

Original: 2050

The Insurance Federation of Pennsylvania, Inc.

1600 Market Street
Suite 1520
Philadelphia, PA 19103
Tel: (215) 665-0500 Fax: (215) 665-0540

Robert W. Kloss
Chairman
Donald H. Nikolaus
Vice Chairman
Samuel R. Marshall
President &
Chief Executive Officer
John R. Doubman
Secretary & Counsel
Marybeth H. Dob
Treasurer
Birchard T. Clithier
Investment Officer &
Assistant Treasurer
Danielle D. Witwer
Director of
Government Affairs

May 14, 2001

Robert M. Nyce
Executive Director
Independent Regulatory Review Commission
14th Floor
333 Market Street
Harrisburg, PA 17101

Re: Discounting workers compensation loss reserves

Dear Mr. Nyce:

This is to recommend that the Insurance Department's final form regulation on the discounting of workers' compensation loss reserves be withdrawn to allow for two important clarifications regarding its implementation.

First, the regulation needs to be amended to clarify its impact on policies issued on or prior to the regulation's effective date. The Department states in its preamble that "existing workers compensation business which has been discounted at the 6% rate should not be impacted by the amendment of the regulation." We agree with that conclusion, but it should be more clearly stated, and it should be in the text of the regulation itself. To that end, we recommend the regulation set forth the following transition rule:

"Insurers who used the table set forth in section 116.3 prior to the effective date of this regulation may continue to use the discount factors in that table for accident years 2001 and prior, for policies issued on before the effective date of this

RECEIVED
2001 MAY 16 AM 8:28
INDEPENDENT REGULATORY
REVIEW COMMISSION

May 14, 2001

Page two

regulation, so long as they continue to demonstrate they hold sufficient assets supporting the 6% interest rate assumption underlying that table."

In the alternative, the Department could simply state that the amendments to the regulation not apply to policies issued on or before the effective date of those amendments.

Second, the regulation needs to be amended to clarify that the interest rate used for discounting a given accident year applies to future reporting on that accident year. To that end, we recommend the following addition to Section 116.4(2):

"The interest rate first adopted for a given accident year may be maintained for future reporting on that accident year provided that the insurer continues to hold securities who yield supports that assumption."

We have discussed these clarifications with the Insurance Department, and I believe it concerns that both clarifications match the intent of the regulation. We understand that the Department therefore intends to withdraw the regulation and quickly address these areas. We hope that the IRRC then approves the regulation.

Sincerely,



Samuel R. Marshall

C: Peter J. Salvatore
Regulatory Coordinator
Pennsylvania Insurance Department

