



July 21, 1997

BUREAU CIRCULAR NO. 694

To All Members of the Bureau:

Re: **RESIDUAL MARKET SURCHARGE APPROVAL**

As noted in Bureau Circular No. 692, the Department of Insurance has approved a surcharge program applicable to all risks insured in the Delaware Insurance Plan (the Plan) which serves as the residual market in Delaware. This surcharge program will apply to all risks insured in the Plan, including risks for which Plan applications were processed through Delaware and WCIP risks for which residual market applications were processed through another state. This circular will provide details regarding the approved surcharge program.

The significant features of the approved surcharge program are enumerated below:

- Premium surcharges will apply to risks insured under the Plan which qualify for experience rating and which produce experience modifications in excess of 1.000.
- Applicable surcharges to subject risks will be expressed as a factor to be applied to standard premium and will be computed using the following formula:

$$0.50 \times (1.000 - \text{risk credibility in the Experience Rating Plan})$$

- Surcharges so computed will be limited to a maximum factor computed by subtracting unity (1.000) from each subject risk's experience modification factor.
- Surcharges will be computed and expressed to two decimal places.

For illustrative purposes the following three examples of hypothetical risks insured in the Plan are offered:

Risk A: Not eligible for experience rating. No surcharge would apply regardless of risk experience (risk must be eligible for experience rating).

Risk B: Eligible for experience rating, experience modification = 0.925. No surcharge would apply (risk must develop experience modification in excess of 1.000).

Risk C: Eligible for experience rating, experience modification = 1.500, credibility = 0.175) Surcharge would apply (risk meets surcharge criteria). Surcharge would be computed as follows:

$$0.50 \times (1.000 - 0.175) = 0.41 \text{ (Surcharge truncated to 2 decimal places)}$$

(Note that full amount of calculated surcharge applies as limit test does not apply, i.e., $1.500 - 1.000 = 0.500$ maximum surcharge, in excess of calculated value.)

Risk D Eligible for experience rating, experience modification = 1.258, credibility = 0.365)
Surcharge would apply (risk meets surcharge criteria). Surcharge would be computed as follows:

$$0.50 \times (1.000 - 0.365) = 0.3175, \text{ surcharge calculation truncated to two decimal places} = 0.31$$

$$\text{Maximum surcharge of } 0.25 \text{ would apply. } 1.258 - 1.000 = 0.258, \text{ truncated to two decimal places} = 0.25$$

Based on the approved Experience Rating Plan, surcharges developed under the approved program will range from zero (for self-rated risks or risks having modification debits of less than one percent) to a maximum of .47 (for small risks qualified for experience rating and having extremely poor experience records).

The DCRB will compute applicable surcharges for each risk in conjunction with our promulgation of experience modifications, and the result will be displayed on the rating worksheet for each employer. A sample worksheet illustrating the placement of the indicated surcharge after Part III (Exhibit of Payrolls, Expected Losses, Authorized Classes and Rating Values) and before Part IV (Rating Procedure) is attached to this circular for reference. Note that surcharges will be computed for all debit rated risks, so that upon placement in the Plan the surcharge factor will be readily available. The Bureau will also provide notification of any applicable surcharge directly to each employer renewing coverage in the Plan. **In order to avoid imposing significant surcharges on employers without reasonable notice (and thus opportunity to attempt to secure voluntary coverage) the Bureau is deferring application of surcharges until such time as employers will have been given notice of the applicability and amount of their surcharge at least 60 days in advance of their anniversary rating date.** Thus, the surcharge program will be implemented for policies effective on or after October 1, 1997. For policies effective August 1, 1997 through September 30, 1997 calculated surcharges will be provided on a information-only basis.

Members are advised that Statistical Code 0077 will apply to reporting of surcharge amounts on policies and unit statistical reports for risks subject to surcharges under this program. The DIP surcharge applies after application of experience modification, schedule rating adjustments, Workplace Safety Program or Delaware Construction Classification Premium Adjustment Program (DCCPAP) credits.

Timothy L. Wisecarver
President

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Attachment

DELAWARE COMPENSATION RATING BUREAU, INC.

EXPERIENCE RATING CALCULATION



EXAMPLE

DELAWARE COMPENSATION RATING BUREAU
EXPERIENCE RATING CALCULATION

07/15/97

ANY RESIDUAL EMPLOYER	WC133S300	2XXX709
	POLICY NUMBER	FILE NO.
PO BOX XXX	08/11/96	0XX 08/11/97
OPERATIONS IN DELAWARE DE 19952	POL. EFF	CARR RATING DATE

PART I EXHIBIT OF ACTUAL LOSSES

POL.YR.	INDEMNITY	MEDICAL	TOTAL	LOSSES AS USED
93	34,083	5,264	39,347	36,927
94	0	2,064	2,064	2,064
95	25,051	16,096	41,147	37,258
TOTAL	59,134	23,424	82,558	76,249

PART II	POL.YR.	CLAIM	MULT.	ACC.INJ	REP. LOSSES	LOSSES AS USED
EXHIBIT OF LOSSES	95	395419	0	4	40,552	36,663
SUBJECT TO LIMITING VALUES	93	395852	0	4	39,083	36,663

PART III EXHIBIT OF PAYROLLS, EXPECTED LOSSES, AUTH. CLASSES, RATING VALUES

CLASS	YEAR	PAYROLLS	EXP.LF	EXPECTED LOSSES	AUTH.CLS	RATING VALUE
0652	93	54,082	6.53	3,532		
	94	66,458	6.07	4,034		
	95	68,277	5.42	3,701	0652	11.05
		188,817		11,267		
0659	93	47,579	11.72	5,576		
	94	76,306	10.90	8,317		
	95	89,722	9.74	8,739	0659	20.43
		213,607		22,632		
0951	94	22,500	.43	97		
	95	39,020	.38	148	0951	.71
		61,520		245		
0953	94	3,272	.23	8		
	95	16,860	.21	35	0953	.39
		20,132		43		

USE SURCHARGE 0077 ONLY FOR RESIDUAL MARKET EMPLOYER 0077 .39

PART IV - RATING PROCEDURE

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* ACTUAL LOSSES EXPECTED LOSSES CREDIBILITY LIM CHRG 1.000 - C *
* (A) 76,249 (E) 34,187 (C) .230 (L*C) .093 .770 *
*****BALLAST*****EXPERIENCE MOD*****
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* (B) 1.0400 (M) 1.431 *
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$$((A * C + E * (L * C) + E(1.000 - C)) / E) * B = M$$