



August 4, 2026

VIA SERFF

The Honorable Trinidad Navarro
Insurance Commissioner
Insurance Department
State of Delaware
1351 West North Street, Suite 101
Dover, DE 19904

Attention: Tanisha Merced, Deputy Insurance Commissioner

RE: **DCRB Filing No. 2604 - Revision to the Delaware Workers Compensation Insurance Plan Residual Market Surcharge Methodology Proposed Effective December 1, 2026**

Dear Commissioner Navarro:

On behalf of the members of the Delaware Compensation Rating Bureau (DCRB), enclosed is a submission proposing revisions to the methodology used to calculate the Residual Market Surcharge applicable to experience-rated employers insured through the Delaware Workers Compensation Insurance Plan, to be effective 12:01 a.m., December 1, 2026, with respect to new and renewal policies having Rating Effective Dates (RED) on or after that date.

This filing proposes replacing the current Experience Rating Plan (ERP) credibility value used in the Residual Market Surcharge calculation with a Residual Market Surcharge Weighting Factor. The proposed methodology is intended to restore Residual Market surcharge levels that are generally consistent with those in effect prior to the December 1, 2024 revisions to the Delaware ERP.

An Actuarial Memorandum providing the methodology supporting this filing, together with supporting exhibits and revised Basic Manual pages, is included with this filing submission.

Thank you in advance for your prompt attention and review of this filing. The DCRB respectfully requests a timely approval of the proposed revisions and is pleased to answer any questions or provide any available supplementary information that you or your staff may require. Please direct any questions to Brent Otto, Senior Vice President and Chief Actuary.

Sincerely,

Amy Quinn
President



TO: The Honorable Trinidad Navarro
Delaware Insurance Commissioner

FROM: Brent Otto, FCAS, MAAA
Senior Vice President and Chief Actuary

DATE: August 4, 2026

RE: DCRB Filing No. 2604 - Revision to the Delaware Workers Compensation Insurance Plan Residual Market Surcharge Methodology Proposed Effective December 1, 2026

This actuarial memorandum describes the proposed revision to the Delaware Residual Market Surcharge applicable to employers insured through the Delaware Workers Compensation Insurance Plan (WCIP)¹.

Under the current Residual Market Surcharge methodology, the surcharge is determined using the employer's Experience Rating Plan (ERP) credibility value. The recent December 1, 2024 revisions to the Delaware ERP² substantially changed those credibility values due to loss limits. As a result, the current surcharge methodology no longer produces surcharge levels that are consistent with those generated under the historical plan.

The purpose of this filing is to restore Residual Market Surcharge levels to those that existed prior to 2024. To accomplish this, the filing replaces ERP Credibility (C) with a Residual Market Surcharge Weighting Factor³(W) that produces surcharge levels generally consistent with those prior to 2024.

BACKGROUND

The Delaware Residual Market provides workers' compensation insurance coverage to employers that are unable to obtain coverage in the voluntary market.

The Residual Market Surcharge applies to experience-rated employers insured through the WCIP with experience modification factors greater than 1.000. The intention of the surcharge is to provide adequate spread between the voluntary market and the residual market premiums and help reduce incentives for businesses to remain in the WCIP.

The current surcharge methodology has reduced this spread and therefore has also reduced some of the intended incentives. For example, the maximum surcharge decreased from approximately 48% prior to 2024 to approximately 16% currently. This reduction was an

¹ The Delaware Residual Market Surcharge is established in Basic Manual, Section 1 – Underwriting Rules, Rule II.G.

² The Delaware Experience Rating Plan was revised effective December 1, 2024, pursuant to DCRB Filing No. 2402.

³ See Exhibit A

unintended consequence of the ERP revision rather than a policy decision regarding residual market pricing.

SUMMARY OF THE FILING

The current residual market surcharge is calculated as

$$\text{Surcharge} = 0.50 \times (1 - C)$$

where C is the employer's ERP credibility.

With the revised ERP, credibility values increased significantly, particularly for risks with lower credibility. As a result, the residual market surcharge range was substantially reduced even though no change to the surcharge program was intended.

