



Pennsylvania Compensation Rating Bureau

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May 31, 2006

VIA FEDERAL EXPRESS

The Honorable M. Diane Koken
Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
1311 Strawberry Square
Harrisburg, PA 17120

Attention: Property & Casualty Bureau

RE: Bureau Filing No. 225 - Manual Revisions to Sections 1, 2, and 5

Proposed Effective October 1, 2006

- 1) Proposal for a Separate Classification for Slot Machine Gambling
- 2) Code 918, Bakery Shop - Retail, Class Study Results
- 3) Housekeeping Revisions – Sections 1, 2 and 5

Dear Commissioner Koken:

On behalf of the members of the Pennsylvania Compensation Rating Bureau (PCRB) I am filing herewith proposed revisions to Sections 1, 2, and 5 of the Manual, which are proposed to be **effective as of 12:01 a.m., October 1, 2006** with respect to new and renewal business only.

The various proposals in this filing, as listed above, are discussed below.

1) Proposal for a Separate Classification for Slot Machine Gambling

Act 71 of 2004 (Act 71), the Pennsylvania Race Horse Development and Gaming Act, authorized slot machine gambling in the Commonwealth. As part of Act 71, a Gaming Control Board was created to oversee the slot machine gambling, and 14 slot machine gambling facility licenses were authorized in three categories, specifically seven Category One licenses issued to entities licensed to conduct either thoroughbred or harness race meetings with pari-mutual wagering, five Category Two licenses to be located in Philadelphia (two), Pittsburgh (one) and revenue or tourism enhanced locations (two), and two Category Three licenses for established resort hotels having no fewer than 275 guests rooms and substantial year-round amenities. Indications are that the first licenses may be granted before the end of 2006.

Bureau staff reviewed various other states' classification of slot machine gambling facilities and discovered that each such state identified in our review had created a new, separate classification for such facilities. Since the operations of slot machine gambling facilities are

not analogous to any other type of business, this appears to be the most reasonable course. Other states' slot machine gambling classifications are for all employees including office, i.e., those classifications do not provide for payroll division with the standard exception classifications.

For the initial separate slot machine gambling class rating value, staff proposes to use the approved April 1, 2006 Code 968, Amusement – Indoor, rating value, hazard group assignment and expected loss factors. Since the new classification is all-inclusive and Code 968 does provide for payroll division with standard exception classifications, a case could be made for a weighting of Pennsylvania's Codes 968 and 953 rating values as a starting point for the new class. However, the Delaware slot machine gambling class (the source of the proposed class language, as Delaware authorized slot machine gambling in 1998) has developed a higher rating value than Delaware Code 968 and that the gap between the two classifications has been widening. Therefore, the Bureau submits that initial use of the Code 968 rating value is reasonable and that Code 968's scope is the best analogy staff can presently make with regard to slot machine gambling.

A staff memorandum dated March 14, 2006 is attached as Exhibit 1. The proposed Manual revisions are shown below with new wording underlined and deleted wording bracketed.

SECTION 2 CLASSIFICATIONS

Addition

981 SLOT MACHINE GAMBLING.

For all personnel in the slot machine gambling facility including but not limited to: floor attendants, vault cashiers, merchandising clerks, guest service representatives, service technicians, parking valets and money counters.

Changes

969 AMUSEMENT, OUTDOOR: fairs, exhibitions, amusement parks or any outdoor amusement that is permanently sited. This classification includes ticket sellers or collectors and box office employees.

Payroll developed..... assigned to Code 969.

Assign Code 981 to payroll developed in slot machine gambling operations when conducted in a physically separate department by a separate staff.

Race track rated by Code 970.

Changes (continued)

973 HOTEL – all employees except office, [and] food service or beverage operations and slot machine gambling staffs.

Please see the..... of this class.

The following is a table of the proposed loss costs, expected loss factors and hazard group assignments:

CODE	HAZARD GROUP	PROPOSED LOSS COST EFF. 10/1/06	PROPOSED EXPERIENCE RATING PLAN		
			<u>Expected Loss Factors Table</u>		
			A-1	A-2	A-3
981	II	\$1.51	\$0.69	\$0.90	\$0.99

SECTION 5

Rulings and Interpretations

Changes

HOTEL OR MOTEL OPERATIONS

[Payroll developed in the operations of ski facilities shall be separately classified. Please refer to the Ski Resorts Rulings and Interpretations entry for the proper procedure.]

The two classifications..... see Section 1, Rule IV.

[Codes 973 and 945 apply only to workers directly employed by the hotel or motel and do not include employees of concessionaires or independent contractors operating on the premises. The operations of each concessionaire or independent contractor will be classified solely on the merits of their operations.]

Payroll developed by..... the higher value.

[Employees of either the hotel or hotel restaurant exclusively engaged in clerical offices duties shall be assigned to Code 953.]

OPERATIONS ALSO INCLUDED:

1. Religious retreats.

Changes (continued)

OPERATIONS NOT INCLUDED:

1. Please refer to the Ski Resorts Ruling and Interpretation for the classification procedure for such businesses.
2. The businesses of a concessionaire or independent contractor operating on the premises of a hotel or motel will be classified on the merits of their operations.
3. Assign Code 953 to employees of the hotel or hotel restaurant exclusively engaged in clerical office duties.
4. Assign Code 981 to payroll developed by slot machine gambling operations when conducted in a physically separate department by a separate staff.

SKI RESORTS

A ski resort is a multiple enterprise and the appropriate classification shall be assigned to each of the various operations thereof provided each is separately staffed and there is no interchange of employees. Examples of ski resort operations and the applicable classification are listed below:

1. Assign Code 969 [shall be assigned] to [all] payroll developed in the operation of ski lifts, T-bar, rope tows, hill grooming, the maintenance of roads or equipment, the transporting of customers to ski slopes, ski patrols, ski instructors, ticket checkers[,] or sellers, [Code 969 shall also pertain to the payroll of employees engaged in]the maintaining of building facilities, [of] security personnel, [of]and parking lot attendants (not for hotel) [and of ticket sellers].
2. Assign Code 928 to [T]the operation of shops renting skis, toboggans, boots, poles or other skiing equipment [of]or supplies or engaged in the sale of such merchandise [and]or ski clothing [shall be assigned to Code 928].
3. Assign Code 973 [shall be assigned] to all payroll developed in the operations of hotel or dormitory facilities, including the parking of automobiles.
4. Payroll developed in the operation of restaurants and/or bar facilities shall be classified as discussed below. If the ski resort [operation] includes hotel or dormitory facilities, payroll developed in the restaurant or bar operation shall be assigned to Code 945. Assign the applicable restaurant classification [I]in the event the ski resort operates restaurant and/or bar facilities and does not have hotel/ dormitory facilities[, those operations shall be assigned to the applicable restaurant classification]. (Please refer to the Rulings and Interpretations regarding restaurant operations listed elsewhere in this section.)
5. Assign Code 981 to payroll developed in slot machine gambling operations when conducted in a physically separate department by a separate staff.

Changes (continued)

6. Assign Code 953 to [E]employees engaged in clerical[/]office duties, as defined in Section 1 of this Manual, and having no other regular duty in the course of their employment [shall be assigned to Code 953.]

Underwriting Guide

Additions

Slot Machine Gambling..... 981

2) Code 918, Bakery Shop - Retail, Class Study Results

The Bureau study of Code 918 was undertaken to determine the classification applicable to donut shops principally engaged in the sale of coffee by-the cup, initiated when a Dunkin Donuts' franchise holder made an informal classification appeal setting forth that changes to the Dunkin Donuts' business plan and customers' attitude towards donuts had produced corresponding changes in the operations of the franchises. Specifically, while such enterprises continued to make and sell donuts, that product was no longer the franchise's principal revenue source, with non-baked goods (in addition to coffee-by-the-cup, coffee-derived drinks, bottled water, fruit or soft drinks, breakfast sandwiches, and coffee by-the-pound) constituting 80 percent of their revenue.

All Code 918 files were reviewed and segregated into study groups based upon their principal product. The five-year payroll and loss data of each group was extracted, and all donut shops that were found to be principally engaged in the sale of coffee by-the-cup were subjected to rigorous statistical analysis. Separate t-tests indicated there were no significant statistical differences for reported pure premium, claim frequency and claim severity between the donut shops principally engaged in the sale of coffee by-the-cup and the remainder of either Codes 918 or 897, Fast Food Restaurant. Because of this ambivalent statistical result, staff considered the basic underwriting factor that had led them to approve the informal request for reclassification by the Dunkin Donuts' franchise, as referenced in the preceding paragraph. Staff had found that the informal appellant's operations more closely "fit" the scope of Code 897 than Code 918. Staff has now made the same conclusion for all donut shops principally engaged in selling coffee by-the-cup and thus recommends that Code 897 is the most appropriate classification for donut shops so engaged.

