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ACTUARIAL COMMITTEE
RECORD OF MEETING

A meeting of the Actuarial Committee of the Delaware Compensation Rating Bureau, Inc. (DCRB) was held in Salon C of the DoubleTree by Hilton Hotel Downtown Wilmington, 700 King Street, Wilmington, Delaware on Tuesday, July 26, 2016 at 10 a.m.

The following members were present:

Actuarial Committee	
Ms. M. Gaillard	American Home Assurance Company
Ms. R. Reich	Donegal Mutual Insurance Company
Ms. P. Goh	Liberty Mutual Insurance Company
Ms. M. Sperduto	Nationwide Mutual Insurance Company
Mr. K. Brady	PMA Insurance Company
Mr. R. Willsey	Travelers Property & Casualty Company

Also present were:

Mr. A. Schwartz	AIS Risk Consultants, Inc. (Actuary for Ratepayer Advocate)
Mr. H. Drane	Delaware Insurance Department
Mr. S. Cooley	Duane Morris LLP
Mr. A. Becker	INS Consultants, Inc.
Mr. M. Morro	INS Consultants, Inc.
Mr. R. Moss	National Council on Compensation Insurance, Inc.
Mr. B. King	QBE North America
Mr. D. Heppen	Risk & Regulatory Consulting, LLC
Ms. D. Belfus	DCRB Staff
Mr. K. Creighton	DCRB Staff
Mr. J. Pedrick	DCRB Staff
Ms. B. Piacentino	DCRB Staff
Mr. W. Taylor	Chair - Ex Officio, DCRB
Mr. C. Whipple	DCRB Staff
Mr. P. Yoon	DCRB Staff

Mr. Taylor welcomed all attendees and read the Antitrust Preamble applicable to this meeting and to private conversations occurring in the course of the meeting. Participants gave brief self-introductions. Mr. Taylor then turned the presentation of meeting materials over to Mr. Pedrick.

ITEM (1) REVIEW OF THE PROPOSED DECEMBER 1, 2016 RESIDUAL MARKET RATE AND VOLUNTARY MARKET LOSS COST FILING

A draft December 1, 2016 Residual Market Rate and Voluntary Market Loss Cost Filing was presented for discussion. Key concepts derived from the draft Filing exhibits were presented in the form of Discussion Exhibits provided in hard copy at the meeting and projected on a screen display to facilitate review of those points. (The actual Discussion Exhibits were not numbered. However, the minutes assume that the Discussion Exhibit pages were numbered sequentially.)

Staff encouraged interactive questions and comments as the meeting progressed. The more substantive elements of dialogue precipitated during the meeting in that regard are set forth as inserted Question, Comment and/or Answer exchanges in the description of the meeting proceedings following below.

Page 1 of the discussion package presented the agenda for the meeting.

Page 2 of the discussion package presented indicated overall changes in residual market rates (an increase of 3.18 percent) and voluntary market loss costs (an increase of 1.68 percent). Key analytical steps applied in the development of the draft filing indication being offered for review at the meeting were noted as follow:

- Estimating ultimate on-level limited losses for prior policy years,
- Trending prior policy year results to the prospective period to which the proposed residual market rates and voluntary market loss costs would apply,
- Recognizing the estimated impacts of specified legislative changes on expected system costs,
- Adjusting results for the effect of limitations applied in the earlier analysis,
- Using a permissible loss and loss adjustment expense ratio to derive indicated changes in residual market rates,
- Applying estimated effects of the July 1, 2017 change in indemnity benefits, and
- Deriving the indicated change in voluntary market loss costs by removing the effects of expense needs from the residual market rate change indication.

<u>Question</u>: A committee member observed that last year's indicated change in rate level was approximately 15% as filed, whereas the approved change in rate level was approximately 7%. All else being equal, we would expect approximately a 7% to 8% change this year. The committee member asked whether or not the proposed 3.18% rate level change was indicative of an improvement in experience.

