

DELAWARE COMPENSATION RATING BUREAU, INC.
F CLASS FILING

Tax Multiplier

Enclosed is a calculation of the tax multiplier for use in retrospective rating associated with F Class coverages.

**CALCULATION OF TAX MULTIPLIER FOR USE IN RETROSPECTIVE RATING PLANS
(U.S.L. & H.W. Act Coverages)**

Expense Provisions for U.S.L. & H.W. Classes

Losses	54.54
Loss Adjustment Expense	<u>6.76</u>
Loss & Loss Adjustment	61.30
Premium Discount	8.33
Acquisition	9.58
General Expenses	3.17
Profit and Contingencies	0.83
Taxes	2.36
Uncollectible Premium	2.00
Federal Assessment	<u>12.43</u>
	38.70

If

- T = Tax multiplier
- E = Expense provision in rates (General, Acquisition, and Profit), less premium discount
- L = Loss provision in rates
- C = Loss conversion factor
- B = Assessments made on premiums
- A = Assessments made on losses (adjusted so as not to collect profit and general expense dollars on the extra premium generated by the assessments)

Using average discount (Schedule Y) this yields:

$$E = 0.0525 = 0.0958 \text{ (ACQ)} + 0.0317 \text{ (GEN)} + 0.0083 \text{ (PROFIT)} - 0.0833 \text{ (PREM DISC)}$$

$$A = 0.2220 = 0.2279 \times \frac{1 - 0.0525 - 0.0436}{1 - 0.0284 - 0.0436}$$

Then

$$T = \frac{E + L(1 + C + A)}{E + L(1 + C)} \times \frac{1}{1 - B - S}$$

$$S = \text{Delaware Insurance Plan Subsidy} = 0.0045$$

$$T = \frac{0.0525 + 0.5454(1 + 0.1239 + 0.2220)}{0.0525 + 0.5454(1 + 0.1239)} \times \frac{1}{1 - 0.0436 - 0.0045} = 1.2417$$