

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 I**  
**ALL COMPANIES**

	<u>CALENDAR YEAR</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
(1) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars	\$ 1,698,383,125	\$ 1,819,693,020	\$ 1,857,093,302
(2) Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars	\$ 2,251,574,699	\$ 2,437,940,550	\$ 2,454,127,462
(3) Commission and Brokerage	\$ 100,178,407	\$ 109,519,454	\$ 115,862,682
(3a) Reported Ratio { (3) / (1) }	0.0590	0.0602	0.0624
(4) Other Acquisitions	\$ 72,436,610	\$ 73,638,512	\$ 75,316,345
(4a) Reported Ratio { (4) / (2) }	0.0322	0.0302	0.0307
(5) General Expense	\$ 115,485,078	\$ 120,704,006	\$ 124,579,499
(5a) Reported Ratio { (5) / (2) }	0.0513	0.0495	0.0508

	<b>Three Year Average (1)</b>	<b>Expense Constant Income (2)</b>	<b>Difference { (1) - (2) }</b>
COMMISSION AND BROKERAGE	0.0605	0.0031	0.0574
OTHER ACQUISITIONS	0.0310	0.0017	0.0293
TOTAL PRODUCTION	0.0915	0.0048	0.0867
GENERAL EXPENSE	0.0505	0.0074	0.0431

EXHIBIT I - A  
ALL COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
(1) Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 1,643,662,330	\$ 1,787,476,358	\$ 1,776,583,638
(2) Multiplier to Bring Premium to Bureau Rate Level	1.0442	1.0293	1.0573
(3) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 1,716,312,205	\$ 1,839,849,415	\$ 1,878,381,880
(4) Large Deductible Adj. at Bureau DSR Level	\$ 470,481,012	\$ 524,872,680	\$ 503,656,285
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.1758	1.1779	1.1854
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 553,191,574	\$ 618,247,530	\$ 597,034,160
(7) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 2,269,503,779	\$ 2,458,096,945	\$ 2,475,416,040
(8) Expense Constant Removal Factor	0.9921	0.9918	0.9914
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 17,929,080	\$ 20,156,395	\$ 21,288,578
(10) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars { (3) - (9) }	\$ 1,698,383,125	\$ 1,819,693,020	\$ 1,857,093,302
(11) Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars { (7) - (9) }	\$ 2,251,574,699	\$ 2,437,940,550	\$ 2,454,127,462

EXHIBIT II

EXPENSE CONSTANT INCOME - ALL COMPANIES

MANUAL YEAR 1998

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(1) Number of Policies	222,278
(2) Expense Constant Income With Expense Constant @ Current Level = \$ 200	\$ 44,455,600
(3) Interstate Adjustment Factor	0.90
(4) Adjusted Expense Constant Income {(2) * (3)}	\$ 40,010,040

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(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 2,743,708,091
(5a) Factor to Bring Premium to Current Level	1.0000
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level	\$ 2,743,708,091
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis	\$ 3,447,193,168
(6a) Factor to Bring Premium to Current Level	1.0000
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level	\$ 3,447,193,168

(7) Distribution of Expense Constant Income	%	%	\$	Total Expense \$
(a) General Expense	63.9%		\$ 127.80	\$ 25,566,416
(b) Production	36.1%			
i) Commission		59.5%	\$ 42.96	\$ 8,593,957
ii) Other Acquisition		40.5%	\$ 29.24	\$ 5,849,668
Total	100.0%		\$ 200.00	\$ 40,010,041

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(8) Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0074
(9) Expense Constant Ratio for Commission { (7b(i)) / (5b) }	0.0031
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }	0.0017

EXHIBIT III

LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
(1) Loss Adjustment Expense	\$ 192,678,389	\$ 244,794,693	\$ 242,985,085
(2) Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 971,994,177	\$ 1,029,741,728	\$ 1,112,188,882
(3) Large Deductible Adjustment	\$ 283,890,125	\$ 350,792,323	\$ 311,121,166
(4) Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (2) + (3) }	\$ 1,255,884,302	\$ 1,380,534,051	\$ 1,423,310,048
(5) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) / (2) }	0.1982	0.2377	0.2185
(6) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (1) / (4) }	0.1534	0.1773	0.1707
 <b>Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis</b>			0.2181
 <b>Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis</b>			0.1671

