

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 small changes to the loss elimination ratios and premium credit factors currently in effect.

2014 DELAWARE DEDUCTIBLE STUDY

Proposed Effective Date 12/1/14

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9857	0.986	0.014	0.015
1,000	0.9735	0.974	0.026	0.025
1,500	0.9638	0.964	0.036	0.035
2,000	0.9556	0.956	0.044	0.045
2,500	0.9485	0.949	0.051	0.055
3,000	0.9423	0.942	0.058	0.060
3,500	0.9366	0.937	0.063	0.065
4,000	0.9315	0.932	0.068	0.070
4,500	0.9267	0.927	0.073	0.075
5,000	0.9222	0.922	0.078	0.080

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9890	0.989	0.011	0.010
1,000	0.9797	0.980	0.020	0.020
1,500	0.9722	0.972	0.028	0.030
2,000	0.9659	0.966	0.034	0.035
2,500	0.9605	0.961	0.039	0.040
3,000	0.9557	0.956	0.044	0.045
3,500	0.9514	0.951	0.049	0.050
4,000	0.9474	0.947	0.053	0.055
4,500	0.9438	0.944	0.056	0.060
5,000	0.9403	0.940	0.060	0.065

2014 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	1,946,853	1.000	0.9996	1,946,074
500 -	999	5,242,068	0.995	0.9996	5,213,771
1,000 -	1,499	6,053,933	0.990	0.9996	5,990,996
1,500 -	1,999	5,772,162	0.985	0.9996	5,683,305
2,000 -	2,499	5,233,891	0.980	0.9996	5,127,161
2,500 -	2,999	4,873,830	0.975	0.9996	4,750,083
3,000 -	3,499	4,218,619	0.970	0.9996	4,090,424
3,500 -	3,999	3,831,262	0.965	0.9996	3,695,689
4,000 -	4,499	3,479,376	0.960	0.9996	3,338,865
4,500 -	4,999	3,284,837	0.955	0.9996	3,135,765
5,000 -	& UP	814,257,159	0.950	0.9996	773,234,883

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)
500	35,869	1,946,074	17,837,690	19,783,764
1,000	28,769	7,159,845	28,469,917	35,629,762
1,500	23,855	13,150,841	35,231,664	48,382,505
2,000	20,520	18,834,146	40,203,112	59,037,258
2,500	18,185	23,961,307	44,308,207	68,269,514
3,000	16,404	28,711,390	47,716,546	76,427,936
3,500	15,106	32,801,814	51,000,107	83,801,921
4,000	14,083	36,497,503	54,057,089	90,554,592
4,500	13,263	39,836,368	56,974,943	96,811,311
5,000	12,571	42,972,133	59,688,365	102,660,498

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
500	0.9857	0.9890
1,000	0.9735	0.9797
1,500	0.9638	0.9722
2,000	0.9556	0.9659
2,500	0.9485	0.9605
3,000	0.9423	0.9557
3,500	0.9366	0.9514
4,000	0.9315	0.9474
4,500	0.9267	0.9438
5,000	0.9222	0.9403

2014 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) =	816,207,016
	B = Death indemnity losses plus all medical losses as a % of all losses = Per Table II 2014 , Sect C	0.625
	1.All Losses	1,257,264,246
	2.Death Indem (00)	51,956
	3.All Medical (00)	7,802,034
	4.[((2)+(3))/(1)] * 100	0.625
	C = # of death indemnity claims plus # of claims with some medical portion =	42,716
	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 =	0.1731
	Variable expenses = Acquisition + P&C + Prem Tax + Workers' Comp. Fund + Misc. Tax + Prem Discount + Uncollectible Premium =	0.2561
	Permissible Loss Ratio =	0.5708