<u>Answer</u>: The DCRB agreed that there is a general improvement in experience, noting that three of the four years of experience are common between this year's filing and last year's filing, with policy year 2010 dropping off and policy year 2014 being added.

Page 3 of the discussion package summarized the impacts of prior legislation on the filing indication.

Page 4 of the discussion package summarized the required fee schedule changes in House Bill 373 of 2014 (HB373) and some points related to the DCRB's evaluation of that legislation.

The DCRB's filing analysis had explicitly and individually accounted for the impact of statutory changes contained in or authorized by the referenced pieces of Delaware legislation. The impacts so identified which had changed from estimates used for purposes of the December 1, 2015 filing were summarized as follows:

<u>HB373</u>

HB373 was the most significant of the legislative changes applicable to the DCRB's analysis for this filing. HB373 included the following provisions:

- §2322B set forth procedures and requirements applicable to the health care payment system for workers compensation claims. Among those procedures and requirements were the following notable elements:

- §2322B (3)(a): The Workers' Compensation Oversight Panel (WCOP) was required, by October 1, 2014, to establish a fee schedule for all Delaware workers compensation funded procedures, treatments and services based on the Resource Based Relative Value Scale ("RBRVS"), Medical Severity Diagnosis Related Group (MS-DRG), Ambulatory Payment Classification (APC), or equivalent scale used by the Centers for Medicare and Medicaid Services.

  The fee schedule was required to result in a reduction of 20% in aggregate workers compensation medical expenses by the year beginning January 31, 2015, an additional reduction of 5% of 2014 expenses by the year beginning January 31, 2016 and an additional reduction of 8% of 2014 expenses by the year beginning January 31, 2017.

- §2322B (3)(b): By January 31, 2017, no individual procedure in Delaware paid for through the workers compensation system is to be reimbursed at a rate greater than 200% of that reimbursed by the federal Medicare system, provided that radiology services may be reimbursed at up to 250% of the federal Medicare reimbursement and surgery services may be reimbursed at up to 300% of the federal Medicare reimbursement.

Question: An attendee asked when the DCRB expects to be able to perform data analysis on the actual impact of legislation, especially for Senate Bill 1.

Answer: There is not a specific timeline as several factors make this analysis difficult, such as subsequent law changes. The DCRB would like to move to a post-Senate Bill 1 basis when it is feasible to do so.

Consistent with the evaluations of HB373 in the DCRB's December 1, 2014 and December 1, 2015 filings, the DCRB has elected to again apply the full level of savings called for in HB373 to the development of the December 1, 2016 residual market rate and voluntary market loss cost change. When Medical Data Call information pertaining to services provided, subject to the new fee schedules, has been collected and compiled for a sufficient period of time, the DCRB would be able to credibly measure the changes in expenditures occurring after the implementation of the new fee schedules. If such a review suggests that savings mandated under the law have not been accomplished, the DCRB reserves its right to submit, at any time following the completion of that review, a filing of prospective loss costs and residual market rates consistent with the DCRB's evaluation of the effects of HB373.

Using a medical payout pattern based on the DCRB's analysis of ultimate medical losses for prior policy years, the savings that would arise from accomplishment of the serial reductions in medical expenses required under HB373 had been estimated. That procedure had produced an overall savings of 31.74 percent. It was noted that the savings factor approached the required savings in the third and final year of the fee schedule reductions, and staff explained that during the second and third years of that process, the mandated reductions would be taking place instead of increases in fees based on changes in specified CPI indices, thereby increasing the effect of the new fee schedules on otherwise expected costs. For 2015, the first year under the mandated reductions, the actual CPI-U value (0.1%) replaced the projected value from the previous analysis (2.0%). This caused a slight reduction in the savings factors over the forty year projection.

Question: An attendee asked if the DCRB collected detailed medical data.

Answer: The DCRB started to collect this data in 2010. The DCRB does not have the data necessary to measure the impact of Senate Bill 1 of 2007 (SB1). Data with a 2015 service date is now being collected but it takes several months to report the data and several more months to

edit the data. Even though data on a transaction date basis does not include service date detail, the DCRB receives and analyzes such medical data which provides information regarding physician and hospital expenditures.