Analysis has shown that the approved April 1, 2006 rating values for Codes 918 and 897 do not need to be revised and that no revision is needed for Manual language entries.

Two staff memoranda dated March 17 and 20, 2006 with related exhibits are attached as Exhibit 2. No Manual revisions are necessary.

3) Housekeeping Revisions – Sections 1, 2 and 5

In an effort to continue to make the Manual clearer and less ambiguous by clarifying classification procedures, updating class language to bring it into alignment with other Manual provisions or recognizing technological or industrial change, the Bureau recommends the following:

Revisions to Classification Procedure

- Underwriting Guide: “Laminating Paper,” presently incorrectly assigned to Code 257, Paper Products Mfg., N. O. C., be replaced with Code 263, Paper Coating/Finishing.
- Underwriting Guide: Addition of new entry, “Automobile Parts Mfg. – Produced By Machining – 461” and its alphabetical counterpart, “Machined Automobile Parts Mfg., N. O. C. - 461.”
- Underwriting Guide: Reassignment of “Day Spa Not Affiliated With A Health Club Or Swimming Pool” from Code 977, Barber Shop, Beauty Parlor Or Hair Styling Salon, to Code 884, Health Or Exercise Club, deleting the phrase “Not Affiliated With A Health Club Or Swimming Pool.”

Section 1

- Addition of “mall kiosk” to the list of clerks excluded from the definition of Code 953, Office, in Rule IV, Classifications, Paragraph B. 2. a. (1).
- Revise Rule IV, Classifications, Paragraph C. 7. NOC to direct attention to the Definitions Rulings and Interpretations, Section 5 entry for clarification.

Section 2

- Revise Codes 608, Flat Cement Work, 609, Excavation, and 659, Roofing, to delete the current class description and add reference to the class’ Section 5 Rulings and Interpretations entry.
- Revise Code 222, Plastic Articles Mfg., N. O. C., to clarify the class’ scope to address questions that have arisen regarding plastic molding techniques. .
- Revise Codes 467, Ball Bearing Mfg., and 918, Bakery Shop, to clarify language.

Section 5

- Addition of five new Rulings and Interpretations entries in “Classification Underwriting Guide.”
- Addition of one new Rulings and Interpretations entry under “Auditing.”
- Revision of eight Rulings and Interpretations entries to clarify the classes’ scopes and/or clarify which operations may be also included or operations that are not included.
- Revision of one Rulings and Interpretations entry for the Temporary Staffing Cross-Reference Chart.

- Revision to the Rulings and Interpretations entries for Precision Machined Parts Mfg. – N. O. C. – 446 and Tool Mfg., N. O. C. to correct existing differences in the definition of the former in the two entries.

A staff memorandum dated April 12, 2006 is attached as Exhibit 3. The proposed Manual revisions are shown below with new wording underlined and deleted wording bracketed.

SECTION 1

UNDERWRITING RULES

Changes

RULE IV – CLASSIFICATIONS

B. CLASSIFICATIONS

2. Standard Exception Classification

a. **CLERICAL OFFICE EMPLOYEES – Code 953** is assigned.

- (1) The clerk, such as a counter, front desk, lobby, mall kiosk, time, stock or tally clerk or librarian, whose work is necessary, incidental or part of any operation of the business other than clerical office, shall not be considered a clerical office employee. Such clerk should be assigned to the basic classification of the business.

C. ASSIGNMENT OF CLASSIFICATIONS

7. **NOC** [means not otherwise classified. A classification designated “NOC” shall apply only if no other classification more specifically describes the business.]Please see the Definitions Rulings and Interpretations, Section 5.

SECTION 2

CLASSIFICATIONS

Changes

222 PLASTIC Articles **MFG.**, N.O.C.

[Includes all]Applicable to plastic molding businesses principally engaged in the molding of any plastic product by any plastic molding technique[s] except for plastic molding businesses principally engaged in injection molding which is assigned to Code 221 [and the]or businesses principally engaged in molding [of] plastic composite products which is assigned to Code 227.

Changes (continued)

467 BALL or Roller BEARING MFG.

[For establishments] Applicable to businesses principally engaged in the fabrication of either metal ball or roller bearings. Where a[n insured] business is engaged in the fabrication of either metal ball or roller bearings and these are consumed by the [insured's] business' production process, such operations shall be classified in accordance with the class appropriate to the business [of the employer].

608 FLAT CEMENT WORK [- floors, driveways, yards, sidewalks or curbs. (Self-bearing floors, airport runways, warming aprons, street or road construction to be separately rated.)]

Please see the Rulings and Interpretations, Section 5 for further information on the scope of this class.

609 EXCAVATION [– for cellars or foundations for buildings, bridges, retaining walls and dams, including grading preparatory to building erection.]

Please see the Rulings and Interpretations, Section 5 for further information on the scope of this class.

659 ROOFING [– No payroll division with Code 676 at the same location or job site.]

Please see the Rulings and Interpretations, Section 5 for further information on the scope of this class.

918 BAKERY SHOP – Retail, including on-site preparation, all employees except office.

Appli[ies]cable to [risks] businesses principally engaged in producing bakery products [and risks] or businesses who buy finished bakery products from unrelated producers[.] and the principal [S] sales are over-the-counter for personal or household consumption, either on premises or through satellite outlets.

SECTION 5

Rulings and Interpretations

Additions

DEFINITIONS

TO BE SEPARATELY RATED OR SEPARATELY RATE: When either of these terms is found in a classification's definition, the payroll of personnel interchanging between that classification's tasks (e.g., shop) and also performing the specified function (e.g., erection, installation) may be divided between that shop class and class(es) designated for the specified function, provided the employer's original records show an allocation to both classifications for each interchanging employee. Estimated or percentage allocation of payroll is not permitted.

N.O.C.: Not Otherwise Classified. A classification so designated is to be assigned when there are two or more potential classification assignments, and there is no specific Underwriting Guide entry for a business' principal product or line of merchandise. For example, in the event there is no Underwriting Guide entry for a principal line of merchandise being sold wholesale, the assignment is Code 924.

FLAT CEMENT WORK – 608

Applicable to a specialist contractor performing ground-supported concrete work in the construction of houses, including but not necessarily limited to concrete footings, foundation walls, cellar floors, curbs, sidewalks and driveways. Also applicable to constructing ground-supported concrete floors for small commercial buildings and the blacktop paving or repaving of driveways, parking lots, sidewalks or yards. Further applicable to the breakup by use of picks or jack hammers and removal of old ground-supported concrete, digging with shovels, and the set-up and removal of forms by the ground-supported concrete contractor.

OPERATIONS ALSO INCLUDED:

1. Mausoleum or monument erection in cemeteries.
2. Diamond core drilling within buildings by a specialist contractor.
3. Painting lines in parking lots or tennis courts by a specialist contractor.

OPERATIONS NOT INCLUDED:

1. Assign Code 601 to the paving or repaving of streets, roads, airport runways or warming aprons.
2. Assign Code 601 to concrete curb or gutter work performed by a street or road paving contractor.

Additions (continued)

3. Assign Code 654 to the erection/dismantling of forms incident to the pouring of self-bearing floors or any other non-ground supported concrete work.
4. Assign Code 654 to Guniting/Shotcrete installation.
5. Assign Code 855 to concrete pumping services by a specialist contractor.

EXCAVATION – 609

Applicable to payroll developed in general excavation, grading, trench digging, filling or backfilling. Such work is performed with power shovels, trench diggers, bulldozers or graders. The business may be a specialist excavation contractor principally engaged in one or more of the listed tasks. The business may be a general contractor employing a separate staff performing one or more of the listed tasks or the business has kept separate payroll records for personnel who interchange between one or more of the tasks listed above and other construction tasks assigned to another construction classification.

OPERATIONS ALSO INCLUDED:

1. All methods of clearing or removing brush and/or tree stumps that is not incident to tree removal except for road construction.
2. Excavation and/or grading for parking lots.
3. Blasting services by specialist/independent contractors under contract with unrelated businesses including incident drilling.
4. Cross-country oil or gas pipeline construction.
5. Landfill operation by an independent contractor.

