Delaware Compensation Rating Bureau, Inc.

United Plaza Building • Suite 1500
30 South 17th Street
Philadelphia, PA 19103-4007
(302) 654-1435 (215) 568-2371
FAX (215) 564-4328
www.dcrb.com

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. (DCRB) was held in the Hagley Room of the DoubleTree Hotel Wilmington Delaware, 700 King Street, Wilmington, Delaware on Monday, August 8, 2011 at 10 a.m.

The following members were present:

Actuarial Committee

Ms. M. Gaillard	American Home Assurance Company
Mr. A. Kerin*	Amguard Insurance Company
Not Represented	Harleysville Mutual Insurance Company
Ms. E. Bellott	Liberty Mutual Insurance Company
Mr. S. Curlee	PMA Insurance Company
Mr. J. Schmidt	Travelers Property & Casualty Company

Classification and Rating Committee

Mr. I. Feuerlicht	American Home Assurance Company
Not Represented	Associated Builders & Contractors of Delaware
Nor Represented	Crum & Forster Insurance Company
Mr. K. Van Elswyk	Insurance Company of North America
Ms. S. Knight	Liberty Mutual Insurance Company
Mr. R. Prybutok*	National Federation of Independent Business
Mr. R. Edmunds	PMA Insurance Company
Mr. J. Gice	Travelers Property & Casualty Company
Mr. T. Wisecarver	Chair - Ex Officio

Also present were:

Mr. G. Reed*	Delaware Insurance Department
Hon. K. Stewart*	Delaware Insurance Department
Mr. J. Kirk*	Delaware Department of Labor
Mr. J. Rhoades*	Delaware Health Care Advisory Panel
Ms. C. Pantaloni*	Delaware Association of Insurance Agents and Brokers
Mr. S. Cooley	Duane Morris LLP
Mr. A. Schwartz	AIS Risk Consultants
Mr. R. Gardner	INS Consultants, Inc.
Ms. F. Barton	DCRB Staff
Ms. D. Belfus	DCRB Staff
Mr. B. Decker	DCRB Staff
Mr. M. Doyle	DCRB Staff
Mr. P. Yoon	DCRB Staff

* Present for part of meeting

Attendees were reminded of antitrust considerations applicable to this meeting and private conversations occurring in the course of the meeting. Participants gave brief self-introductions.

Staff provided some background and highlights of the analysis done for the December 1, 2012 Residual Market Rate and Voluntary Market Loss Cost Filing. Points addressed and emphasized included the following:

- The preliminary indicated overall average changes in rating values were for an increase of 43.53 percent in voluntary market loss costs and an increase of 38.27 percent in residual market rates.

- The most significant factor contributing to the preliminary indicated changes in rating values was medical experience (limited medical losses, limited medical trend and medical excess losses), which in combination produced an indicated increase in residual market rates of approximately 27 percent.

- Indemnity loss experience (limited indemnity losses, limited indemnity trend and indemnity excess losses) accounted for an indicated increase in residual market rates of approximately 4 percent.

- Loss adjustment expenses contributed approximately 4 percent to the filing indication for residual market rates.

- Expense needs in the residual market resulted in an increase of approximately 4 percent in residual market rates.

- The anticipated July 1, 2013 benefit change added approximately 1 percent to the overall residual market rate change.

Statutory requirements pertaining to the DCRB's rating value filings, processes and procedures applicable to the preparation of such proposals and the DCRB's objectives in performing those functions were described to attendees.

The Committee discussion then moved to a review of staff work supporting the December 1, 2012 Residual Market Rate and Voluntary Market Loss Cost Filing. The discussion focused on a series of analytical steps supporting the derivation of the indicated overall changes in rating values. Each analytical step was supported by cited exhibits provided in the agenda materials for the filing. Key concepts derived from that supporting analysis were presented in the form of Discussion Exhibits provided in hard copy at the meeting and projected on a screen display to facilitate review of those points.

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, 2012 RESIDUAL MARKET RATE AND VOLUNTARY MARKET LOSS COST FILING

LOSS DEVELOPMENT

The topic of loss development was described as being presented in the work contained in the following meeting Exhibits:

Exhibit 1: Table I – Summary of Financial Call Data
Exhibit 1a: Excess Loss Factor and Policy Year Loss Limitations
Exhibit 1b: Reported Losses in Excess of Loss Limitations

Exhibit 2: Paid and Incurred Loss Development and Trend
Exhibit 2a: Graphs of Selected Loss Development Projections

Staff noted that consistent with numerous recent Delaware filings, loss development and trend analysis had been performed on a limited basis in order to mitigate potential effects of individual large claims or clustering of such claims within individual policy years. In recognition of this approach, a separate provision for excess loss was included in the derivation of rate and loss cost change indications.

Attendees were reminded of Senate Bill 1 enacted in 2007 in Delaware, which provided for processes related to the development of a medical fee schedule and treatment guidelines. In a prior filing (Bureau Filing No. 0806) the DCRB had evaluated the effects of the medical fee schedule that had subsequently been implemented in Delaware, and rating values effective on or after October 1, 2008 had reflected that estimated impact. For the December 1, 2012 filing, experience had been adjusted to a pre-Senate Bill 1 basis for purposes of such analyses as loss development and trend, and then a Senate Bill 1 Law Amendment Factor had been applied to the resulting indications to derive a December 1, 2012 indication.

Staff reminded attendees of litigation that had taken place in 2009 concerning the effects of Senate Bill 1 on claims incurred prior to the effective date of the Delaware medical fee schedule and noted that the DCRB's underlying analysis for the December 1, 2012 filing had been performed without recognizing the reductions in rates and loss costs that had ultimately been ordered in that litigation. Consistent with the terms of the Chancery Court decision, the mandated reductions would expire when the December 1, 2012 rating values were approved.

Discussion Exhibit, Page 1 - Reported Incurred Losses Above Selected Loss Limits

This exhibit was offered with the following specific observations:

- With selected loss limits ranging from approximately $925,000 for Policy Year 1997 to almost $2,300,000 for Policy Year 2011, most policy years included at least some losses in excess of the applicable limits.

- The effects of the selected loss limitations were significant for many policy years

- A substantial majority of the impact of selected loss limitations on reported losses occurred with respect to medical losses

Question: Staff was asked how many large claims had been identified for Policy Year 2011.

