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NOT YET REVIEWED AND ACCEPTED BY THE COMMITTEES AND GOVERNING BOARD

ACTUARIAL & CLASSIFICATION AND RATING COMMITTEES - RECORD OF JOINT MEETING

A meeting of the Actuarial and Classification & Rating Committees of the Delaware Compensation Rating Bureau, Inc. was held in the Hagley Room of The DoubleTree Hotel Wilmington Downtown, 700 King Street, Wilmington, Delaware on Wednesday, August 6, 2008 at 10 a.m.

The following members were present:

Actuarial Committee	
Ms. M. Gaillard	American Home Assurance Company
Mr. A. Kerin*	Amguard Insurance Company
Ms. M. Sperduto	Harleysville Mutual Insurance Company
Mr. R. Kahn	Hartford Accident & Indemnity Company
Ms. A. Himmelberger	PMA Insurance Company
Ms. M. Mirkovich*	Travelers Property & Casualty Company

Classification and Rating Committee	
Mr. I. Feuerlicht	American Home Assurance Company
Mr. A. Kerin*	Amguard Insurance Company
Mr. D. Soja	Hartford Accident & Indemnity Company
Ms. T. Lam	Liberty Mutual Insurance Company
Not Represented	New Castle County Chamber of Commerce
Not Represented	National Federation of Independent Business
Mr. W. Carney	PMA Insurance Company
Ms. M. Mirkovich*	Travelers Property & Casualty Company*
Mr. T. Wisecarver	Chair - Ex Officio

Also present were:

Mr. J. Randall	Caldwell Staffing Services, Inc...**
Mr. S. Cooley	Duane Morris LLP
Mr. G. Reed, Jr.	Delaware Department of Insurance**
Mr. J. Neidermyer	INS Consultants, Inc.
Ms. F. Barton	Bureau Staff
Ms. D. Belfus	Bureau Staff
Mr. B. Decker	Bureau Staff
Mr. M. Doyle	Bureau Staff
Mr. P. Yoon	Bureau Staff

* Member of both committees
** Present for part of meeting

The Antitrust Preamble was read at the beginning of the meeting for the benefit of all participants. Participants gave brief self-introductions.

The Committee discussion then moved to a review of staff work supporting the December 1, 2008 Residual Market Rate and Voluntary Market Loss Cost Filing. Staff encouraged interactive questions and comments as the meeting progressed. The more substantive elements of dialogue precipitated during the meeting in that regard are set forth as inserted Question, Comment and/or Answer exchanges in the description of the meeting proceedings following below.

ITEM (1) REVIEW OF THE PROPOSED DECEMBER 1, 2008 RESIDUAL MARKET RATE AND VOLUNTARY MARKET LOSS COST FILING

Participants had been provided with electronic agenda materials in advance of the meeting. Those materials provided supporting information, analysis and results of Bureau staff's preparation of a residual market rate and voluntary market loss cost filing effective December 1, 2008.

Staff briefly described the content, context and application of supporting information for this filing. Bureau Filing No. 0806, previously submitted to the Department of Insurance, had addressed estimated impacts of the health care payment system being implemented under Senate Bill 1. The data available for analysis of this filing predated that implementation and so included no effects of SB1. Accordingly, the overall indication derived in this filing was intended to be applied to the rating values ultimately approved under Bureau Filing No. 0806, which remained under review as of the date of this meeting.

***Question**: Staff was asked whether any provisions of Senate Bill 1 had impacted the filing under discussion at this meeting.*

***Answer**: The Bureau had previously and separately estimated the effect of specific portions of Senate Bill 1 and had submitted a filing based on those estimates to the Department of Insurance. The filing being presented at this meeting was intended to be applied after the implementation of rating values proposed in the Senate Bill 1 filing.*

The Committee heard summary descriptions of those materials organized in topical groups as shown following. Questions posed during the meeting, with staff responses given and participant discussion ensuing, are set forth in the chronology of the presentation below.

Minimum and Maximum Corporate Officer Payrolls

A staff memorandum dated June 11, 2008, proposing Manual language revisions updating the current limitations on payrolls reported by corporate officers for premium determination purposes was referenced. The proposed revisions continued to maintain parameters in conformance with prevailing wage levels.

Overall Indicated Changes in Collectible and Manual Rating Values

Exhibit 12

A handout was distributed amending previous versions of Exhibit 12, and attendees were advised of the revision made to the indicated change in voluntary market loss costs thereon.

Exhibit 12 was reviewed. Estimates of historical ultimate on-level policy year loss and loss-adjustment expense ratios (Lines (1a) through (1e)) and ultimate on-level policy year loss and loss-adjustment expense ratios trended to the mid-point of the prospective rating period (Lines (2a) through (2e)) were noted as having been evaluated, subject to a schedule of loss limitations by policy year reflecting the

expectation that loss size would increase over time as wages, benefits and prices were subject to both ongoing economic inflation and changes in utilization. Staff outlined considerations that had led to the adoption of a limited-loss analysis for purposes of the December 1, 2004 filing proposal, adaptations of loss limitation procedures applied in subsequent filings and the proposals currently under discussion.

An excess loss factor (Line 3(a)) was included in the analysis to account for the effects of the limitations applied in the Bureau's loss development and trend analyses. Comparison of the trended loss and loss-adjustment expense ratio to a permissible loss and loss-adjustment expense ratio based on econometric analysis (Lines (4a) and (5), respectively) produced an indicated overall average change in residual market rate level prior to effects of the July 1, 2009 benefit change. Adjustment for the estimated effects of the July 1, 2009 benefit change (Line (7)) resulted in the indicated change in residual market rates (Line (8)).

***Question**: An attendee asked how the various loss limitations had been established.*

***Answer**: Staff indicated that discussion and an exhibit presentation responsive to this question would be provided later in the meeting.*

The proposed change in voluntary market loss costs (Line (9)) was derived from the indicated change in residual market rates by adjusting the latter indication for the effects of changes in the permissible loss ratio, including loss-adjustment expense and loss-based assessments.

Staff pointed out the proposed overall changes in residual market rates (8.64 percent decrease) and voluntary market loss costs (10.03 percent decrease).

Staff noted the proposed filing's accounting for effects of the Experience Rating Plan in the determination of proposed changes in manual rating values, as presented on Exhibit 12. This analysis started with the collectible premium ratios underlying presently-approved rating values (Line 10). The Bureau had then measured the collectible premium ratios that the Experience Rating Plan had produced in previous periods. Using the relationships between the currently-approved and updated collectible premium ratios (Line 12), staff had derived indicated changes in manual residual market rates (Line 13). Indicated changes in manual voluntary market loss costs (Line 17) had been derived by also accounting for the nominal impact of changes in the offset to voluntary market rating values for continuation of the approved surcharge program in the Delaware Insurance Plan (Lines 15 and 16).

Loss Development

Exhibits 1 (Limited Loss), 1a, 1b, 2 (Limited Loss), 2a (Limited Loss), 2b and 7

Staff described the content of each of the referenced exhibits from the meeting agenda materials. Highlights from those descriptions are set forth below.