Under the proposed methodology, the surcharge is calculated as:

$$\text{Surcharge} = 0.50 \times (1 - W)$$

where W is the Residual Market Surcharge Weighting Factor, a factor derived from expected losses (E) and calculated as:

$$W = (E / (E + 120,000))^2$$

The surcharge formula works the same, however uses the revised weighting value. The proposed methodology will restore the range of Residual Market Surcharges to levels generally consistent with those produced before the 2024 ERP revisions. It accomplishes this by selecting a ballast factor of 120,000, which provides an appropriate range based on the size of business.

This proposed methodology determines the Residual Market Surcharge weighting factor using expected loss groups, which are already calculated as part of the experience rating process. Expected losses provide a consistent measure of employer size, while maintaining a smooth progression across all size groups.

RESULTS

As shown in Exhibit B – Historical Residual Market Surcharge and Exhibit C – Estimated Residual Market Surcharge Under the Proposed Methodology, the proposed methodology produces an estimated average Residual Market Surcharge equal to 6.5% of total residual market premium and 8.3% of experience-rated premium for the 2025 and 2026 rate revisions. The latter is similar to the historical five-year average of 8.5% of experience-rated premiums.

As illustrated in Exhibit D – Distribution of Residual Market Surcharge Percentages, the proposed methodology restores a broader distribution of Residual Market Surcharge percentages than the current methodology. Under the current methodology, all 84 businesses fall below a 20% surcharge. Under the proposed methodology, surcharge percentages are more evenly distributed across the full intended 0%–50% range with the most in the middle 20%-30%

surcharge range. Eliminating the concentration of businesses in the 10%–20% range will provide incentives for businesses to move out of the Residual Market.

Exhibit E – Distribution of Businesses by Residual Market Surcharge % Increase illustrates the impact of the proposed methodology on individual employers. Approximately 61% of businesses (51 of 84) experience a surcharge increase of less than 10%, while an additional 23% (19 of 84) experience increases between 10% and 20%. Overall, approximately 83% of impacted businesses will experience surcharge increases of less than 20%.

BASIC MANUAL REVISIONS

Section 1 – Underwriting Rules, Rule II.G.1.b of the Basic Manual has been revised to replace the current residual market surcharge formula, $0.50 \times (1 - \text{risk credibility in the Rating Plan})$, with the proposed formula, $0.50 \times (1 - W)$ where W = the Residual Market Surcharge Weighting Factor.

The revised Basic Manual language reflecting this change is included as part of this filing.

ADHERENCE TO ACTUARIAL PRINCIPLES AND STANDARDS OF PRACTICE

This filing has been developed using actuarial methods consistent with applicable Actuarial Standards of Practice and the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Insurance Ratemaking. This includes ASOP No. 53, Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention, and the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Insurance Ratemaking. The proposed methodology is intended to produce reasonable, equitable, and actuarially sound residual market surcharge levels.

CONCLUSION

The proposed revision updates the calculation of the Residual Market Surcharge to reflect the changes made to the Delaware ERP while preserving surcharge levels that are generally consistent with historical surcharge levels. DCRB believes the proposed methodology is reasonable, practical, and consistent with the purpose of the Delaware Workers Compensation Insurance Plan.

This filing has been developed by and under the direction of Brent Otto, FCAS, MAAA. He meets the Qualification Standards of the American Academy of Actuaries to provide the actuarial opinion contained within this filing.

Please direct all questions to:

Brent Otto, FCAS, MAAA
Senior Vice President & Chief Actuary
botto@pcrb.com
215-320-4451