OPERATIONS NOT INCLUDED:

1. Assign Code 602 to payroll developed in clearing or removing brush for road construction. Code 602 shall also be assigned to road or street construction subsurface work which involves all work that brings the road up to grade: earth or rock excavation, filling or grading.
2. Assign the applicable “all work to completion” construction classification when a business is performing work assignable to an “all work to completion” classification. Any excavation work performed by the business incident to an “all work to completion” job or project shall be included in the “all work to completion” construction classification applicable to the job or project.

Additions (continued)

ROOFING – 659

Applicable to specialist contractors performing any type of roofing or reroofing job utilizing any type of roofing material, including but not necessarily limited to hot tar, shingles, slate, tile or rubber on any type of roof, such as flat, sloped or built-up. Also applicable to all personnel working on a roofing job (e.g., ground personnel passing materials to personnel on the roof and picking up debris and personnel on the roof). Further applicable to the waterproofing or insulation of roofs and the pressure washing of roofs.

OPERATIONS ALSO INCLUDED:

1. Roof decking and related carpentry work performed by a roofing contractor.

OPERATIONS NOT INCLUDED:

1. There is no payroll division between Codes 659 and 676 at the same location or job.

Changes

BAR, TAVERN, COCKTAIL LOUNGE, NIGHTCLUB OR DISCOTHEQUE – 899

A bar, tavern..... the employer's operations.

[The term "principally engaged" means more than 50 percent of the establishment's gross receipts.]

CABINET WORKS – WITH POWER DRIVEN MACHINERY – 311

[Applies to payroll developed] Applicable to a business principally engaged in the manufacture of cabinets, cabinet parts or similar wood products in which power-driven machinery is used. Many of the products contemplated by this classification are made to buyers' or customers' specifications and require installation. [Separately rate installation work by either Code 646 or Code 648 as provided in the Underwriting Guide.]

Typical products [covered by] included in this classification include but are not necessarily limited to:

Architectural Vanities	Partitions
Bathroom Vanities	Picture Frames
Bookcases	Restaurant Booths
Bulletin Boards	Room Dividers
Counter Tops	Showcases
Display Cases	Store Counters
Kitchen Cabinets	Toys – Wood
Library Cabinets	Walk-In Refrigerators
Parquet Flooring	

Changes (continued)

[Also includes payroll developed in the finishing of the products cited above. The term finishing means shellacking, staining, painting, lacquering or varnishing or covering with formica, porcelain or similar materials. Upholstering operations conducted by a separate crew of employees in a physically separate department shall be assigned to Code 327.]

OPERATIONS ALSO INCLUDED:

1. Finishing of cabinets, cabinet parts or similar wood products by their manufacturer. The term finishing means shellacking, staining, painting, lacquering or varnishing or covering with formica, porcelain or similar materials.

OPERATIONS NOT INCLUDED:

1. Separately rate installation work by either Code 646 or Code 648 as provided in the Underwriting Guide.
2. Assign Code 327 to upholstering operations conducted by a separate employee crew in a physically separate department.

EMPLOYMENT CONTRACTOR – TEMPORARY STAFFING

Code 544 chart unchanged.
Code 682 chart unchanged.
Code 929 chart unchanged.
Code 937 chart unchanged.
Code 947 chart **addition: 981**
Code 949 chart unchanged.

Changes (continued)

GROCERY STORE – 917

Applicable to businesses..... as defined below.

A supermarket is principally engaged in the retail sale of groceries, fresh fruits, vegetables, dairy products, bakery products, frozen foods and in addition thereto will have a meat department that sells fresh and cured meat, fish and/or poultry. A typical supermarket will also sell other merchandise including but not necessarily limited to: soft drinks, soap and other household cleaning items, paper products or cigarettes. A supermarket that is a “super center” may also sell non-grocery merchandise including but not necessarily limited to: cosmetics, toiletries, stationery products, paperback books, greeting cards, women’s hosiery, [prescription or] non-prescription drugs or kitchen supplies (e.g., pots, pans or pot holders).

The classification also contemplates convenience retail grocers principally engaged in the retail sale of groceries, fresh fruits, vegetables, dairy products, bakery products, frozen foods, coffee, tea, spices or delicatessen foods such as cold cuts, salads, pickles, smoked fish or other “appetizers.” Delicatessen stores may also sell coffee by the cup, make sandwiches, prepare salads and/or cook meat such as roast beef, [Virginia] ham, barbecue chicken or spare ribs. A convenience retail grocer may also sell other merchandise including but not necessarily limited to: soft drinks, household cleaning items, paper products, cigarettes or non-prescription drugs.

OPERATIONS ALSO INCLUDED:

1. Pharmacy operations conducted by the supermarket at the same or a contiguous location.
2. Bakery operations conducted by the supermarket.

OPERATIONS NOT INCLUDED:

1. Assign Code 915 to businesses principally engaged in the retail sale of fresh or cured meats, poultry or fish.
2. The business of a concessionaire or independent contractor operating on the premises of a supermarket will be classified on the merits of their operations.

Changes (continued)

LOGGING OR LUMBERING – MECHANIZED TREE FELLING EQUIPMENT – 015

Applicable to..... of the logging business.

[Sawmill operations conducted by a separate crew of employees shall be assigned to Code 301.]

[Specialist contractors engaged in hauling logs for an unrelated logging or lumbering business(es) shall be assigned to Code 811. Assign Code 301 to log hauling performed by a sawmill business when all logging or lumbering has been outsourced to an unrelated logging or lumbering business(es).]

OPERATIONS NOT INCLUDED:

1. Assign Code 301 to sawmill operations conducted by a separate crew of employees.
2. Assign Code 811 to specialist contractors engaged in hauling logs for an unrelated logging or lumbering business. Assign Code 301 to log hauling performed by a sawmill business when all logging or lumbering has been outsourced to an unrelated logging or lumbering business(es).

POULTRY AND/OR FISH DEALER/PROCESSOR – 865

Applicable to employers principally engaged in one or more of the following operations:

The catching of live..... or stuff the product.

[Wholesale poultry and/or fish dealers who perform no cutting or filleting, but who may repackage shall be assigned to Code 924. Poultry dealers who may cut whole poultry into parts on an emergency basis will be construed as non-cutting and assignable to Code 924.]

OPERATIONS NOT INCLUDED:

1. Wholesale poultry and/or fish dealers who perform no cutting or filleting, but who may repackage the poultry or fish shall be assigned to Code 924.
2. Poultry dealers who may cut whole poultry into parts on an emergency basis will be construed as non-cutting and assignable to Code 924.

Changes (continued)

PRECISION MACHINED PARTS MFG. - N.O.C. – 446

Applies to a business principally engaged in Precision Machined Parts Mfg., N.O.C. Such term will be defined as applying to a machining business where the plans or specifications require more than 50 percent of [the employer's overall revenue is derived from] all machining operations performed by the employer will [to plans or specifications requiring the machining operations] be held to a final tolerance of plus/minus .001 inches or closer (e.g., .0005 inches) and where more than 50 percent of the [parts] machined parts made by the employer are not assigned to any other manufacturing classification.

A business principally engaged in Precision Machined Parts Mfg., N.O.C., is typically a job shop. A job shop is defined for this classification as a business principally engaged in machining or machining parts for unrelated businesses and that has either no proprietary product(s) or the machining of the business' proprietary product(s) is less than 50 percent of the business' overall machining.

OPERATIONS NOT INCLUDED:

1. The machining of parts for unrelated businesses or the employer's proprietary product(s) where more than 50 percent of the employer's machining operations are held to a final tolerance cruder than plus/minus .001 inches (e.g., .003 inches, .005 inches, .010 inches), and where more than 50 percent of the parts machined by the employer are not assigned to any other manufacturing classification, shall be assigned to Code 461.
2. An employer principally engaged in machining parts or products specifically assigned to any manufacturing classification shall be assigned to that specified manufacturing classification regardless of the final machining tolerance called for by the plans or specifications.

RETAIL STORE WITH MANUFACTURING CONCERN

Where a retail outlet is located at the same or contiguous premises as [an insured's] a business' manufacturing facility, [a separate] the applicable retail store classification shall apply to the payroll of the retail outlet provided that such outlet is operated in a work area physically separate [department] from the business' other operations by a floor to ceiling partition and by a separate crew of employees.

Changes (continued)

TOOL MFG. - N.O.C. - 441

Applies to a business principally engaged in machining tool steel or tungsten carbide into [non-forged] tools used for cutting or machining operations on machine shop equipment (e.g., lathes, mills) [, dies or molds which are used to cut or form materials in a press or,]. Also applies to a business principally engaged in making jigs [and]or fixtures used to hold or position work [for]on machine shop equipment. [Also]Further applies to a business principally engaged in machining tool steel or tungsten carbide into molds for [unrelated] plastics or powdered metal molding or nonferrous metal casting [businesses] or dies for [unrelated] wire drawing, metal stamping, plastic or nonferrous metal extrusion [businesses]. The business' machining operations may include but are not necessarily limited to turning, milling, grinding or tapping. The tools, dies or molds may be assembled together, polished, buffed, tested and inspected.