Exhibit 1 (Limited Loss) (Table I) provided summaries of financial data reported by Bureau members for the calendar years ending December 31, 2003 through 2007, inclusive. Successive calendar year evaluations of premiums, indemnity incurred losses, medical incurred losses, indemnity paid losses and medical paid losses were compared to derive age-to-age development factors or "link ratios" to be used in the Bureau's estimation of ultimate premiums and losses for prior policy years. In making the comparisons producing specific link ratios, data for all carriers with available, and credible data were used, with the result that each calendar-year-end evaluation could show two different amounts; one for purposes of comparison to the prior calendar year-end and the other for purposes of comparison to the subsequent calendar year-end.

Staff noted that the data in Table I, consistent with previous Bureau filings, excluded data for large deductible coverages. That exclusion was noted as being responsive to the lack of independent sources for loss data gross of large deductible reimbursements and the potential for significant differences in underlying hazard and loss potential inherent in large deductible business, as compared to business insured on a first-dollar basis.

Claims exceeding selected limit values in paid and/or incurred values had been identified using large claim data separately reported by carriers, and the effect of capping such losses at the selected limitations was reflected in the combined paid and/or incurred amounts in Table I. By reference to Exhibit 1b, this adjustment process was described as having affected every complete policy year except 1996, 1998, 2000, 2001, 2005, 2006 and 2007 on a paid basis, and every complete policy year except 2006 and 2007 on an incurred basis for at least one evaluation. Exhibit 1a provided background analysis of trend in loss limitations consistent with an excess ratio of 0.0757 (the excess factor applicable for a selected loss limitation of $1,500,000 in the December 1, 2004 filing, when limited loss analysis was first applied to a Bureau filing) and the series of loss limits applied by policy year in producing Exhibit 1 on a limited basis. For policy years prior to December 1, 2004 loss limits had been computed using historical trends in excess loss factors from previously approved loss limit tables. For subsequent policy years, trend indications for excess loss factors, including experience since December 1, 2004, had been applied to project appropriate loss limitation levels consistent with those observed trends. Staff noted that in previous filings recent trend indications had been applied to policy years prior to December 1, 2004, with the effect of successively lowering applicable loss limits from filing-to-filing, and observed that the procedure employed for this filing would stabilize historical loss limitations. Exhibit 1b showed the reductions to reported loss amounts produced by application of the limits from Exhibit 1a.

Staff provided background for and an outline of considerations related to medical case reserves used as the basis for loss development analysis in the proposed filing.

Exhibit 2 (Limited Loss) presented premium and loss development experience from Table I (including the application of the adjustments described above), supplemented by age-to-age factors taken from calendar evaluations of financial data predating those included in Table I. This data had been used to review development patterns and ultimately derive estimates of prior policy year premiums, losses and loss ratios. Staff described procedures used to develop estimates of ultimate premiums stated at a constant (current) rate level on Page 2.1 of this exhibit. Pages 2.2 through 2.13 presented the derivation of estimates of ultimate indemnity loss and loss-adjustment expense ratios for prior policy years.

Indemnity age-to-age paid loss development factors, incurred loss development factors and paid-to-incurred development factors were shown on Page 2.2. Factors for the most recent four development periods were based on the limited loss data from Table I (Limited Loss). After verifying that no subsequent changes to underlying data had been received, factors for previous development periods were taken from prior Bureau filings and were shown on a limited basis with the exception of Calendar Year 2000 development, which was presented on an unlimited basis.

In application of each loss development method, the Bureau had sought to smooth the observed age-to-age link ratios in a variety of ways. Methods applied in this endeavor included the use of multi-year averages (generally the most recent four years) as the basis for selecting age-to-age factors and the fitting of mathematical curves through the observed average actual ratios. A broad variety of curve forms had been tested for this purpose. Curves that had given among the best and generally consistent results in this fitting process had been selected for use in support of the proposed filing. The selected curve forms used to smooth observed indemnity loss development age-to-age factors in the proposed filing were described as follows:

Indemnity Incurred Development Factors:

$y = a + b/x + c/(x^2) + d/(x^3) + e/(x^4) + f/(x^5)$

In the above expression, "y" represents the variable to be estimated, and "x" is an index of the maturity of the observed and/or projected stages of policy year development for which the variable values were observed. The terms "a," "b," "c," "d," "e" and "f" are constants derived using the curve-fitting procedures and are established to obtain the best possible fit of the selected curve to the observed actual data.

Better results were obtained by subtracting unity (1.000) from the observed indemnity paid loss development factors before using the above curve form. The estimated or smoothed "y" values were then added to unity to derive smoothed indemnity paid loss development factors.

Indemnity Paid Development Factors:

$y = a + b/x + c/(x^2) + d/(x^3) + e/(x^4) + f/(x^5)$

In the above expression, "y" represents the variable to be estimated, and "x" is an index of the maturity for the observed and/or projected stages of policy year development at which the values of "y" were observed. The terms "a," "b," "c," "d," "e" and "f" are constants derived using the curve-fitting procedures and are established to obtain the best possible fit of the selected curve to the observed actual data.

Better results were obtained by subtracting unity (1.000) from the observed indemnity paid loss development factors before using the above curve form. The estimated or smoothed "y" values were then added to unity to derive smoothed indemnity paid loss development factors.

Indemnity Paid-to-Incurred Development Factors:

The most recent actual four-year average paid-to-incurred age-to-age factor was selected for this transition. In this year's analysis, as had been the case for several previous filings, loss development approaches converting to a case-incurred basis at varying points in development were not used.

Page 2.3 showed selected incremental development factors, cumulative development factors computed by successive multiplication of the incremental factors, and factors to bring indemnity losses on-level (benefit change factors) by policy year and to add loss-adjustment expense to loss.

Page 2.4 presented indemnity limited paid and incurred losses by policy year, projected ultimate losses using both paid-loss development, case-incurred loss development and an average of those two separate approaches, and adjusted ultimate loss and loss adjustment expense obtained by applying benefit on-level factors and loss adjustment expense factors to projected ultimate losses.

Page 2.5 showed ultimate limited indemnity loss ratios resulting from the work on Pages 2.1 through 2.4 and the calculation of limited severity ratios from ultimate limited loss ratios using an index of claim frequencies per unit of on-level expected losses derived from unit statistical data. Claim frequency trend factors for selected policy years to December 1, 2009, based on a review of unit statistical data, were also shown on this page. Staff noted that additional detail concerning the Bureau's analysis of claim frequencies would be discussed in the context of trend analysis later in the meeting.

***Question**: A question was raised regarding what the "average" loss ratios shown on Page 5 of Exhibit 2 represented.*

<u>Answer</u>: Staff described the loss ratios in question as the average of separate estimates produced using case-incurred loss development and paid loss development to 20th report, with those separate estimates being shown to the immediate right of the average column on Page 2.5 of Exhibit 2.

<u>Question</u>: An attendee asked whether exposure units used in the Bureau's claim frequency trend were based on payrolls or premiums.

