

DELAWARE COMPENSATION RATING BUREAU, INC.

Small Deductible Program

The attached exhibits review the impact of deductibles on loss costs and residual market manual rates. Staff has proposed slight decreases to the loss elimination ratios and premium credit factors currently in effect.

2012 DELAWARE DEDUCTIBLE STUDY

Proposed Effective Date 12/1/12

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9870	0.985	0.015	0.020
1,000	0.9751	0.970	0.030	0.035
1,500	0.9649	0.960	0.040	0.045
2,000	0.9562	0.950	0.050	0.055
2,500	0.9487	0.940	0.060	0.065
3,000	0.9420	0.935	0.065	0.075
3,500	0.9360	0.925	0.075	0.080
4,000	0.9305	0.920	0.080	0.085
4,500	0.9254	0.915	0.085	0.090
5,000	0.9207	0.910	0.090	0.095

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9899	0.990	0.010	0.015
1,000	0.9806	0.980	0.020	0.025
1,500	0.9727	0.970	0.030	0.035
2,000	0.9659	0.960	0.040	0.045
2,500	0.9601	0.955	0.045	0.055
3,000	0.9548	0.950	0.050	0.060
3,500	0.9502	0.945	0.055	0.065
4,000	0.9459	0.940	0.060	0.070
4,500	0.9419	0.935	0.065	0.075
5,000	0.9383	0.930	0.070	0.080

2012 DELAWARE DEDUCTIBLE STUDY

Loss Range		Total Incurred Losses (1)	Adj Factor (2) a	Adj Factor (3) b	Adjusted Losses (1)*(2)*(3) (4)
0 -	499	1,085,698	1.000	0.9996	1,085,264
500 -	999	4,773,403	0.995	0.9996	4,747,636
1,000 -	1,499	6,156,787	0.990	0.9996	6,092,781
1,500 -	1,999	7,052,545	0.985	0.9996	6,943,978
2,000 -	2,499	7,009,454	0.980	0.9996	6,866,517
2,500 -	2,999	6,681,655	0.975	0.9996	6,512,008
3,000 -	3,499	5,726,579	0.970	0.9996	5,552,560
3,500 -	3,999	5,451,670	0.965	0.9996	5,258,757
4,000 -	4,499	5,288,626	0.960	0.9996	5,075,050
4,500 -	4,999	4,789,476	0.955	0.9996	4,572,120
5,000 -	& UP	1,207,912,767	0.950	0.9996	1,147,058,122

Deduct. Level (5)	# Claims >= Deduct Level (6)	Adj Losses < Deduct. Level (7) c	[(2)*(3)* (5)*(6)] (8)	Adj Tot Ded Collected (7)+(8) (9)
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500	42,989	1,085,264	21,378,473	22,463,737
1,000	36,540	5,832,900	36,160,130	41,993,030
1,500	31,586	11,925,681	46,649,648	58,575,329
2,000	27,531	18,869,659	53,939,176	72,808,835
2,500	24,402	25,736,176	59,456,083	85,192,259
3,000	21,960	32,248,184	63,878,039	96,126,223
3,500	20,194	37,800,744	68,177,953	105,978,697
4,000	18,736	43,059,501	71,917,462	114,976,963
4,500	17,489	48,134,551	75,128,914	123,263,465
5,000	16,480	52,706,671	78,248,688	130,955,359

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
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500	0.9870	0.9899
1,000	0.9751	0.9806
1,500	0.9649	0.9727
2,000	0.9562	0.9659
2,500	0.9487	0.9601
3,000	0.9420	0.9548
3,500	0.9360	0.9502
4,000	0.9305	0.9459
4,500	0.9254	0.9419
5,000	0.9207	0.9383

2012 DELAWARE DEDUCTIBLE STUDY

- a Adjustment factor for the amount of the deductible which will actually be reimbursed to the insurer by the insured.
- b Adjustment factor to put deductibles on a per occurrence basis instead of a per claim basis = 0.9996
- c Downward accumulation of Column (4).
- d Effect of deductible on Losses
= [A/B - Col(9) + P*C*Col(3)] /(A/B)

A = Total incurred indemnity on death claims plus total incurred medical on all claims =

sum of Column (4) = 1,199,764,793

B = Death indemnity losses plus all medical losses as a % of all losses = 0.733

Per Table II 2012 , Sect C

1.All Losses 1,682,554,987

2.Death Indem (00) 210,886

3.All Medical (00) 12,124,860

4.[((2)+(3))/(1)] 0.733

*100

C = # of death indemnity claims plus # of claims with some medical portion = 47,044

P = Processing expense per claim = 25.00

- e Effect of deductible on Manual Rate
= [(Column (10) * permissible loss ratio) + fixed expenses] / (1 - variable expenses)

Fixed expenses = LAE + General + Admin

= 0.1627

Variable expenses = Acquisition + P&C + Prem Tax

+ Workers' Comp. Fund + Misc. Tax + Prem Discount

+ Uncollectible Premium = 0.2650

Permissible Loss Ratio = 0.5723