Answer: While Table I did not include claim counts, staff noted that there were 20 claims with losses in excess of $1 million reported in the five year experience period underlying the derivation of classification rating value relativities.

Comment: An attendee observed that since Policy Year 2011was not yet completed its data had not been used in deriving the December 1, 2012 filing indication, but that its early results seemed relatively unfavorable.

Answer: Staff concurred, and stated that the DCRB was seeing more large losses in its experience data, and that such cases seemed to be identified at earlier stages of maturity than had previously been the case.

Question: An attendee inquired as to which experience years had been used in deriving the indications for the December 1, 2012 filing.

Answer: ***The response explained that different portions of the DCRB's analysis used varying periods of experience. For purposes of loss development individual policy years were included back to the late 1980's. For frequency, severity and loss ratio trending the DCRB had used the seven most recent available completed policy years, 2004-2010 inclusive. In trending policy year loss ratios forward to the effective date of the proposed rating values, the most recent four available complete policy years (2007 – 2010) had been used.***

Question: ***The attendee sought clarification about the experience period used for loss development analysis in the filing.***

Answer: ***Staff stated that the average of the most recent available four calendar years, 2008-2011 inclusive, had been used to derive loss development patterns for the analysis underlying the proposed filing.***

A set of eight Discussion Exhibits were next presented serially, illustrating comparisons between loss development link ratios reported for the most recent available calendar year (December 31, 2010 to December 1, 2011) and counterpart ratios for the calendar year December 31, 2006 to December 31, 2007). The significance of these two calendar years was described in the context of the DCRB using a four-year average of age-to-age link ratios as the basis for its loss development analysis. Under this construct the 2010–2011 year was being added to the analysis of the December 1, 2012 filing while the 2006–2007 year was being dropped from this year's filing. With the remaining three intervening calendar years being common to both the December 1, 2011 and December 1, 2012 filings, the comparisons illustrated on the Discussion Exhibits effectively highlighted the general change in indicated loss development for the current filing.

Key findings gleaned from the discussion Exhibits as presented were as follow:

Discussion Exhibit, Page 2 – Indemnity Paid Link Ratios Less Unity

At early maturities (first through sixth reports) indemnity paid loss development was generally higher for the 2010–2011 year than had been the case for the 2006–2007 year.

Question: ***Staff was asked what the numbers at the bottom of page 2 of the discussion package represented.***

Answer: ***It was explained that the numbers in question were report maturities, with the first report representing a date 24 months after the inception of a policy year and each successive maturity representing an evaluation made 12 months after the preceding one.***

Discussion Exhibit, Page 3 – Indemnity Paid Link Ratios Less Unity

At extended maturities (seventh through twenty-second report) indemnity paid loss development was generally higher for the most recent year for maturities to tenth report, with comparisons for later maturities being mixed as to whether 2010-2011 or 2006-2007 showed higher loss development. Staff pointed out that the 2006-2007 year had not included reports for a 22nd maturity.

Together, Discussion Exhibits Pages 2 and 3 suggested that indemnity paid loss development had increased in the December 1, 2012 filing as compared to the data underlying the December 1, 2011 filing.

Discussion Exhibit, Page 4 – Incurred Indemnity Link Ratios Less Unity

Three of the earliest five link ratios shown, and the earliest pair of such ratios, were higher for the 2010-2011 year than for the 2006-2007 year and the fifth to sixth report link ratios were approximately equal for the two development periods being compared.

Discussion Exhibit, Page 5 – Incurred Indemnity Link Ratios Less Unity

At extended maturities (seventh through twenty-second report) incurred indemnity loss development was generally mixed as to whether 2010-2011 or 2006-2007 showed higher loss development. Similarly to the indemnity paid loss development, the 2006-2007 year had not included reports for a 22nd maturity. The "beyond" tail factor for the 2006-2007 year had been adjusted for purposes of comparison to the December 1, 2012 analysis.

Together, Discussion Exhibits Pages 4 and 5 suggested that incurred indemnity loss development had increased somewhat in the December 1, 2012 filing as compared to the data underlying the December 1, 2011 filing, but not to a great an extent as was the case for paid loss development.

Discussion Exhibit, Page 6 – Medical Paid Link Ratios Less Unity

At early maturities (first through sixth reports) medical paid loss development was higher for the 2010–2011 year than had been the case for the 2006–2007 year for every development period until sixth report, where the two years' results were very similar.

Discussion Exhibit, Page 7 – Medical Paid Link Ratios Less Unity

At extended maturities (seventh through twenty-second report) medical paid loss development was generally mixed as to whether 2010-2011 or 2006-2007 showed higher loss development. Staff pointed out that the 2006-2007 year had not included reports for a 22nd maturity.

Together, Discussion Exhibits Pages 6 and 7 suggested that medical paid loss development had increased for early maturities in the December 1, 2012 filing as compared to the data underlying the December 1, 2011 filing.

Discussion Exhibit, Page 8 – Incurred Medical Link Ratios Less Unity

At early maturities (first through sixth reports) incurred medical loss development was higher for the 2010–2011 year than had been the case for the 2006–2007 year for every development period.

Discussion Exhibit, Page 9 – Incurred Medical Link Ratios Less Unity

At extended maturities (seventh through twenty-second report) incurred medical loss development was generally mixed as to whether 2010-2011 or 2006-2007 showed higher loss development. As was true for earlier Discussion Exhibit Pages, the 2006-2007 year had not included reports for a 22nd maturity. The "beyond" tail factor had been adjusted for purposes of comparison to the December 1, 2012 analysis.

Together, Discussion Exhibits Pages 8 and 9 suggested that incurred medical loss development had increased for early maturities in the December 1, 2012 filing as compared to the data underlying the December 1, 2011 filing.

Discussion Exhibits Pages 3 through 9 illustrated a tendency for ultimate loss estimates to have increased since the December 1, 2011 filing based on reported 2010-2011 development, especially at earlier maturities.

Once indicated limited loss link ratios had been derived from reported data the filing analysis had applied various curve fits to the observed factors less unity to smooth the loss development patterns.

