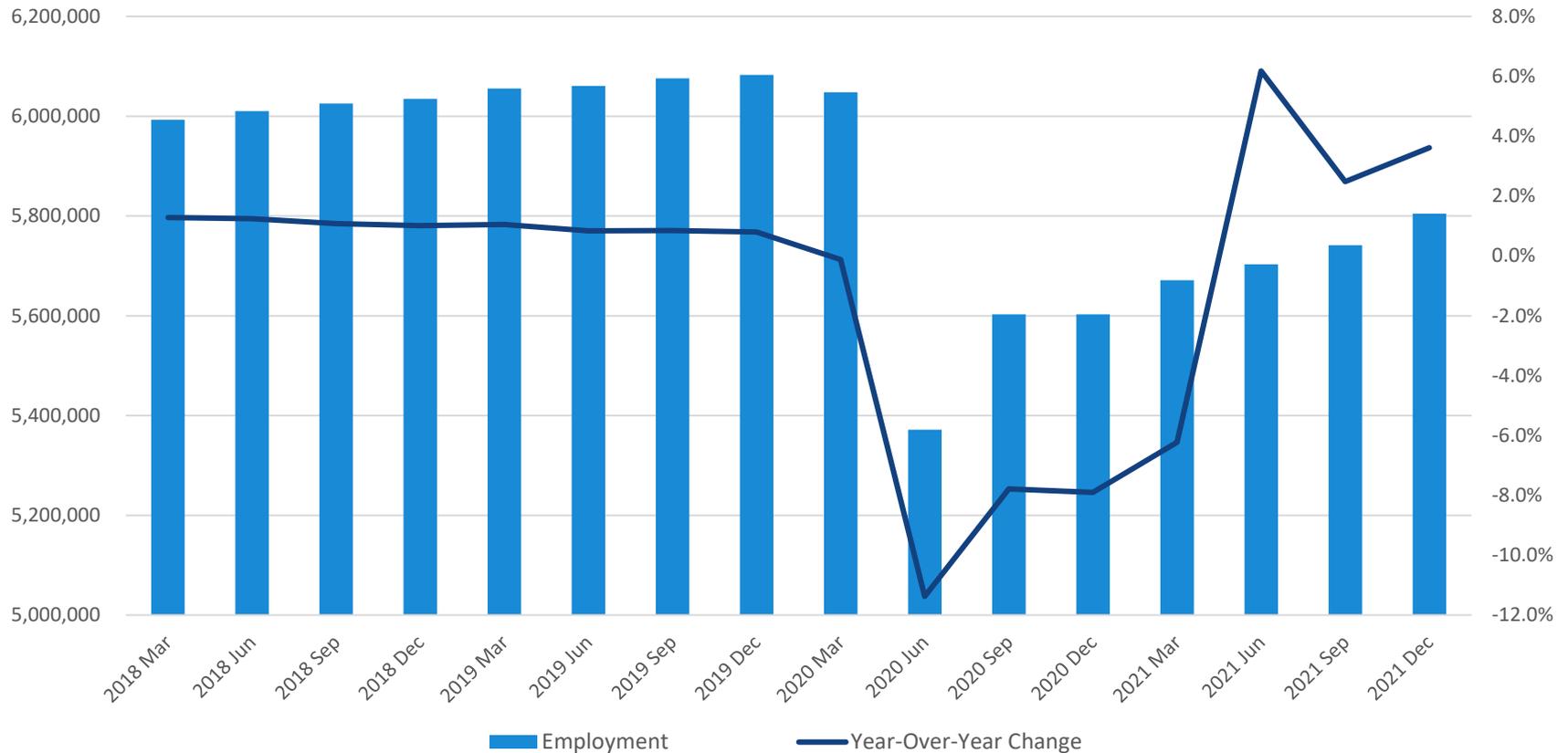
Sources:

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

Payroll: Unit Statistical Data; PCRB Financial Data Calls as of 12/31/2020, adjusted to an “effective” level to reflect deductible discounts; Policy Year Basis.

* Payroll for Policy Years 2019 and 2020 is projected using the Statewide Average Weekly Wage.

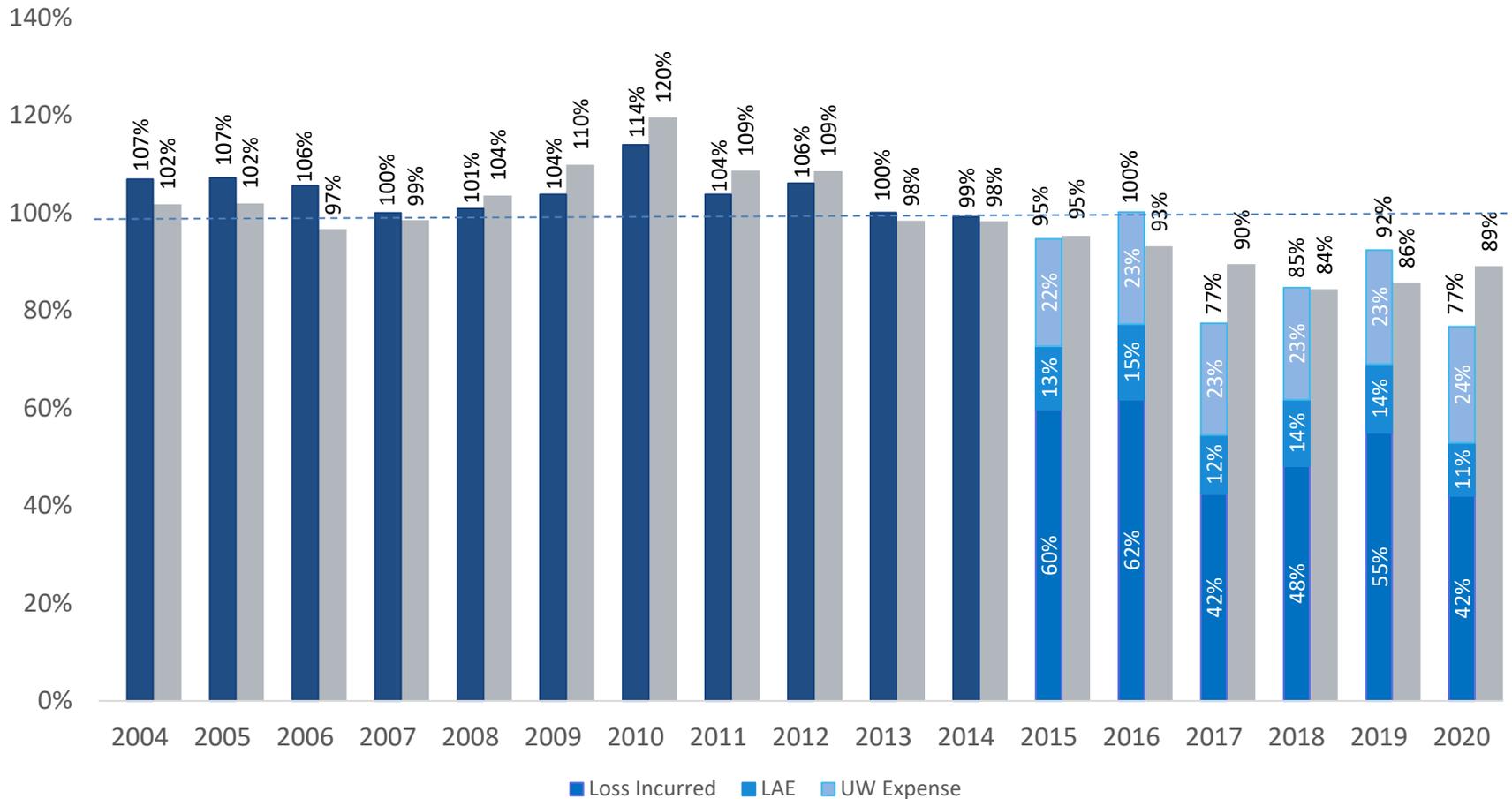
Pennsylvania Nonfarm Employment



Nonfarm employment data is a critical economic indicator to gauge the overall health of the economy and its workforce.

Source:
US Bureau of Labor Statistics data through 12/2021

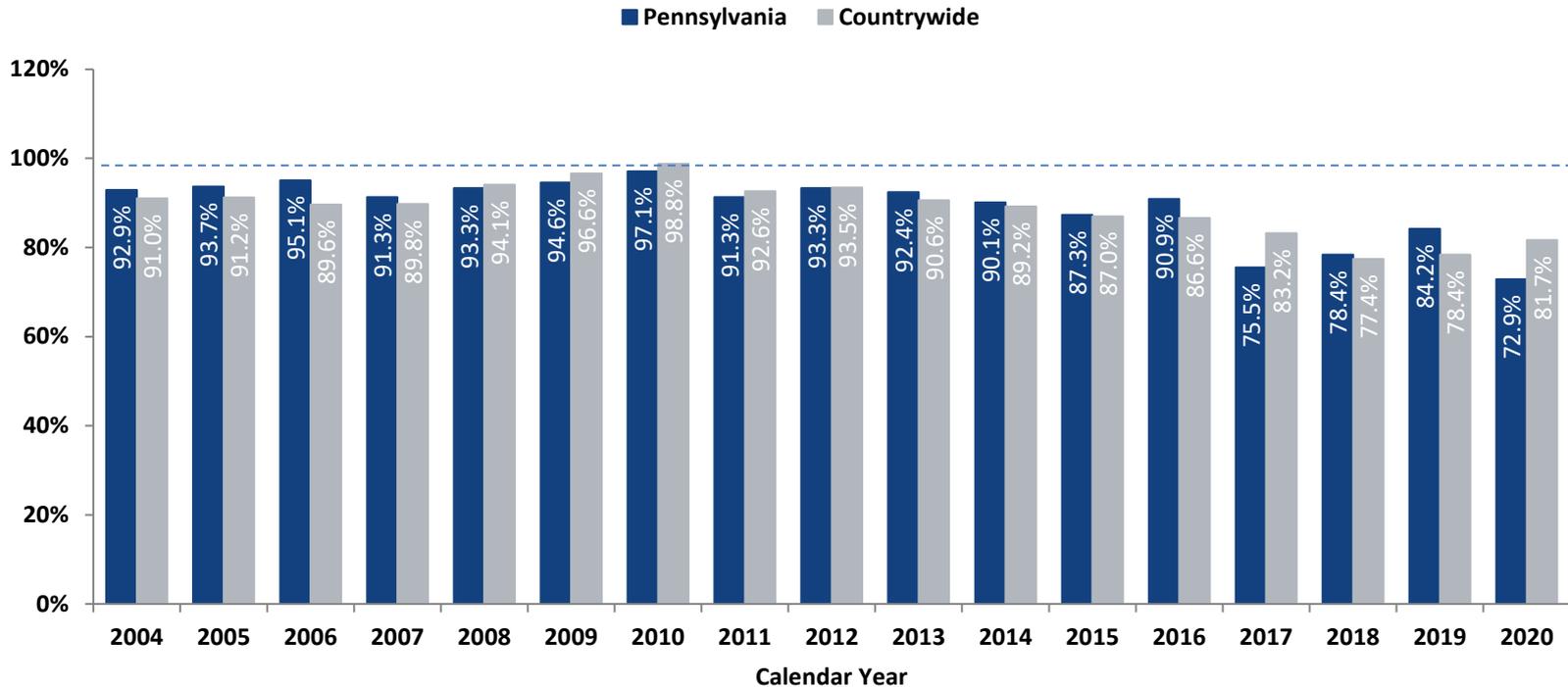
Combined Ratios Pennsylvania and Countrywide