Peter Yoon, ACAS
Director of Actuarial Research
pyoon@pcrb.com
215-320-4483

RESIDUAL MARKET SURCHARGE WEIGHTING FACTOR

Effective: December 1, 2026

Expected Losses			Expected Losses			Expected Losses		
		Weight "W"			Weight "W"			Weight "W"
-	5,000	0.021	382,034	405,008	0.732	1,422,700	1,467,472	0.910
5,000	11,097	0.052	405,008	428,814	0.744	1,467,472	1,513,704	0.913
11,097	17,683	0.085	428,814	453,416	0.754	1,513,704	1,561,526	0.915
17,683	23,953	0.116	453,416	478,780	0.765	1,561,526	1,611,076	0.917
23,953	29,924	0.145	478,780	504,867	0.774	1,611,076	1,662,502	0.920
29,924	35,614	0.170	504,867	531,643	0.783	1,662,502	1,715,957	0.922
35,614	41,041	0.194	531,643	559,072	0.792	1,715,957	1,771,606	0.924
41,041	55,902	0.253	559,072	587,119	0.800	1,771,606	1,829,621	0.927
55,902	68,958	0.298	587,119	615,751	0.808	1,829,621	1,890,183	0.929
68,958	80,590	0.335	615,751	644,938	0.815	1,890,183	1,953,479	0.931
80,590	91,141	0.365	644,938	674,652	0.822	1,953,479	2,019,709	0.933
91,141	100,920	0.391	674,652	704,871	0.828	2,019,709	2,089,078	0.935
100,920	110,201	0.413	704,871	735,573	0.834	2,089,078	2,161,801	0.937
110,201	119,228	0.434	735,573	766,742	0.840	2,161,801	2,238,101	0.939
119,228	128,218	0.453	766,742	798,366	0.845	2,238,101	2,318,210	0.941
128,218	137,358	0.471	798,366	830,440	0.850	2,318,210	2,402,367	0.943
137,358	146,813	0.488	830,440	862,961	0.855	2,402,367	2,490,821	0.945
146,813	156,724	0.505	862,961	895,933	0.860	2,490,821	2,583,829	0.947
156,724	167,212	0.522	895,933	929,367	0.864	2,583,829	2,681,655	0.949
167,212	178,379	0.539	929,367	963,278	0.869	2,681,655	2,784,572	0.951
178,379	190,306	0.556	963,278	997,690	0.873	2,784,572	2,892,863	0.952
190,306	203,062	0.573	997,690	1,032,631	0.876	2,892,863	3,006,815	0.954
203,062	216,698	0.589	1,032,631	1,068,138	0.880	3,006,815	3,126,727	0.956
216,698	231,254	0.606	1,068,138	1,104,253	0.884	3,126,727	3,252,905	0.957
231,254	246,756	0.622	1,104,253	1,141,026	0.887	3,252,905	3,385,661	0.959
246,756	263,220	0.637	1,141,026	1,178,516	0.890	3,385,661	3,525,316	0.961
263,220	280,654	0.652	1,178,516	1,216,788	0.893	3,525,316	3,672,201	0.962
280,654	299,053	0.667	1,216,788	1,255,914	0.896	3,672,201	3,826,650	0.964
299,053	318,410	0.681	1,255,914	1,295,976	0.899	3,826,650	3,989,009	0.965
318,410	338,707	0.695	1,295,976	1,337,061	0.902	3,989,009	4,159,630	0.966
338,707	359,924	0.708	1,337,061	1,379,268	0.905	4,159,630	4,338,871	0.968
359,924	382,034	0.721	1,379,268	1,422,700	0.907	4,338,871	Above	0.988

Exhibit B – Historical Residual Market Surcharge

Total-Rated Risks	2022 Rate Revision	2023 Rate Revision	2024 Rate Revision	2025 Rate Revision	2026 Rate Revision
Total Premium (Experience-Rated Risks)	8,318,628	4,457,056	3,510,390	3,619,879	4,792,709
Surcharge (Debit-Mod Risks)*	695,776	419,006	307,224	302,399	366,737
Surcharge %	8.4%	9.4%	8.8%	8.4%	7.7%

2022 – 2023 Average

8.9%

2022 – 2026 Average

8.5%

Notes:

1. Surcharge % is calculated by dividing the total residual market surcharge by the total premium for all experience-rated risks insured through the Delaware Workers Compensation Insurance Plan (WCIP).
2. The surcharge % for the 2022–2023 rate revisions were calculated using the ERP credibility table in effect for each respective rate revision.
3. The surcharge % for the 2024, 2025 and 2026 rate revisions were recalculated using the prior ERP credibility table to provide a consistent basis for comparison with the 2022–2023 results. Because the expected loss ranges in the current and prior ERP credibility tables are not identical, prior credibility values were approximated by matching comparable expected loss ranges.
4. The five-year historical average surcharge of 8.5% is the arithmetic average of the annual surcharge percentages for the 2022–2026 rate revision.

