



October 14, 2016 **REVISED OCTOBER 17, 2016**

DCRB CIRCULAR NO. 924

To All Members of the DCRB:

Re: **WORKERS COMPENSATION RESIDUAL MARKET RATES**
AND VOLUNTARY MARKET LOSS COSTS
EFFECTIVE DECEMBER 1, 2016
AMENDED DCRB FILING NO. 1603

**NOTE: THIS CONTAINS PROVISIONS REGARDING CARRIER RATE FILINGS.
CARRIER ACTION IS REQUIRED AND DUE BY DECEMBER 13, 2016.**

On October 14, 2016, Delaware Insurance Commissioner Karen Weldin Stewart approved DCRB Amended Filing No. 1603, with overall changes of 0.0% in residual market rates and 0.0% in voluntary market loss costs, effective on a new and renewal basis on December 1, 2016.

DCRB Filing No. 1603, as originally submitted, proposed average increases of 3.18% in residual market rates and 1.68% in voluntary market loss costs. The Delaware Department of Insurance (the Department) performed an extensive review of DCRB Filing No. 1603, including independent reviews of the filing by two actuarial consulting firms. The Ratepayer Advocate, appointed by the Workers Compensation Oversight Panel in accordance with Delaware legislation, also reviewed the filing and retained a third independent actuary. The Department held a public information session on September 20, 2016, to allow discussion of the processes used by the Department, the Ratepayer Advocate, and the DCRB. The public information session, and a public hearing held on October 11, 2016, invited comments from interested parties. In discussions between the Department, the Ratepayer Advocate and the DCRB, it was agreed that the DCRB would submit an amended filing requesting average changes of 0.0% in both residual market rates and voluntary market loss costs.

**THE FOLLOWING BOLD TEXT DESCRIBES SPECIFIC CARRIER ACTIONS
APPLICABLE TO DCRB FILING NO. 1603.**

For carrier adoptions of DCRB Amended Filing No. 1603 without changes to loss cost multipliers or any other pricing feature(s), the Department has advised the DCRB that it will accept abbreviated filings submitted with the applicable filing fee (\$100) through the SERFF system.

These abbreviated filings must include the following language in the General Information section of the SERFF forms:

"The company is adopting the DCRB's revised loss costs as approved under DCRB Amended Filing No. 1603 with no change to the company's current Loss Cost Multiplier of _____ or other rating values. The effective date of this adoption is _____, consistent with the calendar date of our adoption of DCRB Filing No. 1502."

The loss cost multiplier required to be inserted in the first blank of the above language is the loss cost multiplier shown on the first page of the most recent FORMS AND RATES BULLETIN 14 INCORPORATED that the carrier has filed with the Department. The date to be entered in the second blank is one year after the effective date upon which the carrier adopted the DCRB's December 1, 2015 filing.

Filings made in conformance with all of the above provisions will be given expedited handling at the Department and will not be subject to review by the Department's independent actuarial firm.

If a carrier wishes to change any loss cost multiplier(s) and/or any other pricing features effective with its adoption of DCRB Amended Filing No. 1603, or if the carrier elects not to follow the abbreviated filing procedures set forth above, then the carrier must file an amended (or re-file their existing) Insurer Adoption of DCRB Workers' Compensation Loss Costs form with the Department to adopt the revised loss costs on a new and renewal basis on or after December 1, 2016.

Carrier rate filings, regardless of whether or not they are made using the abbreviated filing procedure, must be made within 60 days of the date of the Commissioner's approval of DCRB Amended Filing No. 1603, or by December 13, 2016. Carriers are encouraged to make every effort to expedite the preparation and submission of their adoption filings in order to establish revised rates in the market as soon as reasonably possible.

A copy of the Department's "FORMS AND RATES BULLETIN 14 INCORPORATED" with forms applicable to these filings is attached for member reference and use.