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

Source:
2021 NAIC Profitability by Line by State in 2020

After-tax Operating Ratios Pennsylvania and Countrywide



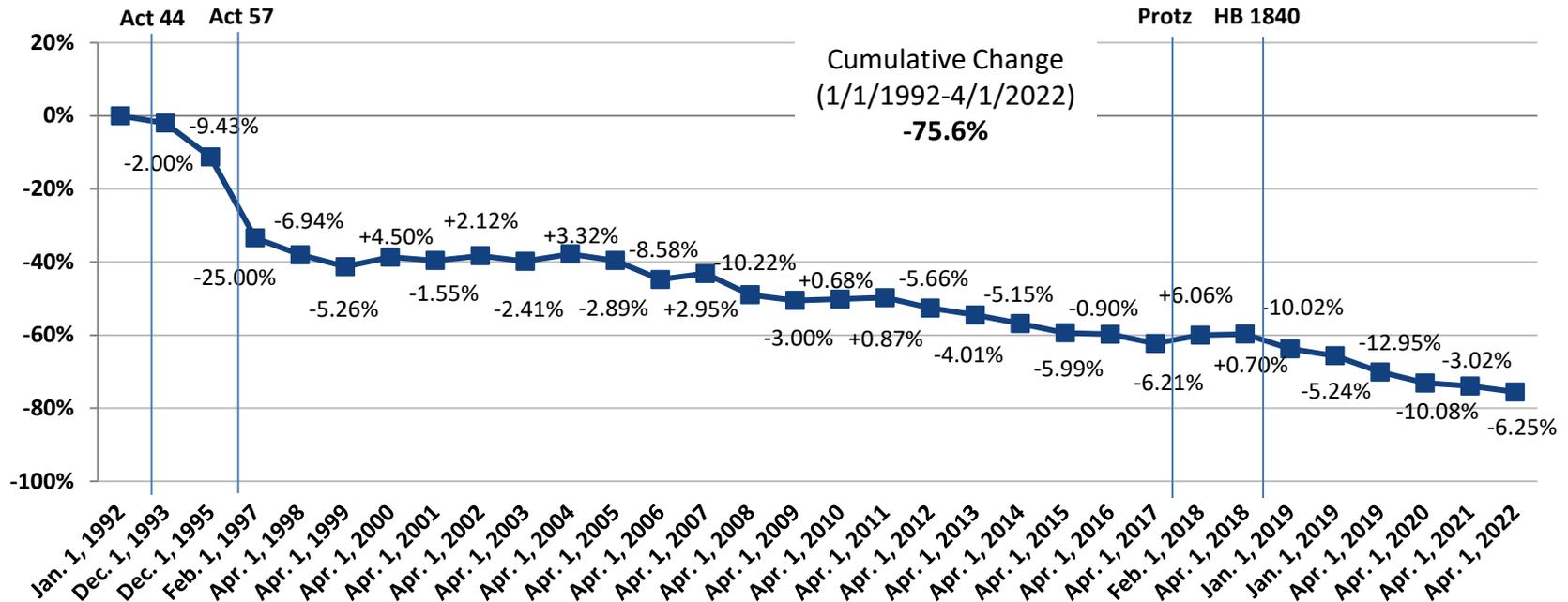
The After-tax Operating Ratio is the Combined Ratio less the Investment Gain on Insurance Transactions and a reduction for Federal Tax on Insurance Transactions. An operating ratio of less than 100 indicates an overall operating profit.

Source:

2021 NAIC Profitability by Line by State in 2020

Loss Costs and Market-wide Pricing

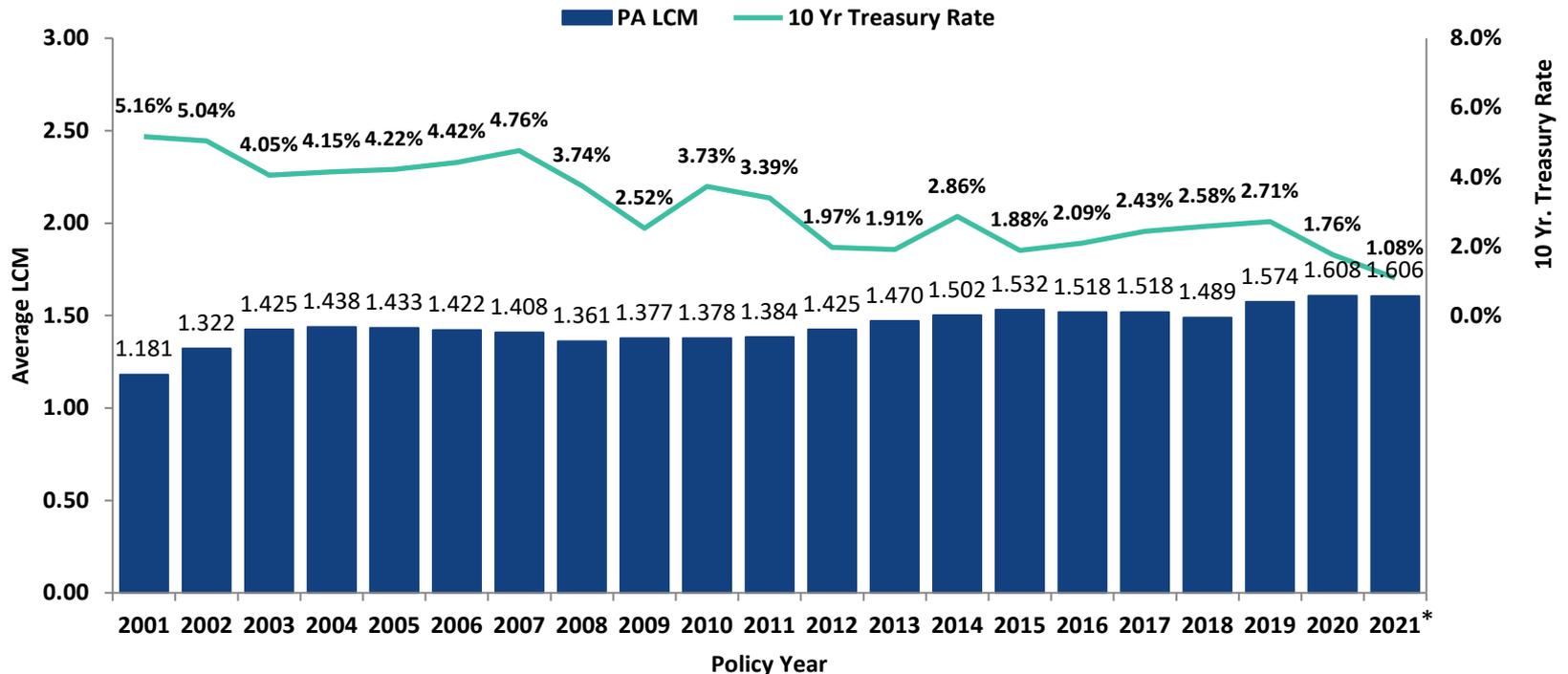
Pennsylvania Approved Loss Cost Change History



Significant Milestones:

- Act 44 of 1993 introduced several medical cost containment features into the Pennsylvania Workers Compensation Act and required that the PCRB file loss costs rather than rates.
- Act 57 of 1996 introduced several features that impacted indemnity benefits.
- Protz v. WCAB (*Derry Area School District*), June 2017, eliminated the provisions in the Workers Compensation Act that provided for Impairment Rating Evaluations.
- HB 1840 of 2017 (Act 111 of 2018), 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. It represents the average LCM, weighted by loss costs. Carriers must file their LCMs with the Insurance Department to convert PCRB loss costs, which only include claim costs, into manual rates, including loss adjustment expense, underwriting expenses, a provision for profit and contingencies, and any deviation to reflect differences in loss experience.