<u>Answer</u>: The exposure units used in the Bureau's claim frequency analysis were described as being on-level expected loses. These on-level expected losses, reflecting currently-approved Bureau loss costs by classification applied to the payrolls or other appropriate exposures by classification in each policy year, were used in conjunction with the number of indemnity claims reported in unit statistical reports to compute claim frequency statistics.

<u>Comment</u>: It was noted that the Bureau's denominator for claim frequency, as previously described, included the effects of wage changes.

<u>Answer</u>: Staff concurred and indicated that supporting analysis for the filing included separate claim frequency measures including and excluding the effects of wage changes. This approach recognized wage changes in computing and trending loss ratios, a result consistent with premiums being generally based on payrolls which would also reflect wage changes over time.

Page 2.6 showed fitted limited severity ratios for indemnity loss using linear models applied over various numbers of policy years. Severity ratios consistent with paid-loss development, case-incurred loss development, and an average of these two approaches were presented separately.

Page 2.7 showed trended limited severity ratios for indemnity loss based on various combinations of development approach and number of policy year points used as the basis for trending, all using a linear trend model. Trend factors derived from these trended loss ratios were shown for each of the most recent four policy years for each of the previously-mentioned loss development approaches.

Pages 2.8 and 2.9 were described as being alternatives to Pages 2.6 and 2.7, using an exponential model rather than the linear model previously discussed.

Page 2.10 showed indicated loss ratio trend factors derived by combining linear severity trend factors with the claim frequency trend factors from Page 6.

Page 2.11 showed indicated loss ratio trend factors derived by combining exponential severity trend factors with the claim frequency trend factors from Page 6.

Page 2.12 showed trended limited loss ratios based on the linear loss ratio trend factors from Page 2.10.

Page 2.13 showed trended limited loss ratios based on the exponential loss ratio trend factors from Page 2.11. The four-year average trended loss ratio, based on a six-point exponential model applied to limited loss ratios consistent with the average of paid-loss and case-incurred loss development approaches, was highlighted with a border on this page, indicating that this was the basis for the discussion proposal's rate level change indication.

Pages 2.14 through 2.25 provided analysis of medical loss in the same fashion and organization as described previously for indemnity loss (Pages 2.2 through 2.13).

It was noted that previous Bureau filings had included instances in which cumulative medical-incurred loss development factors had exceeded cumulative paid loss development factors at several common maturities. The problematic nature of this result (having both larger loss development factors and a higher statistical base for incurred losses than paid losses) was discussed.

Staff recalled work done in response to this issue for the December 1, 2007 filing, wherein medical case-incurred loss development experience for Calendar Years 2003 and 2004 had been omitted from the filing analysis. This approach had used medical case-incurred loss development experience from Calendar Years 2001, 2002, 2005 and 2006 as the basis for estimating medical case incurred loss development.

Loss development data for Calendar Year 2007, available for the first time in support of this filing, was reviewed with particular emphasis on medical case-incurred loss development. Staff observed that the 2007 experience was much more comparable to the years used in the December 1, 2007 filing than it was to the years omitted from that filing. Accordingly, attendees were advised that medical case-incurred loss development for this filing had continued the approach used in the previous filing, using experience from Calendar Years 2002, 2005, 2006 and 2007, thus again omitting Calendar Years 2003 and 2004 from the filing analysis. It was noted that for the December 1, 2009 filing, four years of medical case-incurred loss development data subsequent to Calendar Year 2004 would be available, and the 2003 and 2004 data would not be expected to be considered simply by virtue of the availability of four years of more recent data.

Medical loss development factors had been subject to the same complement of smoothing techniques as had been used for indemnity loss, for much the same reasons. The curve forms used to accomplish smoothing of four-year average medical loss development factors were as follow:

Medical Incurred Development Factors:

$y = a + b/x + c * \exp(-x)$

In the above expression, “y” represents the variable to be estimated, and “x” is an index of the maturity for the observed and/or projected stages of policy year development for which the variable values were observed. The terms “a,” “b,” and “c” are constants derived using the curve-fitting procedures and are established to obtain the best possible fit of the selected curve to the observed actual data.

Better results were obtained by subtracting unity (1.000) from the observed indemnity paid loss development factors before using the above curve form. The estimated or smoothed “y” values were then added to unity to derive smoothed indemnity paid loss development factors.

Medical Paid Development Factors:

$y = a + b/x + c/(x^2) + d/(x^3) + e/(x^4)$

In the above expression, “y” represents the variable to be estimated, and “x” is an index of the maturity for the observed and/or projected stages of policy year development for which the variable values were observed. The terms “a,” “b,” “c,” “d,” and “e” are constants derived using the curve-fitting procedures and are established to obtain the best possible fit of the selected curve to the observed actual data.

Better results were obtained by subtracting unity (1.000) from the observed indemnity paid loss development factors before using the above curve form. The estimated or smoothed “y” values were then added to unity to derive smoothed indemnity paid loss development factors.

Medical Paid-to-Incurred Development Factors:

The most recent actual four-year average paid-to-incurred age-to-age factor was selected for this transition. In this year's analysis, as had been the case for several previous filings, loss development approaches converting to a case-incurred basis at varying points in development were not used.

On Page 2.25, the four-year average trended loss ratio, based on a six-point exponential model applied to limited loss ratios consistent with the average of paid-loss and case-incurred loss development approaches, was highlighted with a border on this page, indicating that this was the basis for the discussion proposal's rate level change indication.

Page 2.26 showed indicated annual limited severity trends, based on both linear and exponential models, applied to each of the three loss development methods previously discussed.

Page 2.27 showed indicated annual limited loss ratio trends based on both linear and exponential models in the same format as used on Page 2.26 for limited severity trends.

Exhibit 2a provided graphical comparisons of the results of the limited loss development approaches used in the preparation of the filing separately for indemnity and medical losses.

***Comment*: An attendee observed that Policy Year 2000 had been a notably adverse year in terms of loss experience.**

***Answer*: Staff agreed and recalled that the review and adjudication of past Bureau filings had taken particular note of Policy Year 2000 as being an outlier when compared to previous and subsequent years. Implications of the 2000 Policy Year in the selection of trend periods for recent filings and the current proposal were described.**

***Question*: An inquiry was made as to whether Policy Year 2000 had always appeared to be a relatively high-cost year.**

***Answer*: Staff recalled that Policy Year 2000 had presented relatively high costs in previous evaluations applicable to several previous filings.**

***Comment*: The observation was made that the potential occurrence of individual policy years that would differ markedly from most other observations was a point in favor of using a longer trend period and trending separately from multiple starting points in order to temper the effects of individual unusual experience years.**

***Answer*: Staff reminded attendees that for the December 1, 2007 filing the trend period had been selected at five years in order to avoid including Policy Year 2000.**

***Question*: Staff was asked what had happened during Policy Year 2000 to cause the relatively high losses.**

***Answer*: Staff noted that Policy Year 2000 had seen some individually large losses and further observed that Policy Year 2000 was a relatively high-cost year, even when analyzed on a limited basis. Given the limited volume of experience developed each year in Delaware, experience was subject to substantial fluctuations from year-to-year.**

