

DELAWARE COMPENSATION RATING BUREAU, INC.

Small Deductible Program

The attached exhibits review the impact of deductibles on loss costs and residual market manual rates. Indications suggest reductions in loss elimination ratios at all deductible levels. Staff selections for loss elimination ratios and premium credit factors are consistent with those indications.

2006 DELAWARE DEDUCTIBLE STUDY

Proposed Effective Date 12/1/06

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9833	0.980	0.020	0.025
1,000	0.9682	0.960	0.040	0.045
1,500	0.9560	0.945	0.055	0.060
2,000	0.9458	0.935	0.065	0.070
2,500	0.9372	0.925	0.075	0.080
3,000	0.9297	0.920	0.080	0.090
3,500	0.9230	0.910	0.090	0.100
4,000	0.9169	0.905	0.095	0.110
4,500	0.9113	0.900	0.100	0.115
5,000	0.9061	0.895	0.105	0.120

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9861	0.985	0.015	0.020
1,000	0.9736	0.965	0.035	0.035
1,500	0.9634	0.955	0.045	0.050
2,000	0.9550	0.945	0.055	0.060
2,500	0.9478	0.935	0.065	0.065
3,000	0.9416	0.930	0.070	0.075
3,500	0.9361	0.925	0.075	0.085
4,000	0.9310	0.920	0.080	0.090
4,500	0.9264	0.915	0.085	0.095
5,000	0.9221	0.910	0.090	0.100

2006 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	1,682,398	1.000	0.9996	1,681,725
500 -	999	7,486,507	0.995	0.9996	7,446,095
1,000 -	1,499	9,631,143	0.990	0.9996	9,531,018
1,500 -	1,999	10,019,291	0.985	0.9996	9,865,054
2,000 -	2,499	9,608,166	0.980	0.9996	9,412,236
2,500 -	2,999	8,335,345	0.975	0.9996	8,123,711
3,000 -	3,499	7,214,297	0.970	0.9996	6,995,069
3,500 -	3,999	6,521,884	0.965	0.9996	6,291,101
4,000 -	4,499	5,916,008	0.960	0.9996	5,677,096
4,500 -	4,999	5,515,177	0.955	0.9996	5,264,887
5,000 -	& UP	1,212,886,002	0.950	0.9996	1,151,780,805

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)
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500	55,839	1,681,725	27,768,791	29,450,516
1,000	45,909	9,127,820	45,431,730	54,559,550
1,500	38,116	18,658,838	56,293,863	74,952,701
2,000	32,344	28,523,892	63,368,882	91,892,774
2,500	28,056	37,936,128	68,359,145	106,295,273
3,000	25,010	46,059,839	72,749,988	118,809,827
3,500	22,780	53,054,908	76,908,674	129,963,582
4,000	21,036	59,346,009	80,745,929	140,091,938
4,500	19,644	65,023,105	84,386,322	149,409,427
5,000	18,482	70,287,992	87,754,384	158,042,376

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
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500	0.9833	0.9861
1,000	0.9682	0.9736
1,500	0.9560	0.9634
2,000	0.9458	0.9550
2,500	0.9372	0.9478
3,000	0.9297	0.9416
3,500	0.9230	0.9361
4,000	0.9169	0.9310
4,500	0.9113	0.9264
5,000	0.9061	0.9221

2006 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) = 1,222,068,797

B = Death indemnity losses plus all medical losses as a % of all losses = 0.733

Per Table II 2006 , Sect C

1.All Losses 1,783,738,786

2.Death Indem (00) 134,429

3.All Medical (00) 12,944,854

4.[((2)+(3))/(1)] 0.733

*100

C = # of death indemnity claims plus # of claims with some medical portion = 61,699

P = Processing expense per claim = 25.00

- e Total effect of deductible
= [(Column (10) * permissible loss ratio) + fixed expenses] / (1 - variable expenses)

Fixed expenses = LAE + General + Admin

= 0.1295

Variable expenses = Acquisition + P&C + Prem Tax + Workers' Comp. Fund + Misc. Tax + Prem Discount

+ Uncollectible Premium = 0.2373

Permissible Loss Ratio = 0.6332