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RECETTel purance Federation of Pennsylvania, Inc.

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1600 Market Street **Suite 1520** INDEPENDENT REGULATORY Philadelphia, PA 19103 REVIEW COMMISSION Tel: (215) 665-0500 Fax: (215) 665-0540

Sandusky Jewett Smith Lega1

Sarah H. Lawhorne Chairman **Robert W. Kloss** Vice Chairman Henry G. Hager President Emeritus Samuel R. Marshall President & Chief Executive Officer John R. Doubman Secretary & Counsel Marybeth H. Dob Treasurer **Birchard T. Clothier** Investment Officer & Assistant Treasurer Danielle Witwer Director of **Government Affairs** 

September 27, 1999

Peter J. Salvatore Regulatory Coordinator 1326 Strawberry Square Harrisburg, PA 17120

Re: Chapter 116 - Discounting of worker's compensation loss reserves

Dear Mr. Salvatore:

The Insurance Federation supports the Department's proposed revisions to Chapter 116, regarding the discounting of worker's compensation loss reserves, subject to two clarifications.

the regulation should clarify that First, its application is prospective only. Much business has already been reserved at the 6% interest rate cap allowed in the current Section 116.4(2). The cap proposed in this regulation, namely the current yield to maturity on United States Treasury debt instruments, is currently less than 6%.

clarification Absent that this regulation is prospective only, insurers who lawfully are discounting their loss reserves at 6% would have to recalculate those reserves for business already issued - which would then translate into the premiums already charged and collected for that business being inadequate.

Second, the regulation should clarify the date on which the "current" yield in Section 116.4(2) is This would seem to be the date on determined. which the actuarial statement of opinion in Section 116.5 is filed.

September 27, 1999 Page two

As always, please call me with any questions on this. We appreciate the opportunity to have worked with the Department in developing this proposed regulation.

Sincerely,

Sen Morley

Samuel R. Marshall

c: Robert E. Nyce, Executive Director Independent Regulatory Review Commission

Gregory S. Martino Deputy Insurance Commissioner Office of Regulation of Rates and Policies Pennsylvania Insurance Department

FAX	ID: 12156650540 PAGE 1/3 <b>1600 MARKET STREET</b> SUITE 1520 PHILADELPHIA, PA 19103
Date <u>9/27/99</u> Number of pages including cover sheet <u>3</u>	
Bobert Nyce	From: Sun Marshall
Phone	Phone 215-665-0500
Fax Phone <u>717-783-2664</u> CC	Fax Phone 215-665-0540
TEMARKS:	review 🗍 Reply ASAP 🔲 Please comment
RECEIVED 1999 SEP 27 AM 10: 29 INDEPENDENT REGULATORY REVIEW COMMISSION	

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PENNSYLVANIA AFL-CIO

WILLIAM M GEORGE President RICHARD W. BLOOMINGDALE Secretary-Treasurer

September 13, 1999

Peter O. Salvatore Regulatory Coordinator Insurance Department 1326 Strawberry Square Harrisburg, PA 17120

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#### Re: Regulation 11-186 (#2050) Discounting Workers' Compensation Loss Reserves -Insurance Department

Dear Mr. Salvatore:

I am writing regarding the purposed rule making a "discounting Workers' Compensation Loss Reserves."

First, we disagree strongly that there will be no fiscal impact as a result of the proposed regulations. The rate at which Workers' Compensation Loss Reserves are discounted will have a direct and significant impact on the cost of Workers' Compensation to employers; and significantly impact the revenues of insurers. This is perhaps the single most important area in calculating Workers' Compensation premiums that impacts on rates other than specific losses.

These changes also significantly impact "compromise and release" or settlements in Workers' Compensation cases. I believe a complete fiscal impact statement should be completed.

Section 116.2 eliminates the insurer's responsibility to simultaneously file "...an annual certification of its Workers' Compensation Loss Reserves with the Department simultaneously with the filing of the company's annual statement." The rationale for deleting this requirement is the requirements of the NAIC.

The difference between these two requirements appears to be that the current regulation requires simultaneous filing, while the NAIC requirement is based on quarterly or annual reports. This could be of great significance if the Department is faced with two time periods that are not identical and are therefore unable to assure proper calculations.

Although this change avoids "duplication," it fails to address the ability of the Insurance Department to meet their legal responsibility.

230 STATE STREET, HARRISBURG, PENNSYLVANIA 17101-1147 + 717-238-9351 - FAX: 717-238-8541

-

The Department has a specific accident year schedule, which does not conform exactly to the NAIC schedule. Without the requirement for identical time periods proper analysis of the data can not be done.