Question: An attendee inquired about the possibility of a special study of the medical data in-between filings.

Answer: The WCOP also has access to this data. However, the timing of a study of this kind is to be determined.

Comment: An attendee commented that individual insurance companies would have more recent data that could be helpful in determining the actual impact of the legislation. Perhaps the insurance companies could share such information with the DCRB and the WCOP.

Question: A committee member asked if the DCRB was concerned about the possibility of several years of rate inadequacy as a result of being too optimistic with the legislative impact assumptions.

Answer: HB373 authorized three years' of medical fee schedule changes. The DCRB had evaluated the January 31, 2015 medical fee schedules and estimated a reduction in medical expenditures of approximately 20%. The WCOP applied a small adjustment in the second year of the fee schedules to compensate for any underperformance of the fee schedules in the first year. The DCRB believes it would be premature to change the estimated impact of legislation reflected in the filing.

HB175, SB238 and SB1

HB 175 of 2013, SB 238 of 2012 and SB1 of 2007 were reflected in the December 1, 2016 filing at the same savings factors applied for purposes of the December 1, 2015 filing.

LOSS DEVELOPMENT

Staff noted that consistent with numerous recent Delaware filings, loss development and trend analysis had been performed on a limited basis in order to mitigate potential effects of individual large claims or clustering of such claims within individual policy years. In recognition of this approach, a separate provision for excess loss was included in the derivation of rate and loss cost change indications.

Attendees were reminded of Senate Bill 1 enacted in 2007 in Delaware, which provided for processes related to the development of a medical fee schedule and treatment guidelines. In a prior filing (DCRB Filing No. 0806), the DCRB had evaluated the effects of the medical fee schedule that had subsequently been implemented in Delaware, and rating values effective on or after October 1, 2008 had reflected that estimated impact. For the December 1, 2015 filing, experience had again been adjusted to a pre-Senate Bill 1 basis for purposes of such analyses as loss development and trend, and then Law Amendment Factors specific to SB1, SB238, HB175 and HB373 had been applied to derive a December 1, 2016 indication.

The data adjustments for SB1, SB238 and HB175 had been made to paid and case incurred losses reported after the respective effective dates of each piece of legislation or administrative action by assuming that the estimated effect of the changes would be reflected immediately in paid medical losses and would become incorporated into case reserve values gradually over a three-year period of time.

Page 5 of the discussion package - Reported Incurred Losses above Selected Loss Limits

This exhibit was offered with the following specific observations:

- With selected loss limits ranging from approximately $1,047,000 for Policy Year 1999 to slightly more than $3,095,000 for Policy Year 2015, every complete policy year except for Policy Year 2013 included at least some losses in excess of the applicable limits,.

- The effects of the selected loss limitations were significant for many policy years.

- A substantial majority of the impact of selected loss limitations on reported losses occurred with respect to medical losses.

A set of eight Discussion Exhibits were next presented serially, illustrating comparisons between cumulative loss development factors derived for the current filing and counterpart cumulative loss development factors for the December 1, 2015 filing. These factors were thought to be indicative of changes in loss experience for prior policy years, with increases in the loss development factors associated with deterioration in prior estimates and decreases in loss development factors associated with improvement in prior estimates.

Key findings gleaned from the Discussion Exhibits as presented were as follow:

Page 6 of the discussion package – Indemnity Paid Cumulative Loss Development Factors

At early maturities (first through fifth reports), cumulative indemnity paid loss development factors appeared to be very similar for the December 1, 2016 and December 1, 2015 filings. Staff noted that the actual values underlying the graphs tended to be nominally lower for the 2016 filing.

Page 7 of the discussion package – Indemnity Paid Cumulative Loss Development Factors

At extended maturities (after fifth report), cumulative indemnity paid loss development factors for the December 1, 2016 filing were nominally lower than those of the December 1, 2015 filing.