A business principally engaged in the operations discussed above is typically a job shop. A job shop is defined for this classification as a business principally engaged in machining one or more of the above listed products for unrelated businesses and that has either no proprietary product(s) or the business' proprietary product(s) generates less than 50 percent of the business' revenue.

[Also included are employers principally engaged in the manufacture of wood or metal patterns or models and analogous products such as aircraft propeller mfg. – wood, architectural scale models mfg. by a specialist contractor, last form mfg. – wood, or wood carving by hand or machine.]

OPERATIONS ALSO INCLUDED:

1. Employers principally engaged in the manufacture of one or more of the following products: wood or metal patterns, models, aircraft propellers - wood, architectural scale models, last forms – wood, or wood carving by hand or machine.

OPERATIONS NOT [COVERED]INCLUDED:

1. through 8. remain unchanged.
9. Precision Machined Parts Mfg. – N.O.C. shall be defined as machining parts where the plans or specifications require more than 50 percent of the employer's machining operations will be held to a final tolerance of plus/minus .001 inches or closer (e.g., .0005 inches) and where more than 50 percent of the machined parts made by the employer are not assigned to any other manufacturing classification. Businesses so principally engaged shall be assigned to Code 446.

Changes (continued)

10. [The]Assign Code 461 to an employer where more than 50 percent of the of the employer's machining of parts [where the]is held to final tolerance(s) [is] cruder than plus/minus .001 inches (e.g., plus/minus .003 inches, .005 inches) and where more than 50 percent of the parts [made]machined by the employer are not assigned to any other manufacturing classification [shall be assigned to Code 461].
11. An employer principally engaged in [M]machining parts or products specifically assigned to any manufacturing classification shall be assigned to that specified manufacturing classification regardless of the final machining tolerance called for by the plans or specifications.
12. Specialist contractors..... to Code 449.
13. Code 441 is not applicable to any business that has a separate department making tools, dies, molds or any of the other products assigned to Code 441 principally for use by that business in making any product(s) assigned to another manufacturing classification by this Manual

AUDITING

Addition

EXECUTIVE OFFICERS – CLASSIFICATION ASSIGNMENT

A significant number of disputes occur as a result of the misclassification of executive officers' payroll. In an attempt to enhance the accuracy and consistency of the treatment of these issues by insurance companies, below find a series of questions that the PCRB believes will aid in the determination of the proper classification for executive officers.

- Who are the officers of the corporation for the policy period in question?
- Was each of these officers active in the business during the policy period in question?
- What were each officer's exact job duties?
- How many hours a week (or what percentage of time) does each officer work in the store, shop, job site, farm, etc.?
- How many hours a week (or what percentage of time) does each officer spend in the basic classification work area, providing direct supervision and/or giving instructions to employees?
- How many hours a week (or what percentage of time) does each officer spend out of the office for sales calls, meetings or other similar purposes?

Addition (continued)

Please also see Section 1, Rule IX, Paragraph A., 5. "Assignment of Payroll" that advises an executive officer shall be classified in the same manner as any employee. Also please see the "Regular and Frequent" Auditing Ruling and Interpretation.

UNDERWRITING GUIDE

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Changes

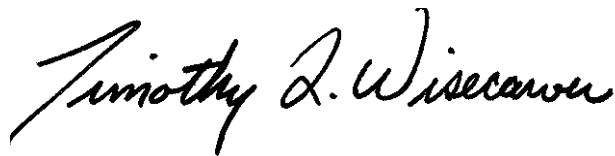
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The PCRB stands ready to respond to any questions which the Insurance Department staff or the Commissioner may have concerning any of these Manual revisions.

Sincerely,



Timothy L. Wisecarver
President

TLW/kg
Enclosures

**Pennsylvania Compensation Rating Bureau**

The Widener Building • 6th Floor
One South Penn Square • Philadelphia, PA 19107-3577
(215)568-2371 • FAX (215)564-4328 • www.pcrb.com

TO: Pennsylvania Classification and Rating Committee

FROM: David T. Rawson
Technical Director – Classification and Field Operations

DATE: March 14, 2006

RE: Proposal for a Separate Classification for Slot Machine Gambling

Act 71 of 2004 (Act 71), known as the Pennsylvania Race Horse Development and Gaming Act, authorized slot machine gambling in Pennsylvania. This was purportedly done to enhance live horse racing and horse breeding programs along with entertainment/tourism and employment in Pennsylvania. Another stated purpose for adoption of this legislation was to provide a new, significant revenue source to support both property and wage tax relief. A Pennsylvania Gaming Control Board (Board) was created as a part of Act 71. The Board will oversee slot machine gambling by (among other means) developing regulations for slot machine gambling, reviewing applications and issuing licenses to operate slot machine gambling facilities and licensing slot machine manufacturers and other suppliers.

Act 71 authorized the issuance of 14 slot machine gambling facility licenses. The licenses are broken down into three categories. There will be seven Category One licenses issued to entities licensed to conduct either thoroughbred or harness race meetings with pari-mutuel wagering. There will be five Category Two licenses to be located as follows: two in a city of the first class (Philadelphia), one in a city of the second class (Pittsburgh), and two in revenue or tourism enhanced locations. The two Category Three licenses must be located in an established resort hotel having no fewer than 275 guest rooms and substantial year-round recreational guest amenities (e.g., a golf course, tennis courts, convention, meeting and banquet facilities). Categories One and Two facilities may have 3,000 slot machines with the option (upon written petition to the Board) of an additional 2,000 slot machines per license. Category Three facilities may have 500 slot machines.

Act 71 was initially challenged by lawsuits and sustained by the Pennsylvania Supreme Court. A perusal of the Board's website shows that the Board is well along in the process of creating first temporary and now permanent regulations and also in the acceptance and review of license applications for slot machine facilities, manufacturers and other suppliers. Accounts in the press now suggest that the first licenses may be granted before the end of 2006.

This leads to the question of the classification(s) best applicable for slot machine gambling facilities. Staff review of other states where either slot and/or casino gambling has been authorized has shown that each such state has opted to create a new, separate classification for such facilities. Staff has concluded that this is the most reasonable course, as the operations of slot machine gambling facilities are not analogous to the operations of any other

type of business. Such separate classifications in the other states have tended to contemplate all employees including office, which means that the separate classification contemplates all the business' operations and does not provide for payroll division with the standard exception classifications.

The Sections 2 and 5 language below is proposed to become **effective** upon new and renewal policies of **October 1, 2006** and later. For the Committee's information, the proposed slot machine gambling class language is taken from Delaware, which first authorized slot machine gambling in 1998.

For the initial separate slot machine gambling class rating value, staff proposes to use the approved April 1, 2006 Code 968, Amusement – Indoor, rating value, hazard group assignment and expected loss factors. Staff observes that the proposed new, separate slot machine classification is "all employees including office," while Code 968 does provide for payroll division with the standard exception classifications. The Bureau's Actuarial Department notes that, under these circumstances, a case could be made for using a weighting of Pennsylvania's Codes 968 and 953 rating values as a starting point for the new classification but also observes that the Delaware slot machine gambling class' experience has developed a higher rating value than Delaware Code 968 and that the gap between the two classifications has been widening. For that reason the Actuarial Department submits that initial use of the Code 968 rating value for this purpose is reasonable. Staff also observes that the PCRB has no previous Pennsylvania payroll and loss data for the envisioned businesses and that Code 968's scope is the best analogy staff can presently make with regard to slot machine gambling.

MANUAL REVISIONS

SECTION 2

ADDITION

981 SLOT MACHINE GAMBLING.

For all personnel in the slot machine gambling facility including but not limited to: floor attendants, vault cashiers, merchandising clerks, guest service representatives, service technicians, parking valets and money counters.

Hazard Group II.

CODE	PROPOSED LOSS COST EFF. 10/1/06	PROPOSED EXPERIENCE RATING PLAN		
		<u>Expected Loss Factors Table</u>		
		A-1	A-2	A-3
981	1.51	0.69	0.90	0.99

CHANGES

969 AMUSEMENT, OUTDOOR: fairs, exhibitions, amusement parks or any outdoor amusement that is permanently sited. This classification includes ticket sellers or collectors and box office employees.