Consistent with the provisions of Title 18, Chapter 26 of the Delaware Code, if insurer filings do not propose any rate(s) lower than the loss costs (by classification) included in the amended DCRB Filing No. 1603, then proposed insurer rates may be implemented immediately after filing.

The following table indicates the final approved overall average changes in rating values:

Rating Value(s)	Approved Overall Average Change
Residual Market Rates – Collectible	0.00%
Residual Market Rates – Manual	+1.99%
Voluntary Market Loss Costs – Collectible	0.00%
Voluntary Market Loss Costs – Manual (After Surcharge Offset)	+2.22%

The approved residual market rates and voluntary market loss costs share common loss provisions based on the same loss development and trend analyses applied to statewide Delaware experience. However, based on the agreement described above, the DCRB has submitted residual market rates and voluntary market loss costs that do not maintain the differential used, as in prior filings, to reflect revisions in expense provisions. In the original Filing No. 1603, the DCRB proposed changes in residual market rates and voluntary market loss costs that reflected revisions in expense provisions. This impacts the implied loss cost multiplier (LCM) for residual market rates in the amended filing, keeping it the same as the implied LCM underlying current rates and loss costs.

Three implied loss cost multipliers are shown below. The first is based on current rates and loss costs. Due to the agreement that resulted in the amended filing, this implied LCM is also applicable to the amended and approved rates and loss costs. The second is the implied LCM based on the rates and loss costs in the original Filing No. 1603, and would have applied if the impact of the change in expense levels was included in the final approved filing. The third reflects the nominal reduction in voluntary market loss costs due to the effects of the Delaware Insurance Plan surcharge program.

Implied Loss Cost Multipliers	
Underlying Current (and Approved) Values	1.4081
Underlying The Originally Proposed Values in Filing No. 1603	1.4288
Underlying the Approved Values, Reflecting the DIP Surcharge Program	1.4216

A comparison of residual market expense provisions underlying the current and originally proposed rates follows. This is presented for informational purposes, to show the latest analysis of expenses.

RESIDUAL MARKET RATES		
Expense Profiles		
	Current Percentage	Originally Proposed Percentage
LOSS AND LOSS ADJUSTMENT EXPENSE		
Losses	57.34	56.50
Loss Adjustment Expense	11.46	11.59 a
Loss & LAE Total	68.80	68.09
UNDERWRITING EXPENSES		
Commission	6.14	5.56
Other Acquisition	2.74	2.56
General Expense	3.20	3.63
Premium Discount	8.95	8.62
State Premium Tax	2.00	2.00
Other State Tax	0.33	0.32
Uncollectible Premium	0.80	1.32
Administrative Assessment	2.22	1.90 b
Workers Compensation Fund	3.00	2.00
Deviations	0.00	0.00
Policyholder Dividends	0.00	0.00
Underwriting Profit	1.82	4.00
Underwriting Expense Total	31.20	31.91
a – As a ratio to loss, the Loss Adjustment Expense ratio = 0.2052		
b – As a ratio to loss, the Administrative Assessment ratio = 0.0337		

Several components of the filing were approved as filed effective December 1, 2016. In particular, each of the following components of the filing was approved as originally presented:

- Updates to corporate officer payroll minimums and maximums for premium computation purposes
- Continuation of the existing DIP surcharge program
- DCCPAP qualifying wage table **effective June 1, 2017**
- Residual market expense constant
- Residual market minimum premium formula
- Excess loss factors
- Excess loss premium factors
- Retrospective rating
- Small Deductible Program
- Workplace Safety Program
- Merit Rating Plan

REVISIONS TO RATING VALUES

The rates, loss costs, expected loss factors by classification, and other rating values, consistent with the Insurance Commissioner's approval of DCRB Amended Filing No. 1603, are available in the December 1, 2016 Filing Section of the DCRB website, as follows:

Manual Rates, Loss Costs and Expected Loss Factors	Exhibit 27
Residual Market Expense Constant	Exhibit 11
Retrospective Rating Values (Other than USL&HW Coverages)	
Residual Market Tax Multiplier	Exhibit 25
Optional Loss Development Factors	Exhibit 24
State & Hazard Group Relativities	Exhibit 18
Small Deductible Program Loss Elimination Ratios and Premium Credits	Exhibit 16
DCCPAP Credits, Effective June 1, 2017	Exhibit 14
Excess Loss Pure Premium Factors	Exhibit 17b
Excess Loss Pure Premium Factors Including ALAE	Exhibit 17c
Excess Loss Premium Factors	Exhibit 17d
Excess Loss Premium Factors Including ALAE	Exhibit 17e

Complete Manual pages consistent with the Insurance Commissioner's approval of DCRB Amended Filing No. 1603 will be available on the DCRB website (www.dcrb.com) as soon as possible. Separate filings that will also be effective on December 1, 2016 have been announced in Circulars 921 and 922, which are also available on the DCRB website.

Any questions concerning this circular may be addressed to Kenneth Creighton, Chief Actuary, at Extension 4924 or kcreighton@dcrb.com, John Pedrick, Vice President - Actuarial Services, at Extension 4429 or jpedrick@dcrb.com or to me at Extension 4413 or wtaylor@dcrb.com.

William V. Taylor
President

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Attachments
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FORMS AND RATES BULLETIN 14 INCORPORATED

Submission Date: _____

DCRB Reference Filing No.: _____

Applicable to policies effective on and after: _____

INSURER NAME: _____

INSURER NAIC NO.: _____ INDICATED MULTIPLIER: _____

The above insurer hereby declares that it is a member or subscriber of the Delaware Compensation Rating Bureau ("DCRB"). The insurer hereby files to be deemed to have independently submitted as its own filing the prospective loss costs in the captioned reference filing.

The insurer's rates will be the combination of the DCRB loss costs approved by the Delaware Insurance Department and the company's indicated multiplier, as shown above, along with any expense contract, premium discount table, size-of-premium expense table for retrospective rating plans, and minimum premium formula specified in the company's attached manual exception pages.

The indicated multiplier, along with any expense constant, premium discount table and the minimum premium formula filed, represent a rate level increase _____ or decrease _____ of _____% and a premium level increase _____ or decrease _____ of _____%.

The indicated multiplier and the attached exception pages apply only to the DCRB reference filing indicated above. The insurer understands that this will necessitate the submission of a new adoption form and exception pages prior to the effective date of any future loss costs reference filing.

**SUMMARY OF SUPPORTING INFORMATION
WORKERS' COMPENSATION LOSS COST MULTIPLIER**

Insurer: _____ NAIC No.: _____
 DCRB Reference Filing No.: _____
 Effective Date of Multiplier: _____

Development of Expected Loss Ratio (Expressed as a percent of standard premium at company rate):

		AVERAGE
A.	Commission	_____ %
B.	Other Acquisition	_____ %
C.	General Expense	_____ %
D.	Taxes, Licenses and Fees	_____ %
E.	Underwriting Profit & Contingencies	_____ %
F.	Residual Market Costs	_____ %
G.	Premium Discount	_____ %
H.	Insurance Fund Assessment (Second Injury Fund)	_____ %
I.	Dividend Provision (Participating Plan)	_____ %
J.	Other (Explain)	_____ %
K.	Total	_____ %
Expected Loss Ratio (100%-K)		_____ %

Actual Incurred Expense Ratios for three (3) most recent available years. (Commission and General Expense expressed as a percent of written premium at company rates. Other components expressed as percents of standard earned premium at company rates).