Together, Pages 6 and 7 of the discussion package suggested that cumulative paid indemnity loss development had decreased slightly between the December 1, 2015 and December 1, 2016 filings.

Page 8 of the discussion package – Indemnity Incurred Cumulative Loss Development Factors

At early maturities (first through fifth reports), cumulative indemnity incurred appeared to be somewhat lower for the December 1, 2016 filing as compared to the December 1, 2015 filing.

Page 9 of the discussion package – Indemnity Incurred Cumulative Loss Development Factors

At extended maturities (after fifth report), cumulative incurred indemnity loss development factors for the 2016 filing were lower than those of the 2015 filing for the first part of the development shown (maturities six through 10) and were higher than those of the 2015 filing after the 11th maturity.

Together, Pages 8 and 9 of the discussion package suggested that incurred indemnity loss development may have modestly improved for the 2016 filing.

Page 10 of the discussion package – Medical Paid Cumulative Loss Development Factors

At early maturities (first through fifth reports), cumulative medical paid loss development factors for the 2016 filing were slightly higher than those of the 2015 filing.

Page 11 of the discussion package – Medical Paid Cumulative Loss Development Factors

However, at extended maturities (after fifth report), cumulative medical paid loss development factors for the 2016 filing were lower than those of the 2015 filing.

Together, Pages 10 and 11 of the discussion package suggested that the results for the paid medical loss development were somewhat mixed for the December 1, 2016 filing.

Page 12 of the discussion package – Medical Incurred Cumulative Loss Development Factors

All of the five earliest cumulative medical incurred loss development factors for the 2016 filing were lower than those from the 2015 filing.

Page 13 of the discussion package – Medical Incurred Cumulative Loss Development Factors

At extended maturities (sixth and later reports), cumulative incurred medical loss development factors from the 2016 filing continued to be lower than those of the 2015 filing.

Together, Pages 12 and 13 of the discussion package suggested that incurred medical loss development had been favorable in the December 1, 2016 filing compared to the data underlying the December 1, 2015 filing.

The DCRB's filing analysis had applied various curve fits to observed average age-to-age link ratios less unity in order to smooth the loss development patterns.

The need for factors converting from paid to case incurred losses in completing the paid loss development estimates for both indemnity and medical losses was noted. For those purposes, staff had applied the most recent actual four-year average paid-to-incurred age-to-age factors at the maturity at which this transition was made.

Comment: An attendee sought confirmation that the loss development pages were calculated from limited losses and recommended adding the word "limited" to the slides for clarity.

Question: The attendee also inquired regarding the selection of tail factors.

Answer: In the recent past, the DCRB has selected tail factors based on an average of four valuation periods. In last year's filing, the tail factors represented development from the 25th reporting level to ultimate. This year's tail factors represent development from 26th to ultimate.

Page 14 of the discussion package – Indemnity Paid & Incurred Ultimate Limited Loss Ratios by Policy Year presented the results of applying paid loss and case incurred loss development methods to indemnity losses for the December 1, 2016 filing. This exhibit showed comparable results for the two methods with paid estimates tending to be higher than the case incurred method for most policy years since 2001 with the differences between the methods diverging for the most recent four years.

Page 15 of the discussion package – Medical Paid & Incurred Ultimate Limited Loss Ratios by Policy Year presented the results of applying paid loss and case incurred loss development methods to medical losses for the December 1, 2016 filing. This exhibit showed comparable results for the two methods with paid estimates tending to be higher than the case incurred method for recent policy years.

Question: A committee member asked if the ultimate loss ratios were adjusted to be on-level loss ratios.

Answer: Staff affirmed that the ultimate loss ratios were adjusted to a pre-legislative basis and adjusted to current level.

CLAIM FREQUENCY TREND

Pages 16 through 18 of the discussion package related to the frequency trend analysis.

Policy Year 2014 indicated a decrease of 19.2 percent in frequency. Policy Years 2009 and 2010, a recessionary period within which notable disruptions of long-term claim frequency trends had been observed in many jurisdictions outside Delaware, showed essentially flat claim frequency.

