

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	0.9858	0.986	0.014	0.015
1,000	0.9738	0.974	0.026	0.025
1,500	0.9641	0.964	0.036	0.035
2,000	0.9559	0.956	0.044	0.045
2,500	0.9489	0.949	0.051	0.055
3,000	0.9427	0.943	0.057	0.060
3,500	0.9370	0.937	0.063	0.065
4,000	0.9319	0.932	0.068	0.070
4,500	0.9271	0.927	0.073	0.075
5,000	0.9226	0.923	0.077	0.080

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9891	0.989	0.011	0.010
1,000	0.9799	0.980	0.020	0.020
1,500	0.9725	0.973	0.027	0.030
2,000	0.9662	0.966	0.034	0.035
2,500	0.9608	0.961	0.039	0.040
3,000	0.9560	0.956	0.044	0.045
3,500	0.9517	0.952	0.048	0.050
4,000	0.9477	0.948	0.052	0.055
4,500	0.9441	0.944	0.056	0.060
5,000	0.9406	0.941	0.059	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	1,902,875	1.000	0.9996	1,902,114
500 -	999	5,167,141	0.995	0.9996	5,139,249
1,000 -	1,499	6,066,411	0.990	0.9996	6,003,345
1,500 -	1,999	5,889,762	0.985	0.9996	5,799,095
2,000 -	2,499	5,203,771	0.980	0.9996	5,097,656
2,500 -	2,999	4,885,851	0.975	0.9996	4,761,799
3,000 -	3,499	4,293,204	0.970	0.9996	4,162,742
3,500 -	3,999	3,833,991	0.965	0.9996	3,698,321
4,000 -	4,499	3,641,281	0.960	0.9996	3,494,232
4,500 -	4,999	3,289,834	0.955	0.9996	3,140,535
5,000 -	& UP	831,546,726	0.950	0.9996	789,653,402

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	36,035	1,902,114	17,920,242	19,822,356
1,000	29,033	7,041,363	28,731,173	35,772,536
1,500	24,105	13,044,708	35,600,891	48,645,599
2,000	20,708	18,843,803	40,571,445	59,415,248
2,500	18,390	23,941,459	44,807,695	68,749,154
3,000	16,604	28,703,258	48,298,313	77,001,571
3,500	15,281	32,866,000	51,590,933	84,456,933
4,000	14,255	36,564,321	54,717,304	91,281,625
4,500	13,396	40,058,553	57,546,282	97,604,835
5,000	12,703	43,199,088	60,315,114	103,514,202

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
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500	0.9858	0.9891
1,000	0.9738	0.9799
1,500	0.9641	0.9725
2,000	0.9559	0.9662
2,500	0.9489	0.9608
3,000	0.9427	0.9560
3,500	0.9370	0.9517
4,000	0.9319	0.9477
4,500	0.9271	0.9441
5,000	0.9226	0.9406

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

$$= [A/B - \text{Col}(9) + P \cdot C \cdot \text{Col}(3)] / (A/B)$$

A = Total incurred indemnity on death claims plus
total incurred medical on all claims =
sum of Column (4) = 832,852,490

B = Death indemnity losses plus all medical losses
as a % of all losses = 0.629
Per Table II 2014 , Sect C

1.All Losses	1,273,069,594
2.Death Indem (00)	51,956
3.All Medical (00)	7,960,087
4.[((2)+(3))/(1)] * 100	0.629

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

$$= [(\text{Column (10)} \cdot \text{permissible loss ratio}) + \text{fixed expenses}] / (1 - \text{variable expenses})$$

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