Payroll developed..... assigned to Code 969.

Assign Code 981 to payroll developed in slot machine gambling operations when conducted in a physically separate department by a separate staff.

Race track rated by Code 970.

973 HOTEL – all employees except office, [and] food service or beverage operations and slot machine gambling staffs.

Please see the..... of this class.

SECTION 5

RULINGS AND INTERPRETATIONS

CHANGES

HOTEL OR MOTEL OPERATIONS

[Payroll developed in the operations of ski facilities shall be separately classified. Please refer to the Ski Resorts Rulings and Interpretations entry for the proper procedure.]

The two classifications..... see Section 1, Rule IV.

[Codes 973 and 945 apply only to workers directly employed by the hotel or motel and do not include employees of concessionaires or independent contractors operating on the premises. The operations of each concessionaire or independent contractor will be classified solely on the merits of their operations.]

Payroll developed by..... the higher value.

[Employees of either the hotel or hotel restaurant exclusively engaged in clerical offices duties shall be assigned to Code 953.]

OPERATIONS ALSO INCLUDED:

1. Religious retreats.

CHANGES (continued)

OPERATIONS NOT INCLUDED:

1. Please refer to the Ski Resorts Ruling and Interpretation for the classification procedure for such businesses.
2. The businesses of a concessionaire or independent contractor operating on the premises of a hotel or motel will be classified on the merits of their operations.
3. Assign Code 953 to employees of the hotel or hotel restaurant exclusively engaged in clerical office duties.
4. Assign Code 981 to payroll developed by slot machine gambling operations when conducted in a physically separate department by a separate staff.

SKI RESORTS

A ski resort is a multiple enterprise and the appropriate classification shall be assigned to each of the various operations thereof provided each is separately staffed and there is no interchange of employees. Examples of ski resort operations and the applicable classification are listed below:

1. Assign Code 969 [shall be assigned] to [all] payroll developed in the operation of ski lifts, T-bar, rope tows, hill grooming, the maintenance of roads or equipment, the transporting of customers to ski slopes, ski patrols, ski instructors, ticket checkers[,] or sellers, [Code 969 shall also pertain to the payroll of employees engaged in]the maintaining of building facilities, [of] security personnel, [of]and parking lot attendants (not for hotel) [and of ticket sellers].
2. Assign Code 928 to [T]the operation of shops renting skis, toboggans, boots, poles or other skiing equipment [of]or supplies or engaged in the sale of such merchandise [and]or ski clothing [shall be assigned to Code 928].
3. Assign Code 973 [shall be assigned] to all payroll developed in the operations of hotel or dormitory facilities, including the parking of automobiles.
4. Payroll developed in the operation of restaurants and/or bar facilities shall be classified as discussed below. If the ski resort [operation] includes hotel or dormitory facilities, payroll developed in the restaurant or bar operation shall be assigned to Code 945. Assign the applicable restaurant classification [I]in the event the ski resort operates restaurant and/or bar facilities and does not have hotel/ dormitory facilities[, those operations shall be assigned to the applicable restaurant classification]. (Please refer to the Rulings and Interpretations regarding restaurant operations listed elsewhere in this section.)
5. Assign Code 981 to payroll developed in slot machine gambling operations when conducted in a physically separate department by a separate staff.

CHANGES (continued)

6. Assign Code 953 to [E]employees engaged in clerical[/]office duties, as defined in Section 1 of this Manual, and having no other regular duty in the course of their employment [shall be assigned to Code 953.]

UNDERWRITING GUIDE

ADDITION

Slot Machine Gambling.....	981
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**Pennsylvania Compensation Rating Bureau**

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(215)568-2371 • FAX (215)564-4328 • www.pcrb.com

TO: Pennsylvania Classification and Rating Committee

FROM: David T. Rawson
Technical Director – Classification and Field Operations

DATE: March 17, 2006

RE: **Executive Summary** - Classification Study Report
Code 918, Bakery Shop – Retail

Staff has completed a study of Code 918 to determine the classification applicable to donut shops principally engaged in the sale of coffee by-the-cup. A Dunkin Donuts' franchise holder made an informal classification appeal setting forth that changes to the Dunkin Donuts' business plan and customers' attitude toward donuts had produced corresponding changes in the operations of Dunkin Donuts franchises. It was asserted that, while such enterprises continued to make and sell donuts, that product was no longer the franchise's principal revenue source. The appellant's Dunkin Donuts business was principally engaged in the sale of coffee by-the-cup and, in fact, non-baked goods (also including coffee-derived drinks, bottled water or fruit drinks, soft drinks, breakfast sandwiches and coffee by-the-pound) constituted 80 percent of their revenue. The employer requested reclassification to Code 897, Fast Food Restaurant, pursuant to the Code 897 "Coffee Shop" Underwriting Guide entry.

Staff approved the informal request and launched a study of Code 918 to determine whether all Dunkin Donuts franchise operations were similarly situated as the informal appellant, whether other donut franchises' operations had undergone changes similar to those claimed for Dunkin Donuts, what part of the Code 918 five-year payroll and loss data was made up by donut shops, what rating values might be consistent with that five-year experience and what impact the possible reclassification of similarly-situated donut shops might have on Codes 918 and 897 rating values.

All Code 918 files have been reviewed and segregated into study groups based upon their principal product. The five-year payroll and loss data of each group were extracted. The five-year payroll and loss data of all donut shops found to be principally engaged in the sale of coffee by-the-cup was also subjected to rigorous statistical analysis. Separate t-tests showed there were no significant statistical differences for reported pure premium, claim frequency and claim severity between the donut shops principally engaged in the sale of coffee by-the-cup and the remainder of either Codes 918 or 897. Because of this ambivalent statistical result, staff also considered the basic underwriting factor that had led them to approve the informal request for reclassification to Code 897. Staff had found that the informal appellant's operations more closely "fit" the scope of Code 897 than Code 918. Staff has now also made the same conclusion for all donut shops principally engaged in selling coffee by-the-cup. Thus, staff recommends to the Committee that Code 897 is the most appropriate classification for donut shops principally engaged in selling coffee by-the-cup.

Further analysis has also shown that the approved April 1, 2006 rating values for Codes 918 and 897 do not need to be revised and that no revision is needed to either the Codes 918 or 897 Manual language entries.



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TO: Pennsylvania Classification and Rating Committee

FROM: David T. Rawson
Technical Director – Classification and Field Operations

DATE: March 20, 2006

RE: Classification Study Report
Code 918, Bakery Shop – Retail

INTRODUCTION

The Pennsylvania Compensation Rating Bureau's (PCRB) study of Code 918, Bakery Shop – Retail, resulted from an informal classification appeal made by a Dunkin Donuts franchise of their assignment to Code 918. The employer based his appeal on changes in the Dunkin Donuts' business plan and what the appellant termed changes in customers' attitude toward donuts that had produced corresponding changes to the operations of individual Dunkin Donuts franchises. The employer explained that the making and/or sale of donuts and/or other baked products (e.g., muffins, croissants, and bagels) no longer constituted his principal¹ source of revenue. Rather, the sale of coffee by-the-cup was presently this employer's principal revenue source. In addition, the employer also sold coffee-derived drinks by-the-cup (e.g., lattes, cappuccinos), other beverages (e.g., bottled water, bottled fruit drinks, and soft drinks), breakfast sandwiches and coffee by-the-pound. A PCRB survey confirmed that, in combination, the described non-baked goods represented 80 percent of the employer's revenue. Based upon the above facts, the employer sought reclassification to Code 897, Fast Food Restaurant, pursuant to the Code 897 Underwriting Guide entry "Coffee Shop."

The employer also maintained that his Dunkin Donut franchise's business operations were representative of other Dunkin Donuts franchises in Pennsylvania. As the Bureau is required to make the same classification assignment to similarly-situated employers, staff's review of the above-discussed informal appeal also considered several questions that staff could not answer at that time. Those questions included but were not necessarily limited to: how many different Dunkin Donut files were in existence, whether other Dunkin Donut franchise operations were similarly situated to those of the informal appellant, what part of the Code 918 five-year payroll and loss data had been developed by Dunkin Donuts' franchises and how that five-year experience compared to the remainder of Code 918, and what impact reclassification of Dunkin Donuts' franchises similarly situated to the informal appellant might have on rating values for Codes 918 and 897. Staff also sought to learn whether other donut franchise operations had changed in the same manner as Dunkin Donuts.

¹ "Principal" is defined to mean more than 50 percent.

