

PENNSYLVANIA COMPENSATION RATING BUREAU  
F CLASS FILING

Expense Study

The following exhibits are used in the development of specific expense provisions to be used in the Bureau's proposed F-Class filing. The provisions are for Commission & Brokerage, General and Loss Adjustment Expense, and Premium Discount.

Exhibit I of the attachment presents summary figures for Standard Earned Premium, General Expenses, and Total Production Costs from the last three calendar years. The data is drawn from Pennsylvania Expense Call submissions. The data has been adjusted to include the experience for large deductible policies.

Exhibit I-A develops Standard Earned Premium at both Net and Gross bases after adjusting for Large Deductible policies and removing Expense Constant Dollars.

Exhibit II shows the development of the Expense Constant offset that is carried forward to Exhibit I.

Exhibit III shows the calculation of the Loss Adjustment Expense provision as a function of the Incurred Losses. The Loss Adjustment Expense factor is based on All-Company experience and is developed from the same source of data as Exhibit I above. We selected a three-year average of Loss Adjustment Expense Ratios to Direct Incurred Losses including large deductibles on a Gross Basis.

Exhibits IV-A and IV-B show the development of an average provision for premium discount based upon the Schedule X and Schedule Y premium discount tables, respectively. The data used by the Bureau for this purpose is Unit Statistical Plan data. These exhibits form the basis for Exhibits IV-C and IV-D, which develop the average interstate build-back both for Schedule X and Y companies separately and on an All Company basis.

Exhibit V develops the provision for uncollectible premium based on the ratio of uncollectible premium to gross written premium. The data used is courtesy of NCCI, Inc.

**EXHIBIT I  
ALL COMPANIES**

		<b>CALENDAR YEAR</b>		
		<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>(1)</b>	Standard Earned Premium at Market Rate Level <u>including</u> Large Deductible on aNet Basis <u>excluding</u> Expense Constant Dollars	\$ 2,025,530,158	\$ 2,214,859,181	\$ 2,578,865,548
<b>(2)</b>	Standard Earned Premium at Market Level <u>including</u> Large Deductible on aGross Basis <u>excluding</u> Expense Constant Dollars	\$ 2,722,731,102	\$ 2,823,913,627	\$ 3,310,249,314
<b>(3)</b>	Commission and Brokerage	\$ 116,542,851	\$ 119,343,630	\$ 133,534,541
<b>(3a)</b>	Reported Ratio { (3) / (1) }	0.0575	0.0539	0.0518
<b>(4)</b>	Other Acquisitions	\$ 75,658,920	\$ 74,742,542	\$ 78,063,531
<b>(4a)</b>	Reported Ratio { (4) / (2) }	0.0278	0.0265	0.0236
<b>(5)</b>	General Expense	\$ 108,033,228	\$ 99,833,491	\$ 118,429,289
<b>(5a)</b>	Reported Ratio { (5) / (2) }	0.0397	0.0354	0.0358

	<b>Three Year Average (1)</b>	<b>Expense Constant Income (2)</b>	<b>Difference { (1) - (2) }</b>
COMMISSION AND BROKERAGE	0.0544	0.0038	0.0506
OTHER ACQUISITIONS	0.0260	0.0018	0.0242
TOTAL PRODUCTION	0.0804	0.0056	0.0748
GENERAL EXPENSE	0.0370	0.0083	0.0287

**EXHIBIT I - A  
ALL COMPANIES**

		<u>CALENDAR YEAR</u>		
		<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>(1)</b>	Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 1,652,932,846	\$ 1,644,054,882	\$ 1,832,896,561
<b>(2)</b>	Multiplier to Bring Premium to Market Rate Level	1.2434	1.3670	1.4280
<b>(3)</b>	Standard Earned Premium at Market Rate Lev <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 2,055,256,701	\$ 2,247,423,024	\$ 2,617,376,289
<b>(4)</b>	Large Deductible Adj. at Bureau DSR Level	\$ 548,458,892	\$ 436,911,367	\$ 516,623,413
<b>(5)</b>	Multiplier to Bring L. D. Adj. to Market Rate Level	1.2712	1.3940	1.4157
<b>(6)</b>	Large Deductible Adj. at Market Rate Level { (4) * (5) }	\$ 697,200,944	\$ 609,054,446	\$ 731,383,766
<b>(7)</b>	Standard Earned Premium at Market Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 2,752,457,645	\$ 2,856,477,470	\$ 3,348,760,055
<b>(8)</b>	Expense Constant Removal Factor	0.9892	0.9886	0.9885
<b>(9)</b>	Expense Constant Dollars { (7)[1 - (8)] }	\$ 29,726,543	\$ 32,563,843	\$ 38,510,741
<b>(10)</b>	Standard Earned Premium at Market Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars { (3) - (9) }	\$ 2,025,530,158	\$ 2,214,859,181	\$ 2,578,865,548
<b>(11)</b>	Standard Earned Premium at Market Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars { (7) - (9) }	\$ 2,722,731,102	\$ 2,823,913,627	\$ 3,310,249,314