Question: ***A Committee member asked whether staff had performed analysis of the link ratios falling between the newest and oldest such factors included in the filing.***

***Answer:** Staff explained that while observation of the magnitude and annual changes in link ratios could provide some additional perspectives about expectations for future development, the current filing was most sensitive to the trade-off noted between the new year of development experience being added and the prior year being dropped for this analysis.*

***Question:** The Committee member then inquired whether reported losses were tending to be higher than had previously been the case, thus compounding the effects of greater development already noted on estimated ultimate losses.*

***Answer:** The reply was affirmative, with the most recently reported loss values being the basis for the higher observed age-to-age factors at early maturities in the analysis supporting the December 1, 2012 filing.*

Discussion Exhibit Page 10 – Limited Loss Development Analysis – Curves Fitted to Age-to-Age Loss Development Factors less Unity presented the following curve forms that had been selected as best accomplishing the objective without changing the overall level of observed development or reflecting an unreasonable shape or other behavior when extrapolated into an extended period of future reporting:

Indemnity Incurred Development Factors:

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

Indemnity Paid Development Factor:

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

Medical Incurred Development Factors:

$Y = \exp(a + b/x + c*\log(x))$

Medical Paid Development Factors:

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

The need for factors converting from paid to case incurred losses in completing the paid loss development estimates for both indemnity and medical losses was noted. For those purposes staff had applied the most recent actual four-year average paid-to-incurred age-to-age factors at the maturity at which this transition was made.

Discussion Exhibit, Page 11 – Indemnity Paid & Incurred Ultimate Limited Loss Ratios by Policy Year presented the results of applying paid loss and case incurred loss development methods to indemnity losses for the December 1, 2012 filing. This exhibit illustrated the fact that differences between these approaches were very modest with the paid loss development method tending to produce slightly higher results for policy years 2002 – 2008.

Discussion Exhibit, Page 12 - Medical Paid & Incurred Ultimate Limited Loss Ratios by Policy Year presented the results of applying paid loss and case incurred loss development methods to medical losses for the December 1, 2012 filing. This exhibit showed somewhat larger differences between these methods than had occurred for indemnity benefits, with the case incurred method generally producing somewhat higher results than did the paid loss development approach.

***Question:** A participant asked why policy year 2010 was going up so significantly, as illustrated in the graph under discussion.*

Answer: ***Staff attributed the escalation in policy year medical loss ratios culminating with the 2010 value to the combined effects of observed loss development experience and initial paid and case reserve loss amounts for that particular policy year. It was further noted that although the data under discussion was stated on a limited basis, the applicable loss limit for policy year 2010 was over $2 million, so that individual large losses could contribute significant amounts to the loss ratio.***

Question: ***Staff was asked how the loss limits used for the filing analysis had been determined.***

Answer: ***The explanation recalled early filing analyses done on a limited basis (the December 1, 2004 filing) which had selected an excess loss factor of .0757 corresponding to a loss limit of $1.5 million. Loss limitations for other policy years had been selected consistent with that same excess loss factor of .0757.***

Question: ***A committee member asked whether the filing included comparative loss ratios in a triangle format.***

Answer: ***Staff pointed out Exhibit 7, page 6 which showed ratios of reported paid loss to ultimate and reported case incurred loss to ultimate in a triangle format. The medical loss ratio for 2010 was about 80 percent, while the permissible total loss ratio for this filing was less than 70 percent. While 2010 was just one of four policy years used to project the filing indication it was a very high year and did adversely impact the indication.***

Question: ***An attendee asked for clarification of what the red and blue lines on pages 11 and 12 of the discussion package represented.***

Answer: ***The red line pertained to estimated ultimate loss ratios using the case incurred loss development method, while the blue line represented comparable estimates made using the paid loss development approach.***

Comment: ***A committee member expressed concern about the upward trend in the rations shown, questioning the implications of that trend on future results.***

Comment: ***Staff acknowledged the perspective advanced by the member, noting that while the absolute results of the two loss development methods were somewhat different the patterns of increases were similar.***

Question: ***Staff was asked whether additional analysis had been attempted to discern why the results were presenting the patterns reflected in the exhibits.***

Answer: ***Analysis of underlying features of the experience data was ongoing. Prior review had confirmed that the adverse results in recent years were not the result of an isolated carrier group or just a few such groups, but was broad-based in the market. Large individual claims, adverse overall development patterns and claims tending to stay open for longer periods of time had contributed to the deteriorating results. Staff observed that fee schedule changes in response to CPI changes had been rather nominal thus far.***

CLAIM FREQUENCY TREND

The topic of claim frequency was presented in the work contained in the following meeting Exhibits:

Exhibit 23: Claim Frequencies
Exhibit 12: Indicated Change in Residual Market Rates and Voluntary Market Loss Costs (page 4)

Staff briefly described the claim frequency approach taken in support of the December 1, 2011 filing in response to the increase in claim frequency presented for Policy Year 2009.

Policy Year 2010 had now been reported, and showed a decline of just over 4 percent in frequency. This improvement was not as strong as the historical trend prior to 2009, but was an encouraging result when compared to the 2009 year.

Using a seven-point exponential fit through the claim frequencies presented in Exhibit 23, staff had derived an annual claim frequency trend rate of -6.5 percent.

Discussion Exhibit, Page 13 – Unit Statistical Plan Indemnity Claim Frequencies was reviewed, illustrating the long-term nature of claim frequency declines in Delaware. Staff described this pattern as being consistent with many other jurisdictions across the country.

Discussion Exhibit, Page 14 – Department of Labor Claim Frequency by Fiscal Year Ending June 30th was noted, with this source including all commercially insured accounts together with self-insured entities and reflecting claim frequencies per unit of payroll exposure. The historical pattern was seen to be similar to that of the previous Discussion Exhibit. The fashion in which the Department of Labor collected and reported this data allowed a 2011 report to be included in the tabulation, which appeared to continue the downward trend in claim frequency.

