

DRAFT – Not yet approved by committees or 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 Delaware Ballroom I of the Sheraton Suites Wilmington, 422 Delaware Avenue, Wilmington, Delaware on Tuesday, July 15, 2003 at 10 a.m.

The following members were present:

Actuarial Committee

Ms. M. Gaillard	American Home Assurance Company
Mr. C. Cook	Continental Casualty Company
Ms. M. Sperduto	Harleysville Mutual Insurance Company
Ms. L. Doherty	Hartford Accident & Indemnity Company
Mr. P. DeMallie*	Liberty Mutual Insurance Company
Mr. S. Warfel	PMA Insurance Company

Classification and Rating Committee

Mr. I. Feuerlicht	American Home Assurance Company
Not Represented	Insurance Company of North America
Mr. P. DeMaillie*	Liberty Mutual Insurance Company
Mr. S. Foltz	National Federation of Independent Business
Mr. J. Fitzgerald**	New Castle County Chamber of Commerce
Ms. B. Flaherty	PMA Insurance Company
Ms. E. Graham	Travelers Property and Casualty Company
Not Represented	Zenith Insurance Company

Mr. T. Wisecarver	Chair - Ex Officio
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Also present were:

Mr. R. Stokes	Alliance of American Insurers
Mr. D. Reese	Delaware Department of Insurance
Ms. D. Hollifield	Delaware Workers Compensation Advisory Council
Mr. J. Johnson**	Delaware Workers Compensation Advisory Council
Mr. E. Doroshov**	Doroshov & Pasquale
Mr. S. Cooley	Duane Morris, LLP
Mr. J. Neidermyer	INS Consultants, Inc.
Mr. C. Kanefsky	Medical Society of Delaware
Ms. L. Martin	Travelers Property & Casualty Company
Mr. B. Rucci	Travelers Property & Casualty Company
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 only

The Antitrust Preamble was read at the beginning of the meeting for the benefit of all participants. Participants gave brief self-introductions. 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” and “Answer” exchanges in the description of the meeting proceedings following below.

ITEM (1) REVIEW OF THE PROPOSED DECEMBER 1, 2003 RESIDUAL MARKET RATE AND VOLUNTARY MARKET LOSS COST FILING

Participants had been provided in advance of the meeting with agenda materials providing supporting information, analysis and results of Bureau staff’s preparation of a residual market rate and voluntary market loss cost filing effective December 1, 2003. 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.

Overall Indicated Changes in Collectible and Manual Rating Values

Exhibit 12

Exhibit 12 was reviewed, highlighting estimates of historical ultimate on-level policy year loss and loss adjustment expense ratios (Lines (1a) through (1e)), 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)), comparison of the trended loss and loss adjustment expense ratio to a permissible loss and loss adjustment expense ratio based on econometric analysis (Lines (4) and (5)), and adjustment for estimated effects of the July 1, 2004 benefit change (Line (6)). In concert these parameters produced the indicated change in residual market rates (Line (7)).

The proposed change in 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.

Staff pointed out the proposed overall changes in residual market rates (7.08 percent reduction) and voluntary market loss costs (6.72 percent reduction).

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 9). The Bureau had then measured the collectible premium ratios that the Experience Rating Plan was expected to produce during the proposed rating period (Line 10). Using the relationships between these current and estimated future collectible premium ratios (Line 11), staff had derived indicated changes in manual residual market rates (Line 12). Indicated changes in manual voluntary market loss costs (Line 15) had been derived by also accounting for the nominal impact of offsetting voluntary market rating values for continuation of the approved surcharge program in the Delaware Insurance Plan (Line 14).

Loss Development

Exhibits 1, 2, 2a, 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 (Table I) provided summaries of financial data reported by Bureau members for the calendar years ending December 31, 1998 through 2002, 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.

Exhibit 2 presented premium and loss development experience from Table I, supplemented by age-to-age factors taken from calendar evaluations of financial data predating those included in Table I, 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 2.5 presented the derivation of estimates of ultimate indemnity loss and loss adjustment expense ratios for prior policy years using various loss development analyses.

Pages 2.6 through 2.9 presented the derivation of estimates of ultimate medical loss and loss adjustment expense ratios for prior policy years using the same loss development analyses as had also been applied to indemnity losses.

One loss development approach used in Exhibit 2 used case-incurred loss development only. An extensive series of alternative methods shown relied on paid-loss development for successively longer periods of initial development and then converted paid losses to an equivalent case-incurred value and applied case-incurred loss development for the remaining maturities to ultimate. An average of the estimates resulting from the case-incurred loss development method and the longest possible application of paid-loss development was also provided. In all, 21 different loss development methods had been applied by the Bureau in preparing the filing, with representative results from 15 of those methods shown in Exhibit 2.