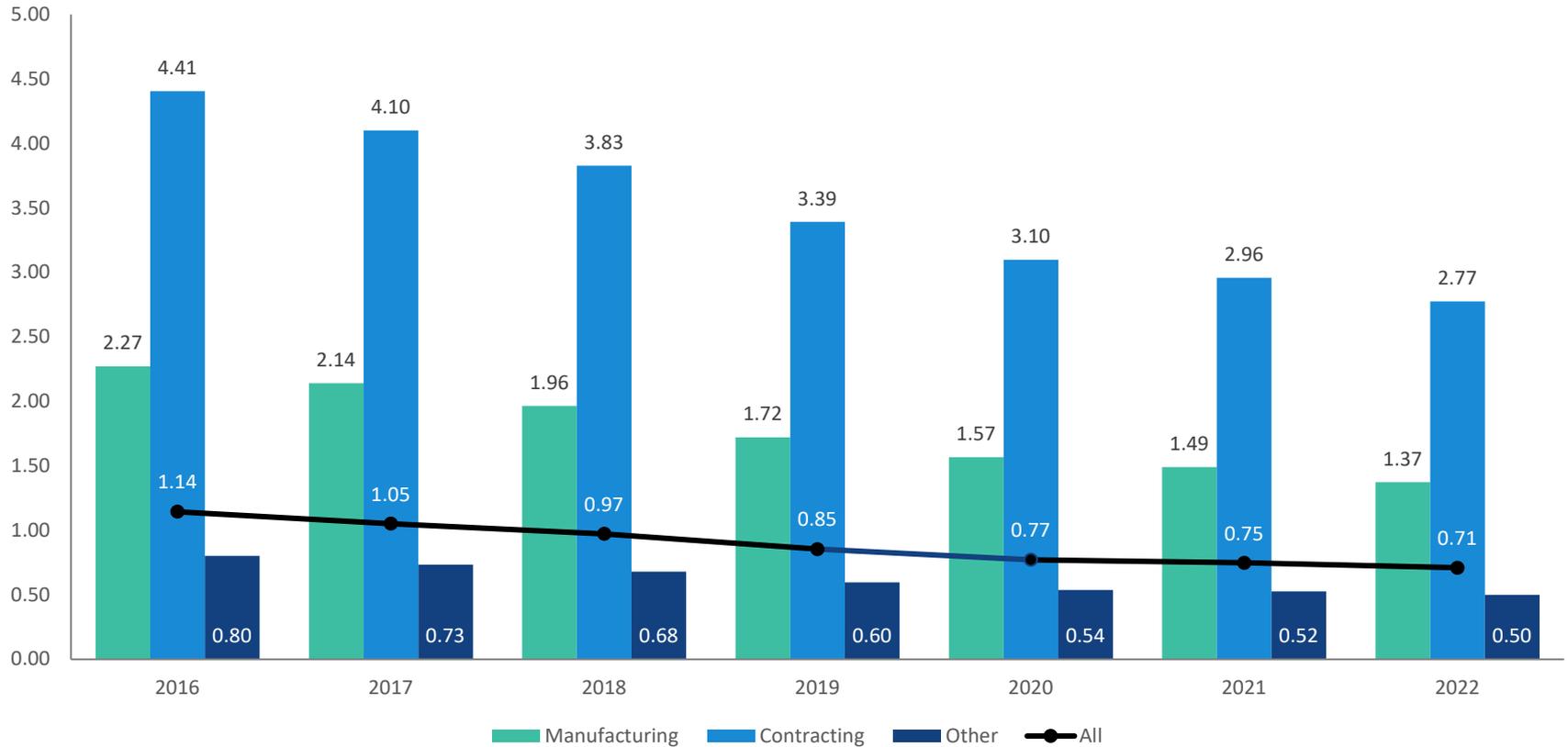
Investment returns, measured here by the 10-year Treasury Rate, are somewhat correlated with the magnitude of the average loss cost multiplier. The correlation coefficient, ρ , is -73.65%. The implication is that, in times of higher investment returns, average loss cost multipliers tend to be lower.

* Preliminary

Sources:

PCRB Market Profile Report; US Treasury

Pennsylvania Average Loss Cost



Overall average pre-surge loss costs have decreased steadily from 2016 to 2022.

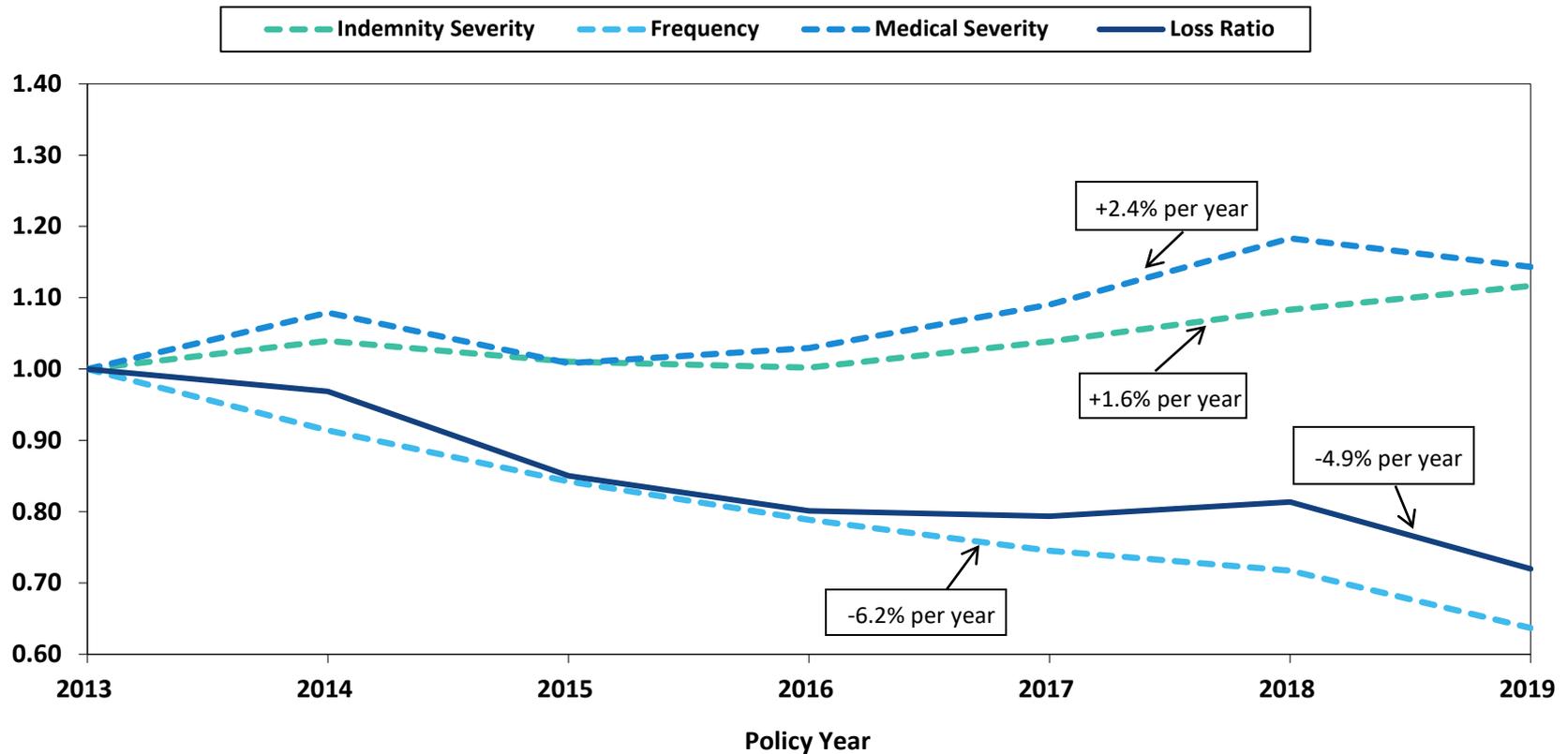
Source:

2016 - 2022 PCRB Loss Cost Revisions (2018 loss costs are based on the 1/1/2019 filing)

Claim Frequency and Severity Trends

Pennsylvania Loss Components

Frequency, Indemnity Severity, Medical Severity



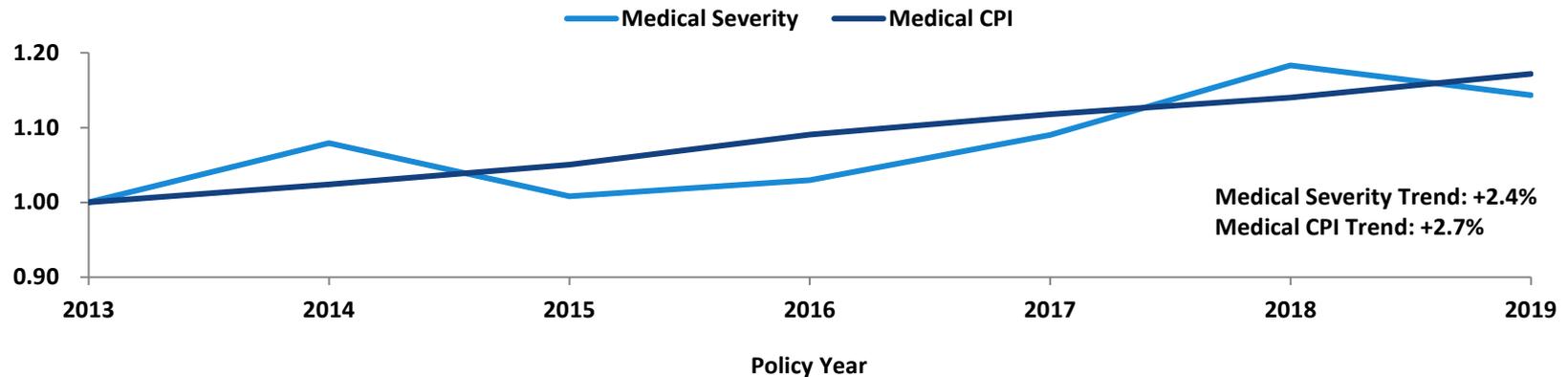
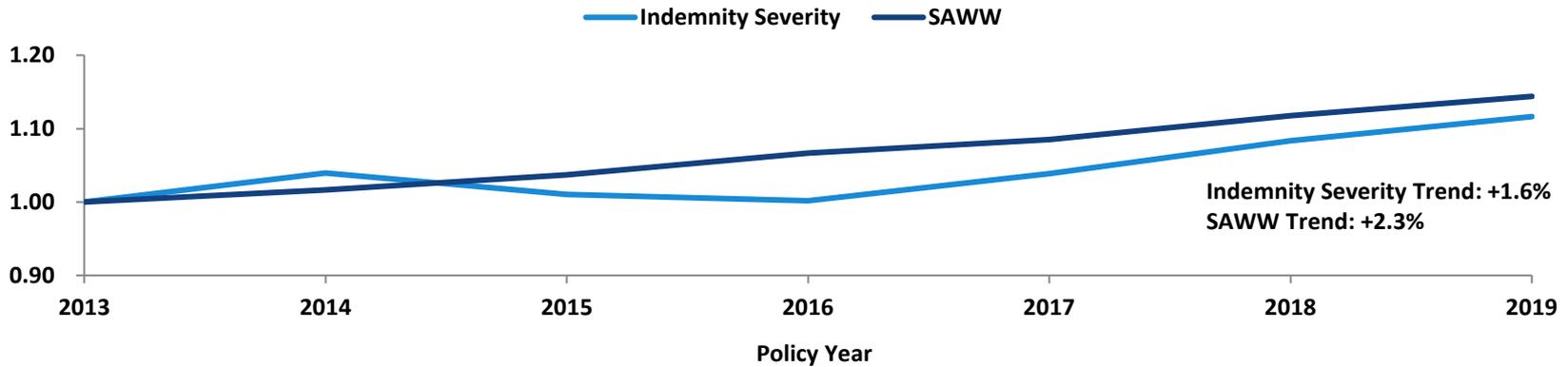
The combined impact of Frequency, Indemnity Severity, and Medical Severity Trends is a Loss Ratio Trend of -4.9%.