Question: ***An attendee asked for clarification concerning the claim frequency trend used in the filing.***

Answer: ***Staff cited the claim frequency trend as being based on a seven-point exponential trend, with a value of -6.5 percent per year. The most recent available policy year had shown a claim frequency decline of approximately 4 percent.***

Question: ***A participant inquired whether the DCRB claim frequency results were consistent with those reported by the National Council on Compensation Insurance, Inc. (NCCI).***

Answer: ***Staff expressed the view that the overall patterns in DCRB data and NCCI claim frequency were generally similar. There were some technical differences which affected direct comparisons of trend rates, including the treatment of wage trend which NCCI often removed from its frequency statistics while DCRB included wage trend in its claim frequency measures.***

Question: ***The attendee sought confirmation that DCRB included wage trend in its measures of claim frequency.***

Answer: ***This was confirmed, which practice allowed claim frequency and severity trends to be compounded to compute loss ratio trend.***

SEVERITY TREND

The topic of claim frequency was presented in the work contained in the following meeting Exhibits:

Exhibit 2: Paid and Incurred Loss Development and Trend
Exhibit 3: Measures of Goodness of Fit in Trend Calculations Using Severity Ratios
Exhibit 5: Graphs of Ultimate and Trended Experience Components
Exhibit 6: Retrospective Test of Trend Projections for Severity Ratios
Exhibit 12: Indicated Change in Residual Market Rates and Voluntary Market Loss Costs (pages 2 & 3)

Ultimate loss ratios derived from the DCRB's loss development analysis had been converted to severity ratios by adjusting loss ratios for known changes in claim frequency over the span of policy years provided in Exhibit 2. Key considerations pertaining to the severity trend analysis were noted as shown below:

Indemnity Severity – Through Policy Year 2010 (mid-point January 1, 2011) the DCRB had measured claim severity trend using a seven-point exponential trend model fitted through the severity ratios derived by adjusting estimated ultimate loss ratios for known changes in claim frequency. That analysis resulted in an annual change in indemnity severity of +3.8 percent per year.

Medical Severity – The DCRB was mindful that, in the adjudication of the December 1, 2009 filing, both actuarial consultants who had reviewed the filing had anticipated some improvement in medical trends associated with the implementation of the medical fee schedule in late 2008. Such an adjustment had subsequently been included in the DCRB's December 1, 2010 and December 1, 2011 filings with the posited improvement in medical severity trend applied after September 1, 2008 (the effective date for full implementation of the medical fee schedule in prior DCRB filings).

For the December 1, 2012 filing the same adjustment (an improvement of 1.8 percentage points per year) had again been applied to otherwise-measured medical severity trends. The pre-Senate Bill 1 medical severity trend prior to this adjustment, derived using a seven-point exponential fit, was +12.5 percent per year. Thus the medical severity trends used in the staff analysis were +12.5 percent per year through September 1, 2008 and +10.7 percent per year subsequent to September 1, 2008.

Pages 2 and 3 of Exhibit 12 presented the derivation of severity trends as described above. Exhibits 3 and 6, respectively, provided results of the DCRB's review of goodness-of-fit and past projections of severity ratios.

Exhibit 5 showed graphs of indemnity and medical loss ratio histories and projections, with claim severity and claim frequency components of the projections also displayed for comparison purposes.

Discussion Exhibit, Page 15 – Indemnity and Medical Actual and Trended Severity Ratios, Average of Incurred and Paid to 22nd portrayed the results of the selected loss development methodologies for indemnity and medical losses, with the exponential fit trend indications also provided for illustrative purposes. It was noted that the applied medical severity trend after September 1, 2008 was nominally lower than the curve presented in this Discussion Exhibit.

Question: An attendee asked whether the trend illustration for medical losses had been reduced for the filing adjustment previously described.

Answer: The answer was that the trend depicted was the full measured trend of +12.5 percent, prior to reduction by the 1.8 percent decrement applied in recent filings.

Comment: The attendee observed applying that the -1.8 percent adjustment would deflect the medical trend downward from the rate shown on the discussion exhibit.

Answer: Staff observed that the trend deflection under discussion applied to losses stated on a pre-Senate Bill 1 (SB1) basis.

Question: A participant asked whether there was yet another adjustment used to account for the effects of the 2007 Delaware legislation.

Answer: Staff responded in the affirmative, and explained that a 17.4 percent adjustment was applied for the initial impact of SB1. That adjustment could be thought of as lowering the entire line presented on discussion exhibit 15 by 17.4 percent. After the initial implementation of the new

law, the -1.8 percent trend adjustment contemplated slower cost escalation by virtue of the imposition of CPI indices on the administration of medical prices.

Question: ***In the context of that explanation, an attendee sought clarification of the expected savings from SB1 incorporated into the filing.***

Answer: ***Staff explained that experience data was adjusted to a pre SB1 basis for purposes of loss development and trending. Those estimates were then trended at a rate which was reduced by 1.8 percentage points for medical benefits after September 1, 2008. The trended result was finally reduced by 17.4 percent to account for the initial implementation of a fee schedule, certification of providers and other aspects of SB1.***

Discussion Exhibit, Page 16 – Indemnity Loss Experience Components, Indexed to 1.000 at Policy Year 1998, Annual Rates of Change was shown, noting that this material replicated the indemnity portion of the agenda package's Exhibit 5. The selected claim frequency and severity trends were illustrated, together with the resulting loss ratio trend (-2.9 percent).

Discussion Exhibit, Page 17 – Medical Loss Experience Components, Indexed to 1.000 at Policy Year 1998, Annual Rates of Change was shown, noting that this material replicated the medical portion of the agenda package's Exhibit 5. The selected claim frequency and severity trends were illustrated, together with the resulting loss ratio trend (+5.2 percent to September 1, 2008 and +3.5 percent thereafter).

Question: ***A participant inquired as to how this year's trends compared those in the December 1, 2011 filing.***

Answer: ***Staff characterized the December 1, 2012 trends as being less favorable than those of the prior filing. The claim frequency trend, but the for policy year 2009 adjustment proposed for the December 1, 2011 filing, was less negative for 2012 than it had been for 2011. Severity trends were higher for both indemnity and medical. Wage trend (a shorter-term metric) was 2.93% this year compared to 0.94% last year, each based on the most recent available eight- quarter average. The wage trend underlying claim frequency trend was a longer-term measure, covering seven policy years (2004 through 2010).***

Expenses and Benefit On-Level Factor

The topics of expenses and benefit on-level factor were presented in the work contained in the following meeting Exhibits:

Exhibit 8: Expense Study
Exhibit 9: Internal Rate of Return Model
Exhibit 10: Effect of 7/1/13 Benefit Change
Exhibit 11: Expense Loading

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 - 2008, 2009 and 2010.