***Question**: A question was asked concerning whether the increase in losses seen in Policy Year 2000 was attributable to frequency or severity.*

***Answer**: Staff responded that the changes impacting Policy Year 2000 were related to severity changes and that the Policy Year 2000 increases had occurred despite continuing declines in claim frequency for the year compared to prior periods.*

Exhibit 2b provided additional graphs demonstrating the effect of the medical case reserve adjustments applied in preparing this filing. Page 1 of this exhibit showed ultimate on-level medical loss ratios derived using incurred loss development and paid loss development methods and the average of those approaches all based on Calendar Years 2004 through 2007. In addition, Page 1 showed the average of the incurred loss development and paid loss development approaches based on Calendar Years 2002, 2005, 2006 and 2007. Page 2 of this exhibit showed ultimate on-level medical loss ratios derived using incurred loss development and paid loss development methods and the average of those approaches, all based on Calendar Years 2002, 2005, 2006 and 2007. In addition, Page 2 showed the average of the incurred loss development and paid loss development approaches based on Calendar Years 2004 - 2007.

Staff reviewed pertinent portions of Exhibit 7 with the participants. Based on available unit statistical data, Exhibit 7 showed claim closure rates, claim frequencies per million dollars of payroll, and ratios of paid losses to case-incurred loss and to estimates of ultimate-incurred loss. Payout ratios were shown on both limited and unlimited bases.

Staff noted that the financial data valuations at 12-months maturity were not used in producing ultimate estimates for proposed filings in Delaware.

Average claim cost statistics were shown for open indemnity claims, closed indemnity claims and all indemnity claims. These pages exhibited considerable volatility, due in substantial part to the limited amount of experience data available in Delaware.

Staff advised participants that, based on the collective information presented in the exhibits described above, the Bureau had selected ultimate loss estimates based on the average of a case-incurred loss development method and a paid-loss development method applied over as long a development period as possible, converting to a case-incurred approach for the remaining development to ultimate.

***Question**: Staff was asked whether the filing's results were affected by the complement of companies for which data was included in the analysis.*

***Answer**: Staff advised attendees that, with respect to unit statistical data, almost all reports for policies falling within the experience period regardless of the underwriting company, were available and were used in the supporting materials for each Bureau filing. Staff acknowledged that for aggregate financial data, some companies and/or portions of carrier data were excluded from filing experience from time- to-time for late reporting and/or data quality reasons.*

***Question**: A question was raised concerning the severity trend indications used in the filing.*

***Answer**: Staff made reference to Exhibit 5 which showed annual severity trends of +0.4 percent for indemnity and +5.5 percent for medical.*

Trend

Exhibits 2 (Limited Loss), 3 (Limited Loss), 5, 6 (Limited Loss) and 23

Staff referred to the cited exhibits as they pertained to the trend provisions included in the proposed filing. Key observations made are summarized below.

Portions of Exhibit 2 pertinent to trend analysis and presented in the discussion of loss development were noted.

Exhibit 3 showed various measures of the goodness-of-fit, obtained by applying linear and exponential trend models to varying numbers of policy year, limited severity ratio points from the loss development approaches considered in preparing the proposed filing. R-squared statistics were derived for each such trend model application (Page 3.1). Successive pages developed fitted values for linear and exponential models (Pages 3.2 through 3.5), followed by "residuals" (the result of subtracting fitted values from the actual observed values for policy year severity ratios) on Pages 3.6 through 3.9.

Exhibit 6 applied the tested trend methods to project policy year limited severity ratios for which subsequent estimates were available based on the Bureau's loss development analyses. This exercise tested the comparative ability of such methods to predict subsequent severity ratios.

Page 6.1 showed indemnity severity ratios by policy year for each loss development approach.

Page 6.2 showed trended limited indemnity severity ratios using various numbers of policy years applying a linear trend model.

Page 6.3 showed differences between linear-trended and actual policy year limited indemnity severity ratios.

Page 6.4 showed trended limited-indemnity severity ratios using various numbers of policy years applying an exponential trend model.

Page 6.5 showed differences between exponential-trended and actual policy year limited-indemnity severity ratios.

Pages 6.6 through 6.10 presented results for limited medical severity ratios in the same sequence and format as had been discussed for indemnity losses above.

After consideration of the collective information discussed above, staff had selected an annual severity ratio trend of approximately +0.4 percent for use in projecting for indemnity loss ratios and had selected an annual severity ratio trend of approximately +5.5 percent for use in projecting medical loss ratios. Each of these trends was based on results of applying a six-point exponential trend model to severity ratios taken from the average of the paid-loss and case-incurred loss development approaches.

Claim frequency data based on unit statistical plan reports was presented in Exhibit 23. Staff described the exposure base used in this analysis as being on-level expected losses and noted that this measure included wage level changes, exposure growth and shifts in employment between different kinds of businesses. Consistent with the severity trend approach described above, the Bureau had derived a historical indemnity claim frequency trend by application of an exponential trend model through observed indemnity claim frequencies over the six most recent available policy years, resulting in an annual

frequency trend of –7.8 percent. The Bureau had then applied the indicated severity and claim frequency trend rates in combination to indemnity and medical loss ratios for each of the most recent four policy years and had selected the average of the resulting trended loss ratios for purposes of the proposed filing.

A handout was distributed updating Exhibit 5 from the version previously sent to attendees. This exhibit presented a time series of limited loss ratio points indexed to Policy Year 1994 based on the selected trends and models described. Fitted points and projected future results were superimposed on Exhibit 5 as dashed lines through and extending beyond the policy year loss ratios from which they had been derived.

Question: ***An attendee asked whether and, if so, how wage trend was included in the presentation of Exhibit 5.***

Answer: ***The Bureau's claim frequency trend (-7.8 percent) included wage trend in the denominator of claim frequency calculations. It was noted that a comparable value excluding wage trend was -4.2 percent.***

Question: ***Staff was asked what the effect of Senate Bill 1 was on the parameters of this exhibit.***

Answer: ***Staff responded that, of necessity, Exhibit 5 had been prepared entirely from data excluding any effects of Senate Bill 1. A previous filing, specifically addressing portions of Senate Bill 1, remained pending before the Department of Insurance and proposed an overall average reduction in residual market rates and voluntary market loss costs of -11.57 percent (based on an estimated savings of 17.4 percent for medical benefits). The filing presented at this meeting would apply after and cumulatively with that previous filing.***

Comment: ***It was noted that the trend indications used in the present filing were experience-based and had not been adjusted for possible future system changes or the ongoing administration of new system features under Senate Bill 1.***

Answer: ***Staff affirmed the observation given.***

Question: ***An inquiry was made as to whether the meeting would include a discussion of the implementation of these two separate filings.***

Answer: ***Staff indicated that such a discussion could be held at the conclusion of the meeting.***

Unlimited Loss Exhibits Presented for Purposes of Comparison

Exhibits 1 (Unlimited Loss), 2 (Unlimited Loss), 2a (Unlimited Loss), 2b (Unlimited Loss), 3 (Unlimited Loss) and 6 (Unlimited Loss)

Staff noted that Table I and selected exhibits pertaining to loss development and trend on an unlimited basis, as well as on a limited basis, had been provided to the Committees. Staff's unlimited loss analysis incorporated the step of omitting Calendar Years 2003 and 2004 from medical case-incurred loss development, but, other than that modification, this methodology remained consistent with the supporting information from filings prior to December 1, 2004 and, thus, provided some perspective regarding the effects of the application of analysis on a limited basis for the current proposal.