Indexed to 1.00 at Policy Year 2013

Source:

PCRB 2022 Loss Cost Revision

Pennsylvania Severity Compared to Selected Indices



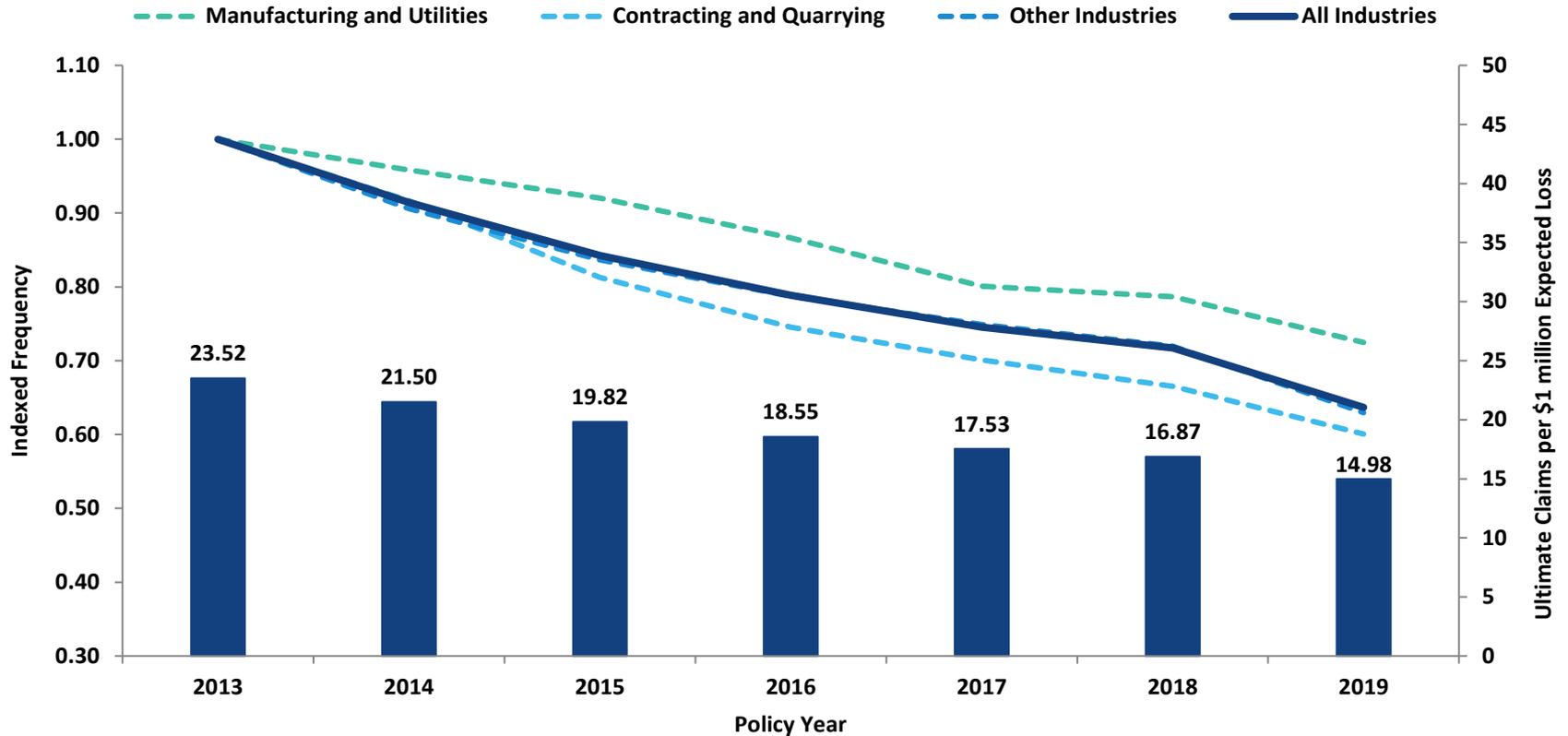
Changes in indemnity severity appear to be lower than the changes to the state's average weekly wage. Changes in medical severity were lower than the Medical Consumer Price Index (CPI) in 2015, 2016, 2017 and 2019.

Indexed to 1.00 at Policy Year 2013

Sources:

- PCRB 2022 Loss Cost Revision
- PA Department of Labor
- US Bureau of Labor Statistics

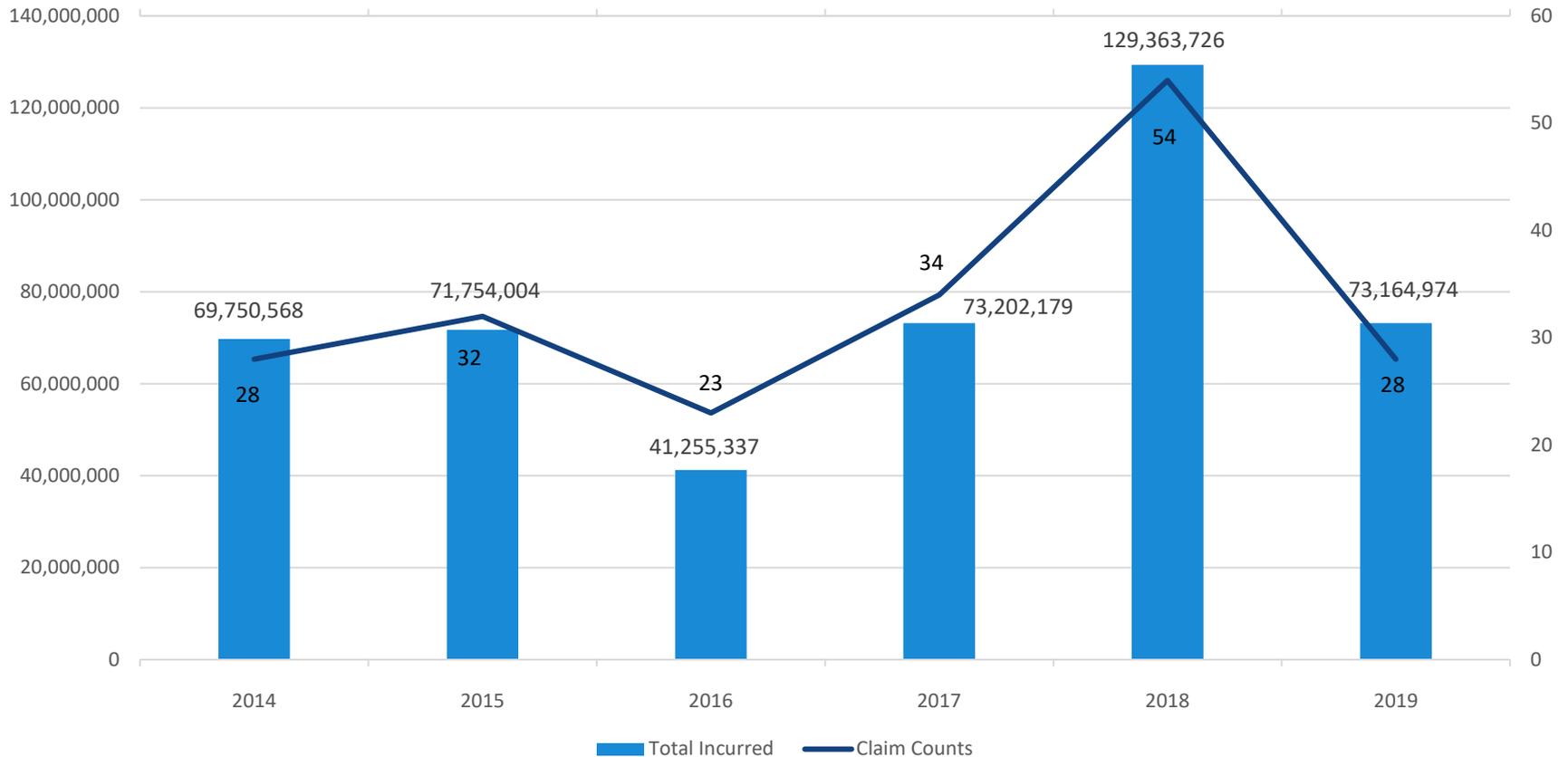
Claim Frequency Trend is Consistent by Industry Group



Notes: Excludes large deductible business
 Claim frequency is measured by the number of ultimate claims per \$1 million of expected losses.
 Decreasing frequency contributes to reductions in statewide loss cost levels.
 Indexed to 1.00 at Policy Year 2013

Source:
 PCRB 2022 Loss Cost Revision

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



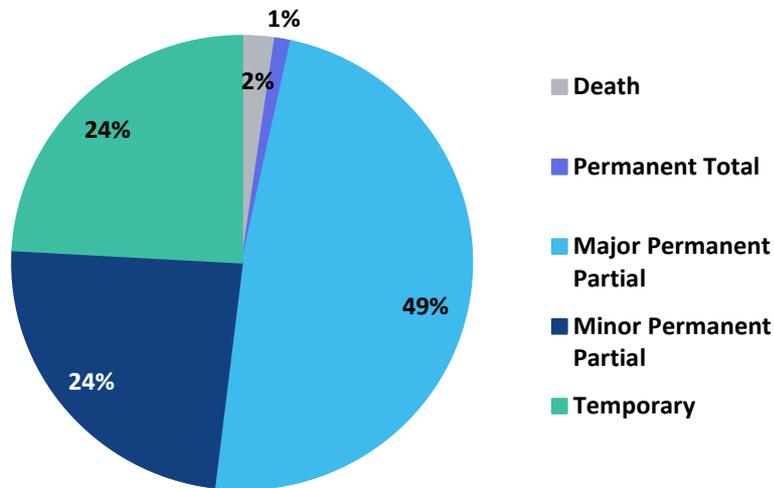
High-dollar workers compensation claims are infrequent, but the cost of these claims has a significant impact on workers compensation costs. The chart shows the number of large claims with losses in excess of \$1 million in total incurred losses for Policy Years 2014 through 2019.