The three-year average ratio of commission and brokerage expense to standard earned premium at DCRB 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 DCRB rate level, including large deductible business on a gross basis and excluding expense constant income. Other acquisition and general expense provisions had been adjusted for the effects of the Court of Chancery decision, which would reduce premium income without offsetting these expense components.

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 2009, the most recent complete available year from unit statistical data. A provision for uncollectible premium had been selected after review of experience over the most recent available nine years.

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 $280 was noted in comparison to the currently-approved value of $270.

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, 2013. 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 DCRB analysis as described above, budgetary provisions or the most recent available assessment levels. Premium collection and loss-payout patterns were also provided from DCRB analysis.

The DCRB 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

Indicated Value: 68.66 percent Selected Value: 70.74 percent

Profit and contingencies

Indicated Value: +3.83 percent Selected Value: +1.75 percent

Staff noted that the indicated profit and contingencies provision for the December 1, 2012 filing was substantially positive, a result caused by declines in available investment returns compared to prior filing analyses. Because of the recent volatility in the profit and contingency provision, which had changed from -4.65 percent in the December 1, 2010 filing to +3.83 percent for this filing, staff had elected to temper this provision to the approximate average of the existing provision (-0.39 percent) and the indicated provision (+3.83 percent).

Discussion Exhibit, Page 18 – Historical Expense Ratios, 12/1/2006 Through 12/1/12 was reviewed. An overall increase in the residual market expense need from 39.49 percent of premium for the December 1, 2011 filing to 42.77 percent of premium for the December 1, 2012 filing was noted, with the following components highlighted as contributing significantly to that change:

	December 1, 2011	December 1, 2012
Loss Adjustment Expense:	10.50 percent	11.04 percent
Workers Compensation Fund:	3.50 percent	4.50 percent
Profit & Contingencies:	(0.39) percent	1.75 percent

Question: ***Staff was asked to identify where the profit and contingencies provision was derived in the agenda materials.***

Answer: ***The response identified Exhibit 9, the Internal Rate of Return Model.***

Overall Indicated Changes in Collectible and Manual Rating Values

The topics of the overall changes in collectible and manual rating values were presented in the work contained in the following meeting Exhibits:

Exhibit 12: Indicated Change in Residual Market Rates and Voluntary Market Loss Costs
Exhibit 7: Closure Rates, Payout Ratios and Average Claim Costs

Staff briefly reviewed the approach used in this exhibit to derive indicated overall changes in residual market rates and voluntary market loss costs.

On-level loss and loss adjustment expense ratios in Lines 1(a) through 1(e) were noted as being lower than the counterpart values from the December 1, 2011 filing for indemnity but higher than those comparable values for medical. These differences reflected the approved December 1, 2011 rate change (+16.5%) and losses reported including loss development data since that filing was presented.

The effect of trend on the filing indication was noted, but, in comparison to the trend adjustments included in the December 1, 2011 filing, the current indications were described as being significantly less favorable for indemnity loss and adverse for medical loss due to the differences in claim severity indications for the current submission.

The Line 3(a) adjustment to medical loss ratios based on previous DCRB analysis of the effects of the medical fee schedule was noted. The adjustment for the effect of limiting losses in the underlying loss development and trend work was pointed out on Lines 4(a) and 4(b). Based on a permissible loss and loss adjustment ratio shown on Line 6, an indicated change in rates was derived on Line 7. Application of an estimated effect of the July 1, 2013 benefit change on Line 8 gave a final residual market rate change on Line 9. Removing the provisions for expenses other than loss adjustment expense from the residual market rate change gave the indicated voluntary market loss cost indication on Line 10.

Staff pointed out the proposed overall changes in residual market rates (43.53 percent increase) and voluntary market loss costs (38.27 percent increase).

Indicated changes in manual rates and loss costs were derived in Lines 11 through 18 by applying considerations of changes in collectible premium ratios arising from the ongoing application of the Experience Rating Plan and the effects of the approved residual market surcharge program on residual market premiums, which offset was applied to voluntary market loss costs to maintain revenue neutrality of that surcharge program.

Question: ***An attendee asked whether the Chancery Court reductions were reflected in the premium amounts used in computing loss ratios for the filing.***

Answer: ***The answer stated that the premium data was stated at DCRB residual market rate levels prior to the effect of Chancery Court reductions.***

Question: A follow-up question asked whether the SB1 adjustment had been updated since it was first established.

Answer: ***Staff replied that the SB1 adjustment factor of 0 .8260 had not changed since the initial law amendment filing in 2008.***

Question: ***An attendee asked whether the high loss ratios reflected in the filing were related to decreases in premium.***

Answer: ***Staff reiterated that premium was stated at the DCRB residual market level, prior to effects of the Chancery Court case. Losses were driving the high loss ratios. The reductions in premiums, which remained outside the analysis supporting the filing, had been intended to offset carrier savings in medical reserves attributed to the implementation of a medical fee schedule.***

Comment: ***The attendee noted that the estimated impact of SB1 was a reduction in costs of 17.4 percent, and wondered what the effect would have been if actual savings had only been 5 percent.***

Answer: ***The DCRB had not gone back and reviewed the estimated 17.4 percent savings for implementation of SB1. While new data tracking experience subsequent to the law change was generally adverse, the reasons might be outside the realm of SB1 features and reflective of conditions since the change rather than a difference in what the immediate effect of the law had been.***

Question: ***Staff was asked whether the loss ratios incorporated into the filing analysis took 2010 into account.***

Answer: ***Staff confirmed that policy year 2010 was included in the filing data, but that 2011 was still incomplete and had not been used for the December 1, 2012 filing.***

Question: ***A participant asked how this explanation could be reconciled with the first page of the handout discussion materials, noting the comparisons between 2010 and 2011 shown thereon.***

Answer: ***Staff observed that the first discussion exhibit page was a snapshot of financial data reported as of December 31, 2011. The policy year 2011 data was for the incomplete policy year, but more dollars of medical losses had exceeded the selected limit for the incomplete policy year 2011 than for the entire policy year of 2010.***

Comment: ***The observation was made that substantial loss amounts were attributable to small numbers of claims.***

***Question**: An attendee asked whether the DCRB was able to determine why there were so many large losses in the Delaware experience, and expressed the view that this result was somewhat counter-intuitive given employer and insurer efforts toward loss prevention.*