Staff's review has come to three conclusions. The first is that the informal appellant's operations better "fit" the scope of Code 897, because the appellant was principally engaged² in the sale of coffee by-the-cup and other non-baked goods merchandise. For that reason the PCRB approved the appellant's request for reclassification to Code 897. Staff also concluded that the PCRB would perform a file-by-file review of other Dunkin Donut franchises and other donut businesses assigned to Code 918. The third conclusion reached was to launch a classification study of Code 918 as soon as reasonably possible in order to develop factual answers to the questions posed above.

BACKGROUND

Code 918 was approved by the Pennsylvania Insurance Department for implementation effective beginning new and renewal policies of October 1, 1978 and later. The PCRB's filing for Code 918 brought resolution to then ongoing discussions between the PCRB and various informal appellants regarding the classification applicable to separate bakery counter staff.

Historically, all bakery businesses and all bakery employees, except for dedicated, separate clerical staff, were classified to Code 105, Bakery. Staff review of the historical record showed that the question of how to classify bakery store or bakery counter staff had arisen from time-to-time. The PCRB had received informal classification appeals from individual bakery shops, the Pennsylvania Bakers' Association and the Retail Master Bakers' Association questioning why separate store or counter staff were being assigned to Code 105. The relief sought by the informal appellants was that a different classification be assigned to separate store or counter staff.

The staff review's basic finding had been that the bakery industry was divided between retail and wholesale bakeries. Retail bakeries were typically engaged in the production of one or more types of baked goods and the sale of that production over the counter to walk-in customers for their own or family consumption. Such retail sales could be performed either at the production site and/or by means of satellite outlets (that typically did not have production capacity). A retail bakery could also augment the variety of baked goods sold by purchasing baked goods from an unrelated producer for retail sale. A retail bakery could have separate production and store/counter staffs, or personnel could interchange between the two functions. A wholesale bakery was typically engaged in the production of one or more types of baked goods and the sale thereof to other businesses (e.g., retail grocery stores). Wholesale bakeries typically did not employ store or counter staff, although certain wholesale bakeries did have separately-staffed and located retail outlets for the sale of their products.

Keeping in mind the basic PCRB philosophy that a classification should describe a business, staff borrowed the concept of a separate retail bakery classification (Code 5461, Retail Bakeries) from the Standard Industrial Classification Manual published by the Office of Management and Budget. The scope of Code 918 mirrors that of the SIC's classification by including both general and specialist (e.g., bagels, cookies, donuts, or pretzels) retail bakeries. Staff also exchanged information with the two trade associations cited above in fine-tuning the retail bakery classification's scope.

² "Principally engaged" is defined to mean more than 50 percent of the employer's revenue is derived from the cited activity.

Code 918 was restudied beginning in late 1989 following the appeal of Bavarian Soft Pretzels, Inc. (Bavarian) to the Committee for reclassification to Code 928. That class study had shown Code 918 to be pretzel shops' applicable classification, rather than Bavarian's suggested alternate assignment of Code 928, Retail Store, N.O.C. The class study's finding also assisted in the PCRB's defense of Bavarian's appeal to the Insurance Commissioner, whose ruling sustained Bavarian's Code 918 assignment.

OTHER STATES CURRENT CLASSIFICATION PROCEDURES

The National Council on Compensation Insurance, Inc. (NCCI) is the workers compensation ratemaking organization in over 30 states. The NCCI's primary equivalent classification to Pennsylvania Code 918 is their Code 2003, Bakery & Driver, Route Supervisors. NCCI Code 2003 is assigned to the baking of assorted products such as bread, cakes, pies, and cookies. The classification contemplates all sizes of bakeries from large commercial bakeries to the small neighborhood bakery. In the event a bakery also operates a store that sells baked goods exclusively for off premises consumption, that store is separately classified to Code 8017, Retail Store, N.O.C., provided that the store's operation fulfills the requirements for a multiple classification assignment. This procedure is also used for specialist donut, cookie or bagel stores. When a bakery operates a store selling baked goods for consumption both on and off the store's premises, that store is assigned to the applicable restaurant classification, which is either Code 9083, Restaurant: Fast Food, or Code 9082, Restaurant: N.O.C. This is also the NCCI's procedure for donut shops, cookie shops and bagel shops. A donut or bagel shop that does not have snack bar facilities for on-premises consumption is assigned to Code 2003. A specialist cookie maker without snack bar facilities for on-premises consumption is assigned to NCCI Code 2001, Cracker Mfg.

The independent New York State Board appears to generally follow the NCCI's procedure by providing a payroll division between their Code 2003 and their Code 8017 for store personnel. New York assigns their Code 9079, Restaurant, N.O.C., to doughnut shops that make and serve doughnuts on the premises.

CLASSIFICATION STUDY GROUPS/BACKGROUND EXHIBIT EXPLANATION

For this classification study, staff reviewed the 1,303 files of employers reporting payroll to Code 918. Pursuant to each employer's principal retail bakery business activity, the employers were divided into the following study groups:

Group Number	Study Group	No. of Employers
1	Donut Shops – Principally Engaged in the sale of coffee by the cup, coffee derived beverages or other non-baked product merchandise	99
2	Donut Shops - Principally Engaged Making & Selling Donuts	63
3	Bakery Shops – Retail – No Principal Baked Product Line	155
4	Bagel Shops	68
5	Cookie Shops	15
6	Pretzel Shops	78
7	Cake, Pie and/or Pastry Shops	117
8	Bread or Bread Products Shops	34
9	Pasta Shops	2
10	Separately Staffed & located Retail Outlets Of a Code 105, Bakery – Wholesale Business – No Production, Simply Counter Sales	13
11	Not Yet Group Assigned	122
12	No Current Coverage/Unable To Determine	450
13	Professional Employer Organizations – No Customer Information	4
14	Misclassified	83
Total		1,303

The Committee may see from the table above that staff's file-by-file review identified 63 businesses as donut shops or retail bakeries principally engaged in the production and retail sale of donuts. Staff notes that not all Dunkin Donuts are principally engaged in the sale of coffee by-the-cup, as was the informal appellant.

The Code 918 historical experience exhibits were developed on the basis of the PCRB's April 1, 2006 comprehensive loss cost filing, as approved by the Insurance Commissioner. The historical experience exhibits represent 99.71 percent of the Code 918 five-year payroll and 99.99 percent of the five-year reported loss. Nine historical experience exhibits out of the 12 created for this study and the two statistical exhibits created for this study are attached hereto along with copies of the April 1, 2006 Class Book pages for Codes 918 and 897. The report notes that an historical experience exhibit or a statistical exhibit may be cited more than once, and the attached exhibit copies are presented in numerical sequence. The indicated loss cost values found at the bottom of any historical experience exhibit have not been loaded for the Small Business Advocate Assessment or the revenue-neutral plans (e. g., Merit Rating and the Certified Safety Committee Credit Program) that are a part the PCRB's April 1, 2006 loss cost values.

In addition to a review of historical experience exhibits, the Bureau's classification plan analysis includes statistical testing to see whether the data for various study groups or classifications are or are not significantly statistically different. For example, Exhibits 9 and 11 were tested by a paired t-test analysis to determine whether or not there was a natural correspondence or "pairing" of specific observations between those respective study groups. The t-test reduces the two samples to one by examining the differences between corresponding observations in the two groups. The advantage to this approach is that variation within the groups does not

mask the difference between their means as much as if the two groups were not paired. T-tests were run for reported pure premium, claim frequency (per million dollars of payroll) and claim severity (excluding medical-only). For these tests, a value of 0.10 or less is considered as indicating significant statistical difference.

The following exhibits will be discussed below:

Exhibit No.	Exhibit Title
5	No Current Coverage/Unable To Determine
4	Not Yet Group Assigned
6	Misclassified
13	Code 918 April 1, 2006 Class Book Page

The Code 918 employers slotted to the No Current Coverage/Unable To Determine (NCC/UTD) study group had no record of current workers' compensation coverage, and there was no information (i.e., a PCRB survey, test audit or description of operations questionnaire) in their files that disclosed what the employers' operations had been when they were in business. The 450 employers slotted to this group make it the largest Code 918 study group by number of employers, and this group represents approximately one-third (34.4 percent) of all Code 918 files. As shown in Exhibit 5, however, the NCC/UTD experience accounts for only 8.99 percent of the five-year Code 918 payroll and 6.72 percent of the five-year reported loss shown in Exhibit 13.