#### Section 116.3

Although the rationale of changing economic circumstance requires a more flexible discounting regulation, I believe the current regulation under Section 116.4 already allows for this flexibility.

Specifically, Subsection 116.4(2) currently provides: "An insurance company is not permitted to assume an interest rate greater then 6% in calculating its loss reserves."

This Subsection allows an insurer to discount at a rate **lower** then those provided for in Subsection 116.3, which is exactly the flexibility that the Insurance Commission is proposing. Second, the current regulations allow for discounting variations if approved by the Commissioner – see Sections 116.5 and Section 116.7.

The substitution in the proposed new Subsection 116.3 is unnecessarily vague in providing "... the current yield to maturity on a U.S. Treasury debt instrument with maturities consistent with the expected pay out of the liabilities."

There are a number of problems here. First, what does "current" mean? Rates vary from moment to moment and day to day.

Next, what U.S. Treasury debt instrument is appropriate? It would be a T-Bill; T-Bond; Fannie May; Ginny May or other Treasury debt instruments. There is a lack of specificity due to the variety of Treasury debt instruments.

In addition, Treasury debt instruments could rise above the existing 6% ceiling, the economic impact of which must be examined (as well as going below).

Finally, the changes in 116.6 which downgrade the type of actuarial statement that must accompany the filings is a move away from accountability.

Given the Insurance Departments lack of capacity to drill down through reports, it is essential that actuarial certification be retained rather than substituting ". . . a statement of opinion." The rationale of avoiding duplication does not appear valid if certified statements are already required then the current requirement is easily complied with. If this is to cover different time periods and that is the rationale, then the Insurance Department is lowering its standards at risk to the employers and workers.

Reserving practices are at the root of Workers' Compensation costs. The current system is in need of repair, but not in the direction proposed by these regulations.

We urge you to review our comments and we will be glad to meet and discuss any proposed changes.

Singerely,

Curil AWald

David H. Wilderman Assistant to the President/Director of Legislation

18/UFCW-1776

William M. George, President, PA AFL-CIO CC: Richard W. Bloomingdale, Secretary-Treasurer, PA AFL-CIO M. Diane Koken, Insurance Commissioner Robert Nyce, Executive Director, IRRC John R. McGinley, Jr., Chairman, IRRC Arthur Coccodrilli, Commissioner Robert Harbison III, Commissioner John Mizner, Commissioner Alvin Bush, Commissioner Richard Sandusky, Director of Regulatory Analysis Richard Himler, Director, Bureau of Workers' Compensation Hon. Nicholas Micozzie, Chairman, PA House Insurance Committee Hon. Anthony DeLuca, Minority Chairman Hon. Edwin Holl, Chairman, Senate Banking & Insurance Committee Hon. Jay Costa, Minority Chairman, Senate Banking & Insurance Committee

#### Comments on the regulation listed below have been received from the following:

Reg # Regulation Title

11-186 Discounting Workers' Compensation Loss Reserves

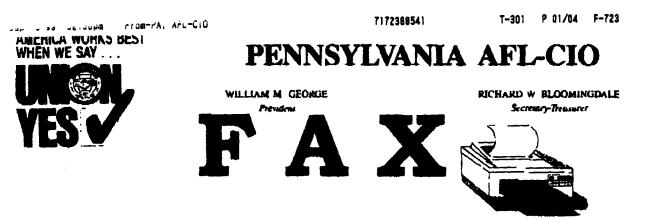
	id H. Widerman	Assistant to the President/Director of Legislation				
	vania AFL-CIO					
330 State Street Harrisburg PA 17101-1147		Date Received	9/13/1999			
Phone:	(717) 238-9351 X00000	EMail:				

Page 1

Date sent to Committes and IRRC 9/14/1999

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DATE: September 13, 1999

TO: Peter O. Salvatore

FAX NUMBER: 787-8557

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Gilico el Spodal Projects PRESIDENT/DIRECTOR OF LEGISLATION

## **DEPARTMENT: LEGISLATION**

Comments: See Attached.

## FACSIMILE Transmission

There is/are <u>3</u> page(s) following this cover page.

Please call us if you have any questions: (717) 238-9351



We can automatically receive transmissions 24 hours a day.