***Answer**: Staff recited illustrative types of injuries represented in the large losses included in unit statistical report data from 2005 through 2009. Many of these cases involved long term or even lifetime medical obligations.*

***Comment**: An observation was made that more large losses might continue to be encountered in the Delaware marketplace.*

***Answer**: Staff conceded that this was a possibility.*

***Question**: Inquiry was made as to whether there was anything Delaware-specific about this trend.*

***Answer**: Staff could not identify any common theme or cause for the larger losses appearing in the data. It was noted that the NCCI Annual Statistical Bulletin often showed Delaware with the highest average cost per case (not including United States Longshore & Harborworkers coverages). Staff observed that Delaware's indemnity benefits were set at a low proportion of the Statewide Average Weekly Wage compared to most other jurisdictions.*

***Comment**: The observation was made that the large losses were predominantly for medical expenses.*

***Question**: Staff was asked what kinds of injuries were producing the claims in question and in particular if they were disproportionately caused by motor vehicle accidents.*

***Answer**: While staff could identify some accident descriptions that involved motor vehicles, there was a broad spectrum of causes included for the claims of record.*

***Comment**: An attendee observed that the losses in excess of selected limits had declined in 2008 and 2009. Economic conditions were noted, and the view expressed that the indicated rating value changes would be a particular hardship on the business community.*

***Answer**: Staff acknowledged employer circumstances and concerns, but was also aware that the DCRB was responsible under the law for benchmarking system features and costs, and for communicating to the regulator and to the industry what changes were necessary to keep the workers compensation system self-sustaining and in balance. In the financial data supporting derivation of the overall rating value changes, policy year 2001 had 2 claims above the threshold and subject to limitation. Other comparable counts were 8 claims for 2002, 4 for 2003, 4 for 2004, for 2005, none for 2006, 2 for 2007, 1 each for 2008 and 2009, 3 for 2010 and 2 for 2011 (an incomplete policy year).*

***Question**: A participant inquired whether staff thought that these larger individual claims were responsible for the proposed rating value increases.*

***Answer**. Staff did not believe that large losses were the sole factor in the indicated rating value changes, but did feel that they were one factor contributing to those indications. Page 19 of the discussion package was cited as an illustration of the number of separate factors contributing to the residual market rate change. The individual component factors were generally rather modest, but in combination they compounded to a large overall need.*

Discussion Exhibit, Page 19 – Components of Proposed December 1, 2012 Residual Market Rate Change was reviewed with attendees, with the combinations of factors underlying the overview described at the beginning of the meeting identified. It was noted that every one of the ten component factors presented were increasing.

Exhibit 7 provided various metrics of loss experience derived from unit statistical data. Claim closure rates, claim frequencies and average closed, open and total claim amounts (with the latter statistics being generally volatile due to limited amounts of data and potential impacts of large losses) were displayed. In addition, some analytics derived from financial data were provided (ratios of reported paid loss to reported incurred-loss and reported paid loss to estimated ultimate loss using the average of the case incurred and paid loss development methods).

Question: ***Noting that some insurance companies had incurred very large losses on isolated claims, an attendee wondered how those events were translated into the overall rating value indications.***

Answer: ***Staff advised that rates were established prospectively, and were based on the probability of claims happening and their likely severities when they did occur. Companies would ultimately each file their own rates with the Insurance Department. Rate levels needed to make an appropriate provision for catastrophic claims.***

Question: ***An attendee wondered if carriers would or could increase their rates because they were worried about catastrophic claims.***

Answer: ***Staff agreed that the potential for large losses was a factor in pricing for the DCRB and for insurers, with overall rating values needing to make an adequate provision for the possibility of large losses occurring.***

Question: ***A participant asked how the large claims being seen in the experience could be avoided, given that claim frequency was improving overall.***

Answer: ***Staff was unaware of strategies for loss prevention that could focus more heavily or even selectively on extremely large losses, and felt that the best course was to try to have as few claims overall as possible.***

Comment: ***A committee member observed that loss activity below loss limits was a primary force in driving the DCRB's indications.***

Answer: ***Staff concurred that a variety of factors were contributing to the indicated changes and that large losses were one factor, but not the overriding factor, in those indications.***

Question: ***A participant inquired whether carriers might not actually be having more large claims but instead only changing their reserving practices to find such claims sooner.***

Answer: ***A committee member observed that Pages 11 and 12 of the discussion package did not show a lot of differences between ultimate loss estimates made using the paid loss and case incurred loss development methods, and opined that reserving practices alone did not seem to explain the results. Staff expressed the view that companies might be identifying some claims earlier but that the experience was also reflecting increased numbers of large cases.***

Comment: ***A committee member agreed that companies were doing a better job in reserving but stated that the improvement fell short of being able to really predict case outcomes. This member stated that they were seeing more multiple surgeries involved in their book of business.***

***Comment:** Another attendee made the point that the escalation in loss amounts was not just a matter of carrier reserving because the DCRB was using the average of paid loss and case incurred loss development methods. Both those approaches were trending higher.*

***Comment:** An observation was made to the effect that even if average rating values were to increase, individual companies could negotiate rates and some pricing programs with insurers.*

***Answer:** Staff acknowledged this market dynamic including programs such as schedule rating but doubted that such negotiations could be expected to completely offset changes of the magnitude under review for the December 1, 2012 filing.*

***Comment:** The prospect of having additional adverse experience arise for purposes of the December 1, 2013 filing was raised.*

***Comment:** It was noted that there were a lot of demographic issues in play, such as an aging workforce, economic issues, improvements in medical technology, greater utilization of multiple surgeries, randomness of injuries, and characteristics of claimants such as obesity and diabetes.*

***Question:** Staff was asked whether there was helpful information from surrounding states to put the current indication into context.*

***Answer:** The response noted that Delaware is a relatively small market, given to significant fluctuations in experience over time. Over an extended period Delaware had shown high costs per case and lengthening time to settlement or closure of cases.*

***Question:** An attendee asked what the graph on page 19 of the discussion package was based on.*

***Answer:** Staff explained that the bar chart depicted component parts of the 43.53% increase in residual market rates presented in the agenda materials.*

***Question:** A participant wanted to know whether the medical community was providing more services recently than had been the case in prior years.*

***Answer:** Staff could not dismiss this possibility but stated that it did not have consistent detailed data pertinent to this question dating before the enactment of SB1.*

