

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

**2015 DELAWARE DEDUCTIBLE STUDY**

**Proposed Effective Date 12/1/15**

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9807	0.983	0.017	0.014
1,000	0.9664	0.970	0.030	0.026
1,500	0.9554	0.960	0.040	0.036
2,000	0.9463	0.951	0.049	0.044
2,500	0.9384	0.943	0.057	0.051
3,000	0.9314	0.937	0.063	0.058
3,500	0.9250	0.931	0.069	0.063
4,000	0.9191	0.925	0.075	0.068
4,500	0.9136	0.920	0.080	0.073
5,000	0.9085	0.915	0.085	0.078

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9851	0.987	0.013	0.011
1,000	0.9740	0.977	0.023	0.020
1,500	0.9655	0.969	0.031	0.028
2,000	0.9585	0.962	0.038	0.034
2,500	0.9524	0.956	0.044	0.039
3,000	0.9470	0.951	0.049	0.044
3,500	0.9421	0.947	0.053	0.049
4,000	0.9375	0.942	0.058	0.053
4,500	0.9333	0.938	0.062	0.056
5,000	0.9293	0.934	0.066	0.060

**2015 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	3,038,405	1.000	0.9996	3,037,190
500 -	999	5,486,252	0.995	0.9996	5,456,637
1,000 -	1,499	5,035,494	0.990	0.9996	4,983,145
1,500 -	1,999	4,163,162	0.985	0.9996	4,099,074
2,000 -	2,499	3,587,498	0.980	0.9996	3,514,342
2,500 -	2,999	3,273,931	0.975	0.9996	3,190,806
3,000 -	3,499	2,882,073	0.970	0.9996	2,794,493
3,500 -	3,999	2,581,237	0.965	0.9996	2,489,897
4,000 -	4,499	2,543,454	0.960	0.9996	2,440,739
4,500 -	4,999	2,535,184	0.955	0.9996	2,420,132
5,000 -	& UP	458,552,926	0.950	0.9996	435,451,030

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	28,982	3,037,190	14,412,778	17,449,968
1,000	21,354	8,493,827	21,132,004	29,625,831
1,500	17,270	13,476,972	25,506,218	38,983,190
2,000	14,873	17,576,046	29,139,420	46,715,466
2,500	13,271	21,090,388	32,335,123	53,425,511
3,000	12,077	24,281,194	35,130,012	59,411,206
3,500	11,187	27,075,687	37,768,979	64,844,666
4,000	10,498	29,565,584	40,296,195	69,861,779
4,500	9,899	32,006,323	42,523,936	74,530,259
5,000	9,365	34,426,455	44,465,957	78,892,412

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
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500	0.9807	0.9851
1,000	0.9664	0.9740
1,500	0.9554	0.9655
2,000	0.9463	0.9585
2,500	0.9384	0.9524
3,000	0.9314	0.9470
3,500	0.9250	0.9421
4,000	0.9191	0.9375
4,500	0.9136	0.9333
5,000	0.9085	0.9293

## 2015 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  

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

A = Total incurred indemnity on death claims plus total incurred medical on all claims =  
sum of Column (4) = 469,877,485

B = Death indemnity losses plus all medical losses as a % of all losses = 0.552  
Per Table II 2015 , Sect C

1.All Losses	1,052,199,850
2.Death Indem (00)	81,664
3.All Medical (00)	5,724,836
4.[((2)+(3))/(1)] * 100	0.552

C = # of death indemnity claims plus # of claims with some medical portion = 40,472

P = Processing expense per claim = 25.00
- e Effect of deductible on Manual Rate  

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

Fixed expenses = LAE + General + Admin  
= 0.1688

Variable expenses = Acquisition + P&C + Prem Tax + Workers' Comp. Fund + Misc. Tax + Prem Discount + Uncollectible Premium = 0.2578

Permissible Loss Ratio = 0.5734