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE X COMPANIES  
F - CLASS BUSINESS ONLY

MANUAL YEAR 1999

Intrastate Risks	Number of Risks <u>(1)</u>	Intrastate SEP <u>excluding</u> Loss and Expense Constant <u>(2)</u>
Up to \$5,000	1	\$ 4,452
\$5,001 - \$100,000	7	\$ 276,391
\$100,001 - \$500,000	2	\$ 551,677
Over \$500,000	1	\$ 2,529,392
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TOTAL	11	\$ 3,361,912

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	1	\$ 4,452			
\$5,001 - \$100,000	7	\$ 35,000	\$ 241,391		
\$100,001 - \$500,000	2	\$ 10,000	\$ 190,000	\$ 351,677	
Over \$500,000	1	\$ 5,000	\$ 95,000	\$ 400,000	\$ 2,029,392
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TOTAL	11	\$ 54,452	\$ 526,391	\$ 751,677	\$ 2,029,392
PERCENTAGE		1.62%	15.66%	22.36%	60.36%

EXHIBIT IV - B

SIZE OF RISKS - SCHEDULE Y COMPANIES  
F - CLASS BUSINESS ONLY

MANUAL YEAR 1999

<u>Intrastate Risks</u>	<u>Number of Risks (1)</u>	<u>Intrastate SEP excluding Loss and Expense Constant (2)</u>
Up to \$5,000	5	\$ 9,898
\$5,001 - \$100,000	34	\$ 1,192,997
\$100,001 - \$500,000	11	\$ 2,430,559
Over \$500,000	2	\$ 1,582,028
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TOTAL	52	\$ 5,215,482

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	5	\$ 9,898			
\$5,001 - \$100,000	34	\$ 170,000	\$ 1,022,997		
\$100,001 - \$500,000	11	\$ 55,000	\$ 1,045,000	\$ 1,330,559	
Over \$500,000	2	\$ 10,000	\$ 190,000	\$ 800,000	\$ 582,028
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TOTAL	52	\$ 244,898	\$ 2,257,997	\$ 2,130,559	\$ 582,028
PERCENTAGE		4.70%	43.29%	40.85%	11.16%

EXHIBIT IV - C

AVERAGE COMPANY BUILD-BACK

SCHEDULE X COMPANIES  
F - CLASS BUSINESS ONLY

Premium Distribution to Discount Block <u>(EXHIBIT IV - A)</u>	<u>Reduction from Manual</u>	<u>Weighted Reduction</u>
Up to \$5,000	1.62	0.00
\$5,001 - \$100,000	15.66	0.55
\$100,001 - \$500,000	22.36	1.12
Over \$500,000	60.36	4.23
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	<b>Build-Back</b>	= 5.90
<b>Intrastate Build-Back</b>	5.90	
<b>Interstate Build-Back</b>	6.40	

SCHEDULE Y COMPANIES  
F - CLASS BUSINESS ONLY

Premium Distribution to Discount Block <u>(EXHIBIT IV - B)</u>	<u>Reduction from Manual</u>	<u>Weighted Reduction</u>
Up to \$5,000	4.70	0.00
\$5,001 - \$100,000	43.29	4.72
\$100,001 - \$500,000	40.85	5.15
Over \$500,000	11.16	1.61
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	<b>Build-Back</b>	= 11.48
<b>Intrastate Build-Back</b>	11.48	
<b>Interstate Build-Back</b>	11.98	



EXHIBIT IV - D

AVERAGE COMPANY BUILD-BACK

ALL COMPANIES

F - CLASS BUSINESS ONLY

	Intrastate SEP <u>excluding Loss</u> and Expense Constant	Interstate <u>Build-Back</u>
SCHEDULE X	\$ 3,361,912	6.4
SCHEDULE Y	\$ 5,215,482	11.98
WEIGHTED AVERAGE		9.79