Including Policy Years 2009 and 2010 in a seven-point exponential regression to derive claim frequency trend produced an annual rate of change of -5.0 percent. Staff felt that including those extraordinary years at full value was unduly pessimistic, but was also disinclined to remove those two years from the determination of claim frequency trend altogether. Accordingly, a selection of claim frequency trend for the December 1, 2016 filing had been made by averaging the results of two seven-year exponential regressions, the first using all Policy years 2008 through 2014 and the other using Policy Years 2006 through 2014 excluding 2009 and 2010. The resulting claim frequency trend was -6.3 percent.

It was noted that the claim frequency trend for the December 1, 2015 filing had been -5.3 percent.

Question: An attendee asked if any analysis was done to help explain the increase in frequency in Policy Year 2013. The questioner wondered if the recovery from the recessionary period had any influence on that increase in frequency and if the increase was consistent between industry groups.

Answer: Staff noted that this could be a topic for further investigation.

Question: A committee member asked if the frequency analysis includes both indemnity and medical only claims.

Answer: Frequency analysis performed by the DCRB includes indemnity claims only.

Question: A committee member asked about exposure trend in relation to the frequency trend analysis.

Answer: The DCRB's frequency trend analysis includes exposure trend. It was noted that Exhibit 23 also includes frequency trend calculations excluding exposure trend.

SEVERITY TREND

Pages 19 through 22 of the discussion package related to the severity trend analysis.

Ultimate loss ratios derived from the DCRB's loss development analysis had been converted to severity ratios by adjusting loss ratios for known changes in claim frequency over the span of policy years provided in Exhibit 2. Key considerations pertaining to the severity trend analysis were noted as shown below:

Indemnity Severity – Through Policy Year 2014 (mid-point January 1, 2015), the DCRB had measured claim severity trend using a seven-point exponential trend model fitted through the severity ratios derived by adjusting estimated ultimate loss ratios for known changes in claim frequency. That analysis resulted in an annual change in indemnity severity of +7.2 percent per year, down from the 2015 filing's value of +7.7 percent per year.

Medical Severity – The DCRB remained mindful that, in the adjudication of the December 1, 2009 filing, both actuarial consultants who had reviewed the filing had anticipated some improvement in medical trends associated with the implementation of the medical fee schedule in late 2008. Such an adjustment

had subsequently been included in each of the most recent six DCRB filings with the posited improvement of 1.8 percent in annual medical severity trend applied after September 1, 2008 (the effective date for full implementation of the medical fee schedule in prior DCRB filings). The December 1, 2016 filing had been prepared consistent with that prior perspective, in the fashion next explained to attendees.

Subsequent to the implementation of Senate Bill 1, it had been discovered that the intended regulation of fees for hospitals and ambulatory surgical centers had not been accomplished as envisioned under that law for both legal and practical reasons. Senate Bill 238 of 2012 was enacted to establish a new mechanism to manage hospital and ambulatory surgical center reimbursements.

The DCRB estimated the contribution of hospital and ambulatory surgical center payments to the anticipated improvements in medical trend, deriving a result that instead of a -1.8 percent annual improvement the value excluding hospitals and ambulatory surgical centers would have been approximately -1.5 percent. For the time period after January 31, 2013, the prior assumption of an improvement of 1.8 percent per year was applied for the December 1, 2016 filing.

The pre-Senate Bill 1 medical severity trend (measured prior to the application of the above adjustments), derived using a seven-point exponential fit, was +11.0 percent per year. Based on the above considerations, the annual medical severity trends used in the staff analysis were +11.0 percent through September 1, 2008, +9.5 percent per year from September 1, 2008 to January 31, 2013 and +9.2 percent thereafter.

Page 20of the discussion package– Indemnity Loss Experience Components, Indexed to 1.000 at Policy Year 2002, Annual Rates of Change was shown, noting that this material replicated the indemnity portion of the agenda package's Exhibit 5. The selected claim frequency and severity trends were illustrated, together with the resulting loss ratio trend (+0.4 percent).