Exhibit C – Estimated Residual Market Surcharge Under the Proposed Methodology

	DE 2025 Rate Revision			DE 2026 Rate Revision		
	Current Credibility	Prior Credibility	Proposed Weighting Factor	Current Credibility	Prior Credibility	Proposed Weighting Factor
Total RM Premium	4,597,913	4,597,913	4,597,913	6,118,474	6,118,474	6,118,474
Total Premium (Experience-Rated Risks)	3,619,879	3,619,879	3,619,879	4,792,709	4,792,709	4,792,709
Surcharge (Debit –Mod Risks)*	159,061	302,399	314,153	196,651	366,737	380,504
Surcharge (% of Total RM Premium)	3.5%	6.6%	6.8%	3.2%	6.0%	6.2%
Surcharge (% of Experience-Rated Premium)	4.4%	8.4%	8.7%	4.1%	7.7%	7.9%

Average surcharge (% of Total RM Premium) using new weight
6.5%

Average surcharge (% of Experience-Rated Premium) using new weight
8.3%

Notes:

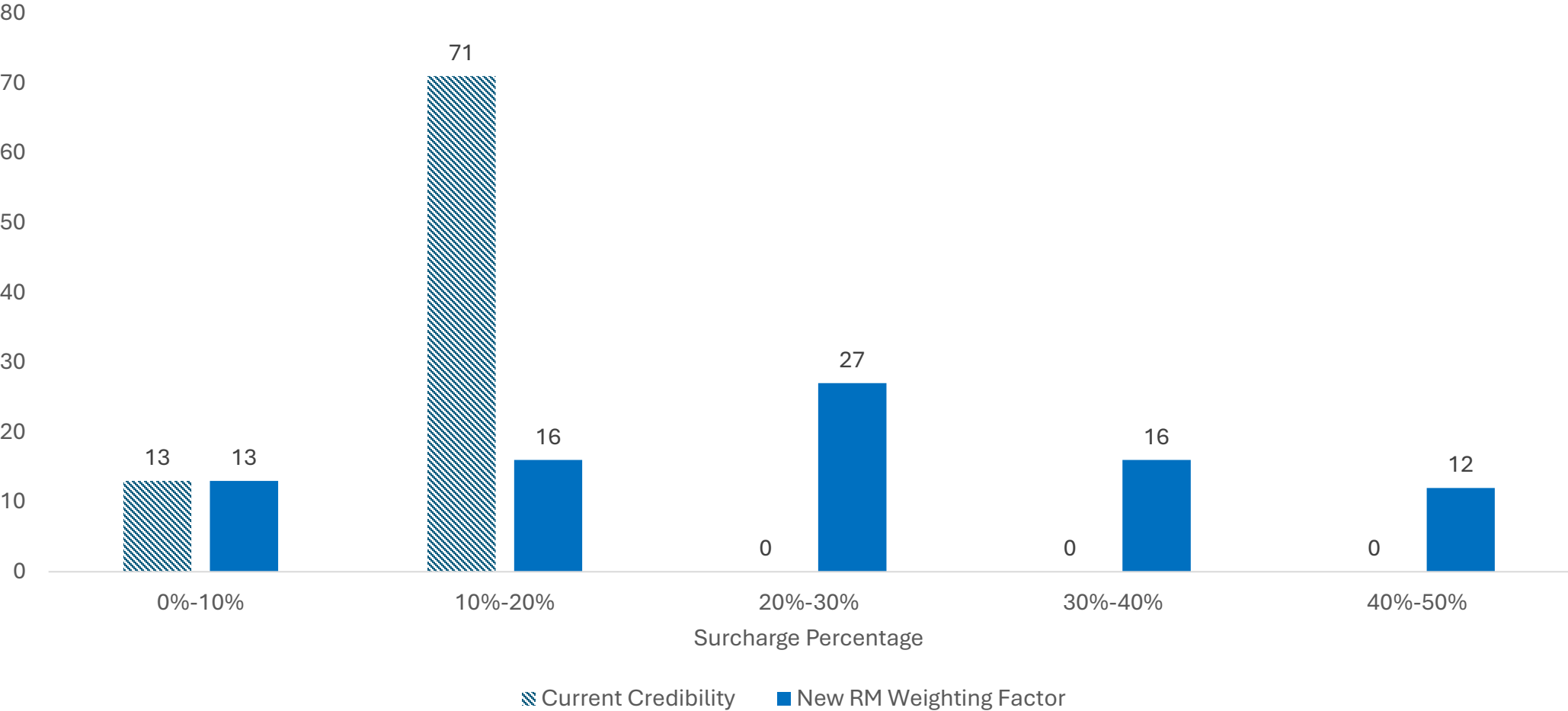
- The analysis is based on the Delaware 2025 and 2026 rate revision data for experience-rated risks insured through the Delaware Workers Compensation Insurance Plan (WCIP).
- Total Premium represents the total standard premium for all experience-rated risks insured through the Delaware WCIP.
- Residual Market Surcharge represents the total surcharge for experience-rated risks with experience modification factors greater than 1.000.
- Current Credibility reflects surcharge amounts calculated using the current ERP credibility table.
- Prior Credibility reflects surcharge amounts recalculated using the prior ERP credibility table. Because the expected loss ranges in the current and prior ERP credibility tables are not identical, prior credibility values were approximated by matching comparable expected loss ranges.
- Proposed Methodology reflects surcharge amounts calculated using the proposed residual market weighting factor.
- Surcharge % is calculated as:

$$\text{Surcharge \%} = \frac{\text{Total Surcharge}}{\text{Total Premium}}$$

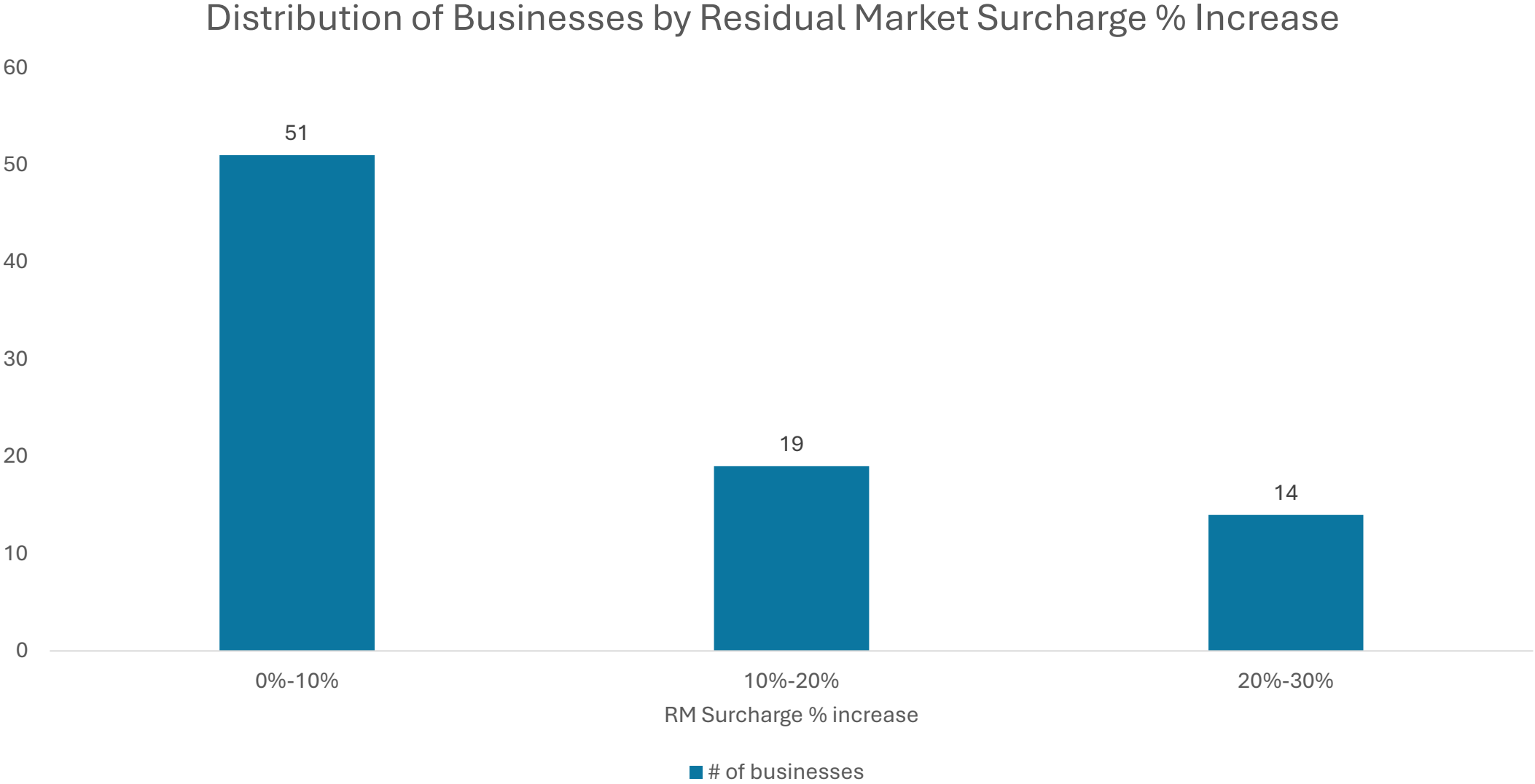
8. The estimated average surcharge of 8.3% is the arithmetic average of the proposed surcharge percentages for the 2025 and 2026 rate revisions.:

$$\frac{8.7\% + 7.9\%}{2} = 8.3\%$$

Distribution of Residual Market Surcharge Percentages



Note: The distribution is based on Delaware 2026 rate revision data for risks insured through the Delaware WCIP.



Note: Percentage Increase = $\left[\frac{1 + \text{Proposed Residual Market Surcharge (\%)}}{1 + \text{Current Residual Market Surcharge (\%)}} \right] - 1$.
The distribution is based on Delaware 2026 rate revision data for risks insured through the Delaware WCIP.

**NOTICE OF ELECTION TO ACCEPT OR REJECT AN INSURANCE DEDUCTIBLE
FOR DELAWARE WORKERS COMPENSATION DEATH AND MEDICAL BENEFITS**

Delaware Law permits an employer to buy workers compensation insurance with a deductible. The deductible is for death and medical benefits and applies to each accident. The deductibles available and the corresponding premium reductions are set forth in Section 2 of this manual:

You are not required to choose a deductible program. However, if you do so choose, it is to be understood that your insurance company will administer and pay all claims and that you will reimburse the insurance company for payments it makes within the amount of the deductible selected. Failure to reimburse the insurance company for such deductible amounts within 30 days can result in cancellation of coverage.

Please show whether or not you want the deductible by initialing the appropriate choice below.

_____ Yes, I want a deductible of _____ applied to death and medical benefits under the Delaware Workers Compensation Law. I understand that the company shall pay the deductible amount and be reimbursed by the employer shown below.

_____ No, I do not want the deductible described in this Notice.

I understand that in accordance with 19 Del. C. §2372, I have the option of modifying the above deductible program choice at the time of renewal of my workers compensation insurance policy with the insurance company named below.

Date _____	Employer _____
	Name _____
	Title _____

Insurance Company _____

The deductible credit applies to total premium after application of experience modification, if any. The dollar amount of the premium reduction resulting from application of the deductible credit is to be recorded in Item 4 of the Information Page under **Code 9663**.

G. DELAWARE WORKERS COMPENSATION INSURANCE PLAN (WCIP)

The Delaware Workers Compensation Insurance Plan is available in the state of Delaware when an employer is unable to obtain workers compensation coverage in the voluntary market. For more information refer to the Delaware Workers Compensation Insurance Plan Handbook or contact the Delaware Compensation Rating Bureau, Inc.

1. Residual Market Surcharge

Effective August 1, 1997, the surcharge program applies to all risks insured in the Plan, including risks for which the Plan applications were processed through Delaware and WCIP risks for which residual market applications were processed through another state.