Staff review of the Not Yet Group Assigned files (122 employers) is ongoing, and each of those files will be slotted to the appropriate study group, if and as the staff receives the requested PCRB survey of the employer's business or the completed supplemental PCRB "Description of Operations Questionnaire" from the employer. This is the third largest employer group by count and represents 9.4 percent of all Code 918 employers. Exhibit 4, Not Yet Group Assigned, represents 20.20 percent of the Exhibit 13 (Code 918) April 1, 2006 Class Book page five-year payroll and 38.13 percent of the five-year reported loss.

The Committee can see that the largest part of the Exhibit 4 payroll is reported for Manual Years 1998 and 1999. The payroll for those two years is 72 percent of the Exhibit 4 five-year payroll. The reported loss is also concentrated in Manual Years 1998 and 1999, which represent 69.6 percent of the five-year reported loss. The year-by-year payroll stabilizes at a lower level for Manual Years 2000 through 2002. Twenty-eight point sixty-six percent of the reported loss is reported for 2000, leaving 1.75 percent of the five-year reported loss in Manual Years 2001 and 2002.

Further staff review showed that a single employer accounted for 74 percent of the Manual Year 1998 payroll and 84.6 percent of the reported loss. That same employer also accounted for the increases in payroll and loss for Manual Year 1999 by representing 82.6 percent of that year's payroll and 97.3 percent of the 1999 reported loss. Regarding Manual Year 2000, the employer in question's Code 918 payroll was reduced to \$570,267, but their reported loss accounted for 98.5 percent of Exhibit 4's Manual Year 2000 reported loss. Staff has found that this employer is a multi-state, multiple enterprise. Information on the employer's Pennsylvania operations for

those years is limited, suggesting that Code 918 was assigned for retail outlets operated by a wholesale bakery, but, based upon that information, staff hypothesizes misallocation of both payroll and loss dollars to Code 918. Staff is continuing the pursuit of information from this employer's insurer.

Any Code 918 employer found upon PCRB survey, Description of Operations Questionnaire or test audit to have been misclassified (having no operations assignable to Code 918) has been reassigned to the employer's appropriate classification(s) (e.g., Code 105, Bakery – Wholesale, Code 897, Fast food Restaurant, Code 898, Catering, and Code 917, Grocery - Retail). The 83 misclassified files represent the fifth largest study group by number of employers. Their five-year experience is shown in Exhibit 6, which represents 4.50 percent of Exhibit 13's five-year payroll and 6.20 percent of the five-year reported loss. For the record, the experience shown in a "Misclassified" historical experience exhibit reflects only the payroll and loss dollars of employers found to be misclassified after the five-year experience has been closed out or completed for a new comprehensive loss cost filing (i.e., April 1, 2006). The experience of any employer that had been found to be misclassified prior to finalization of the loss cost filing data will be found in the classification to which the employer was reclassified.

THE CLASSIFICATION APPLICABLE TO DONUT SHOPS PRINCIPALLY ENGAGED IN SELLING COFFEE BY THE CUP

As discussed in this report's Introduction, this classification study was launched to determine the classification applicable to donut shops principally engaged in selling coffee by-the-cup. In the file-by-file review of Code 918 or in response to a written petition from one Code 918 donut shop for reclassification, staff had reassigned certain donut shops that had been found to be principally engaged in selling coffee by-the-cup from Code 918 to Code 897. These individual file data reassignments took place both before and after the experience information for the April 1, 2006 comprehensive loss cost filing was compiled. Thus, the historical experience of certain donut shop files was in Code 897 for the April 1, 2006 filing, and the historical experience for other donut shop files was in Code 918 for that filing. Staff carefully segregated the donut shop files by their reassignment date and separately extracted their Code 918 or Code 897 historical experience, respectively, and created separate Codes 918 and 897 historical experience exhibits. Staff then combined the two separate exhibits to reflect the experience of all such donut shops. This combined exhibit was utilized in each of the separate statistical tests.

The following exhibits will be discussed below:

Exhibit No.	Exhibit Title
2	Donut Shops Principally Engaged In Selling Coffee By-The-Cup – Experience Assigned To Code 918 for the April 1, 2006 Class Book
8	Donut Shops Principally Engaged In Selling Coffee By-The-Cup - Experience assigned To Code 897 for the April 1, 2006 Class Book
9	All Donut Shops Principally Engaged In Selling Coffee By-The-Cup (Combines Exhibits 2 & 8)
13	Code 918 April 1, 2006 Class Book Page
14	Code 897 April 1, 2006 Class Book Page
A	T-Test Comparing Exhibit 9, All Donut Shops Principally Engaged In Selling Coffee By-The-Cup With Exhibit 11 Code 918 “Testing Exhibit” – Exhibit 13 Code 918 April 1, 2006 Class Book Page Minus Exhibits 4, 5, & 6
B	T-Test comparing Exhibit 9, All Donut Shops Principally Engaged In Selling Coffee By-The-Cup With The April 1, 2006 Code 897 Fast Food Restaurant Class Book Page Minus Exhibit 8

The historical experience exhibits showed the following:

Exhibit No.	Reported Pure Premium	Indicated Pure Premium (Pre-Test)	Indicated Pure Premium (Post Test)
2	\$1.125	\$1.650	\$1.364
8	1.306	2.106	1.739
9	1.261	1.993	1.646
13	2.341	3.879	3.204
14	1.297	2.044	1.689

The t-test results are as follows:

Exhibit No.	T-Test Value Reported Pure Premium	T-Test Value Claim Frequency (Per Million)	T-Test Value Claim Severity (Excluding Med. Only)
A	0.1927	0.2091	0.1890
B	0.8698	0.3446	0.3210

The experience of Exhibit 9 is better than the experience shown in either Exhibits 13 or 14. Staff observes that the Exhibit 9 experience has smaller differences compared to Exhibit 14, with a difference of \$0.036 for reported pure premium, \$0.051 for indicated pure premium (pre-test) and \$0.043 for indicated pure premium (post-test) than are seen in comparison to Exhibit 13 where differences of \$1.080 for reported pure premium, \$1.866 for indicated pure premium (pre-test) and \$1.558 for indicated pure premium (post-test) are observed.

Exhibit A shows the t-test results from comparing Exhibits 9 with 11³. There are no significant statistical differences between Exhibits 9 and 11 for any of the three statistical tests performed: reported pure premium, claim frequency and claim severity excluding medical-only. Exhibit B shows the t-test results from comparing Exhibit 9 with the April 1, 2006 Code 897 Class Book page minus Exhibit 8. This test also shows no significant statistical differences for any of these same statistical tests. This ambivalent result provides statistical support for assignment of donut shops principally engaged in selling coffee by-the-cup to either Codes 918 or 897. Staff concludes and recommends that underwriting considerations must be reviewed in staff's recommendation. This report previously discussed the opinion that the operations of a donut shop principally engaged in selling coffee by-the-cup more closely fit within the scope of Code 897 than the scope of Code 918. Pursuant to the statistical results and these underwriting considerations, staff recommends that Code 897 is the classification most appropriately applicable to donut shops principally engaged in selling coffee by-the-cup and employers found to be so principally engaged should continued to be so reassigned.

Staff next examined whether the above recommendation warranted revision to either the April 1, 2006 Codes 918 or 897 approved loss cost. The following exhibits will be discussed below:

Exhibit No.	Exhibit Title
10	Code 918 "Residual" – The Code 918 April 1, 2006 Class Book Page Minus Exhibit 2, Donut Shops Principally Engaged In Selling Coffee By-The-Cup – Experience Assigned To Code 918 for the April 1, 2006 Class Book & Exhibit 6, Misclassified
13	Code 918 April 1, 2006 Class Book Page
12	Code 897 April 1, 2006 Class Book Page Plus Exhibit 2, Donut Shops Principally Engaged In Selling Coffee By-The-Cup – Experience Assigned To Code 918 for the April 1, 2006 Class
14	Code 897 April 1, 2006 Class Book Page

The above listed exhibits show the following Indicated loss costs:

Exhibit No.	Indicated Loss Cost
10	\$3.466
13	3.465
12	1.850
14	1.852

Exhibits 10 and 12 each modify the April 1, 2006 Codes 918 and 897 Class Book pages, Respectively, as they are "today." This permits staff to evaluate the need to file for revision to either class' approved April 1, 2006 loss cost. The indicated loss cost shown in Exhibit 10 is \$0.001 lower than the Exhibit 13 indicated loss cost. The Exhibit 12 indicated loss cost is \$0.002 lower than the Exhibit 14 indicated loss cost.

³ Exhibit 11 is the Code 918 "testing" exhibit for the t-test. Exhibit 11 is constituted by the five-year experience of Code 918 Study Groups 2, 3, 4, 5, 6, 7, 8, 9 and 10 as shown in the table on Page 4 above.