		CY _____	CY _____	CY _____	AVERAGE
A.	Commission	_____	_____	_____	_____
B.	Other Acquisition	_____	_____	_____	_____
C.	General Expense	_____	_____	_____	_____
D.	Taxes, Licenses & Fees	_____	_____	_____	_____
E.	Underwriting Profit & Contingencies	_____	_____	_____	_____
F.	Residual Market Costs	_____	_____	_____	_____
G.	Premium Discount	_____	_____	_____	_____
H.	Insurance Fund Assessment (Second Injury Fund)	_____	_____	_____	_____
I.	Dividend Provision (Participating Plan)	_____	_____	_____	_____
J.	Other (Explain)	_____	_____	_____	_____
K.	Total	_____	_____	_____	_____

Indicated Company Loss Cost Multiplier: _____

Example: Assume Loss and Loss Adjustment Ratio is 0.650.

Loss Cost Multiplier with no deviation is $1.0/0.650 = 1.5385$.

Loss Cost Multiplier with 15% downward deviation is $0.85/0.650 = 1.3077$.

Loss Cost Multiplier with 15% upward deviation is $1.15/0.650 = 1.7692$.

COMPLETED BY: _____ TELEPHONE NO.: _____

NOTE: If an insurer wishes to make any modifications to the loss costs led by DCRB (other than the application of a multiplier to represent the insurer's expenses, profit and contingencies), the resulting rates will be considered to be independent rates, and shall be subject to the 30 day review provision of Title 18 Del. C., Section 2610.

CHECK ALL THAT APPLY:

Manual exception pages attached for:

☐ **Minimum Premium Formula**

☐ **Expense Constant**

☐ **Discount Table**

☐ **Retro Expense Table**

**REVISED LOSS COST MULTIPLIER CALCULATION
SPREADSHEET TO BE INCORPORATED WITH
BULLETIN 14**

Workers' Compensation Insurance
Loss Cost Multiplier
General Instructions

Commissions, premium tax and other state tax provisions are to reflect the ratio of commissions paid, premium tax paid and other state tax paid to company manual premium.

Other acquisition and general expense are to reflect the ratio of other acquisition expense paid and general expense paid to company standard earned premium. Standard earned premium is to reflect adjustment for expense constant premium schedule rating premium.

Dividend Provision (Participating Plan)

Loss cost multipliers for use with participating policies shall contain a provision for policyholder dividends. Policyholder dividends shall reflect the ratio of policyholder dividends paid to company standard earned premium adjusted to reflect expense constant premium and schedule rating premium.

Standard earned premium shall be adjusted reflecting an assumed underlying expense constant equal to the most recently filed expense constant by Delaware Compensation Rating Bureau.

Deviations

Deviation from indicated manual rates shall reflect adjusted company losses compared to Delaware Compensation Rating Bureau to the extent credible. Losses shall be provided separately for indemnity and medical coverages. Losses may be either calendar year losses with all IBNR or policy year incurred losses developed to ultimate settlement. If the company elects to submit policy year loss data, it is required to provide underlying loss development triangles for indemnity and medical coverages separately.

Insurance Fund Assessment (Second Injury Fund)

Insurance Fund Assessment to be used with revised rates will be provided by Delaware Compensation Rating Bureau in its circular letter detailing changes to loss costs and other rating elements.

Administrative Assessment

Administration Assessment will continue to be built into voluntary market loss costs.

Expense Exhibits identified as (I) or (II) shall be completed and underlying supporting data shall accompany the company loss cost multiplier filing. Multipliers shall be filed reflecting most recent expense data, with each Delaware Compensation Rating Bureau loss cost revision. Failure to provide complete expense exhibits and provide underlying support shall result in disapproval of the proposed company filing and company(s) will be filed by reference for residual market rates and rating elements. All reference filings of this type shall remain in effect until the next subsequent Delaware Compensation Rating Bureau revision of loss costs.

NOTES: (1) Commissions, premium tax, license and fees are to be calculated as a percentage of company manual premium. Other acquisition and general administrative expense are to be calculated as a percentage of standard earned premium and standard earned premium is required to be adjusted to reflect schedule rating and expense constant.

(2) Insurers having previously filed and are currently using rating tiers within the same company or have company rate differentials in effect may continue to use them until further notice.