***Comment:** It was noted that Delaware had adopted practice guidelines specifying how many treatments patients could or should receive, and that system changes had been adopted with the understanding that back injuries were a notable cost factor in the system. Now the system had more robust checks and balances in place.*

***Question:** A committee member asked whether SB1 applied to all outstanding claims or just to injuries occurring after its effective date.*

***Answer:** Staff stated that the medical fee schedule and related aspects of SB1 applied to all claims and to all payments rendered after the implementation of the fee schedule. Considerations pertaining to the adoption of practice guidelines for claims already in the course of treatment were mentioned and acknowledged by participants.*

***Comment:** An attendee remarked that chronic pain was now a condition subject to practice guidelines in Delaware.*

Discussion Exhibit, Page 20 – Claim Settlement Rates, Ratio of Open to Reported Indemnity Claims by Policy Year showed ratios of open to reported claims for selected claim maturities. These ratios were trending up over time, and had each moved up to some extent with the most recent available report.

DCRB Analysis of Cost Drivers and System Features Underlying Experience Data

Staff acknowledged the magnitude of the December 1, 2012 filing indications and the implications thereof on system participants. The DCRB was keenly aware of areas of inquiry inspired by the identification of medical costs as a primary factor in the overall change indications, and had begun an ongoing effort to identify and quantify metrics and benchmarks of system performance with meaningful impacts on the administration and costs of the Delaware workers' compensation system.

Unlimited Loss Exhibits Presented for Purposes of Comparison

While relying on limited loss development and trend as previously described, DCRB staff had performed counterpart analyses of the December 1, 2012 filing on an unlimited loss basis. That analysis was presented in the work contained in the following meeting Exhibits:

Unlimited Exhibit 1: Table I – Summary of Financial Call Data
Unlimited Exhibit 2: Paid and Incurred Loss Development and Trend
Unlimited Exhibit 2a: Graphs of Selected Loss Development Projections
Unlimited Exhibit 3: Measures of Goodness of Fit in Trend Calculations Using Severity Ratios
Unlimited Exhibit 6: Retrospective Test of Trend Projections for Severity Ratios

Unlimited loss development had used an eight-year average tail provision and paid-to-incurred factors for medical loss and had performed a separate series of curve fitting analyses which had resulted in the following selected curves for purposes of smoothing age-to-age factors (with the fits applied to the results of subtracting unity from the age-to-age factors themselves).

Discussion Exhibit Page 21 – Unlimited Loss Development Analysis – Curves Fitted to Age-to-Age Loss Development Factors less Unity disclosed the following curves selected to smooth unlimited loss development link ratios:

Indemnity Incurred Development Factors:

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

Indemnity Paid Development Factor:

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

Medical Incurred Development Factors:

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

Medical Paid Development Factors:

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

As had been the case for limited loss development, the need for factors converting from paid to case incurred losses in completing the paid loss development estimates for both indemnity and medical losses was noted. For those purposes staff had applied the most recent actual four-year average paid-to-incurred age-to-age factors at the maturity at which this transition was made.

Delaware Insurance Plan

The topic of the Delaware Insurance Plan was presented in the work contained in the following meeting Exhibits:

Exhibit 19: Delaware Insurance Plan

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: A committee member asked whether the residual market volume (to which the 43.53 percent change would apply) was approximately $10 million.

Answer: Staff observed that Column (2) of page 19.3 showed $8.6 million in residual market premium for policy year 2010.

Experience Rating

The topic of Experience Rating was presented in the work contained in the following meeting Exhibits:

Exhibit 13: Experience Rating Plan Performance
Exhibit 20: Review of Experience Rating Plan Parameters
Exhibit 21: Table B

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.

Discussion Exhibit, Pages 22 and 23 – Credit Risks and Debit Risks respectively provided overviews of loss ratio adjustments accomplished by the Experience Rating Plan on employers by premium size group.

Question: Staff was asked whether it had compared the performance of the Delaware Experience Rating Plan with the plan in place at NCCI.

Answer: DCRB staff had emulated at least the general approach to testing the plan as was used by NCCI, including using quintile tests. The Delaware results were not as favorable as those often cited by NCCI, but NCCI had a countrywide plan and did not typically look at Experience Rating Plan results by state.

Question: A committee member asked if there were any plans to look at how Delaware's Experience Rating Plan was structured.

Answer: Staff was currently looking into the Pennsylvania Experience Rating Plan, and results of that review might be considered for filing in Delaware. The volume of data in Delaware made testing of alternative plan designs difficult, with results often seeming inconclusive.

Question: ***The committee member asked if the DCRB was considering making changes to the split point between serious and non-serious losses.***

Answer: ***Staff was mindful of a variety of features of NCCI plans including the split point and changes to the loss development procedure applied in classification rating. These were of interest and might be evaluated for use or adaptation in Delaware.***

Exhibit 20 was discussed as the means of deriving anticipated collectible premium ratios for use in Exhibit 12. It was noted that the average of the most recent two collectible premium ratios had been used for this purpose, with the older ratios shown on this exhibit being significantly different from those in following years. 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 advised attendees of analytical steps that had been taken to better understand the historical phenomenon of downward migration of collectible premium ratios and to confirm the reasonability of the selected values for this filing.

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.

Delaware Construction Classification Premium Adjustment Program

The topic of the Delaware Construction Classification Premium Adjustment Program was presented in the work contained in the following meeting Exhibits:

Exhibit 14: DCCPAP

The history and purpose of Delaware Construction Classification Premium Adjustment Program (DCCPAP) 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 was reviewed for the participants. Staff noted that the qualifying wages proposed to be effective for the DCCPAP June 1, 2013 reflected expected future wage level changes, resulting in a proposed wage table with a higher qualifying wage than was in effect for the June 1, 2012 Table.

Workplace Safety Program and Merit Rating

The topics of Workplace Safety Program and Merit Rating were presented in the work contained in the following meeting Exhibit:

Exhibit 29: Delaware Workplace Safety Program & Merit Rating Program

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 3.41 percent adjustment to manual rating values, as compared to the 3.26 percent adjustment currently in effect.

