

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 small decreases to the loss elimination ratios and premium credit factors currently in effect.

**2018 DELAWARE DEDUCTIBLE STUDY**

**Proposed Effective Date 12/1/18**

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9852	0.986	0.014	0.016
1,000	0.9729	0.974	0.026	0.028
1,500	0.9629	0.964	0.036	0.038
2,000	0.9544	0.956	0.044	0.046
2,500	0.9469	0.949	0.051	0.054
3,000	0.9403	0.943	0.057	0.060
3,500	0.9342	0.937	0.063	0.066
4,000	0.9285	0.932	0.068	0.071
4,500	0.9233	0.927	0.073	0.076
5,000	0.9184	0.922	0.078	0.081

Deduct. Level	Effect of Deductible on Man.Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9888	0.989	0.011	0.012
1,000	0.9796	0.980	0.020	0.021
1,500	0.9720	0.973	0.027	0.029
2,000	0.9656	0.967	0.033	0.035
2,500	0.9599	0.962	0.038	0.041
3,000	0.9550	0.957	0.043	0.046
3,500	0.9504	0.952	0.048	0.050
4,000	0.9461	0.949	0.051	0.054
4,500	0.9421	0.945	0.055	0.058
5,000	0.9384	0.941	0.059	0.062

**2018 DELAWARE DEDUCTIBLE STUDY**

Loss Range	Total Incurred Losses (1)	Adj Factor (2) a	Adj Factor (3) b	Adjusted Losses (1)*(2)*(3) (4)
0 - 499	1,951,636	1.000	0.9996	1,950,855
500 - 999	4,866,603	0.995	0.9996	4,840,333
1,000 - 1,499	4,846,907	0.990	0.9996	4,796,519
1,500 - 1,999	4,620,824	0.985	0.9996	4,549,691
2,000 - 2,499	4,426,770	0.980	0.9996	4,336,499
2,500 - 2,999	3,908,425	0.975	0.9996	3,809,190
3,000 - 3,499	3,628,402	0.970	0.9996	3,518,142
3,500 - 3,999	3,421,763	0.965	0.9996	3,300,680
4,000 - 4,499	3,390,591	0.960	0.9996	3,253,665
4,500 - 4,999	3,077,727	0.955	0.9996	2,938,054
5,000 - & UP	769,629,053	0.950	0.9996	730,855,141

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	32,142	1,950,855	15,984,249	17,935,104
1,000	25,461	6,791,188	25,196,307	31,987,495
1,500	21,519	11,587,707	31,781,605	43,369,312
2,000	18,864	16,137,398	36,958,651	53,096,049
2,500	16,890	20,473,897	41,152,907	61,626,804
3,000	15,463	24,283,087	44,979,331	69,262,418
3,500	14,345	27,801,229	48,430,857	76,232,086
4,000	13,432	31,101,909	51,558,248	82,660,157
4,500	12,633	34,355,574	54,268,601	88,624,175
5,000	11,984	37,293,628	56,901,230	94,194,858

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
500	0.9852	0.9888
1,000	0.9729	0.9796
1,500	0.9629	0.9720
2,000	0.9544	0.9656
2,500	0.9469	0.9599
3,000	0.9403	0.9550
3,500	0.9342	0.9504
4,000	0.9285	0.9461
4,500	0.9233	0.9421
5,000	0.9184	0.9384

## 2018 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  

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

A = Total incurred indemnity on death claims plus total incurred medical on all claims =	
sum of Column (4) =	768,148,769
B = Death indemnity losses plus all medical losses as a % of all losses =	0.672
Per Table II 2018 , Sect C	
1.All Losses	1,089,517,947
2.Death Indem (00)	89,999
3.All Medical (00)	7,232,536
4.[((2)+(3))/(1)] * 100	0.672
C = # of death indemnity claims plus # of claims with some medical portion =	38,834
P = Processing expense per claim =	25.00
- e Effect of deductible on Manual Rate  

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

Fixed expenses = LAE + General + Admin	
=	0.1917
Variable expenses = Acquisition + P&C + Prem Tax + Workers' Comp. Fund + Misc. Tax + Prem Discount + Uncollectible Premium =	0.2193
Permissible Loss Ratio =	0.5890