

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

**2009 DELAWARE DEDUCTIBLE STUDY**

**Proposed Effective Date 12/1/09**

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9794	0.980	0.020	0.020
1,000	0.9626	0.965	0.035	0.035
1,500	0.9495	0.950	0.050	0.045
2,000	0.9389	0.940	0.060	0.055
2,500	0.9298	0.930	0.070	0.065
3,000	0.9219	0.925	0.075	0.070
3,500	0.9147	0.915	0.085	0.080
4,000	0.9082	0.910	0.090	0.085
4,500	0.9021	0.905	0.095	0.090
5,000	0.8965	0.900	0.100	0.095

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9832	0.985	0.0150	0.0150
1,000	0.9695	0.970	0.0300	0.0300
1,500	0.9588	0.960	0.0400	0.0400
2,000	0.9501	0.950	0.0500	0.0450
2,500	0.9427	0.945	0.0550	0.0550
3,000	0.9362	0.935	0.0650	0.0600
3,500	0.9303	0.930	0.0700	0.0650
4,000	0.9250	0.925	0.0750	0.0700
4,500	0.9200	0.920	0.0800	0.0750
5,000	0.9155	0.915	0.0850	0.0800

**2009 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	2,788,706	1.000	0.9996	2,787,591
500 -	999	7,549,858	0.995	0.9996	7,509,104
1,000 -	1,499	8,460,187	0.990	0.9996	8,372,235
1,500 -	1,999	7,763,794	0.985	0.9996	7,644,278
2,000 -	2,499	6,379,981	0.980	0.9996	6,249,880
2,500 -	2,999	5,421,529	0.975	0.9996	5,283,876
3,000 -	3,499	4,790,931	0.970	0.9996	4,645,344
3,500 -	3,999	4,470,724	0.965	0.9996	4,312,523
4,000 -	4,499	3,998,837	0.960	0.9996	3,837,348
4,500 -	4,999	3,688,505	0.955	0.9996	3,521,113
5,000 -	& UP	777,706,961	0.950	0.9996	738,526,084

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	44,947	2,787,591	22,352,188	25,139,779
1,000	34,580	10,296,695	34,220,506	44,517,201
1,500	27,743	18,668,930	40,973,886	59,642,816
2,000	23,274	26,313,208	45,598,793	71,912,001
2,500	20,420	32,563,088	49,753,841	82,316,929
3,000	18,435	37,846,964	53,624,392	91,471,356
3,500	16,956	42,492,308	57,245,982	99,738,290
4,000	15,762	46,804,831	60,501,870	107,306,701
4,500	14,819	50,642,179	63,659,179	114,301,358
5,000	14,040	54,163,292	66,663,324	120,826,616

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
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500	0.9794	0.9832
1,000	0.9626	0.9695
1,500	0.9495	0.9588
2,000	0.9389	0.9501
2,500	0.9298	0.9427
3,000	0.9219	0.9362
3,500	0.9147	0.9303
4,000	0.9082	0.9250
4,500	0.9021	0.9200
5,000	0.8965	0.9155

## 2009 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) = 792,689,376

B = Death indemnity losses plus all medical losses as a % of all losses = 0.687

Per Table II 2008 , Sect C

1.All Losses	1,342,834,349
2.Death Indem (00)	138,498
3.All Medical (00)	9,087,797
4.[((2)+(3))/(1)]	0.687
*100	

C = # of death indemnity claims plus # of claims with some medical portion = 54,397

P = Processing expense per claim = 25.00

- e Total effect of deductible  
= [(Column (10) \* permissible loss ratio) + fixed expenses] / ( 1 - variable expenses )

Fixed expenses = LAE + General + Admin  
= 0.1443

Variable expenses = Acquisition + P&C + Prem Tax  
+ Workers' Comp. Fund + Misc. Tax + Prem Discount  
+ Uncollectible Premium = 0.2129  
Permissible Loss Ratio = 0.6428