When the separate indicated loss cost in Exhibits 10 or 12 is multiplied by the approved loading factor (1.011) for the Office of the Small Business Advocate and the revenue-neutral Merit Rating Program and Certified Safety Committee Credit, the product is \$3.50 and \$1.87, respectively. In other words, use of the Exhibits 10 or 12 indicated loss cost produces the approved April 1, 2006 Codes 918 and 897 rating values, meaning that no classification rating value revision filing is needed.

Finally, after a complete and careful examination of the Codes 918 and 897 Sections 2 and 5 Manual language entries, staff further concludes that these Manual entries are appropriate "as is" and that no Codes 918 and 897 Manual language revision proposals are warranted.



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TO: Pennsylvania Classification and Rating Committee

FROM: David T. Rawson
 Technical Director, Classification and Field Operations

DATE: April 12, 2006

RE: Proposed Manual Language Revisions To Sections 1, 2 and 5 (Housekeeping)

The proposals discussed below are intended to make the Manual clearer and less ambiguous. Several of the proposed revisions clarify key classification procedures, while others update language defining certain classifications to bring it into alignment with other Manual provisions and/or to recognize technological or industrial change. The proposed update to the Section 5 Ruling and Interpretation (R&I) for Employment Contractor – Temporary Staffing and the cross-reference chart therein incorporate the needed revisions pursuant to concurrent classification revision proposals that are discussed in separate memoranda to the Committee. In previous editions of this memorandum, staff has set forth that it is less confusing to have all of the cross-reference chart's revisions presented in a single place, and, for that reason, the chart's revisions have been incorporated into this memorandum. The cross-reference chart is also incorporated herein for the one new classification proposed for October 1, 2006. The Bureau recommends that all of the Manual language revisions proposed herein become **effective** upon new and renewal policies of **October 1, 2006** and later. Below I will first highlight the three proposed revisions to classification procedure, and then I will separately review the Manual language proposals by Manual section.

REVISIONS TO CLASSIFICATION PROCEDURE

The first proposed revision is to the Underwriting Guide entry "Laminating Paper." This entry is presently incorrectly assigned to Code 257, Paper Products Mfg., N.O.C. Staff proposes that Code 263, Paper Coating/Finishing, be substituted in place of Code 257. Staff also observes that "laminating," which is the bonding together of two or more layers of material (e.g., paper), is assigned to Code 263. This proposal will bring the "Laminating Paper" entry into alignment with the "Paper Laminating – 263" entry and the language of the Code 263 R & I.

The second proposed revision is the addition of a Underwriting Guide entry: "Automobile Parts Mfg. - Produced By Machining – 461" and its alphabetical counterpart "Machined Automobile Parts Mfg., N.O.C. – 461." It is current PCRB administrative procedure to assign employers principally engaged in machining automobile parts to Code 461, but there has been no general Underwriting Guide entry to that effect. The lack of a such a general entry means that the PCRB may either try to create a new, separate entry for each and every automobile part produced by machining or to assign employers machining automobile parts for which there is no entry to Code 446, Precision Machined Parts Mfg., N.O.C., subject to the employers also

fulfilling that class' machining tolerance criterion. Staff holds that however many automobile parts entries might be created, it is very likely that those additions will not be complete. For this reason, staff submits that a "blanket" or general entry is needed. For the record, this proposal will impact two employers who are already on notice that such an entry may be proposed in 2006. Staff will apprise each of those employers of the filing (after it has been made) and will concurrently advise them of the name of the Insurance Department person designated to receive public comment on the filing.

The third proposed reclassification is reassignment of the "Day Spa Not Affiliated With A Health Club Or Swimming Pool" Underwriting Guide entry from Code 977, Barber Shop, Beauty Parlor Or Hair Styling Salon, to Code 884, Health Or Exercise Club. The proposed revision concurrently deletes the phrase "Not Affiliated With A Health Club Or Swimming Pool." The use of Code 977 was adopted pursuant to a California classification procedure. The Underwriting Guide entry suggests that there is a different classification assignment depending upon the employer's business or that the day spa operation is typically incident to a larger business. Staff review of how such operations should be classified suggested that Code 884 was the appropriate assignment. Staff does not know how many (if any) day spas have been assigned to Code 977. In any event, the class rating values are \$0.03 apart. Bona fide Code 977 risks have historically had relatively little Code 953, Office, payroll, so that potential concerns regarding Code 884 being an "all employee including office" classification would seem unwarranted.

SECTION 1

Staff proposes two Section 1 amendments. The first is a clarification to the clerical definition by the addition of mall kiosk staff as being another type of clerk that shall not be considered to be clerical office employees. Rather, a mall kiosk clerk should be assigned to the employer's applicable field-of-business classification. The second amendment recognizes the expanded definition of "N.O.C." being proposed for the Section 5 Definitions R & I. Staff proposes to delete the present Section 1 language for N.O.C. and to add reference to the Definitions R & I in its place.

SECTION 2

Staff proposes revision to six Section 2 class descriptions. Three of these proposals delete the current Section 2 class description (Codes 608, Flat Cement Work, 609, Excavation, and 659, Roofing) and add reference to the class' Section 5 R&I. The proposed revision to Code 222, Plastic Articles Mfg., N.O.C., clarifies the class scope. There have been several questions regarding the class' scope, and this proposal is staff's new attempt at depicting it. The proposed revision shows that Code 222 contemplates any business principally engaged in molding any plastic product by any plastic molding technique except for a plastic molding business principally engaged in injection molding or a business principally engaged in molding any plastic composite products. Such businesses are to be assigned to Code 221, Plastic Articles Mfg. – Injection Molding, or Code 227, officially entitled Oilcloth Mfg. Staff also proposes clarification to the language for Code 467, Ball Bearing Mfg., and Code 918, Bakery Shop. Staff observes that the Code 918 class study report had stated no revisions were needed to either the Code 918 Sections 2 or 5 entries.

SECTION 5

The Section 5 proposals include six new R&Is. Five of these pertain to classifications, and the fifth is an Auditing R&I. The proposed class R&Is are two additions to the Definitions R&I, Codes 608, 609 and 659. The new Definitions are for the terms "To Be Separately Rated" or "Separately Rate" and "N.O.C." The proposals add to the information presently in the Manual for each term. The proposed R&Is for Codes 608, 609 and 659 continue staff's effort to ultimately have an R&I for each and every classification.

Staff also proposes revisions to nine existing R&Is. The revision proposals include the Temporary Staffing Cross-Reference Chart and eight other R&Is. The proposed revisions to four R&Is (e.g., Cabinet Works; Grocery Store – 917; Logging or Lumbering – Mechanized Equipment – 015; and Poultry And/Or Fish Dealer/Processor – 865) clarify the class' scope and/or clarify which operations may be also included or operations that are not included. With the term "Principally Engaged" now a part of the Definitions R&I, there is no need for a definition thereof to be placed in each and every classification R&I. For that reason, staff proposes its deletion from the Bar, Tavern, Cocktail Lounge, Nightclub Or Discotheque – 899 R&I. The revisions to the Retail Store With Manufacturing Concern R&I reflect the January 1, 2006 Section 1 revision to this language.

The final two proposed R&I revisions are to Precision Machined Parts Mfg., N.O.C. – 446 and to Tool Mfg., N.O.C. Recently staff realized that the January 1, 2006 class and Manual language revisions had included two different definitions for Precision Machined Parts Mfg., N.O.C. The Code 446 R&I stated that "Such term will be defined as applying to a machining business where more than 50 percent of the employer's overall revenue is derived from machining plans or specifications requiring the machining operations be held to a final tolerance of .001 inches or closer (e.g., 0005 inches)..." Paragraph 9 under Code 441 Operations Not Covered states that Precision Machined Parts Mfg., N.O.C. shall be defined as machining parts where the plans or specifications require more than 50 percent of the employer's machining operations will be held to a final tolerance of .001 inches or closer (e.g., 0005 inches)..." Paragraph 9 states that the definition of Precision Machined Parts Mfg., N.O.C. has been utilized by the PCRB for at least 25 years and also by the NCCI for an even longer period. Staff proposes to reconcile the two definitions by also inserting the "traditional" Precision Machine Parts Mfg., N.O.C. definition into the Code 446 R&I. Both the Codes 441 and 446 R&Is are being clarified by the addition of language denoting that each type of business is a "job shop" or a business principally engaged in machining for unrelated businesses. Staff further proposes adding an Operations Not Included section to the Code 446 R&I and clarifying selected paragraphs now under Operations Not Included in the Code 441 R&I.