

DELAWARE COMPENSATION RATING BUREAU, INC.

Small Deductible Program

The attached exhibits review the impact of deductibles on loss costs and residual market manual rates. Staff has proposed nominal changes to the loss elimination ratios and premium credit factors currently in effect.

**2017 DELAWARE DEDUCTIBLE STUDY**

**Proposed Effective Date 12/1/17**

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9851	0.984	0.016	0.016
1,000	0.9728	0.972	0.028	0.029
1,500	0.9629	0.962	0.038	0.039
2,000	0.9545	0.954	0.046	0.047
2,500	0.9471	0.946	0.054	0.054
3,000	0.9406	0.940	0.060	0.060
3,500	0.9346	0.934	0.066	0.066
4,000	0.9290	0.929	0.071	0.071
4,500	0.9239	0.924	0.076	0.076
5,000	0.9191	0.919	0.081	0.081

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9886	0.988	0.012	0.012
1,000	0.9792	0.979	0.021	0.022
1,500	0.9716	0.971	0.029	0.030
2,000	0.9652	0.965	0.035	0.036
2,500	0.9595	0.959	0.041	0.041
3,000	0.9546	0.954	0.046	0.046
3,500	0.9500	0.950	0.050	0.051
4,000	0.9457	0.946	0.054	0.054
4,500	0.9418	0.942	0.058	0.058
5,000	0.9381	0.938	0.062	0.062

**2017 DELAWARE DEDUCTIBLE STUDY**

Loss Range		Total Incurred Losses (1)	Adj Factor (2) a	Adj Factor (3) b	Adjusted Losses (1)*(2)*(3) (4)
0 -	499	2,022,596	1.000	0.9996	2,021,787
500 -	999	4,947,991	0.995	0.9996	4,921,282
1,000 -	1,499	4,974,667	0.990	0.9996	4,922,950
1,500 -	1,999	4,787,465	0.985	0.9996	4,713,767
2,000 -	2,499	4,357,313	0.980	0.9996	4,268,459
2,500 -	2,999	3,922,090	0.975	0.9996	3,822,508
3,000 -	3,499	3,504,027	0.970	0.9996	3,397,547
3,500 -	3,999	3,324,660	0.965	0.9996	3,207,014
4,000 -	4,499	3,276,167	0.960	0.9996	3,143,862
4,500 -	4,999	2,952,279	0.955	0.9996	2,818,299
5,000 -	& UP	732,064,338	0.950	0.9996	695,182,937

Deduct. Level (5)	# Claims >= Deduct Level (6)	Adj Losses < Deduct. Level (7) c	[(2)*(3)* (5)*(6)] (8)	Adj Tot Ded Collected (7)+(8) (9)
500	32,094	2,021,787	15,960,378	17,982,165
1,000	25,314	6,943,069	25,050,836	31,993,905
1,500	21,266	11,866,019	31,407,947	43,273,966
2,000	18,513	16,579,786	36,270,966	52,850,752
2,500	16,564	20,848,245	40,358,600	61,206,845
3,000	15,130	24,670,753	44,010,689	68,681,442
3,500	14,051	28,068,300	47,438,270	75,506,570
4,000	13,163	31,275,314	50,525,702	81,801,016
4,500	12,391	34,419,176	53,229,022	87,648,198
5,000	11,768	37,237,475	55,875,641	93,113,116

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
500	0.9851	0.9886
1,000	0.9728	0.9792
1,500	0.9629	0.9716
2,000	0.9545	0.9652
2,500	0.9471	0.9595
3,000	0.9406	0.9546
3,500	0.9346	0.9500
4,000	0.9290	0.9457
4,500	0.9239	0.9418
5,000	0.9191	0.9381

## 2017 DELAWARE DEDUCTIBLE STUDY

- a Adjustment factor for the amount of the deductible which will actually be reimbursed to the insurer by the insured.
- b Adjustment factor to put deductibles on a per occurrence basis instead of a per claim basis = 0.9996
- c Downward accumulation of Column (4).
- d Effect of deductible on Losses  

$$= [ A/B - Col(9) + P*C*Col(3) ] / (A/B)$$

A = Total incurred indemnity on death claims plus total incurred medical on all claims = sum of Column (4) =	732,420,412
B = Death indemnity losses plus all medical losses as a % of all losses = 0.643	
Per Table II 2017 , Sect C	
1.All Losses	1,123,260,655
2.Death Indem (00)	84,094
3.All Medical (00)	7,135,506
4.[((2)+(3))/(1)] * 100	0.643

C = # of death indemnity claims plus # of claims with some medical portion =	39,137
P = Processing expense per claim =	25.00
- e Effect of deductible on Manual Rate  

$$= [(Column (10) * permissible loss ratio) + fixed expenses] / (1 - variable expenses)$$

Fixed expenses = LAE + General + Admin	
=	0.1796
Variable expenses = Acquisition + P&C + Prem Tax + Workers' Comp. Fund + Misc. Tax + Prem Discount + Uncollectible Premium =	0.2366
Permissible Loss Ratio =	0.5838