Source:
PCRB Financial Data Call #4

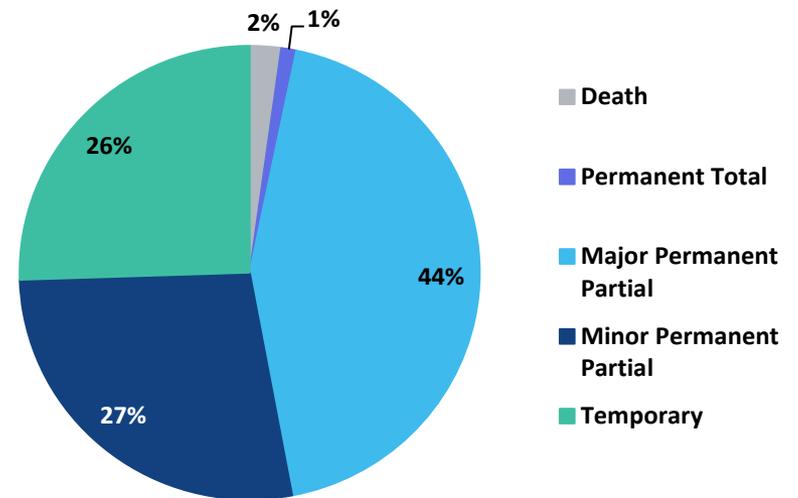
Distributions of the Pennsylvania Workers Compensation System

Indemnity Benefits by Type of Injury

5 Policy Year Average (2010-2014)



5 Policy Year Average (2014-2018)



Over these time periods, the portion of indemnity benefits attributable to Major Permanent Partial injuries decreased by 5 percentage points, while the portion attributable to Minor Permanent Partial injuries increased by 3 percentage points. The other types of injury exhibited smaller changes.

Based on losses developed to ultimate values.

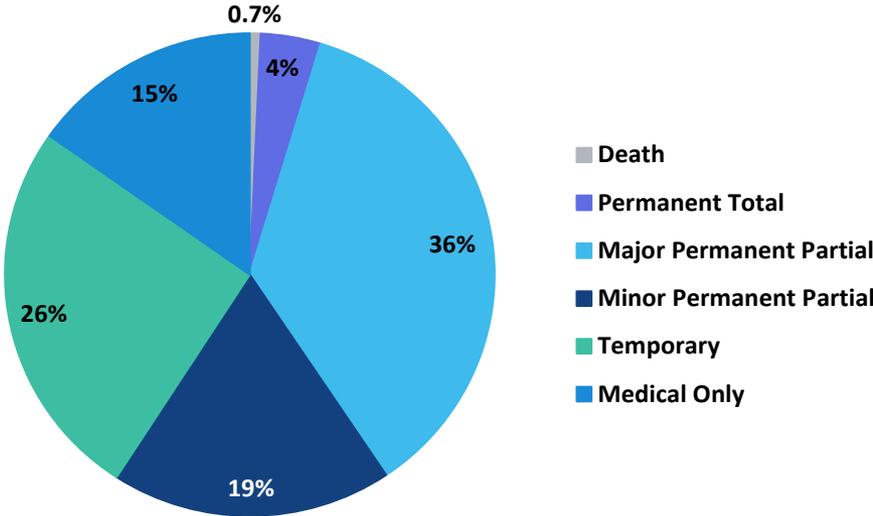
Sources:

2010-2014: PCRB 2018 Loss Cost Revision

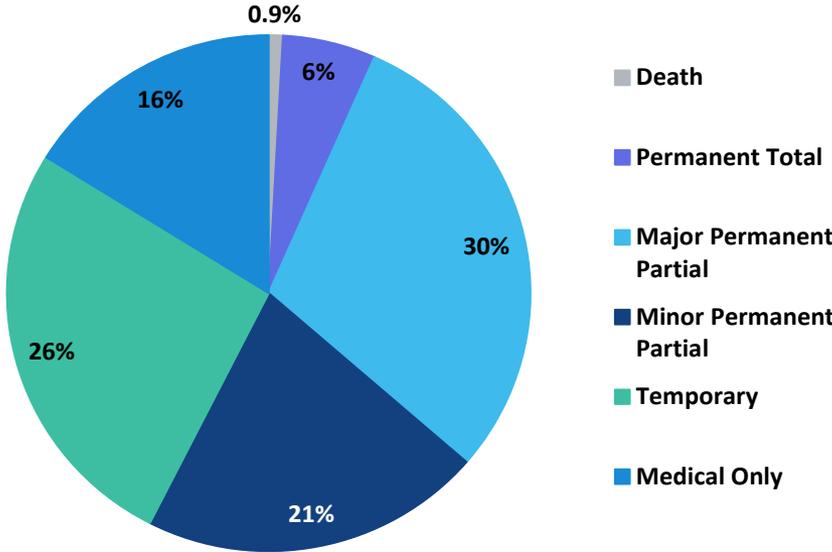
2014-2018: PCRB 2022 Loss Cost Revision

Medical Benefits by Type of Injury

5 Policy Year Average (2010-2014)



5 Policy Year Average (2014-2018)

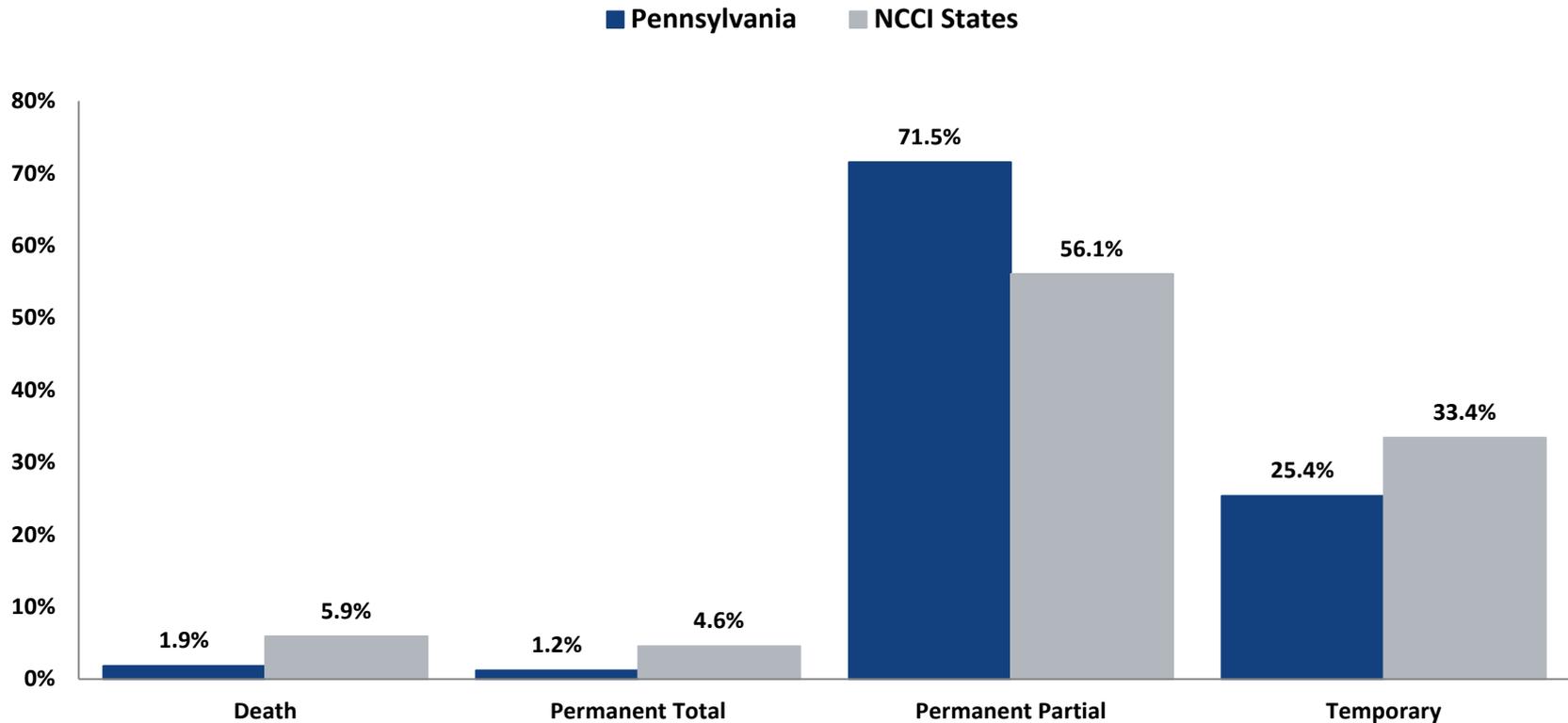


Comparing these two time periods, the portion of medical benefits attributable to Major Permanent Partial decreased by 6 percentage points, while Temporary Total injuries did not change. The portion attributable to Minor Permanent Partial, Medical Only and Permanent Total injuries increased by 2, 1 and 2 percentage points, respectively.

Based on losses developed to ultimate values.