Page 22 of the discussion package – Medical Loss Experience Components, Indexed to 1.000 at Policy Year 2002, Annual Rates of Change was shown, noting that this material replicated the medical portion of the agenda package's Exhibit 5. The selected claim frequency and severity trends were illustrated, together with the resulting loss ratio trend (+4.0 percent to September 1, 2008, +2.6 percent to January 31, 2013 and 2.3 percent thereafter).

Expenses and Benefit On-Level Factor

The following Filing exhibits were referenced in relation to the topics of expenses and benefit on-level factors:

Exhibit 8: Expense Study
Exhibit 9: Internal Rate of Return Model
Exhibit 10: Effect of 7/1/17 Benefit Change
Exhibit 11: Expense Loading

Exhibit 8 showed historical experience used to measure the following expense components:

Commission and Brokerage
Other Acquisition
General Expense
Loss Adjustment Expense
Premium Discount
Uncollectible Premium

The first four items noted above were reviewed over the three calendar years 2012, 2013 and 2014.

The three-year average ratio of commission and brokerage expense to standard earned premium at DCRB rate level, including large deductible business on a net basis and excluding expense constant income, was used for that expense component of the proposed filing.

Other acquisition and general expenses were determined based on the three-year average ratio of those respective expenses to standard earned premium at DCRB rate level, including large deductible business on a gross basis and excluding expense constant income.

The relationship between loss adjustment expense and loss was derived based on the three-year average ratio of loss adjustment expense to incurred losses, including large deductible on a gross basis. A provision for uncollectible premium had been selected after review of experience over the most recent available ten years.

Exhibit 8 also showed the allocation of the provisions for residual market expense constant income attributed to various expense components. The residual market expense constant proposal of $295 was noted in comparison to the currently-approved value of $290.

Exhibit 10 derived a provision in the proposed rates and loss costs to offset the impact of expected adjustment in benefit minimums and maximums effective July 1, 2017. The benefit level change is used in Exhibit 12 to calculate the indicated change in the residual market rate and voluntary market loss cost levels.

Exhibit 9 provided detail of the application of an internal rate of return analysis to the proposed filing. Expense provisions for commission and brokerage, other acquisition, general expense, premium and other taxes, premium-based assessments and premium discount were based on DCRB analysis as described above, budgetary provisions or the most recent available assessment levels. Premium distribution, premium collection and loss payout patterns were also provided from DCRB analysis.

The DCRB inputs were combined with an economic consultant's analysis of the following inputs and parameters to construct a cash flow model appropriate for the business of underwriting workers compensation business in Delaware:

Pre-Tax Return on Assets
Investment Income Tax Rate
Post-Tax Return on Assets
Reserve-to-Surplus Ratio
Cost of Capital

The internal rate of return model thus constructed was provided in detail within Exhibit 9. Key outputs derived from Exhibit 9 for use in the proposed filing were:

Permissible loss ratio, including loss adjustment expense and loss-based assessments

Indicated Value: 69.99 percent

Profit and contingencies

Indicated Value: +4.00 percent

Staff noted that the indicated profit and contingencies provision for the December 1, 2016 filing was higher than the counterpart value for the December 1, 2015 filing.

Page 23 of the discussion package – Historical Expense Ratios, 12/1/2009 through 12/1/2016 was reviewed. The exhibit shows a slight overall decrease in the residual market expense need from 31.20 percent of premium for the December 1, 2015 filing to 31.91 percent of premium for the December 1, 2016 filing.

Overall Indicated Changes in Collectible and Manual Rating Values

Page 24 of the discussion package is a waterfall chart illustrating the primary parts of the overall residual market rate change. The indicated change in Indemnity loss level implies a decrease of 1.8 percent. The indicated change in Medical loss level before the effects of legislation implies an increase of 45.5 percent. The indicated change in loss adjustment expense level adds 10.8 percent and the indicated change in assessments and expenses adds 0.4 percentage points. The total indicated change before the effects of legislation is 55.0 percent. Reductions due to SB1, SB238, HB175 and HB373 are 19.1 percent, 0.4 percent, 5.4 percent and 26.9 percent, respectively. This results in an overall indicated change of +3.2%.

