

DELAWARE COMPENSATION RATING BUREAU, INC

Review of Experience Rating Plan Parameters

Page 20.1 contains Collectible Premium Ratios.

Page 20.2 contains Expected Loss Cost Factors. They are applied to residual market rates by classification to produce Table A, Expected Loss Factors, which are the basis for the calculation of Expected Losses.

Page 20.3 contains the derivation of various factors, i.e., maximum single loss size, self-rating point, that are used to produce Table B.

**COLLECTIBLE PREMIUM RATIOS \***

Manual Years 2003 to 2005 Unit Data

Manual Year	Premium at Manual Rates	Collected Premium (Excluding Constants)	Collectible Premium Ratio (2)/(3)
(1)	(2)	(3)	(4)
ALL INDUSTRIES			
2003	230,173,636	217,234,175	1.0596
2004	238,916,236	241,586,528	0.9889
2005	288,211,015	289,878,089	0.9942
<b>TOTAL</b>	<b>757,300,887</b>	<b>748,698,792</b>	<b>1.0115</b>
MANUFACTURING AND UTILITIES			
2003	36,136,505	32,770,751	1.1027
2004	34,846,900	31,675,424	1.1001
2005	39,930,674	36,041,971	1.1079
<b>TOTAL</b>	<b>110,914,079</b>	<b>100,488,146</b>	<b>1.1038</b>
CONTRACTING AND QUARRYING			
2003	49,888,396	45,289,777	1.1015
2004	54,878,263	53,434,275	1.0270
2005	68,081,175	65,398,675	1.0410
<b>TOTAL</b>	<b>172,847,834</b>	<b>164,122,727</b>	<b>1.0532</b>
OTHER INDUSTRIES			
2003	144,148,735	139,173,647	1.0357
2004	149,191,073	156,476,829	0.9534
2005	180,199,166	188,437,443	0.9563
<b>TOTAL</b>	<b>473,538,974</b>	<b>484,087,919</b>	<b>0.9782</b>

\* Excludes classifications and coverages not subject to experience rating.

**CALCULATION OF EXPECTED LOSS RATE FACTORS**

<b>Policy Year Beginning 12/1</b>	<b>Average Law Multiplier</b>	<b>Adjustment Factor</b>	<b>Loss Ratio Development Factor</b>	<b>Expense Allowance 1 / (PLR/CPR)</b>	<b>Trend Factor</b>	<b>Product (2) * (3) * (4) * (5) * (6)</b>	<b>Expected Loss Rate Factor 1.0 / (7)</b>	<b>Factor to Reflect Approved Rate Levels *</b>	<b>Adjusted Expected LC Factors (8)*(9)</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>	<b>(8)</b>	<b>(9)</b>	<b>(10)</b>
<b><u>Manufacturing and Utilities</u></b>									
2004	0.9071	1.0000	1.8821	1.7166	1.2879	3.7744	0.2649	1.0121	0.2681
2005	0.9032	1.0000	2.1950	1.7166	1.2072	4.1083	0.2434	1.0121	0.2463
2006	0.9041	1.0000	2.8395	1.7166	1.1327	4.9916	0.2003	1.0121	0.2027
<b><u>Contracting and Quarrying</u></b>									
2004	0.9071	1.0000	1.9165	1.6379	1.2879	3.6672	0.2727	1.0121	0.2760
2005	0.9032	1.0000	2.3598	1.6379	1.2072	4.2143	0.2373	1.0121	0.2402
2006	0.9041	1.0000	2.9779	1.6379	1.1327	4.9949	0.2002	1.0121	0.2026
<b><u>Other Industries</u></b>									
2004	0.9071	1.0000	1.8360	1.5213	1.2879	3.2631	0.3065	1.0123	0.3103
2005	0.9032	1.0000	2.1206	1.5213	1.2072	3.5175	0.2843	1.0123	0.2878
2006	0.9041	1.0000	2.8595	1.5213	1.1327	4.4549	0.2245	1.0123	0.2273

\* (12/1/08 Filed Indicated Change in Manual Rate Level) / (12/1/08 Approved indicated Change in Manual Rate Level by Industry Group, from Page 1.

### Experience Rating Plan Parameters

- |     |   |             |
|-----|---|-------------|
| (1) | Eligibility Point = (3,161 = 1 yr Prem)      3 yr =   | \$9,483     |
| (2) | Permissible Loss Ratio =  | 0.6357 (a)  |
| (3) | Expected Losses needed to achieve 5% credibility<br>(1)*(2) = \$9,483*0.6357 =  | \$6,028     |
| (4) | Max Value : $\frac{0.25 * \$6,028}{0.05} =$   | \$30,140    |
| (5) | K-Value<br>a) If (3) is assigned 5% credibility, then<br>$K = \frac{E(1-c)}{c} = \frac{\$6,028 * (1-.05)}{.05} =$                   | \$114,532   |
| (6) | .055 Credibility Interval - the .0525 left endpoint<br>corresponds to $E = \frac{(K * C)}{(1-C)} = \frac{114,532 * .0525}{.9475} =$ | \$6,346     |
| (7) | Right endpoint for .05 credibility interval =   | \$6,345     |
| (8) | Self rating point = 25 * average serious claim<br><br>= 25 * 282,858 =  | \$7,071,450 |
|     | 6% of (8) rounded to the nearest \$1,000 =  | 424,000     |
|     | Selected =  | 424,000     |

(a) Standard LR / CPR = Manual LR  
0.6430/1.0115 = 0.6357