Sources:
 2010-2014: PCRB 2018 Loss Cost Revision
 2014-2018: PCRB 2022 Loss Cost Revision

Ultimate Indemnity Benefits by Type of Injury



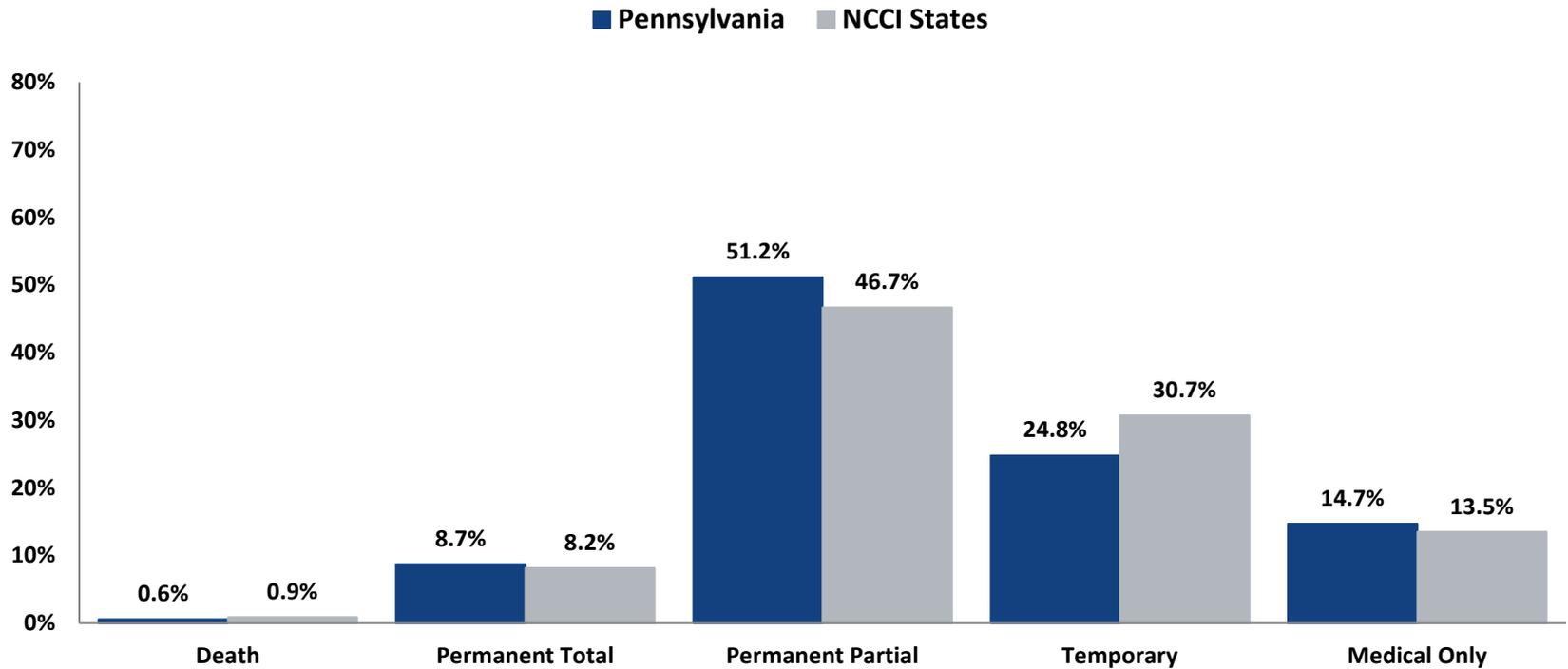
Pennsylvania has a higher percentage of Permanent Partial benefits and a lower percentage of Temporary benefits in comparison to the NCCI states.

Sources:

PCRB 2022 Loss Cost Revision

NCCI States: 2021 Annual Statistical Bulletin

Ultimate Medical Benefits by Type of Injury



The largest component of medical costs is payments for Permanent Partial (more than half of total medical cost). 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 injury types.

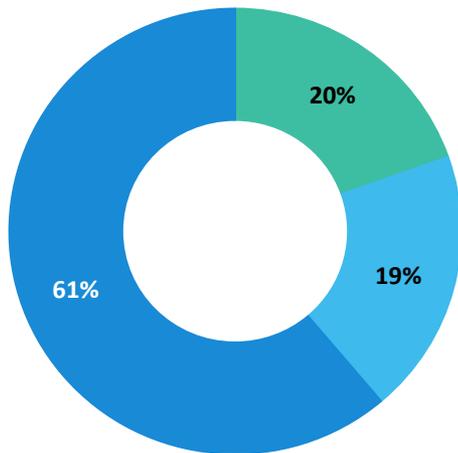
Sources:

PCRB 2022 Loss Cost Revision

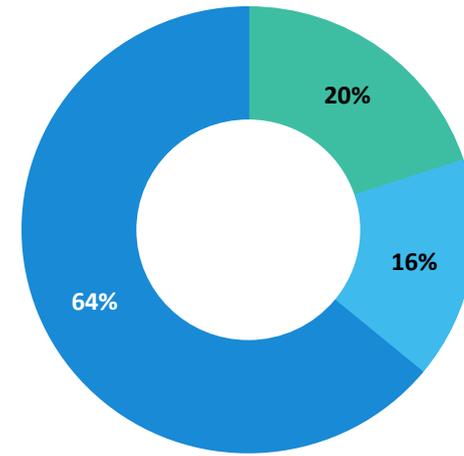
NCCI States: 2021 Annual Statistical Bulletin

Premium and Loss by Industry Group

Standard Premium



Reported Losses



 Manufacturing

 Contracting

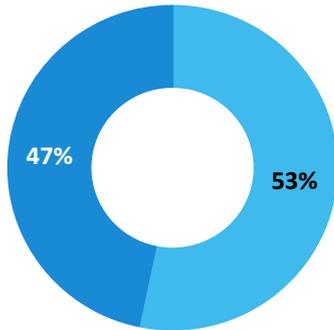
 Other

Source:
PCRB 2022 Loss Cost Revision, Policy Year 2018

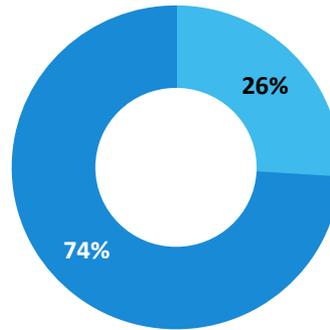
Premium and Loss by Industry Group

Standard Premium

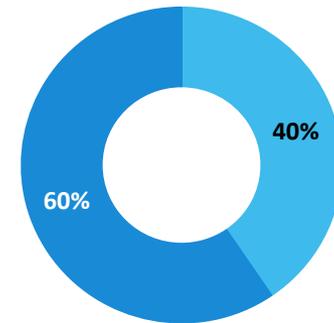
Manufacturing



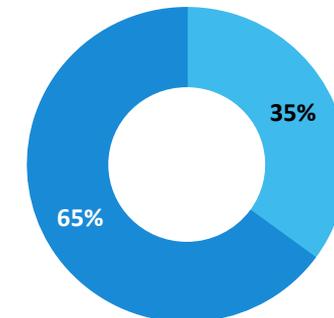
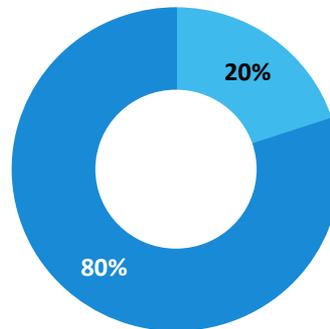
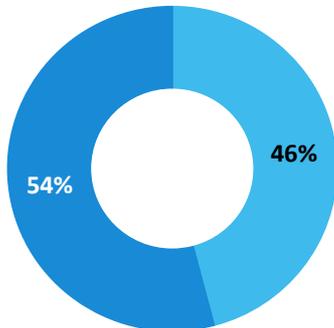
Contracting



