

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

**2011 DELAWARE DEDUCTIBLE STUDY**

**Proposed Effective Date 12/1/11**

Deduct. Level	Effect of Deductible on Losses	Selected	Loss Elimination Ratio	Current Loss Elimination Ratio
		(12)	(13)	(14)
500	0.9839	0.980	0.020	0.020
1,000	0.9698	0.965	0.035	0.035
1,500	0.9583	0.955	0.045	0.050
2,000	0.9486	0.945	0.055	0.060
2,500	0.9403	0.935	0.065	0.070
3,000	0.9331	0.925	0.075	0.075
3,500	0.9266	0.920	0.080	0.085
4,000	0.9206	0.915	0.085	0.090
4,500	0.9151	0.910	0.090	0.095
5,000	0.9100	0.905	0.095	0.100

Deduct. Level	Effect of Deductible on Man. Rate	Selected	Premium Credit	Current Premium Credit
		(15)	(16)	(17)
500	0.9873	0.985	0.0150	0.0150
1,000	0.9762	0.975	0.0250	0.0300
1,500	0.9671	0.965	0.0350	0.0400
2,000	0.9595	0.955	0.0450	0.0500
2,500	0.9530	0.945	0.0550	0.0550
3,000	0.9473	0.940	0.0600	0.0650
3,500	0.9422	0.935	0.0650	0.0700
4,000	0.9374	0.930	0.0700	0.0750
4,500	0.9331	0.925	0.0750	0.0800
5,000	0.9291	0.920	0.0800	0.0850

**2011 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	1,727,874	1.000	0.9996	1,727,183
500 -	999	5,861,720	0.995	0.9996	5,830,078
1,000 -	1,499	7,245,875	0.990	0.9996	7,170,547
1,500 -	1,999	7,430,966	0.985	0.9996	7,316,574
2,000 -	2,499	7,189,353	0.980	0.9996	7,042,748
2,500 -	2,999	6,090,598	0.975	0.9996	5,935,958
3,000 -	3,499	5,452,304	0.970	0.9996	5,286,619
3,500 -	3,999	4,951,399	0.965	0.9996	4,776,189
4,000 -	4,499	4,608,088	0.960	0.9996	4,421,995
4,500 -	4,999	4,076,201	0.955	0.9996	3,891,215
5,000 -	& UP	970,162,215	0.950	0.9996	921,285,443

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	43,635	1,727,183	21,699,729	23,426,912
1,000	35,642	7,557,261	35,271,466	42,828,727
1,500	29,816	14,727,808	44,035,519	58,763,327
2,000	25,541	22,044,382	50,040,336	72,084,718
2,500	22,324	29,087,130	54,392,984	83,480,114
3,000	20,100	35,023,088	58,467,604	93,490,692
3,500	18,419	40,309,707	62,185,288	102,494,995
4,000	17,096	45,085,896	65,622,381	110,708,277
4,500	16,009	49,507,891	68,771,158	118,279,049
5,000	15,150	53,399,106	71,933,715	125,332,821

Deduct. Level (5)	Effect of Deductible on Losses (10) d	Effect of Deductible on Manual Rate (11) e
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500	0.9839	0.9873
1,000	0.9698	0.9762
1,500	0.9583	0.9671
2,000	0.9486	0.9595
2,500	0.9403	0.9530
3,000	0.9331	0.9473
3,500	0.9266	0.9422
4,000	0.9206	0.9374
4,500	0.9151	0.9331
5,000	0.9100	0.9291

## 2011 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) = 974,684,549

B = Death indemnity losses plus all medical losses as a % of all losses = 0.707

Per Table II 2011 , Sect C

1.All Losses	1,556,228,975
2.Death Indem (00)	223,290
3.All Medical (00)	10,773,884
4.[((2)+(3))/(1)]	0.707
*100	

C = # of death indemnity claims plus # of claims with some medical portion = 49,705

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

= 0.1630

Variable expenses = Acquisition + P&C + Prem Tax  
+ Workers' Comp. Fund + Misc. Tax + Prem Discount  
+ Uncollectible Premium = 0.2319  
Permissible Loss Ratio = 0.6051