**EXHIBIT II**

**EXPENSE CONSTANT INCOME - ALL COMPANIES**

**MANUAL YEAR 2002**

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(1) Number of Policies				224,988
(2) Expense Constant Income With Expense Constant @ Current Level = \$ 230				\$ 51,747,240
(3) Interstate Adjustment Factor				0.90
(4) Adjusted Expense Constant Income {(2) * (3)}				\$ 46,572,516

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(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				\$ 1,944,292,136
(5a) Factor to Bring Premium to Current Level				1.4055
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				\$ 2,732,702,597
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				\$ 2,549,262,975
(6a) Factor to Bring Premium to Current Level				1.4059
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				\$ 3,584,008,817
(7) Distribution of Expense Constant Income				
	%	%	\$	Total Expense \$
(a) General Expense	63.9%		\$ 146.97	\$ 29,759,838
(b) Production	36.1%			
i) Commission		62.0%	\$ 51.48	\$ 10,423,861
ii) Other Acquisition		38.0%	\$ 31.55	\$ 6,388,818
Total	100.0%		\$ 230.00	\$ 46,572,517
(8) Expense Constant Ratio for General Expense { (7a) / (6b) }				0.0083
(9) Expense Constant Ratio for Commision { (7b(i)) / (5b) }				0.0038
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }				0.0018

**EXHIBIT III**

**LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES**

	<b><u>CALENDAR YEAR</u></b>		
	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
<b>(1)</b> Loss Adjustment Expense	\$ 257,319,868	\$ 259,408,745	\$ 278,061,242
<b>(2)</b> Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 1,516,756,372	\$ 1,573,016,817	\$ 1,733,609,079
<b>(3)</b> Large Deductible Adjustment	\$ 444,225,040	\$ 476,434,680	\$ 478,296,550
<b>(4)</b> Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (2) + (3) }	\$ 1,960,981,412	\$ 2,049,451,497	\$ 2,211,905,629
<b>(5)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) / (2) }	0.1697	0.1649	0.1604
<b>(6)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (1) / (4) }	0.1312	0.1266	0.1257
<b>Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis</b>			0.1650
<b>Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis</b>			0.1278

**EXHIBIT IV - A**

**SIZE OF RISKS - SCHEDULE X COMPANIES**

**MANUAL YEAR 2002**

<u>Intrastate Risks</u>	<u>Number of Risks</u>	<u>Intrastate SEP excluding Loss and Expense Constant</u>
	<u>(1)</u>	<u>(2)</u>
Up to \$5,000	9,362	\$ 11,922,817
\$5,001 - \$100,000	3,333	\$ 74,365,290
\$100,001 - \$500,000	500	\$ 102,576,211
Over \$500,000	67	\$ 60,798,371
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TOTAL	13,262	\$ 249,662,689

**DISTRIBUTION OF PREMIUM TO DISCOUNT BLOCK**

<u>Size of Risk</u>	<u>Number of Risks</u>	<u>First \$5,000</u>	<u>Next \$95,000</u>	<u>Next \$400,000</u>	<u>Over \$500,000</u>
Up to \$5,000	9,362	\$ 11,922,817			
\$5,001 - \$100,000	3,333	\$ 16,665,000	\$ 57,700,290		
\$100,001 - \$500,000	500	\$ 2,500,000	\$ 47,500,000	\$ 52,576,211	
Over \$500,000	67	\$ 335,000	\$ 6,365,000	\$ 26,800,000	\$ 27,298,371
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TOTAL	13,262	\$ 31,422,817	\$ 111,565,290	\$ 79,376,211	\$ 27,298,371
PERCENTAGE		12.59%	44.69%	31.79%	10.93%