Other



Reported Losses



Excluding Deductible Policies

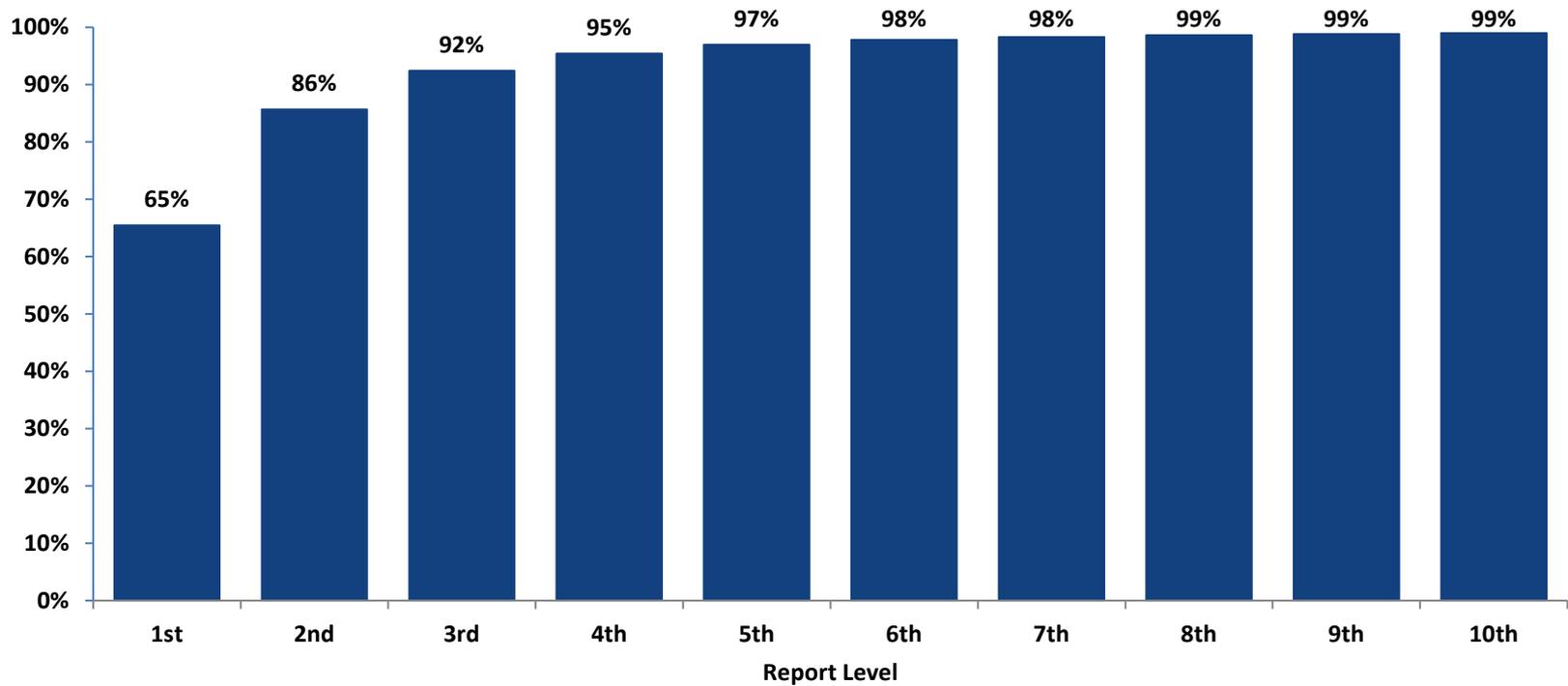


Deductible Policies

Source:
PCRB 2022 Loss Cost Revision, Policy Year 2018

Measures of Claim Reporting and Case Reserve Changes

Portion of Reported Indemnity Claims Closed

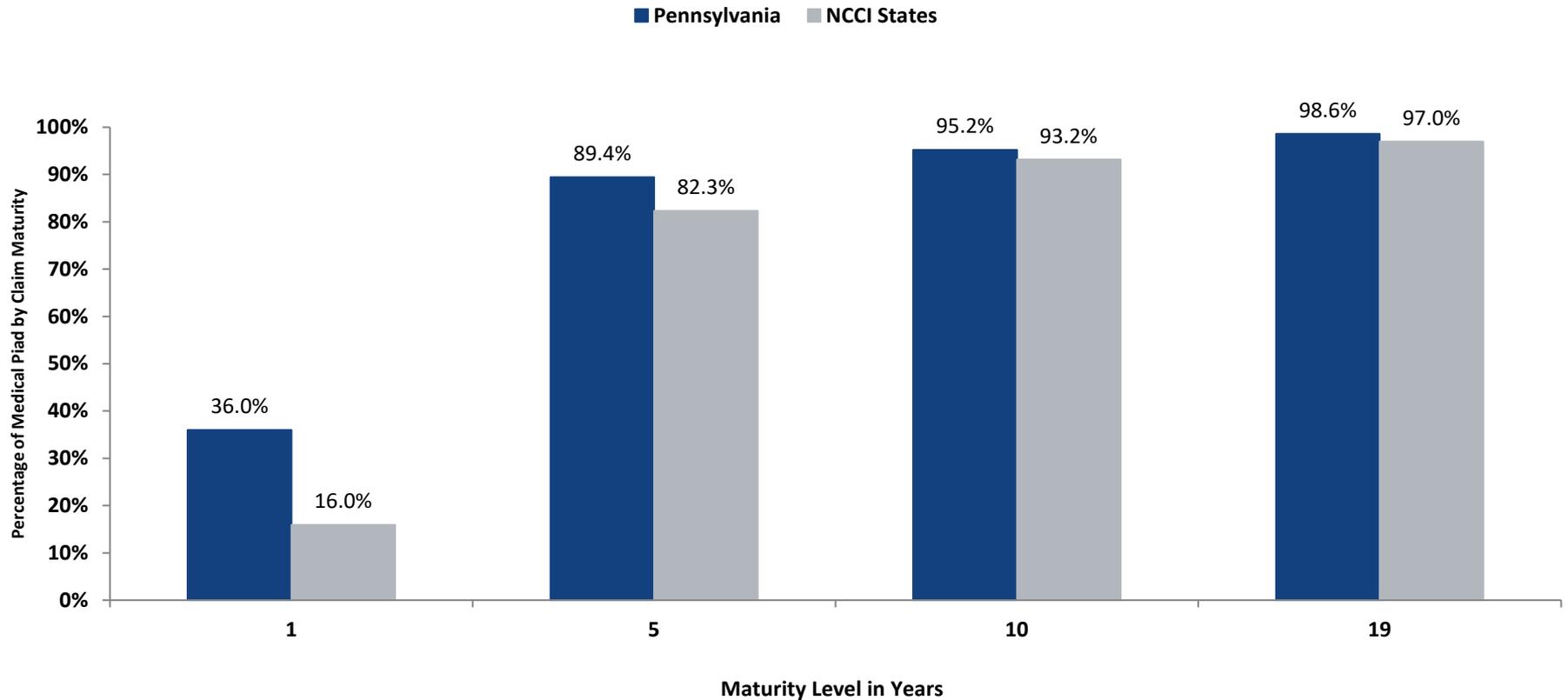


The rate at which claims are settled and closed impacts the ultimate claim costs. The chart shows the percentage of indemnity claims that are closed at each report level. Approximately 3% of indemnity claims remain open at 5th report.

Source:

PCRB 2022 Loss Cost Revision

Portion of Ultimate Indemnity Loss Paid by Claim Maturity



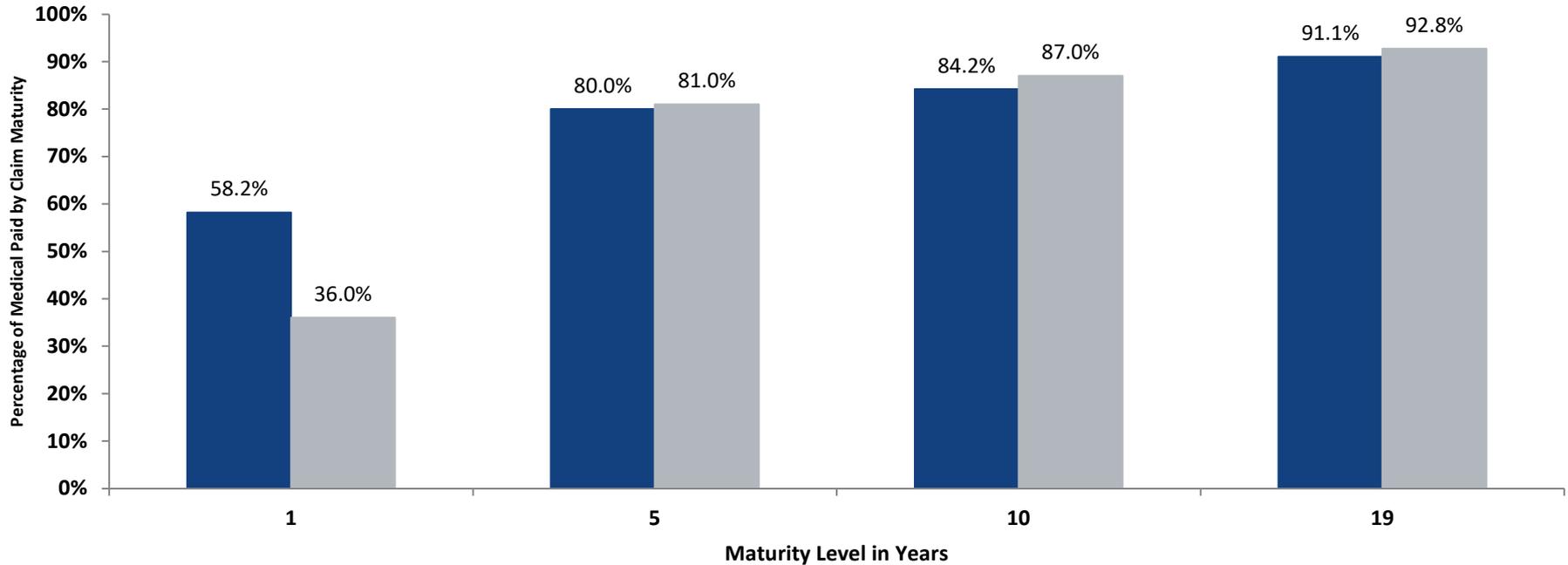
Sources:

PCRB 2022 Loss Cost Revision, on a Policy Year basis

NCCI States: April, 2022, Annual Statistical Bulletin, Interim Exhibits, on an Accident Year basis