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. The curves that had given better 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 loss development age-to-age factors in the proposed filing were described as follows:

Fifth order inverse polynomial. This curve has the following form:

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

This curve form was applied to smooth four-year average actual age-to-age link ratios for indemnity incurred loss development.

In the above expression, “y” represents the variable to be estimated (the age-to-age link ratios) and “x” is an index of the maturity for the observed and/or projected stages of policy year development for which the ratios were to be estimated. 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.

Fourth order inverse polynomial. This curve has the following form:

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

This curve form was applied to smooth four-year average actual age-to-age link ratios for indemnity paid loss development.

In the above expression, “y” and “x” are interpreted in the same fashion as previously described. 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.

Third order inverse polynomial. This curve has the following form:

$$y = a + b/x + c/x^2 + d/x^3$$

The third order logarithm was applied to smooth four-year average actual age-to-age indemnity incurred-to-paid ratios.

In the above expression, “y” and “x” are again interpreted in the same fashion as previously described. The terms “a,” “b,” “c” and “d” 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.

The following curve, which includes both linear and inverse polynomial terms:

$$y = a + b*x + c/x^2$$

The above function was applied to smooth eight-year average actual age-to-age link ratios for medical incurred loss development.

In the above expression, “y” and “x” are again interpreted in the same fashion as previously described. 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.

Fifth order logarithm. This curve has the following form:

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

The fifth order logarithm was applied to smooth four-year average actual age-to-age link ratios for medical paid losses.

In the above expression, “y” and “x” are again interpreted in the same fashion as previously described. 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.

The following curve, which includes both linear and inverse polynomial terms:

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

The above function was applied to smooth four-year average actual age-to-age link ratios for medical incurred-to-paid ratios.

In the above expression, “y” and “x” are again interpreted in the same fashion as previously described. The terms “a” and “b” 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.

Exhibit 2a provided graphical comparisons of the results of selected loss development approaches from the array of methods tested in the preparation of the filing separately for indemnity and medical losses.

Exhibit 2b provided additional graphs comparing the application of selected methods sequentially to the financial data available for the December 1, 2002 filing and the proposed filing. The presentations so provided had been adjusted for the effects of intervening rate and benefit changes and for differences in the observed relationships between loss-adjustment expense and loss in the 2002 and proposed filings. Thus, the comparisons were reflective only of differences in the underlying loss experience data used in these separate filings.

Staff reviewed pertinent portions of Exhibit 7 with the participants. Based on available unit statistical data, Exhibit 7 showed claim closure rates in recent years in Delaware. The exhibit further demonstrated that claim frequency had shown a persistent and significant improvement over several previous years. Ratios of paid losses to reported incurred loss and to selected estimates of ultimate incurred loss were provided, with staff noting that the financial data valuations at 12 months maturity were not used in producing ultimate estimates for proposed filings in Delaware. Average claim cost was a statistic that exhibited considerable volatility in this exhibit, owing 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. This choice of method produced results in the mid-range of all approaches tested.

Question: What is the residual market share in Delaware?

Answer: It is approximately 13 percent and continues to grow. Only a couple of years ago, the residual market represented only about five percent of all Delaware workers compensation business. Staff noted that specific discussion of the residual market would be provided later in the meeting.

Question: Does the Medical Payments page of Exhibit 1 show that Delaware workers compensation medical payouts have actually declined in recent years as compared to previous periods?

Answer: No. Reading Exhibit 1 from the top to the bottom, each successive policy year has had progressively fewer years of payments to accumulate the totals shown. Two factors contribute to the amounts presented for each policy year; the amounts of payments made each year and the number of years over which payments have been made. Policy years at the bottom of this exhibit's columns represent new claims with relatively few years' of payments made to date, while policy years shown at the top of this exhibit's columns represent older claims with substantially longer periods of payment history included in their totals.

Question: In light of the explanation given concerning financial data and the process of matching sets of companies at successive annual evaluations for purposes of loss development, staff was asked whether a similar process applied for unit statistical data?

Answer: No. In compiling unit statistical data, all reporting companies have been used at each evaluation.

Question: Has the Bureau evaluated the causes of the indicated rate level change? For instance, how much of the indicated change results from indemnity development, how much from medical development and how much from claim frequency?