- a. Premium surcharges will apply to risks insured under the Plan which qualify for experience rating and which produce experience modifications in excess of 1.000.
- b. Applicable surcharges to subject risks will be expressed as a factor to be applied to standard premium and will be computed using the following formula:

$$0.50 \times (1.000 - W)$$

Where W = the Residual Market Surcharge Weighting Factor

~~0.50 x (1.000 - risk credibility in the Experience Rating Plan)~~

RESIDUAL MARKET SURCHARGE WEIGHTING FACTOR

Effective: December 1, 2026

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Greater than	Up to	Weight "W"	Greater than	Up to	Weight "W"	Greater than	Up to	Weight "W"
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359,924	382,034	0.721	1,379,268	1,422,700	0.907	4,338,871	Above	0.988

- c. Surcharges so computed will be limited to a maximum factor computed by subtracting unity (1.000) from each risk's experience modification factor.
- d. Surcharges will be computed and expressed to two decimal places.

**NOTICE OF ELECTION TO ACCEPT OR REJECT AN INSURANCE DEDUCTIBLE
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_____	_____
Date	Employer

	Name

	Title

_____ Insurance Company

The deductible credit applies to total premium after application of experience modification, if any. The dollar amount of the premium reduction resulting from application of the deductible credit is to be recorded in Item 4 of the Information Page under **Code 9663**.

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- a. Premium surcharges will apply to risks insured under the Plan which qualify for experience rating and which produce experience modifications in excess of 1.000.
- b. Applicable surcharges to subject risks will be expressed as a factor to be applied to standard premium and will be computed using the following formula:

$$0.50 \times (1.000 - W)$$

Where W = the Residual Market Surcharge Weighting Factor

RESIDUAL MARKET SURCHARGE WEIGHTING FACTOR

Effective: December 1, 2026

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80,590	91,141	0.365	644,938	674,652	0.822	1,953,479	2,019,709	0.933
91,141	100,920	0.391	674,652	704,871	0.828	2,019,709	2,089,078	0.935
100,920	110,201	0.413	704,871	735,573	0.834	2,089,078	2,161,801	0.937
110,201	119,228	0.434	735,573	766,742	0.840	2,161,801	2,238,101	0.939
119,228	128,218	0.453	766,742	798,366	0.845	2,238,101	2,318,210	0.941
128,218	137,358	0.471	798,366	830,440	0.850	2,318,210	2,402,367	0.943
137,358	146,813	0.488	830,440	862,961	0.855	2,402,367	2,490,821	0.945
146,813	156,724	0.505	862,961	895,933	0.860	2,490,821	2,583,829	0.947
156,724	167,212	0.522	895,933	929,367	0.864	2,583,829	2,681,655	0.949
167,212	178,379	0.539	929,367	963,278	0.869	2,681,655	2,784,572	0.951
178,379	190,306	0.556	963,278	997,690	0.873	2,784,572	2,892,863	0.952
190,306	203,062	0.573	997,690	1,032,631	0.876	2,892,863	3,006,815	0.954
203,062	216,698	0.589	1,032,631	1,068,138	0.880	3,006,815	3,126,727	0.956
216,698	231,254	0.606	1,068,138	1,104,253	0.884	3,126,727	3,252,905	0.957
231,254	246,756	0.622	1,104,253	1,141,026	0.887	3,252,905	3,385,661	0.959
246,756	263,220	0.637	1,141,026	1,178,516	0.890	3,385,661	3,525,316	0.961
263,220	280,654	0.652	1,178,516	1,216,788	0.893	3,525,316	3,672,201	0.962
280,654	299,053	0.667	1,216,788	1,255,914	0.896	3,672,201	3,826,650	0.964
299,053	318,410	0.681	1,255,914	1,295,976	0.899	3,826,650	3,989,009	0.965
318,410	338,707	0.695	1,295,976	1,337,061	0.902	3,989,009	4,159,630	0.966
338,707	359,924	0.708	1,337,061	1,379,268	0.905	4,159,630	4,338,871	0.968
359,924	382,034	0.721	1,379,268	1,422,700	0.907	4,338,871	Above	0.988

- c. Surcharges so computed will be limited to a maximum factor computed by subtracting unity (1.000) from each risk's experience modification factor.
- d. Surcharges will be computed and expressed to two decimal places.