Portion of Ultimate Medical Loss Paid by Claim Maturity

■ Pennsylvania ■ NCCI States

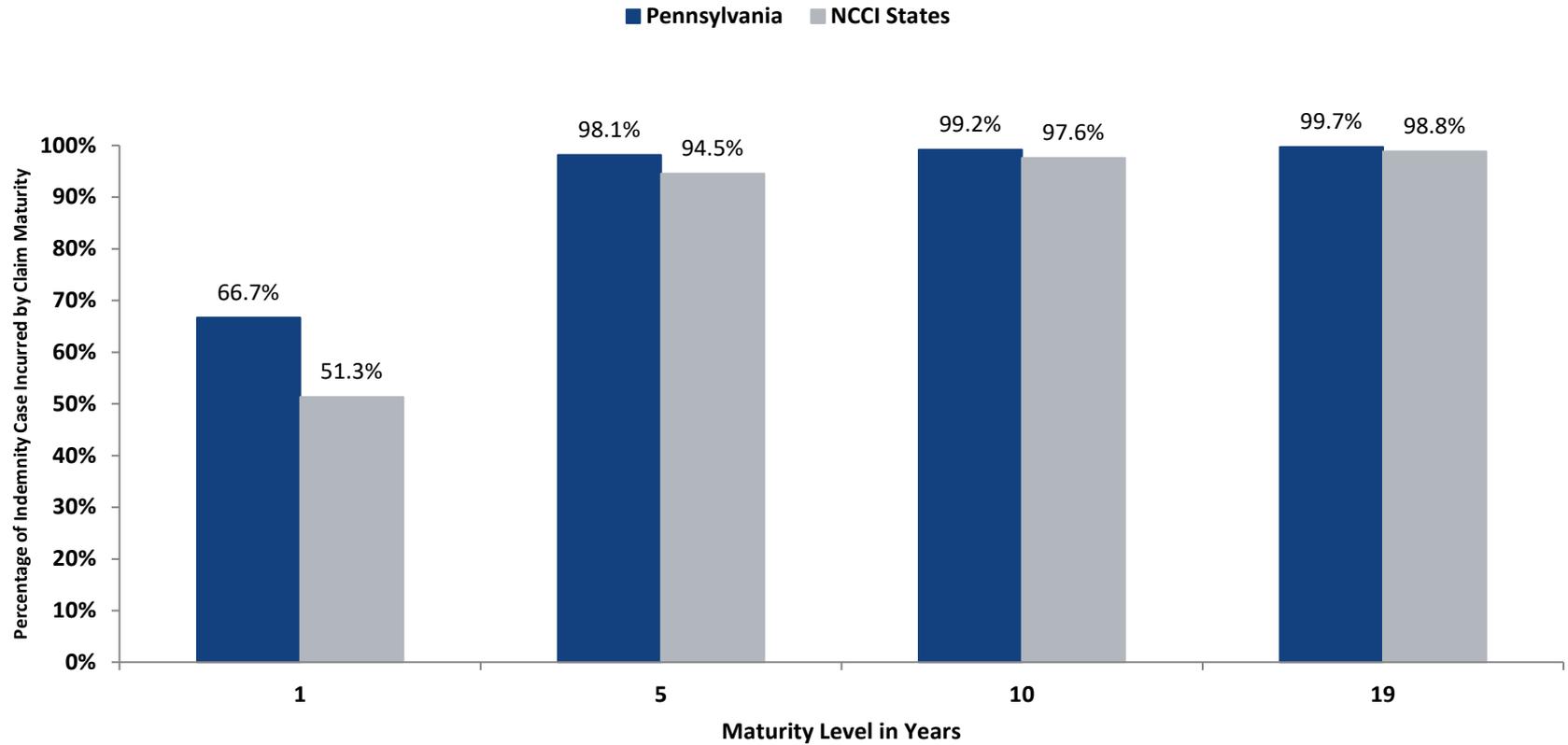


Sources:

PCRB 2022 Loss Cost Revision, on a Policy Year basis

NCCI States: April, 2022, Annual Statistical Bulletin, Interim Exhibits, on an Accident Year basis

Portion of Ultimate Indemnity Case Incurred by Claim Maturity

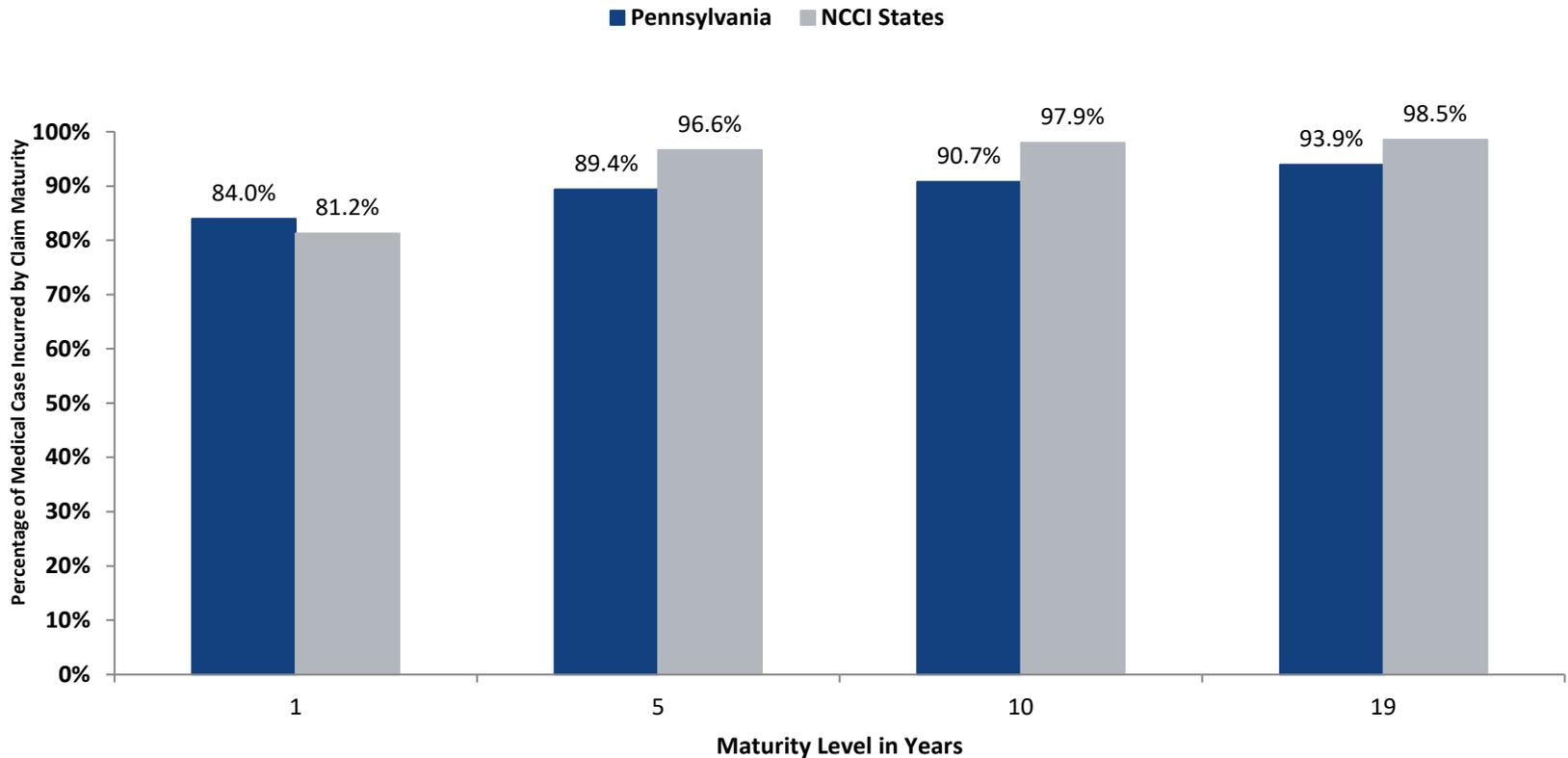


Sources:

PCRB 2022 Loss Cost Revision, on a Policy Year basis

NCCI States: April, 2022, Annual Statistical Bulletin, Interim Exhibits, on an Accident Year basis

Portion of Ultimate Medical Case Incurred by Claim Maturity

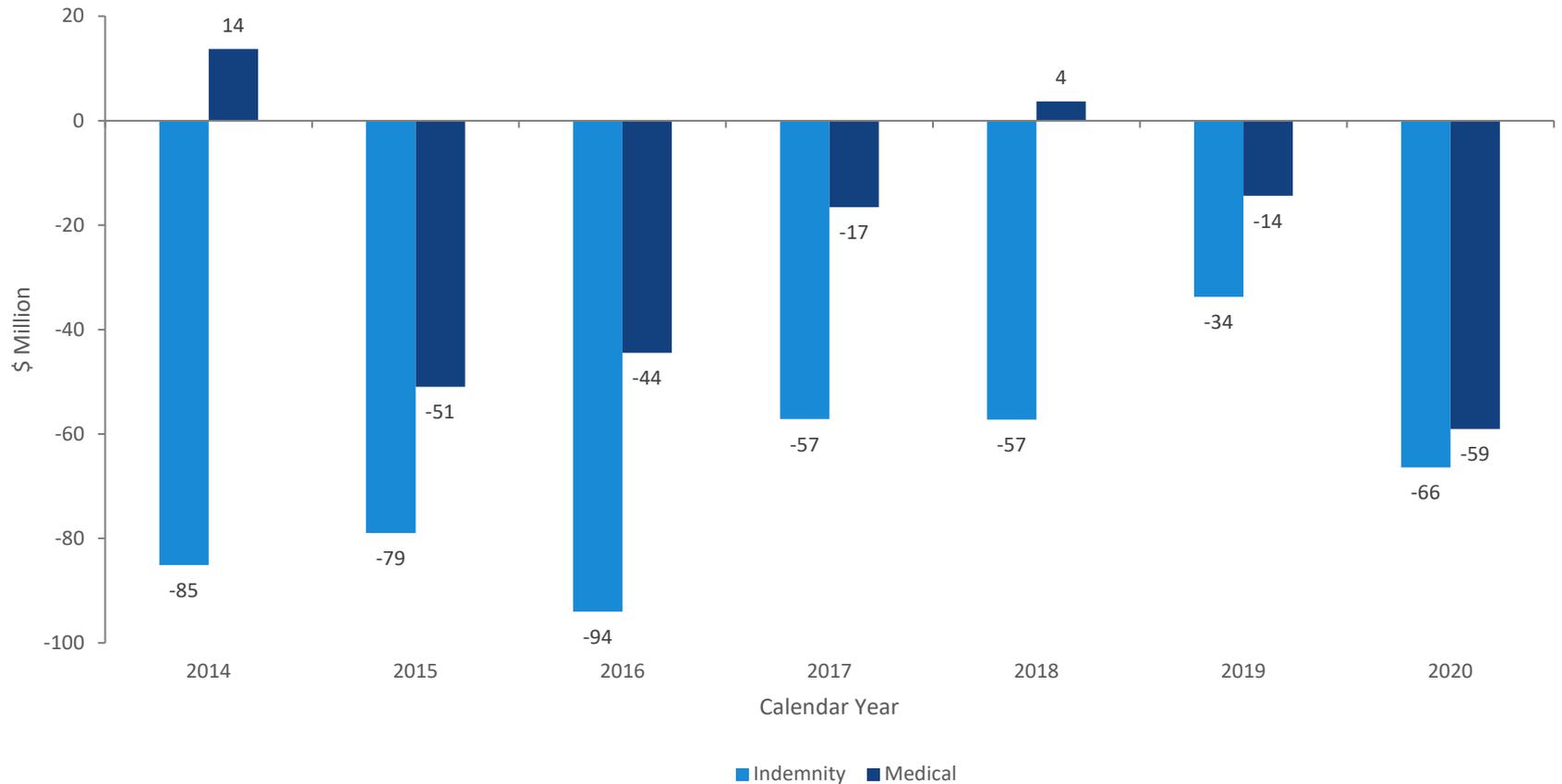


Sources:

PCRB 2022 Loss Cost Revision, on a Policy Year basis

NCCI States: April, 2022, 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.

In Pennsylvania, the change in case reserves has been stable over time, with exception of Calendar Years 2014 and 2018, which had more large claims than usual.

Sources:

PCRB Financial Data Calls