

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.

2007 DELAWARE DEDUCTIBLE STUDY

Proposed Effective Date 12/1/07

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9837	0.980	0.020	0.020
1,000	0.9691	0.965	0.035	0.040
1,500	0.9572	0.955	0.045	0.055
2,000	0.9472	0.945	0.055	0.065
2,500	0.9387	0.935	0.065	0.075
3,000	0.9313	0.930	0.070	0.080
3,500	0.9246	0.920	0.080	0.090
4,000	0.9186	0.915	0.085	0.095
4,500	0.9130	0.910	0.090	0.100
5,000	0.9078	0.905	0.095	0.105

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9864	0.985	0.015	0.015
1,000	0.9742	0.970	0.030	0.035
1,500	0.9642	0.960	0.040	0.045
2,000	0.9558	0.955	0.045	0.055
2,500	0.9487	0.945	0.055	0.065
3,000	0.9425	0.940	0.060	0.070
3,500	0.9369	0.935	0.065	0.075
4,000	0.9319	0.930	0.070	0.080
4,500	0.9272	0.925	0.075	0.085
5,000	0.9229	0.920	0.080	0.090

2007 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	1,615,164	1.000	0.9996	1,614,518
500 -	999	7,202,707	0.995	0.9996	7,163,827
1,000 -	1,499	9,132,634	0.990	0.9996	9,037,691
1,500 -	1,999	9,444,082	0.985	0.9996	9,298,700
2,000 -	2,499	8,976,684	0.980	0.9996	8,793,631
2,500 -	2,999	8,099,701	0.975	0.9996	7,894,050
3,000 -	3,499	6,957,020	0.970	0.9996	6,745,610
3,500 -	3,999	6,337,770	0.965	0.9996	6,113,502
4,000 -	4,499	5,792,187	0.960	0.9996	5,558,275
4,500 -	4,999	5,269,939	0.955	0.9996	5,030,779
5,000 -	& UP	1,264,867,602	0.950	0.9996	1,201,143,572

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	54,092	1,614,518	26,900,006	28,514,524
1,000	44,473	8,778,345	44,010,659	52,789,004
1,500	37,095	17,816,036	54,785,939	72,601,975
2,000	31,665	27,114,736	62,038,575	89,153,311
2,500	27,652	35,908,367	67,374,789	103,283,156
3,000	24,689	43,802,417	71,816,252	115,618,669
3,500	22,544	50,548,027	76,111,903	126,659,930
4,000	20,851	56,661,529	80,035,813	136,697,342
4,500	19,484	62,219,804	83,698,997	145,918,801
5,000	18,372	67,250,583	87,232,093	154,482,676

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
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500	0.9837	0.9864
1,000	0.9691	0.9742
1,500	0.9572	0.9642
2,000	0.9472	0.9558
2,500	0.9387	0.9487
3,000	0.9313	0.9425
3,500	0.9246	0.9369
4,000	0.9186	0.9319
4,500	0.9130	0.9272
5,000	0.9078	0.9229

2007 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) = 1,268,394,155

B = Death indemnity losses plus all medical losses as a % of all losses = 0.764

Per Table II 2007 , Sect C

1.All Losses	1,827,423,352
2.Death Indem (00)	82,475
3.All Medical (00)	13,877,527
4.[((2)+(3))/(1)]	0.764
*100	

C = # of death indemnity claims plus # of claims with some medical portion = 59,765

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
= 0.1298

Variable expenses = Acquisition + P&C + Prem Tax
+ Workers' Comp. Fund + Misc. Tax + Prem Discount
+ Uncollectible Premium = 0.2067
Permissible Loss Ratio = 0.6635