Expenses and Benefit On-Level Factor

Exhibits 8, 9, 10 and 11

Staff reviewed these exhibits to summarize the measurement and estimation of expense provisions incorporated into the proposed filing.

Exhibit 8 showed historical experience used to measure the following expense components:

- Commission and Brokerage
- Other Acquisition
- General Expense
- Loss Adjustment Expense
- Premium Discount
- Uncollectible Premium

The first four items noted above were reviewed over the three Calendar Years, 2004, 2005 and 2006. The three-year average ratio of commission and brokerage expense to standard earned premium at Bureau rate level, including large deductible business on a net basis and excluding expense constant income, was used for that expense component of the proposed filing. Other acquisition and general expenses were determined based on the three-year average ratio of those respective expenses to standard earned premium at Bureau rate level, including large deductible business on a gross basis and excluding expense constant income. The relationship between loss-adjustment expense and loss was derived based on the three-year average ratio of loss-adjustment expense to incurred losses, including large deductible on a gross basis. The premium discount provision in the proposed filing was based on size-of-risk distribution for Schedule Y carriers in Manual Year 2005, the most recent available year from unit statistical data.

Exhibit 8 also showed the allocation of the provisions for residual market expense constant income attributed to various expense components. The residual market expense constant proposal of $270 was noted as being the same as the currently-approved value of $270 due to recent amelioration in wage level changes observed in Delaware.

Exhibit 10 derived a provision in the proposed rates and loss costs to offset the impact of expected adjustment in benefit minimums and maximums effective July 1, 2009. As comparable prior effects of revisions in benefit schedules had been removed from the policy year loss ratios derived in loss development analysis and used to select trend provisions for the proposed filing, a separate explicit provision for the prospective change was needed.

Exhibit 9 provided detail of the application of an internal rate-of-return analysis to the proposed filing. Expense provisions for commission and brokerage, other acquisition, general expense, premium and other taxes, premium-based assessments and premium discount were based on Bureau analysis as described above, budgetary provisions or the most recent available assessment levels. Premium collection and loss-payout patterns were also provided from Bureau analysis.

The Bureau inputs were combined with an economic consultant's analysis of the following inputs and parameters to construct a cash flow model appropriate for the business of underwriting workers compensation business in Delaware:

- Pre-Tax Return on Assets
- Investment Income Tax Rate
- Post-Tax Return on Assets
- Reserve-to-Surplus Ratio
- Cost of Capital

The internal rate-of-return model thus constructed was provided in detail within Exhibit 9. Key outputs derived from Exhibit 9 for use in the proposed filing were:

- Permissible loss ratio, including loss-adjustment expense and loss-based assessments – 75.11 percent
- Profit and contingencies **–** minus 2.55 percent

Staff noted that the profit and contingencies provision proposed in the filing was less negative than the provision in currently-approved rates (minus 3.76 percent), in principal part because of reductions in available investment yields since the analysis done in support of the December 1, 2007 filing.

Exhibit 11 provided side-by-side comparison of the expense structure underlying current approved residual market rates and proposed rates. Staff observed that overall expense costs reported by its members were somewhat higher than those incorporated in the last Delaware filing (27.73 percent, as compared to 26.24 percent last year) and that the most notable differences were the provisions for profit and contingency (-2.55 percent compared to -3.76 percent for the December 1, 2007 filing), uncollectible premium (up to 2.00 percent from a level of 1.25 percent in current rates), Commission (down from 7.39 percent last year to 6.82 percent), Premium Discount (down from 8.89 percent last year to 8.33 percent) and the Administrative Assessment (2.51 percent for current rates, up to 2.84 percent).

***Question**: An attendee asked how the profit provision used in the filing had been selected.*

***Answer**: Staff described the profit provision as a result of an internal-rate-of-return analysis which derived an appropriate rate-of-return for the enterprise of underwriting workers compensation insurance. The analysis then applied estimated amounts and timing of premium collections, surplus funds required for writing of the business, investment returns, and loss and expense payments to determine the amount of premium required to be retained by insurers in order to realize the target rate-of-return. In the case of this filing, the target rate-of-return had been determined to be 10.2 percent, and the associated profit and contingency provision was -2.55 percent, a result in which 102.55 percent of premium funds would be ultimately expended for losses and expenses, with the return to insurers coming entirely from the investment of premium and surplus funds over time.*

***Question**: Staff was asked who had determined that the target rate-of-return should be 10.2 percent for this filing.*

***Answer**: The Bureau retained an economist to perform the analysis of the target rate-of-return and to design and apply the internal rate-of-return model that produced the profit and contingency provision. This consultant had used a capital asset pricing model and a discounted cash flow forecast approach to estimate the true cost of capital and had based his results on the average of those two indications. It was noted that for the December 1, 2007 filing the comparable target rate of return had been 11.92 percent.*

***Question**: An attendee asked why the target rate-of-return had declined so significantly between these two filings.*

***Answer**: Staff reviewed components of the rates-of-return derived from the economist's methods, noting that the change from the previous filing arose most prominently with respect to the capital asset pricing model wherein the risk free rate-of-return had changed from 4.95 percent to 1.77 percent.*

Delaware Insurance Plan

Exhibit 19

Several features of the Delaware Insurance Plan (DIP), the residual market for workers compensation insurance in Delaware, were reviewed based on materials offered in this exhibit. These included the following:

- Comparative loss ratios in the DIP by policy size over a five-year period
- Comparative loss ratios in the DIP by policy year over a five-year period
- Market share in the DIP
- Effects of the approved surcharge program on risks insured in the DIP
- A residual market subsidy multiplier to be included in retrospective rating plan tax multipliers

***Question**: Staff was asked where the developed losses were obtained.*

***Answer**: Bureau staff had prepared those estimates, which included both pool and direct assignment business for the Delaware Insurance Plan.*

***Question**: An attendee asked what the purpose was of this exhibit.*

***Answer**: The exhibit provided perspective about the operation of the Delaware Insurance Plan and selected metrics which went into the calculation of the offset to voluntary market loss costs in the filing indications.*

***Question**: A question was asked concerning the surcharge program which produced the voluntary market offset.*

***Answer**: The surcharge program was described as a formulaic approach that assigned surcharges to assigned risk accounts that were experience-rated and generated debit experience modifications.*

***Question**: Inquiry was made concerning how the parameters of the surcharge program had been established.*

***Answer**: The surcharge program had been proposed several years before and had been retained since its original approval. Surcharges collected were used to offset voluntary market loss costs, maintaining an overall balance of rating values to expected costs and providing a disincentive for certain risks to be or remain assigned to the Delaware Insurance Plan.*

***Question**: Staff was asked why the residual market share in Delaware had been in recent decline and had come down to 7.5 percent.*

***Answer**: Staff was aware of initiatives, such as the publication of a depopulation list and the posting of a Carrier Pricing Benchmark, toward the objective of controlling assigned risk plan volumes but could not ascribe the recent changes in plan demographics to any specific cause(s).*

Experience Rating

Exhibits 13, 20 and 21

The interpretation of Exhibit 13 was described for the participants in the contexts of determining whether credit or debit ratings were appropriate and the extent to which credibility was and should be assigned to individual risk experience.

