

DELAWARE COMPENSATION RATING BUREAU, INC.

Small Deductible Program

The attached exhibits review the impact of deductibles on loss costs and residual market manual rates. Comparison to prior studies shows changes at the smaller deductible levels; thus, staff has chosen to make minor changes to the loss elimination ratios and premium credit factors at this time.

2003 DELAWARE DEDUCTIBLE STUDY

Proposed Effective Date 12/1/03

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9665	0.955	0.045	0.050
1,000	0.9430	0.930	0.070	0.075
1,500	0.9269	0.915	0.085	0.090
2,000	0.9141	0.900	0.100	0.100
2,500	0.9032	0.890	0.110	0.110
3,000	0.8936	0.880	0.120	0.120
3,500	0.8850	0.870	0.130	0.130
4,000	0.8770	0.860	0.140	0.140
4,500	0.8697	0.850	0.150	0.150
5,000	0.8630	0.845	0.155	0.155

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9735	0.965	0.035	0.040
1,000	0.9549	0.950	0.050	0.055
1,500	0.9421	0.935	0.065	0.065
2,000	0.9320	0.925	0.075	0.075
2,500	0.9234	0.915	0.085	0.085
3,000	0.9158	0.905	0.095	0.095
3,500	0.9089	0.895	0.105	0.105
4,000	0.9026	0.890	0.110	0.110
4,500	0.8969	0.885	0.115	0.115
5,000	0.8915	0.880	0.120	0.120

2003 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	5,245,865	1.000	0.9996	5,243,767
500 -	999	12,175,827	0.995	0.9996	12,110,102
1,000 -	1,499	9,642,089	0.990	0.9996	9,541,850
1,500 -	1,999	6,666,334	0.985	0.9996	6,563,712
2,000 -	2,499	5,382,776	0.980	0.9996	5,273,010
2,500 -	2,999	4,584,207	0.975	0.9996	4,467,814
3,000 -	3,499	4,363,345	0.970	0.9996	4,230,752
3,500 -	3,999	3,852,806	0.965	0.9996	3,716,471
4,000 -	4,499	3,850,722	0.960	0.9996	3,695,214
4,500 -	4,999	3,263,421	0.955	0.9996	3,115,320
5,000 -	& UP	451,042,045	0.950	0.9996	428,318,547

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	48,706	5,243,767	24,221,543	29,465,310
1,000	31,910	17,353,869	31,578,264	48,932,133
1,500	24,015	26,895,719	35,467,970	62,363,689
2,000	20,154	33,459,431	39,486,039	72,945,470
2,500	17,745	38,732,441	43,236,136	81,968,577
3,000	16,070	43,200,255	46,744,995	89,945,250
3,500	14,722	47,431,007	49,703,666	97,134,673
4,000	13,692	51,147,478	52,556,249	103,703,727
4,500	12,785	54,842,692	54,921,560	109,764,252
5,000	12,097	57,958,012	57,437,766	115,395,778

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
500	0.9665	0.9735
1,000	0.9430	0.9549
1,500	0.9269	0.9421
2,000	0.9141	0.9320
2,500	0.9032	0.9234
3,000	0.8936	0.9158
3,500	0.8850	0.9089
4,000	0.8770	0.9026
4,500	0.8697	0.8969
5,000	0.8630	0.8915

2003 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) =	486,276,559
B = Death indemnity losses plus all medical losses as a % of all losses =	0.586
Per Table II 2003 , Sect C	
1.All Losses	782,479,042
2.Death Indem (00)	74,307
3.All Medical (00)	4,508,066
4.[((2)+(3))/(1)]	0.586
*100	
C = # of death indemnity claims plus # of claims with some medical portion =	66,816
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	
=	0.1609
Variable expenses = Acquisition + P&C + Prem Tax + Workers' Comp. Fund + Misc. Tax + Prem Discount	
=	0.2270
Permissible Loss Ratio =	0.6121