

DELAWARE COMPENSATION RATING BUREAU, INC.

Small Deductible Program

The attached exhibits review the impact of deductibles on loss costs and residual market manual rates. Indications suggest reductions in loss elimination ratios at all deductible levels. Staff selections for loss elimination ratios and premium credit factors are consistent with those indications.

2005 DELAWARE DEDUCTIBLE STUDY

Proposed Effective Date 12/1/05

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9803	0.975	0.025	0.030
1,000	0.9630	0.955	0.045	0.050
1,500	0.9492	0.940	0.060	0.065
2,000	0.9380	0.930	0.070	0.080
2,500	0.9286	0.920	0.080	0.090
3,000	0.9206	0.910	0.090	0.100
3,500	0.9134	0.900	0.100	0.110
4,000	0.9069	0.890	0.110	0.115
4,500	0.9009	0.885	0.115	0.120
5,000	0.8953	0.880	0.120	0.125

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9836	0.980	0.020	0.025
1,000	0.9692	0.965	0.035	0.040
1,500	0.9578	0.950	0.050	0.055
2,000	0.9485	0.940	0.060	0.065
2,500	0.9407	0.935	0.065	0.075
3,000	0.9340	0.925	0.075	0.080
3,500	0.9280	0.915	0.085	0.090
4,000	0.9226	0.910	0.090	0.095
4,500	0.9176	0.905	0.095	0.100
5,000	0.9130	0.900	0.100	0.105

2005 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	1,982,393	1.000	0.9996	1,981,600
500 - 999	8,258,117	0.995	0.9996	8,213,540
1,000 - 1,499	10,685,373	0.990	0.9996	10,574,288
1,500 - 1,999	10,569,508	0.985	0.9996	10,406,801
2,000 - 2,499	9,585,384	0.980	0.9996	9,389,919
2,500 - 2,999	8,124,094	0.975	0.9996	7,917,823
3,000 - 3,499	6,614,551	0.970	0.9996	6,413,548
3,500 - 3,999	5,790,439	0.965	0.9996	5,585,539
4,000 - 4,499	5,396,012	0.960	0.9996	5,178,099
4,500 - 4,999	4,944,510	0.955	0.9996	4,720,118
5,000 - & UP	1,005,099,077	0.950	0.9996	954,462,186

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	56,161	1,981,600	27,928,921	29,910,521
1,000	45,096	10,195,140	44,627,182	54,822,322
1,500	36,469	20,769,428	53,861,394	74,630,822
2,000	30,379	31,176,229	59,519,023	90,695,252
2,500	26,091	40,566,148	63,571,374	104,137,522
3,000	23,119	48,483,971	67,249,379	115,733,350
3,500	21,076	54,897,519	71,155,716	126,053,235
4,000	19,525	60,483,058	74,946,010	135,429,068
4,500	18,252	65,661,157	78,406,595	144,067,752
5,000	17,211	70,381,275	81,719,549	152,100,824

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
500	0.9803	0.9836
1,000	0.9630	0.9692
1,500	0.9492	0.9578
2,000	0.9380	0.9485
2,500	0.9286	0.9407
3,000	0.9206	0.9340
3,500	0.9134	0.9280
4,000	0.9069	0.9226
4,500	0.9009	0.9176
5,000	0.8953	0.9130

2005 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) = 1,024,843,461
 B = Death indemnity losses plus all medical losses
 as a % of all losses = 0.713
 Per Table II 2005 , Sect C
 1.All Losses 1,676,637,481
 2.Death Indem (00) 159,684
 3.All Medical (00) 11,800,742
 4.[((2)+(3))/(1)] 0.713
 *100
 C = # of death indemnity claims plus # of claims with
 some medical portion = 63,032
 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
 = 0.1314
 Variable expenses = Acquisition + P&C + Prem Tax
 + Workers' Comp. Fund + Misc. Tax + Prem Discount
 + Uncollectible Premium = 0.2221
 Permissible Loss Ratio = 0.6465