Answer: The Bureau has reviewed the proposed indication and has attributed components thereof to specific causes. This analysis recognizes indemnity and medical benefits, and for each of those types of benefits separately reviews loss experience and trend. There are also several expense-related components contributing to the overall rate level indication.

The Bureau's analysis shows that indemnity experience (including loss development and changes in trend to the mid-point of the current rate schedule) accounts for about four points of the overall indicated reduction. The loss adjustment expense provision declined to the extent that the overall rate level indication was reduced by about two points, and medical loss experience (defined in the same fashion as indemnity experience above) contributed about one point of overall reduction. The several other components identified by the Bureau had very small affects on the overall rate level indication.

Question: Did the Bureau consider using anything other than a four-year average in arriving at the selected loss development factors?

Answer: Yes, although that consideration had not been carried to the point of producing alternative rate level indications based on other possible approaches. It was noted that, because of observed volatility in year-to-year factors, an eight point average had been used in computing the medical loss development tail factor. Considering the somewhat conflicting objectives of reflecting recent experience and stabilizing the observed loss development patterns, the four-year average factors had been used consistent with prior years' filings. Staff further observed that the indicated loss development factors produced by the selected approaches had been smoothed using curve-fitting techniques before applying development factors in the Bureau analysis.

Question: Is the loss development pattern shown in Exhibit 2b typical of other recent filings?

Answer: Yes. Last year's filing had results similar to those of Exhibit 2b. The Bureau had reviewed loss development changes over the last five rate revisions as part of its analysis in producing the proposed rate level revision. That review had not disclosed persistent upward or downward patterns. For the current filing, the biggest development changes by far had occurred in the last two complete policy years from the December 1, 2002 filing.

Question: Does the Bureau look at data by accident year in order to see a slightly more current body of experience?

Answer: No, the Bureau does not collect data by accident year. However, Bureau staff had produced a preliminary estimate of experience for the partial Policy Year 2002 in developing the proposed filing. That analysis showed some level of increase from 2001 but not up to the 1999-2000 levels.

Comment: Other jurisdictions use anywhere from two to five years. Many jurisdictions are using paid loss development as the preferred method for estimating ultimate loss. Also, the Bureau could consider using weights for successive development factors, such as 10 percent for the fourth most recent year, 20 percent for the third most recent year, 30 percent for the second most recent year and 40 percent for the most recent year.

Question: Does the Bureau have information that addresses relative case reserve adequacy over time in Delaware?

Answer: Staff pointed to Exhibit 7, which showed ratios of paid loss to reported incurred loss and paid loss to estimated ultimate loss.

In discussion it became evident that some part(s) of Exhibit 7 appeared to be incorrect. Staff promised to review the calculations supporting that exhibit and to revise it as indicated.

Trend

Exhibits 2, 3a, 3b, 5 and 6

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

Pages 2.5 (indemnity) and 2.17 (medical) from Exhibit 2 provided estimated ultimate on-level loss ratios for various tested loss-development approaches. In each case, reported indemnity claim frequencies by policy year had been used to state policy year indemnity or medical loss ratios from 1989 forward on a constant frequency basis, and these restated ratios were labeled as “severity ratios.” These historical severity ratios had then been trended using both linear and exponential trend models applied to various numbers of policy year severity ratios. Page 2.26 gave annual severity ratio trend rates consistent with linear and exponential trend models applied to various numbers of policy year severity ratios separately for indemnity and medical losses.

Exhibit 3 showed various measures of the goodness-of-fit obtained by applying linear and exponential trend models to varying numbers of policy year severity ratio points from the various 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 6a applied the tested trend methods to project policy year loss 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 loss ratios. In general, staff observed that the historical loss ratios were substantially variable and random, and, consequently, trend methods did not appear to give consistently accurate predictions of subsequent loss ratios.

Exhibit 6b applied the tested trend methods to project policy year 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. In general, staff observed that the historical severity ratios were somewhat more useful in predicting subsequent severity ratios than historical loss ratios were in predicting subsequent loss ratios.

Exhibit 5 showed graphs of indemnity and medical severity ratios based on the Bureau's selected loss development approaches. After consideration of the collective information discussed above, staff had selected an annual severity ratio trend of approximately +5.3 percent for use in projecting for indemnity loss ratios and had selected an annual severity ratio trend of approximately +9.0 percent for use in projecting medical loss ratios.

The selected severity trend ratios had been derived by application of an exponential trend model to the most recent seven available policy year severity ratios. Consistent with this approach, the Bureau had derived a historical indemnity claim frequency trend by application of an exponential trend model through observed indemnity claim frequencies over the same seven policy years. 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.