Page 25 of the discussion package – Claim Settlement Rates, Ratio of Open to Reported Indemnity Claims by Policy Year showed ratios of open to reported claims for selected claim maturities. These ratios had been generally trending up over time. First and seventh reports had reached the highest levels seen on the historical exhibit with the most recent report.

Question: Staff was asked if they had explored any possible correlation between the change in frequency and the change in the ratio of open to reported claims. It was conjectured that perhaps the claims that remained open were more complex due to the decrease in frequency.

Answer: At this time, the DCRB has not done an explicit study of this relationship.

Experience Rating

Discussion Exhibit, Page26 – Credit Risks and Debit Risks provided overviews of loss ratio adjustments accomplished by the Experience Rating Plan on employers by premium size group.

Question: An attendee asked how many years of data were used in the graph comparing manual and actual risks within the Experience Rating Plan.

Answer: The graph uses five years of data.

Discussion Exhibit, Page 27 described additional items found in the Filing exhibits,

Delaware Construction Classification Premium Adjustment Program

The topic of the Delaware Construction Classification Premium Adjustment Program was presented in the work contained in the following Filing exhibits:

Exhibit 14: DCCPAP

The history and purpose of Delaware Construction Classification Premium Adjustment Program (DCCPAP) were briefly described using Exhibit 14. Staff reviewed the analytical exhibits reflecting the extent to which employers in the respective eligible classifications had participated in the program and the magnitude of premium credits granted to such employers. Proposed adjustments in offsets for DCCPAP credits by classification were noted.

The table of qualifying wages was reviewed for the participants. Staff noted that the qualifying wages proposed to be effective for the DCCPAP June 1, 2017 reflected expected future wage level changes,

resulting in a proposed wage table with a higher minimum qualifying wage than was in effect for the June 1, 2016 Table ($19.75 compared to $19.15).

Workplace Safety Program and Merit Rating

The topics of Workplace Safety Program and Merit Rating were presented in the work contained in the following meeting Exhibit:

Exhibit 29: Delaware Workplace Safety Program & Merit Rating Program

Due to the Workplace Safety Program, an overall offset to manual rating values to fund operation of the program was instituted. A Merit Rating Program for small employers was also implemented.

Page 29.1 showed recent historical experience for participation in the Workplace Safety Program and derived an indicated offset to manual rates. Page 29.2 showed anticipated distributions of merit-rated risks between credits, no adjustments and debits and combined the indicated offset for net merit rating credits with that for the Workplace Safety Program. The combined indication was for a 2.72 percent adjustment to manual rating values, as compared to the 2.96 percent adjustment currently in effect.

Rating Values Based on Size-of-Loss Analyses

The topic of Rating Values Based on Size-of-Loss Analyses was presented in the work contained in the following Filing exhibits:

Exhibit 16: Small Deductible Program
Exhibit 17a: Empirical Delaware Loss Distribution
Exhibit 17b: Excess Loss (Pure Premium) Factors
Exhibit 17c: Excess Loss (Pure Premium) Factors Adjusted to Include Allocated Loss Adjustment Expenses
Exhibit 17d: Excess Loss Premium Factors
Exhibit 17e: Excess Loss Premium Factors Adjusted to Include Allocated Loss Adjustment Expenses

Staff noted that DCRB loss cost filings typically included rating values pertinent to various rating plans affected by the size of loss for individual claims or occurrences. Some such plans provide limitations applicable to the amount(s) of loss that can be used in computing a retrospective premium. Other portions of this analysis facilitate the application of standard tables to Delaware business.