Exhibit 20 was discussed as the means of deriving anticipated collectible premium ratios for use in Exhibit 12. It was noted that three-year average collectible premium ratios had been used for this purpose. Exhibit 20 also illustrated the computation of expected loss rate factors to adjust proposed residual market rates back to appropriate expected loss factors for use in the Experience Rating Plan and the determination of selected parameters for Experience Rating Plan credibility.

Staff referred briefly to Exhibit 21, which set forth the credibility table proposed for use in the Experience Rating Plan over the proposed rate period.

***Question**: Staff was asked how the credibility scale for Table B was calculated.*

***Answer**: Staff did not have the details of that calculation at hand but promised to obtain and distribute that information to attendees.*

> ***Note**: Subsequent to the meeting, staff provided the following information to meeting attendees:*
>
> ***Credibility values are shown in Table B in increments of 0.005 starting at 0.050 and continuing to 1.000. Expected loss ranges are calculated as a function each credibility value. The formula for the left endpoint for Expected Losses (L_i) for any credibility (C_i), is as follows:***
>
> ***If $L_i \leq Q$, then $L_i = [k * (Ci-0.0025)]/(1 - C_i + 0.0025)$***
>
> ***If $L_i > Q$, then $L_i = S-\{[(1-C_i + 0.0025)*4*(S+k)^3]/(27*k)\}^.5$***
>
> ***Where S = Self-rating point, k = constant value and Q = (S-2k)/3. Q= 2,280,795.***
>
> ***The S and k values applicable to this filing are found in Exhibit 20.***

Delaware Construction Classification Premium Adjustment Program

Exhibit 14

The history and purpose of this rating program were briefly described using Exhibit 14. Staff reviewed the analytical exhibits reflecting the extent to which employers in the respective eligible classifications had participated in the program and the magnitude of premium credits granted to such employers. Proposed adjustments in offsets for DCCPAP credits by classification were noted.

The table of qualifying wages for recent wage inflation was reviewed for the participants. Staff noted that the table of qualifying wages proposed to be effective for the DCCPAP June 1, 2009 was unchanged from the June 1, 2008 table, because the declining degree of wage increases recently observed in Delaware indicated nominal and, to some extent, counterintuitive changes in the existing table.

Workplace Safety Program and Merit Rating

Exhibit 29

The background of the Workplace Safety Program was reviewed, noting 1999 changes expanding the eligibility for the program, instituting an overall offset to manual rating values to fund operation of the program and implementation of a Merit Rating Program for small employers.

Page 29.1 showed recent historical experience for participation in the Workplace Safety Program and derived an indicated offset to manual rates based thereon. Page 29.2 showed anticipated distributions of merit-rated risks between credits, no adjustments and debits and combined the indicated offset for net merit rating credits with that for the Workplace Safety Program. The combined indication was for a 2.89 percent adjustment to manual rating values.

***Question**: Staff was asked whether the Bureau had looked at the effectiveness of the Workplace Safety Program.*

***Answer**: Staff answered in the affirmative, noting that an analysis of that program was posted on the Bureau's website.*

***Question**: The attendee asked whether the results available showed that the program was working.*

***Answer:** Staff did not have immediate recollection or access to the study results but noted that year-to-year results were subject to significant variation. As the analysis was done on an unlimited basis, the occurrence of a few large losses could materially impact the results.*

Rating Values Based on Size-of-Loss Analyses

Exhibits 16, 17A, 17B, 17C, 17D, 18 and 32

Staff noted that changes being undertaken by the National Council on Compensation Insurance, Inc. (NCCI) were under review with the purpose of determining changes that might be appropriate for Delaware filings. This filing was continuing previous procedures, but development work to establish and evaluate various alternatives was also in progress.

These exhibits dealt with the following subjects:

- Small Deductible Loss Elimination Ratios and Premium Credits (Exhibit 16)
- Excess Loss Pure Premium Factors (Exhibit 17A)
- Excess Loss Pure Premium Factors Including Allocated Loss Adjustment Expense (Exhibit 17B)
- Excess Loss Premium Factors (Exhibit 17C)
- Excess Loss Premium Factors Including Allocated Loss Adjustment Expense (Exhibit 17D)
- State and Hazard Group Relativities (Exhibit 18)
- NCCI Item Filing R-1396 – 2007 Update to Retrospective Rating Plan Parameters (Exhibit 32)

Staff outlined the processes and procedures applied in the derivation of the indicated factors, including reference to procedures and parameters provided for the Bureau's use by the NCCI. Within these exhibits, a general outline of approach was provided, and then key differences in the analysis between these exhibits were pointed out to participants. The implications of NCCI's item filing concerning expected loss size ranges were described to attendees.

<u>Question</u>: Staff was asked how the Bureau would determine hazard group assignments in Delaware in light of NCCI's recent expansion in its set of hazard group definitions.

<u>Answer</u>: Recognizing that Delaware and Pennsylvania shared common classification plans, staff explained that Pennsylvania hazard groups were expected to be revised effective April 1, 2009, with Delaware hazard groups being revised consistent with those changes effective December 1, 2009. The Delaware hazard group assignments will be the same as those for Pennsylvania.

<u>Question</u>: An attendee noted that NCCI was releasing a new retrospective rating manual and asked what the Bureau was doing in response to that publication.

<u>Answer:</u> Staff indicated that the Bureau had ceased publication of most retrospective rating plan parameters when Delaware became a competitive rating state in 1994.

<u>Comment</u>: It was observed that most NCCI jurisdictions were also loss cost states but still retained retrospective rating plan manuals.

<u>Answer</u>. When Pennsylvania made the transition to los costs in 1993, retrospective rating plan language was removed from the Manual on advice of the regulator, and the Delaware Bureau had followed suit in 1994. Staff invited examples or discussion of collateral that the industry might find helpful and agreed to follow up with NCCI representatives on this subject.

<u>Retrospective Rating</u>

<u>Exhibits 24 and 25</u>

Exhibit 24 was described as providing indicated loss development factors proposed to be available for use on an optional basis. Specified factors were shown for no loss limitation and applicable to the expected loss portion of premium. In addition, a general procedure to derive loss development factors appropriate for use with various loss limitations was included in Exhibit 24.