The fitted and projected loss ratio points based on the selected trends and models were superimposed on Exhibit 5 as dashed lines through and extending beyond the policy year loss ratios from which they had been derived.

Question: How are the expected losses used to compute claim frequencies in Exhibit 23 derived?

Answer: These values are based on unit statistical plan data and are computed by extending total payrolls in each risk classification times current residual market rates.

It was noted in discussion that workplace injuries were at an all time low in many jurisdictions in addition to Delaware.

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

The first four items noted above were reviewed over the three calendar years, 1999, 2000 and 2001. 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 2000, the most recent available year from unit statistical data.

Exhibit 8 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 \$235 was based on the currently-approved value of \$230 and recognition of the effects of wage inflation since approval of the current value.

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, 2004. 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 8. Key outputs derived there from for use in the proposed filing were:

- Permissible loss ratio, including loss-adjustment expense and loss-based assessments – 73.47 percent
- Profit and contingencies – minus 3.57 percent

Staff noted that the profit and contingencies provision proposed in the filing was only nominally different from the provision in currently-approved rates (minus 3.45 percent).

Question: Did the Bureau consider the distinction between allocated and unallocated loss adjustment expenses in its analysis of expenses?

Answer: Yes. The Bureau's analysis included a review of five years of allocated and unallocated loss adjustment expense data. However, in the expense study and in the filing, loss adjustment expense provisions are treated on a combined basis.

Question: How is the value for Pre-Tax Return on Assets (Exhibit 9, line 9A) determined?

Answer: The calculation of the value in question is documented in the "Pre-and Post-Tax Returns" page of Exhibit 9. This analysis is essentially a modeling of expected returns for an aggregate industry portfolio taken from reported industry data.

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 very slightly lower than those incorporated in the last Delaware filing (29.25 percent as compared to 29.48 percent last year).

Delaware Insurance Plan

Exhibit 19

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

Experience Rating

Exhibits 13, 20 and 21

Staff discussed pending changes to the Experience Rating Plan in Pennsylvania and noted that, when revisions had been approved for Pennsylvania, it was expected that counterpart proposals would be studied for possible incorporation into future Delaware filings.

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 and that the most recent two years' collectible premium ratios were generally notably higher than those of the oldest year shown on Exhibit 20. 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.

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 adjustment of the table of qualifying wages for recent wage inflation was reviewed for the participants. Staff noted that the proposed effective date for revisions to the DCCPAP was January 1, 2004.

Rating Values Based on Size-of-Loss Analyses

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

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)

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.

Retrospective Rating

Exhibits 24 and 25

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.

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 2.11 percent adjustment to manual rating values.

Classification Relativities

Exhibits 15, 22A, 22B, 22C, 26, 27, 28, Class Book, 30, 31A and 31B

Exhibit 15 described the formulae and procedures used for analysis of classification experience in the proposed filing. Staff commented on ongoing enhancements to classification analysis procedures that would increasingly allow distributions of pure premiums to respond to underlying shifts in observed data and a secondary capping procedure intended to avoid large fluctuations about the average changes in rating values from year-to-year. This latter procedure, while applied in the proposed filing, had only affected the proposed rating value for three 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 trended and developed to an ultimate basis, Exhibit 22B showed losses developed to an ultimate basis but not trended, and Exhibit 22C showed reported losses without trend or loss development applied.

Exhibit 28 provided parameters derived for and applied in the execution of the prescribed procedures. 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.

Five of the referenced exhibits were noted as providing various summaries of the results of the Bureau's derivation of proposed classification rating values. Exhibit 26 showed current, indicated and proposed residual market rates before DCCPAP and applicable surcharges for the Workplace Safety Program and Rating Plan. This exhibit also showed percentage changes in proposed rates before the DCCPAP, Workplace Safety Program and Merit Rating Plan surcharges and final proposed residual market rates. All classes were identified by code on Exhibit 26. 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 provided the same data as Exhibit 26 but added brief classification descriptions. Exhibit 31A was shown sorted by classification code number. Exhibit 31B was shown sorted in ascending sequence by proposed percentage change.

Minimum and Maximum Corporate Officer Payrolls

A staff memorandum and proposed Manual language revisions updating the current limitations on payrolls reported by corporate officers for premium determination purposes was referenced. That memorandum was part of the initial mailing of agenda materials for the meeting. With the proposed revisions, staff noted that these parameters had been brought into conformance with prevailing wage levels intended to be used as ongoing benchmarks for maintenance of these Manual values.

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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DEActuCmt, DEC&RCmt