

DELAWARE COMPENSATION RATING BUREAU, INC.
F CLASS FILING

Tax Multiplier

Enclosed is a calculation of the tax multiplier for use in retrospective rating associated with F Class coverages.

**CALCULATION OF TAX MULTIPLIER FOR USE IN RETROSPECTIVE RATING PLANS
(U.S.L. & H.W. Act Coverages)**

Expense Provisions for U.S.L. & H.W. Classes

Losses	57.74
Loss Adjustment Expense	12.05
Loss & Loss Adjustment	<u>69.79</u>
Premium Discount	8.38
Acquisition	8.88
General Expenses	3.20
Profit and Contingencies	2.62
Taxes	2.33
Uncollectible Premium	0.80
Federal Assessment	5.01
	<u>31.22</u>

If

- T = Tax multiplier
- E = Expense provision in rates (General, Acquisition, and Profit), less premium discount
- L = Loss provision in rates
- C = Loss conversion factor
- B = Assessments made on premiums
- A = Assessments made on losses (adjusted so as not to collect profit and general expense dollars on the extra premium generated by the assessments)

Using average discount (Schedule Y) this yields:

$$E = 0.0632 = 0.0888 \text{ (ACQ)} + 0.0320 \text{ (GEN)} + 0.0262 \text{ (PROFIT)} - 0.0838 \text{ (PREM DISC)}$$

$$A = 0.0829 = 0.0868 \times \frac{1 - 0.0632 - 0.0313}{1 - 0.0210 - 0.0313}$$

Then

$$T = \frac{E + L(1 + C + A)}{E + L(1 + C)} \times \frac{1}{1 - B - S}$$

$$S = \text{Delaware Insurance Plan Subsidy} = 0.0255$$

$$T = \frac{0.0632 + 0.5774(1 + 0.2087 + 0.0829)}{0.0632 + 0.5774(1 + 0.2087)} \times \frac{1}{1 - 0.0313 - 0.0255} = 1.1269$$