Rating Values Based on Size-of-Loss Analyses

The topic of Rating Values Based on Size-of-Loss Analyses was presented in the work contained in the following meeting Exhibits:

Exhibit 16: Small Deductible Program
Exhibit 17a: Empirical Delaware Loss Distribution
Exhibit 17b: Excess Loss (Pure Premium) Factors
Exhibit 17c: Excess Loss (Pure Premium) Factors Adjusted to Include Allocated Loss Adjustment Expenses
Exhibit 17d: Excess Loss Premium Factors
Exhibit 17e: Excess Loss Premium Factors Adjusted to Include Allocated Loss Adjustment Expenses

Staff noted that DCRB loss cost filings typically include rating values pertinent to various rating plans affected by the size of loss for individual claims or occurrences. Some such plans provide limitations applicable to the amount(s) of loss that can be used in computing a retrospective premium. Other portions of this analysis facilitate the application of standard tables to Delaware business.

Staff further noted that many of the size-of-loss studies and rating values proposed in the filing vary by hazard group and that the hazard groups were modified and expanded from four (designated I, II, III and IV) to seven (designated A, B, C, D, E, F and G) hazard groups as part of the December 1, 2009 filing. Those seven could also be combined to form four new hazard groups (A&B = 1, C&D = 2, E&F = 3, and G = 4) for use by carriers during a transition period that provided time for carrier system changes to be made. That transition program was in place for the filings effective December 1 of 2009, 2010 and 2011. Beginning with the December 1, 2012 filing the transition program is no longer in place and the filing will only support analysis for the seven hazard groups (A-G).

Exhibit 16

Exhibit 16 presents the derivation of small deductible loss elimination ratios and premium credits for the expanded range of hazard groups. This is a mandatory offer to employers in Delaware but sees very limited use in the marketplace. The small deductible provisions are applicable to death and all medical losses.

Exhibits 17a, 17b, 17c, 17d and 17e

Staff briefly described changes to the processes and procedures used in the derivation of excess loss factors that was introduced as part of the December 1, 2009 filing. One result of those changes was a far greater emphasis on Delaware experience than had been used in the past. Exhibit 17a presented an empirical loss distribution based solely on Delaware data. The analysis indicated that actual loss experience could be used over a significant portion of the size-of-loss range for each type of injury (Death, PT, PP and Temporary Total). Various commonly-used distributions had been considered in fitting the empirical size-of-loss distributions, including Pareto, Lognormal, Gamma, Weibull and Exponential. Separate analyses of claim frequency and loss severity had been performed, and the lognormal distribution was used to estimate claim severity and claim frequency for each type of injury.

In generating final loss distributions and excess loss factors, actual data (claim counts and dollars of loss) for limits below $250,000 had been combined with fitted counts and dollars above $250,000 and re-accumulated. The resulting excess loss factors were also presented in Exhibit 17a.

Exhibit 17b derived proposed excess loss (pure premium) factors computed using results from Exhibit 17a. Values as of December 1, 2011 are also shown. Consistent with the 2009 study, Pennsylvania relativities had been used as benchmarks for loss amounts in excess of $1,000,000 owing to the limited amount of Delaware experience data available in those layers.

Exhibit 17d, showed the derivation of excess factors related to premiums (rather than pure premiums). Exhibits 17c and 17e are comparable to 17b and 17d, respectively, but adjusted to include a provision for ALAE. The underlying loss distributions for each variation were identical to those found in Exhibit 17b.

Question: A committee member asked how the Excess Loss Pure Premium Factor percentage changes compared tom those filed for 2011.

Answer: Staff described those changes as being increases but significantly more modest than those in the current filing.

State & Hazard Group Relativities

This subject was addresses in the following meeting exhibit:

Exhibit 18: State & Hazard Group Relativities

Exhibit 18 shows the derivation of the December 1, 2012 proposed State & Hazard Group Relativities. DCRB and NCCI average costs were shown by hazard group and in total. A credibility weight was calculated for each hazard group based on the number of claims. A credibility weighted average cost was then calculated, and these average costs were related to the NCCI overall average cost to generate the indicated relativities. Selections were made where the indicated values for a given hazard group were inconsistent with indicated values for adjacent hazard groups. An adjustment was made to recognize the impact of SB 1 on Delaware average costs.

Retrospective Rating

The topic of Retrospective rating was presented in the work contained in the following meeting Exhibits:

Exhibit 24: Retrospective Development Factors
Exhibit 25: Tax Multiplier

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 DIP subsidy previously noted and shown on Exhibit 19.

Classification Relativities

The topic of classification relativities was presented in the work contained in the following meeting Exhibits:

Exhibit 15: Rate and Loss Cost Formulae
Exhibit 22a: Table II – Unit Statistical Data
Exhibit 22b: Table III – Unit Statistical Data
Exhibit 22c: Table IV – Unit Statistical Data
Exhibit 27: Manual Rates, Loss Costs and Expected Loss Rates

Exhibit 28: Index and Supporting Classification Exhibits
Class Book
Exhibit 30: Distribution of Residual Market Rate Changes
Exhibit 31a: Summary of Indicated and Proposed Residual Market Rates by Class Code
Exhibit 31b: Summary of Indicated and Proposed Residual Market Rates by Percentage Change

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, adjusted to current benefit levels, trended and developed to an ultimate basis. Exhibit 22b showed losses, including loss-adjustment expenses, developed to an ultimate basis but not trended or on-level, 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 DCRB'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.

Expected Loss Size Ranges – NCCI Filing Memorandum R-1403

This subject was addresses in the following meeting exhibit:

Exhibit 32: Expected Loss Size Ranges – NCCI Filing Memorandum R-1403

In order to maintain existing tables of insurance charges and savings for the effects of claim inflation, the expected loss size ranges used to define those tables are regularly updated to keep Delaware's rating values consistent with those of other jurisdictions. Exhibit 32 contains selected portions of NCCI Item Filing R-1403. The PCRB is proposing to file the table of Expected Loss Ranges shown on page 4 of the exhibit.

Minimum and Maximum Corporate Officer Payrolls

Staff noted the maximum payroll amount for executive officers effective December 1, 2012 was proposed to be increased from $2,350 to $2,400 per week owing to changes in Statewide Average Weekly Wage data. Proposed changes to Manual language were provided as part of a staff memorandum dated July 12, 2012 and included in the meeting agenda materials.

Staff invited closing questions or comments.

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

Respectfully submitted,

Timothy L. Wisecarver
Chair - Ex Officio

TLW/kg