Exhibit 25 presented the derivation of a retrospective rating plan tax multiplier, including the use of the Delaware Insurance Plan subsidy previously noted and shown on Exhibit 19.

<u>Classification Relativities</u>

<u>Exhibits 15, 22a, 22b, 22c, 27, 28, Class Book, 30, 31a and 31b</u>

Exhibit 15 described the formulae and procedures used for analysis of classification experience in the proposed filing. Staff commented on a secondary capping procedure intended to avoid large fluctuations about the average changes in rating values from year-to-year. This procedure, while applied in the proposed filing, did not result in the capping of any additional classifications.

Exhibits 22a, 22b and 22c each provided unit statistical data by manual year and industry group over the most recent available five years. These tabulations were used in the derivation of certain factors applicable to determining classification-specific rating values. Exhibit 22a showed losses including loss-

adjustment expenses trended and developed to an ultimate basis, Exhibit 22b showed losses including loss-adjustment expenses developed to an ultimate basis but not trended, and Exhibit 22c showed reported losses without loss-adjustment expenses.

Exhibit 28 provided parameters derived for and applied in the execution of the prescribed procedures for derivation of classification rating values. The Class Book presented detailed five-year histories of experience by classification and showed calculation of indicated rating values based on Delaware experience alone. Staff noted that a separate procedure applied to those Delaware classifications where available experience warranted less than five percent credibility for non-serious losses and that the application of those special procedures was not reflected in the Class Book pages.

Four of the referenced exhibits were noted as providing various summaries of the results of the Bureau's derivation of proposed classification rating values. Exhibit 27 showed proposed residual market rates, voluntary market loss costs and expected loss rates by classification number. Exhibit 30 was a histogram showing the incidence of indicated and proposed changes in residual market rates by percentage range. Exhibits 31a and 31b showed current, indicated and proposed residual market rates before DCCPAP and applicable surcharges for the Workplace Safety Program and Merit Rating Plan. These exhibits also showed percentage changes in proposed rates before the DCCPAP, Workplace Safety Program and Merit Rating Plan surcharges and final proposed residual market rates (including surcharges). Exhibit 31a was shown sorted by classification code number. Exhibit 31b was shown sorted in ascending sequence by proposed percentage change.

***Question*: An attendee asked whether the effect of Senate Bill 1 was the same for every classification.**

***Answer*: Staff indicated that this was the case, subject to differences of rounding or isolated special pricing procedures.**

***Comment*: An attendee stated that the rating values proposed with this filing would change if the pending filing in response to Senate Bill 1 was not approved as filed.**

***Answer*: Staff agreed with the observation made.**

***Question*: The Bureau's practice of making classification filings effective six months after the general experience revision to rating values was noted, and staff was asked why this practice was followed.**

***Answer*: Staff described previous filings in which classification issues overshadowed rating value revisions and had delayed adjudication of some proposals. That experience had inspired the separate approach that had been used for several years.**

***Comment*: Since all carriers must make filings and await approvals each time a Bureau filing is approved, the separation of rating value changes and classification revisions created more instances of filing and approvals for the industry than would a single consolidated filing every year. In that regard, one attendee described Delaware as one of the most difficult of all states for carriers. It may take months for interim filings to be approved, and the attendee foresaw significant problems arising with respect to carrier filings in response to the Bureau's Senate Bill 1 filing.**

***Answer*: Staff indicated that it would seek a dialogue with the regulator about these issues and review the Bureau's own procedures toward possible improvement in these circumstances.**

ITEM (2) REVIEW OF PROPOSED DECEMBER 1, 2008 F CLASSIFICATION FILING

Overall Indicated Changes in Collectible and Manual Rating Values for F Classifications

Exhibit 1 was reviewed, with the following points highlighted:

- The estimate of a policy year loss ratio trended to the mid-point of the prospective rating period (Line 1)
- A credibility-weighting procedure recognizing the limited amount of available historical experience in Delaware and applying the complement of Delaware experience credibility to the permissible loss ratio underlying current rates (Lines 2, 3 and 4)
- Adjustment of the credibility-weighted trended loss ratio for loss adjustment expenses (Lines 5 and 6)
- Comparison of the trended policy year loss and loss adjustment ratio to a permissible loss and loss adjustment ratio based on econometric analysis (Lines 7 and 8)
- Adjustment for estimated effects of the October 1, 2009 benefit change (Lines (9) and (10))

In concert, the above steps produced the indicated change in F-Classification residual market rates. The proposed change in F-Classification voluntary market loss costs was derived from the indicated change in residual market rates by adjusting the latter indication for the effects of changes in the permissible loss ratio, including loss adjustment expense and loss-based assessments (Line 11).

Staff pointed out the proposed overall changes in F-Classification residual market rates (+16.49 percent) and F-Classification voluntary market loss costs (+19.09 percent) derived from the Bureau's analysis of the most recent available Delaware data.

Staff noted the proposed filing's accounting for effects of the Experience Rating Plan in the determination of proposed changes in manual rating values, as presented on Exhibit 1. This analysis started with the collectible premium ratios underlying presently-approved rating values (Line 12). The Bureau had then measured the collectible premium ratios that the Experience Rating Plan was expected to produce during the proposed rating period (Line 13). Using the relationships between these current and estimated future collectible premium ratios, staff had derived indicated changes in manual F-Classification residual market rates (Line 14). Indicated changes in manual F-Classification voluntary market loss costs (Line 15) had been similarly derived by accounting for the impact of changes in anticipated collectible premium ratios.

Analysis of Loss Experience

Staff described the content of Exhibit 5. Highlights from that description are set forth below.

Due to limitations and questions pertaining to the reporting of Financial Call data for F-Classification business, the Bureau's F-Classification filings had historically been prepared using unit statistical data. This filing continued that past practice.

Loss development data available for this filing was limited in the following ways:

- Only case-incurred loss development was possible, as unit statistical reporting did not capture paid-loss amounts over the entire historical period in question.
- Data reported extended from first through tenth reports, the maximum reporting period required under the approved Statistical Plan.
- Several older policy years technically eligible for later reporting periods had reported zero losses and thus showed no loss development experience for use in this filing.

Delaware loss development experience had been used as the basis for this filing.

Staff had considered various trend models applied separately to the estimated indemnity and medical F-Classification loss ratios. Given the volatility of estimated loss ratios year-to-year and the effects of limited data on the exponential trend models in particular, five-year average loss ratios (with no annual trend up or down) had been selected to estimate indemnity and medical trended loss ratios.

Expense Provisions

Expense data was not available to the Bureau separately for F-Classification and other business. Accordingly, the expense study supporting this filing was identical in many respects to that previously discussed by the Committees with regard to the December 1, 2008 Residual Market Rate and Voluntary Market Loss Cost Filing. Minutes of that discussion of this study are replicated here for ease of reference, with appropriate modification for the F-Classification business used to review premium discount provisions for the F-Classification filing.

