

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 no change to the loss elimination ratios and premium credit factors currently in effect.

2010 DELAWARE DEDUCTIBLE STUDY

Proposed Effective Date 12/1/10

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9815	0.980	0.020	0.020
1,000	0.9658	0.965	0.035	0.035
1,500	0.9532	0.950	0.050	0.050
2,000	0.9428	0.940	0.060	0.060
2,500	0.9340	0.930	0.070	0.070
3,000	0.9262	0.925	0.075	0.075
3,500	0.9193	0.915	0.085	0.085
4,000	0.9129	0.910	0.090	0.090
4,500	0.9070	0.905	0.095	0.095
5,000	0.9015	0.900	0.100	0.100

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9851	0.985	0.0150	0.0150
1,000	0.9724	0.970	0.0300	0.0300
1,500	0.9622	0.960	0.0400	0.0400
2,000	0.9538	0.950	0.0500	0.0500
2,500	0.9467	0.945	0.0550	0.0550
3,000	0.9405	0.935	0.0650	0.0650
3,500	0.9349	0.930	0.0700	0.0700
4,000	0.9297	0.925	0.0750	0.0750
4,500	0.9250	0.920	0.0800	0.0800
5,000	0.9205	0.915	0.0850	0.0850

2010 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	2,148,841	1.000	0.9996	2,147,981
500 -	999	6,729,665	0.995	0.9996	6,693,338
1,000 -	1,499	7,880,340	0.990	0.9996	7,798,416
1,500 -	1,999	7,791,960	0.985	0.9996	7,672,011
2,000 -	2,499	7,055,997	0.980	0.9996	6,912,111
2,500 -	2,999	5,901,872	0.975	0.9996	5,752,023
3,000 -	3,499	5,147,750	0.970	0.9996	4,991,320
3,500 -	3,999	4,731,766	0.965	0.9996	4,564,328
4,000 -	4,499	4,468,711	0.960	0.9996	4,288,247
4,500 -	4,999	4,093,367	0.955	0.9996	3,907,602
5,000 -	& UP	880,026,697	0.950	0.9996	835,690,952

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	44,876	2,147,981	22,316,880	24,464,861
1,000	35,646	8,841,319	35,275,424	44,116,743
1,500	29,290	16,639,735	43,258,665	59,898,400
2,000	24,808	24,311,746	48,604,231	72,915,977
2,500	21,654	31,223,857	52,760,512	83,984,369
3,000	19,495	36,975,880	56,707,758	93,683,638
3,500	17,907	41,967,200	60,456,700	102,423,900
4,000	16,644	46,531,528	63,887,395	110,418,923
4,500	15,592	50,819,775	66,979,817	117,799,592
5,000	14,729	54,727,377	69,934,765	124,662,142

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
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500	0.9815	0.9851
1,000	0.9658	0.9724
1,500	0.9532	0.9622
2,000	0.9428	0.9538
2,500	0.9340	0.9467
3,000	0.9262	0.9405
3,500	0.9193	0.9349
4,000	0.9129	0.9297
4,500	0.9070	0.9250
5,000	0.9015	0.9205

2010 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) = 890,418,329

B = Death indemnity losses plus all medical losses as a % of all losses = 0.711

Per Table II 2010 , Sect C

1.All Losses	1,192,156,648
2.Death Indem (00)	113,439
3.All Medical (00)	8,361,985
4.[((2)+(3))/(1)]	0.711
*100	

C = # of death indemnity claims plus # of claims with some medical portion = 52,292

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
= 0.1543

Variable expenses = Acquisition + P&C + Prem Tax
+ Workers' Comp. Fund + Misc. Tax + Prem Discount
+ Uncollectible Premium = 0.2009
Permissible Loss Ratio = 0.6448