

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

2021 DELAWARE DEDUCTIBLE STUDY

Proposed Effective Date 12/1/21

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
			(13)	(14)
		(12)		
500	0.9800	0.983	0.017	0.015
1,000	0.9649	0.970	0.030	0.028
1,500	0.9530	0.959	0.041	0.038
2,000	0.9429	0.950	0.050	0.047
2,500	0.9342	0.942	0.058	0.055
3,000	0.9263	0.935	0.065	0.061
3,500	0.9193	0.928	0.072	0.068
4,000	0.9127	0.922	0.078	0.074
4,500	0.9067	0.917	0.083	0.079
5,000	0.9010	0.911	0.089	0.084

Deduct. Level	Effect of Deductible on Man.Rate	Selected	Premium Credit	Current Premium Credit
			(16)	(17)
		(15)		
500	0.9855	0.988	0.012	0.011
1,000	0.9745	0.978	0.022	0.020
1,500	0.9659	0.970	0.030	0.028
2,000	0.9586	0.964	0.036	0.034
2,500	0.9523	0.958	0.042	0.040
3,000	0.9465	0.953	0.047	0.044
3,500	0.9415	0.948	0.052	0.050
4,000	0.9367	0.943	0.057	0.054
4,500	0.9323	0.940	0.060	0.058
5,000	0.9282	0.935	0.065	0.061

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Loss Range	Total Incurred Losses (1)	Adj Factor (2) a	Adj Factor (3) b	Adjusted Losses (1)*(2)*(3) (4)
0 - 499	2,890,864	1.000	0.9996	2,889,708
500 - 999	4,663,557	0.995	0.9996	4,638,383
1,000 - 1,499	4,477,616	0.990	0.9996	4,431,067
1,500 - 1,999	4,073,952	0.985	0.9996	4,011,238
2,000 - 2,499	3,583,950	0.980	0.9996	3,510,866
2,500 - 2,999	3,395,753	0.975	0.9996	3,309,535
3,000 - 3,499	3,168,641	0.970	0.9996	3,072,352
3,500 - 3,999	2,799,727	0.965	0.9996	2,700,656
4,000 - 4,499	2,548,154	0.960	0.9996	2,445,249
4,500 - 4,999	2,536,025	0.955	0.9996	2,420,935
5,000 - & UP	477,626,138	0.950	0.9996	453,563,333

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	27,775	2,889,708	13,812,535	16,702,243
1,000	21,282	7,528,091	21,060,752	28,588,843
1,500	17,648	11,959,158	26,064,490	38,023,648
2,000	15,296	15,970,396	29,968,168	45,938,564
2,500	13,691	19,481,262	33,358,464	52,839,726
3,000	12,448	22,790,797	36,209,191	58,999,988
3,500	11,469	25,863,149	38,721,053	64,584,202
4,000	10,722	28,563,805	41,156,011	69,719,816
4,500	10,121	31,009,054	43,477,600	74,486,654
5,000	9,585	33,429,989	45,510,539	78,940,528

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
500	0.9800	0.9855
1,000	0.9649	0.9745
1,500	0.9530	0.9659
2,000	0.9429	0.9586
2,500	0.9342	0.9523
3,000	0.9263	0.9465
3,500	0.9193	0.9415
4,000	0.9127	0.9367
4,500	0.9067	0.9323
5,000	0.9010	0.9282

2021 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) =	486,993,322
B = Death indemnity losses plus all medical losses as a % of all losses =	0.618
Per Table II 2021 , Sect C	
1.All Losses	894,023,753
2.Death Indem (00)	162,844
3.All Medical (00)	5,365,890
4.[((2)+(3))/(1)] * 100	0.618
C = # of death indemnity claims plus # of claims with some medical portion =	38,311
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	
=	0.2016
Variable expenses = Acquisition + P&C + Prem Tax + Workers' Comp. Fund + Misc. Tax + Prem Discount + Uncollectible Premium =	0.2658
Permissible Loss Ratio =	0.5326