Sep-13-99 02:30pm From-PA, AFL-CIO

# PENNSYLVANIA AFL-CIO



WILLIAM M. GEORGE President RICHARD W. BLOOMINGDALE Secrempy-Treasurer

Offen of Strat

Peter O. Salvatore Regulatory Coordinator Insurance Department 1326 Strawberry Square Harrisburg, PA 17120

September 13, 1999

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	COMMONWEALTH OF PENNSYLVA INSURANCE DEPARTMENT OFFICE OF SPECIAL PROJECTS 1326 Strawberry Square Harrisburg, PA 17120	NIA Phone: (717) 787-4429 Fax: (717) 705-3873 E-mail: psalvato@ins.state.pa.us			
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Mr. Robert Nyce Executive Director Independent Regulatory Review Comm. 333 Market Street Harrisburg, PA 17120

> Re: Insurance Department Proposed Regulation No. 11-186, Discounting Workers' Compensation Loss Reserves

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Dear Mr. Nyce:

Pursuant to Section 5(c) of the Regulatory Review Act, the Department is required to submit all comments on proposed regulations received during the public comment period to the Independent Regulatory Review Commission and the Legislative Standing Committees within 5 days.

Attached is a list of commentators that have submitted comment on the above-mentioned regulation and the respective comment that was received.

If you have any questions regarding this matter, please contact me at (717) 787-4429.

Sincerely yours,

tu Salvatore

Peter J. Salvatore Regulatory Coordinator

11-186c

### The Insurance Federation of Pennsylvania, Inc.

1600 Market Street Suite 1520 Philadelphia, PA 19103 Tel: (215) 665-0500 Fax: (215) 665-0540 Original: 2050 Mizner cc: Sandusky Jewett SMith Legal

September 27, 1999

Peter J. Salvatore Regulatory Coordinator 1326 Strawberry Square Harrisburg, PA 17120

# Re: Chapter 116 - Discounting of worker's compensation loss reserves

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Sarah H. Lawhorne Chairman Robert W. Kloss Vice Chairman Henry G. Hager President Emeritus Samuel R. Marshall President & Chief Executive Officer John R. Doubman Secretary & Counsel Marybeth H. Dob Treasurer **Birchard T. Clothier** Investment Officer & Assistant Treasurer Danielle Witwer Director of Government Affairs

September 27, 1999 Page two

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Sincerely,

Ser vorley

Samuel R. Marshall

c: Robert E. Nyce, Executive Director Independent Regulatory Review Commission

Gregory S. Martino Deputy Insurance Commissioner Office of Regulation of Rates and Policies Pennsylvania Insurance Department

### Comments on the regulation listed below have been received from the following:

 Reg #
 Regulation Title

 11-186
 Discounting Workers' Compensation Loss Reserves

 Mr. Samuel R. Marshall
 President

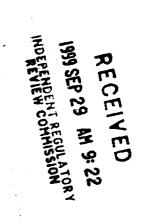
 Insurance Federation of Pennsylvania, Inc.
 1600 Market St.

 Philadelphia PA 19103 Date Received
 9/27/1999

**Phone:** (215) 665-0505 X00000

EMail: sammy1@ifpenn.org

Date sent to Committes and IRRC 9/27/1999



Page 1

10:12156650540 PAGE 1/3 1600 MARKET STREET SUITE 1520 PHILADELPHIA, PA 19103

00 Date 3 Number of pages include

Peter Salvator

From: Sam Marshall

Phone Fax Phone 7:17-772-1969 CC

Phone	215-665-0500
Fax Phone	215-665-0540

REMARKS:								
		Urgent		For your review		Reply ASAP		Please comment
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### **COMMONWEALTH OF PENNSYLVANIA**

INSURANCE DEPARTMENT OFFICE OF SPECIAL PROJECTS 1326 Strawberry Square Harrisburg, PA 17120

Fax E(177755883D E-mail: psalvato@ins.state.pa.us

# 1999 SEP 29 AM 9: 22

#### INDEPENDENT REGULATORY REVIEW COMMISSION

September 27, 1999

Mr. Robert Nyce Executive Director Independent Regulatory Review Comm. 333 Market Street Harrisburg, PA 17120 Original: 2050 Mizner cc: Sandusky Jewett Smith Legal

Re: Insurance Department Proposed Regulation No. 11-186, Discounting Workers' Compensation Loss Reserves

Dear Mr. Nyce:

Pursuant to Section 5(c) of the Regulatory Review Act, the Department is required to submit all comments on proposed regulations received during the public comment period to the Independent Regulatory Review Commission and the Legislative Standing Committees within 5 days.

The attached comment was received after the 30-day public comment. However, the Department will take into consideration the comments made by Mr. Samuel R. Marshall of the Insurance Federation of Pennsylvania, Inc.

If you have any questions regarding this matter, please contact me at (717) 787-4429.

Sincerely yours,

Peter J. Salvatore Regulatory Coordinator

11-186c