Exhibit 3 showed historical experience used to measure the following expense components:

- Commission and Brokerage
- Other Acquisition
- General Expense
- Loss Adjustment Expense
- Premium Discount

The first four items noted above were reviewed over the three Calendar Years, 2004, 2005 and 2006. The three-year average ratio of commission and brokerage expense to standard earned premium at Bureau rate level, including large deductible business on a net basis and excluding expense constant income, was used for that expense component of the proposed filing. Other acquisition and general expenses were determined based on the three-year average ratio of those respective expenses to standard earned premium at Bureau rate level, including large deductible business on a gross basis and excluding expense constant income. The relationship between loss-adjustment expense and loss was derived based on the three-year average ratio of loss-adjustment expense to incurred losses, including large deductible on a gross basis. The premium discount provision in the proposed filing was based on size-of-risk distribution for F-Classification business written by Schedule Y carriers in Manual Year 2005, the most recent available year from unit statistical data.

Exhibit 3 also showed the derivation of the provisions for residual market expense constant income attributed to various expense components. The residual market expense constant proposal of $270 was based on the currently-approved value of $260 and recognition of the effects of wage inflation since approval of the current value.

Exhibit 4 provided detail of the application of an internal rate-of-return analysis to the proposed filing. Expense provisions for commission and brokerage, other acquisition, general expense, premium and other taxes, premium-based assessments and premium discount were based on Bureau analysis as described above, budgetary provisions, or the most recent available assessment levels. Premium collection and loss-payout patterns were also provided from Bureau analysis.

The Bureau inputs were combined with an economic consultant's analysis of the following inputs and parameters to construct a cash flow model appropriate for the business of underwriting F-Classification workers compensation business in Delaware:

- Pre-Tax Return on Assets
- Investment Income Tax Rate
- Post-Tax Return on Assets
- Reserve-to-Surplus Ratio
- Cost of Capital

The internal rate-of-return model thus constructed was provided in detail within Exhibit 4. Key outputs derived there from for use in the proposed filing were:

- Permissible loss ratio, including loss-adjustment expense and loss-based assessments – 73.73
- Profit and contingencies – 0.83 percent

Staff noted the change in profit and contingencies provision proposed in the filing from the provision in currently-approved rates (-0.14 percent) and attributed that change in substantial part to declines in investment yields since the previous filing analysis. Attendees were reminded that, since F-Classification rating values were changed only bi-annually, filing-to-filing changes could be more marked than might be expected with annual revisions.

Exhibit 2 provided side-by-side comparison of the expense structures underlying currently-approved F-Classification residual market rates and proposed F-Classification residual market rates. Staff observed that overall expense costs reported by its members were slightly lower than those incorporated in the last Delaware F-Classification filing (38.70 percent, as compared to 39.43 percent in the previous filing). The most significant changes in expense components involved the areas of premium discount (11.05 percent in the previous filing and 8.33 percent in this filing due to an intervening change in applicable discount tables), profit and contingency as noted above, Federal Assessment (12.43 percent in this filing compared to 11.55 percent in the 2006 F-Classification filing), commission (6.82 percent in this filing and 7.49 percent for the 2006 filing).

Effect of October 1, 2009 Benefit Change

Staff reviewed Exhibit 14, which derived a provision in the proposed rates and loss costs to offset the impact of expected adjustment in benefit minimums and maximums effective October 1, 2009.
As comparable prior effects of revisions in benefit schedules had been removed from the policy year loss ratios derived in loss development analysis and used to select trend provisions for the proposed filing, a separate explicit provision for the prospective change was needed.

U. S. Longshore & Harbor Workers (USL&HW) Coverage Factor

Referring to Exhibit 6, staff noted that the USL&HW Factor is based on a comparison of benefit levels between State Act coverage and the USL&HW Act. This comparison was performed by type-of-claim and type-of-benefit to measure the respective potential obligations arising from injuries occurring under the jurisdiction of federal, as compared to state, law. Such a comparison then serves as the basis for the factor to adjust premiums in state classifications for the contingency of exposure to federal benefits. This filing indicated an increase in the USL&HW coverage percentage from 47.1 percent to 58.0 percent. Effects of Senate Bill 1, reducing medical benefit costs for State Act coverages, was mentioned as a cause for this observed change in the USL&HW coverage factor.

F-Classification Expected Loss Rate Factors

Exhibit 11

Exhibit 11 illustrated the computation of expected loss rate factors to adjust proposed F-Classification residual market rates back to appropriate expected loss factors for use in the Experience Rating Plan.

F-Classification Tax Multiplier

For policies underwritten on a retrospective (loss-sensitive) basis for F-Classification business, a tax multiplier is required. Exhibit 8 presented the derivation of the proposed tax multiplier for this filing, 1.2417.

F-Classification Residual Market Rates and Voluntary Market Loss Costs

While recognizing the limited experience data by classification available for purposes of this filing, an analysis of relative classification experience had been undertaken in support of these proposals. The rate formulae applied in that review were set forth in Exhibit 10.

Exhibit 7 provided unit statistical data by manual year, with exposures and losses trended and developed to an ultimate basis.

Individual F-Classification experience and the promulgation of indicated F-Classification residual market rates were presented in Exhibit 15 (which included the F-Classification Class Book), Exhibit 9 and Exhibit 12.

GENERAL DISCUSSION AT THE END OF THE MEETING

***Comment*: An attendee had been advised that NCCI will be presenting its retrospective rating plan manual rules to independent bureaus and noted that NCCI was seeking comment on the format and content of these Manuals at the present time.**

***Question*: Staff was asked about the status of the filed terrorism endorsements in Delaware.**

***Answer*: Staff indicated that the terrorism filing remained pending with the Department of Insurance and confirmed that the Bureau would inquire about that matter in the near future.**

Discussion of the Senate Bill 1 Filing

***Question:* Staff was asked whether the Bureau had provided any information on the calculation of the effects of the Senate Bill 1 filing to the industry.**

***Answer*: The response indicated that the filing in question was now available on the Bureau's website.**

***Question*: Staff was asked if carriers would be required to make filings in response to the Bureau's Senate Bill 1 filing.**

***Answer*: Staff answered in the affirmative, noting that anytime the Bureau gets a filing approved, carriers were required to make subsequent filings even if the carrier wished to adopt Bureau changes in conjunction with existing carrier rating values. Both prevailing practice and specific provisions of Senate Bill 1 will require that, after the Bureau's Senate Bill 1 filing is approved, carriers will have to make independent filings to adopt the approved changes.**

***Question*: Staff was asked its impression about the implementation of the treatment guidelines being implemented in time.**

***Answer*: The Bureau believed that the implementation was on course and would be substantially complete by the effective date of the Bureau's Senate bill filing on October 1, 2008.**

<u>Question</u>: Staff was asked if it was possible for the Department of Insurance to act on the Bureau's filing before any issues with regard to implementation of the Senate Bill 1 changes might become apparent.

<u>Answer:</u> Staff conceded that possibility but noted that the Bureau had reserved the right to withdraw its filing regardless of its approval status if such events were to take place.

There being no further business for the Committee to conduct, the meeting was adjourned.

Respectfully submitted,

Timothy L. Wisecarver
Chair - Ex Officio

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