Exhibit 16

Exhibit 16 presents the derivation of small deductible loss elimination ratios and premium credits for the expanded range of hazard groups. This is a mandatory offer to employers in Delaware but sees very limited use in the marketplace. The small deductible provisions are applicable to death and all medical losses.

Exhibits 17a, 17b, 17c, 17d and 17e

Exhibit 17a presented an empirical loss distribution based solely on Delaware data. The analysis indicated that actual loss experience could be used over a significant portion of the size-of-loss range for each type of injury (Death, PT, PP and Temporary Total). Separate analyses of claim frequency and loss severity had been performed, and the lognormal distribution was used to estimate claim severity and claim frequency for each type of injury.

In generating final loss distributions and excess loss factors, actual data (claim counts and dollars of loss) for limits below $250,000 had been combined with fitted counts and dollars above $250,000 and re-accumulated. The resulting excess loss factors were also presented in Exhibit 17a.

Exhibit 17b derived proposed excess loss (pure premium) factors computed using results from Exhibit 17a. Values as of December 1, 2015 were also shown. Pennsylvania relativities were used as benchmarks for loss amounts in excess of $1,000,000 owing to the limited amount of Delaware experience data available in those layers.

Exhibit 17d, showed the derivation of excess factors related to premiums (rather than pure premiums). Exhibits 17c and 17e are comparable to 17b and 17d, respectively, but adjusted to include a provision for ALAE. The underlying loss distributions for each variation were identical to those found in Exhibit 17b.

Question: An attendee asked if the DCRB incorporates a dispersion model in its excess loss study.

Answer: The DCRB does not use a dispersion model. The same factor is applied to all loss limits.

State & Hazard Group Relativities

This subject was addressed in the following meeting exhibit:

Exhibit 18: State & Hazard Group Relativities

Exhibit 18 shows the derivation of the December 1, 2016 proposed State & Hazard Group Relativities. DCRB and NCCI average costs were shown by hazard group and in total. A credibility weight was calculated for each hazard group based on the number of claims. A credibility weighted average cost was then calculated, and these average costs were related to the overall credibility-weighted average cost to generate the indicated relativities. Selections were made where the indicated values for a given hazard group were inconsistent with indicated values for adjacent hazard groups. An adjustment was made to recognize the impact of recent legislation on Delaware average costs.

Retrospective Rating

The topic of Retrospective rating was presented in the work contained in the following Filing exhibits:

Exhibit 24: Retrospective Development Factors
Exhibit 25: Tax Multiplier

Exhibit 24 was described as providing indicated loss development factors proposed to be available for use on an optional basis.

Exhibit 25 presented the derivation of a retrospective rating plan tax multiplier.

Classification Relativities

The topic of classification relativities was briefly discussed along with the following meeting Exhibit:

Exhibit 15: Rate and Loss Cost Formulae

Exhibit 15 described the formulae and procedures used for analysis of classification experience in the annual filing.

Exhibits 22a, 22b and 22c each provided unit statistical data by manual year and industry group over the most recent available five years. These tabulations were used in the derivation of certain factors applicable to determining classification-specific rating values. Exhibit 22a showed losses including loss adjustment expenses, adjusted to current benefit levels, trended and developed to an ultimate basis. Exhibit 22b showed losses, including loss adjustment expenses, developed to an ultimate basis but not trended or on-level, and Exhibit 22c showed reported losses without loss adjustment expenses.

Question: A committee member asked for a status update in reference to the proposed plans discussed in the May Actuarial Committee Meeting.

Answer: Staff affirmed continued progress in these plans. Updating the Experience Rating Plan is one of the primary concerns, though this is a process that will take several years. Staff is also looking into improving the structure of the filings and continuing to analyze and improve current methods.

Comment: Attendees requested more labeling within the Discussion Package. There was a specific request to reference the relevant Filing exhibits on each graph. There was also a request that a copy of the Discussion Package be sent electronically.

There being no further business for the Committee to conduct, the meeting was adjourned.

Respectfully submitted,

William V. Taylor
Chair - Ex Officio

WVT/jf