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**The Insurance Federation of Pennsylvania, Inc.**

**1999 SEP 27 AM 10:29**  
**INDEPENDENT REGULATORY**  
**REVIEW COMMISSION**  
1600 Market Street  
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Philadelphia, PA 19103  
Tel: (215) 665-0500 Fax: (215) 665-0540

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cc: Sandusky  
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**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**

*Peto*  
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.

First, the regulation should clarify that 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%.

Absent clarification 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 determined. This would seem to be the date on 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,



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****1600 MARKET STREET  
SUITE 1520  
PHILADELPHIA, PA 19103**

Date

9/27/99

Number of pages including cover sheet

3

To:

Robert Nyce

From:

Sam Marshall

Phone

Fax Phone

CC

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Fax Phone

215-665-0500215-665-0540**REMARKS:**

Urgent



For your review



Reply ASAP



Please comment

**RECEIVED****1999 SEP 27 AM 10:29****INDEPENDENT REGULATORY  
REVIEW COMMISSION**

AMERICA WORKS BEST  
WHEN WE SAY ...



# 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

ORIGINAL: 2050

MIZNER

Orig. faxed to: McGinely  
Bush, Coccodrilli  
Harbison, Mizner,  
Sandusky, Nyce

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Wyatte

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.

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 than 6% in calculating its loss reserves."

This Subsection allows an insurer to discount at a rate **lower** than 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.

Sincerely,



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

18/UFCW-1776

cc: William M. George, President, PA AFL-CIO  
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**

---

**Mr. David H. Widerman**

**Assistant to the President/Director of Legislation**

**Pennsylvania AFL-CIO**

**330 State Street**

**Harrisburg PA 17101-1147**

**Date Received      9/13/1999**

**Phone: (717) 238-9351 X00000**

**EMail:**

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Page 1

**Date sent to Committes and IRRC      9/14/1999**

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AMERICAN WORKERS DESI  
WHEN WE SAY...



# 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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SEP 13 1999

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Insurance Department

Office of Special

019

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Sincerely,



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

JE/UFCW-1776

cc: William M. George, President, PA AFL-CIO  
Richard W. Bloomingdale, Secretary-Treasurer, PA AFL-CIO  
M. Diane Koken, Insurance Commissioner  
Robert Nyce, Executive Director, IRRRC  
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Hon. Edwin Holl, Chairman, Senate Banking & Insurance Committee  
Hon. Jay Costa, Minority Chairman, Senate Banking & Insurance Committee



**COMMONWEALTH OF PENNSYLVANIA  
INSURANCE DEPARTMENT**

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1326 Strawberry Square  
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September 14, 1999

Mr. Robert Nyce  
Executive Director  
Independent Regulatory Review Comm.  
333 Market Street  
Harrisburg, PA 17120

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99 SEP 16 PM 1:37  
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INSURANCE DEPARTMENT  
HARRISBURG, PA

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.

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,

A handwritten signature in cursive script that reads "Peter J. Salvatore".

Peter J. Salvatore  
Regulatory Coordinator

# 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  
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SMith  
Legal

**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

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compensation loss reserves**

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September 27, 1999  
Page two

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Sincerely,



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**  
**Insurance Federation of Pennsylvania, Inc.**  
**1600 Market St.**  
**Philadelphia PA 19103-**

**President**

Date Received      **9/27/1999**

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

**Email: sammyl@ifpenn.org**

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**FAX****INSURANCE FEDERATION OF PA  
1600 MARKET STREET  
SUITE 1520  
PHILADELPHIA, PA 19103**

Date

9/27/99

Number of pages including cover sheet

3

To:

Peter Salvatore

From:

Sam Marshall

Phone

Fax Phone

CC

767-772-1969

Phone

Fax Phone

215-665-0500215-665-0540**REMARKS:**

Urgent



For your review



Reply ASAP



Please comment





**COMMONWEALTH OF PENNSYLVANIA  
INSURANCE DEPARTMENT**

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**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,

A handwritten signature in cursive script, reading "Peter J. Salvatore".

Peter J. Salvatore  
Regulatory Coordinator