**EXHIBIT IV - B**

**SIZE OF RISKS - SCHEDULE Y COMPANIES**

**MANUAL YEAR 2002**

<u>Intrastate Risks</u>	<u>Number of Risks</u>	<u>Intrastate SEP excluding Loss and Expense Constant</u>
	<b>(1)</b>	<b>(2)</b>
Up to \$5,000	123,250	\$ 166,659,120
\$5,001 - \$100,000	46,918	\$ 954,672,156
\$100,001 - \$500,000	3,833	\$ 778,328,071
Over \$500,000	777	\$ 1,097,708,214
TOTAL	174,778	\$ 2,997,367,561

**DISTRIBUTION OF PREMIUM TO DISCOUNT BLOCK**

<u>Size of Risk</u>	<u>Number of Risks</u>	<u>First \$5,000</u>	<u>Next \$95,000</u>	<u>Next \$400,000</u>	<u>Over \$500,000</u>
Up to \$5,000	123,250	\$ 166,659,120			
\$5,001 - \$100,000	46,918	\$ 234,590,000	\$ 720,082,156		
\$100,001 - \$500,000	3,833	\$ 19,165,000	\$ 364,135,000	\$ 395,028,071	
Over \$500,000	777	\$ 3,885,000	\$ 73,815,000	\$ 310,800,000	\$ 709,208,214
TOTAL	174,778	\$ 424,299,120	\$ 1,158,032,156	\$ 705,828,071	\$ 709,208,214
PERCENTAGE		14.16%	38.63%	23.55%	23.66%

**EXHIBIT IV - C**

**AVERAGE COMPANY BUILD-BACK**

**SCHEDULE X COMPANIES**

	Premium Distribution to Discount Block <b><u>(EXHIBIT IV - A)</u></b>	Reduction from Manual <u>                    </u>	Weighted Reduction <u>                    </u>
Up to \$5,000	12.59	0.0	0.00
\$5,001 - \$100,000	44.69	3.5	1.56
\$100,001 - \$500,000	31.79	5.0	1.59
Over \$500,000	10.93	7.0	0.77
			<u>                    </u>
		<b>Build-Back</b>	= 3.92
	<b>Intrastate Build-Back</b>	3.92	
	<b>Interstate Build-Back</b>	4.42	

**SCHEDULE Y COMPANIES**

	Premium Distribution to Discount Block <b><u>(EXHIBIT IV - B)</u></b>	Reduction from Manual <u>                    </u>	Weighted Reduction <u>                    </u>
Up to \$5,000	14.16	0.0	0.00
\$5,001 - \$100,000	38.63	10.9	4.21
\$100,001 - \$500,000	23.55	12.6	2.97
Over \$500,000	23.66	14.4	3.41
			<u>                    </u>
		<b>Build-Back</b>	= 10.59
	<b>Intrastate Build-Back</b>	10.59	
	<b>Interstate Build-Back</b>	11.09	



**EXHIBIT IV - D**

**AVERAGE COMPANY BUILD-BACK**

**ALL COMPANIES**

	<u>Intrastate SEP excluding Loss and Expense Constant</u>	<u>Interstate Build-Back</u>
<b>SCHEDULE X</b>	\$ 249,662,689	4.42
<b>SCHEDULE Y</b>	\$ 2,997,367,561	11.09
<b>WEIGHTED AVERAGE</b>		10.58

**EXHIBIT V**

**DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTED PREMIUM\***

Data as of 3/31/2006

<b>POLICY YEAR</b>	<b>(1) GROSS WRITTEN PREMIUM</b>	<b>(2) UNCOLLECTIBLE PREMIUM</b>	<b>(3)=(2)/(1) RATIO</b>
1998	4,443,412	90,832	2.04%
1999	1,695,141	15,933	0.94%
2000	2,390,917	11,718	0.49%
2001	3,987,174	14,752	0.37%
2002	16,296,149	307,048	1.88%
2003	23,810,443	267,001	1.12%
2004	34,442,345	358,644	1.04%
2005 **	35,724,101	148,857	0.42%
		All Year Average (Excl PY 05)	1.13%
		Five Year Average (Excl PY 05)	0.98%
		Three Year Average (Excl PY 05)	1.35%
		Selected	0.50%

\* Data courtesy of NCCI, Inc.

\*\* Incomplete Policy Year