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Knehr, George

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From: Walt Hannigan [whannigan@AVInternational.net]

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Sent: Friday, May 29, 2009 12:28 PM**To:** Knehr, GeorgeINDEPENDENT REGULATORY
REVIEW COMMISSION**Cc:** Don Widdicombe**Subject:** Proposed Rulemaking - Chapter 125, Individual Self-Insurance Regulations

Dear Mr. Knehr,

Thank you for the significant effort expended by Bureau staff in composing the proposed changes to the individual self-insurance regulations. My review of the proposed rulemaking indicates the regulations to be self-explanatory and reasonable. In many cases, it would appear the Bureau is merely codifying certain of its' existing practices and procedures. The areas, however, where I would offer comment or seek additional clarification are as follows:

125.3 (Application)

In addition to the current manual loss table information, the Bureau proposes to require an electronic claim file submission. The format is to be prescribed by the Bureau at a future date. It is possible the Bureau may encounter issues in verifying the manual table information to the electronic file submissions if this is the intended use of the electronic file. This may occur due to the varying ways in which insurance carrier and third party administrator claim systems handle financial transactions, specifically collections and recoveries. For example, there are certain types of financial transactions, such as excess insurance and subrogation recoveries, which per Bureau instruction may not offset indemnity and medical payment totals. Certain claim systems may apply these recoveries directly to the payment financial buckets while others may maintain collection data in separate financial buckets. My experience has indicated that manual adjustment to computer generated information is usually required to accurately report paid, outstanding and incurred data as required on form LIBC-366R. It is requested the Bureau be cognizant of the issues and costs associated with employer submission of the proposed electronic file, especially considering the variations in how data may be stored in individual systems.

125.9 (Security Requirements) & Section 125.10 (Funding by Public Employers)

A sliding scale is proposed for security discounts issued by any of four NRSROs. In Section 125.6 (Decision on Application) relating generally to financial tests to determine employer financial capacity and financial health it is stated that applicants who do not receive a rating by an NRSRO will receive a Bureau estimate as to whether the applicant would merit an investment grade long-term credit or debt rating. Will applicants be considered for a discount based on a Bureau estimated rating. It would appear that very few employers will have a specific NRSRO issued rating. These employers, however, could possess comparable financial health that would otherwise merit consideration for a security discount.

125.11 Excess Insurance

Reference is made to "authorized retention amount" which by definition is an amount less than an employer's maximum quick assets exposure amount or the current "standard retention amount" whichever is less. The "standard retention amount" is defined to include annual publication by the Bureau of a specific retention amount generally required for excess insurance that is based on a retention amount commonly used by current self-insurers. It is not clear if a single standard retention amount will

be published encompassing all industries or if multiple standard retentions will be published based on industry groupings. Insurer carrier underwriting criteria may require higher specific retentions for certain industries. The definition of "special retention amount" may be adequate to allow Bureau flexibility in accepting a larger specific retention for certain employers, although it is tied into certain financial tests. In implementing the specific retention requirements it is suggested the Bureau also be aware of insurer imposed retention levels as opposed to employer elective higher retention levels.

Thank you for the opportunity to offer the above comment. We have thoroughly reviewed all aspects of the proposed regulations as they will impact our clients. We do believe the regulations will continue the viability of self-insurance in Pennsylvania and will not overly complicate the process of securing an insurance exemption. We have also applied the new security requirements to our private and public employer clients and found the existing security requirements will not be significantly disturbed.

Thank you.

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