

ATTACHMENTS 5.1, 5.2 & 5.3

**ANNUAL CONSIDERATION OF PREMIUM RATES,
COVERAGE LIMITS & COMMISSION RATES**

NOTES PRIOR TO THE BOARD'S MOTION TO RETAIN OR MODIFY CURRENT PREMIUM RATES

Requests for adjustments to the premium rate formula: A number of low and fixed income residents especially from Pittsburgh, Wilkes-Barre and Scranton, as well as the Environmental Justice from Pittsburgh have requested that discounts be provided to make coverage more affordable for those least able to afford it. The current premium rate formulas have been in use for more than 20 years. They load a higher percentage of premiums into the initial amounts of coverage. This practice provided recovery costs for the physical inspections of structures that would yield low amounts of premium. Our practice today is to only physically inspect properties when the data suggests it is required, a practice that has eliminated the vast majority of physical inspections. To broaden subscriptions, especially to those who can least afford to be without coverage, a new rating formula could be adopted that provides significant reductions for the initial coverage amounts and that does not increase the cost of coverage at the maximum coverage amount. That would result in initial reductions in overall premium income. However, over time, the increased number of subscriptions could cause an increase to the overall premiums, given that claim costs would not increase at commensurate levels. Another alternative rate structure could be devised that would not initially reduce overall premiums and still reduce the premiums of the low cost structures. It would load higher premiums onto the higher amounts of coverage to offset reductions. Although no alternative rates are proposed at this time, further analysis of alternative rate structures will be conducted that may include actuarial analysis. The results will be provided to the Board.

Elimination of nonresidential rates: A number of business owners have questioned the difference between the cost of nonresidential and residential coverage. Many of those have stated that they have chosen not to insure because of the cost. MSI coverage was initially provided only for personal dwellings. At the time when coverage was broadened to cover commercial buildings, there was no history upon which to base a rating structure and the MSI Board was very cautious about retaining adequate premiums. However, after more than 30 years of offering nonresidential coverage, only about 3% of the policies in force are nonresidential. Many small businesses have told us that coverage is not affordable. Non-residential rates are four times as costly as residential rates, and upon an initial review of claims and costs to repair, there does not appear to be a basis for the rating difference. Historically the amount of non-residential loss has been incidental. The cost to repair the typical commercial building has been no more than that of a residential dwelling. In fact, many small businesses are run from what were once residential dwellings. An alternative to the two types of rates would be to provide a single rating structure. Since there are relatively few nonresidential policies when compared to residential policies, the impact of that change on overall premium income should be minimal. Over time, the increased subscriptions could lead to higher overall premium income than under the two-rate system. Another approach could be to reduce the nonresidential rates. As with the proposed modifications to the residential rating structure, further study will be provided and the results will be reported to the Board.

ATTACHMENT 5.1

Residential Rates				Residential Rates		
Desired Coverage	Annual Premium	Senior Citizen Premium *		Desired Coverage	Annual Premium	Senior Citizen Premium *
\$5,000	\$12.50	\$11.25		\$130,000	112.5	101.25
10,000	16.5	14.85		135,000	116.5	104.85
15,000	20.5	18.45		140,000	120.5	108.45
20,000	24.5	22.05		145,000	124.5	112.05
25,000	28.5	25.65		150,000	128.5	115.65
30,000	32.5	29.25		155,000	132.5	119.25
35,000	36.5	32.85		160,000	136.5	122.85
40,000	40.5	36.45		165,000	140.5	126.45
45,000	44.5	40.05		170,000	144.5	130.05
50,000	48.5	43.65		175,000	148.5	133.65
55,000	52.5	47.25		180,000	152.5	137.25
60,000	56.5	50.85		185,000	156.5	140.85
65,000	60.5	54.45		190,000	160.5	144.45
70,000	64.5	58.05		195,000	164.5	148.05
75,000	68.5	61.65		200,000	168.5	151.65
80,000	72.5	65.25		205,000	172.5	155.25
85,000	76.5	68.85		210,000	176.5	158.85
90,000	80.5	72.45		215,000	180.5	162.45
95,000	84.5	76.05		220,000	184.5	166.05
100,000	88.5	79.65		225,000	188.5	169.65
105,000	92.5	83.25		230,000	192.5	173.25
110,000	96.5	86.85		235,000	196.5	176.85
115,000	100.5	90.45		240,000	200.5	180.45
120,000	104.5	94.05		245,000	204.5	184.05
125,000	108.5	97.65		250,000	208.5	187.65

*Senior Citizen's Rates (at least 65 years of age) only apply to primary residence-does not include detached garage/outbuilding.

Non-Residential Rates					
Desired Coverage	Annual Premium	Desired Coverage	Annual Premium	Desired Coverage	Annual Premium
\$5,000	\$63.00	\$90,000	\$318.00	\$175,000	\$573.00
10,000	78.00	95,000	333.00	180,000	588.00
15,000	93.00	100,000	348.00	185,000	603.00
20,000	108.00	105,000	363.00	190,000	618.00
25,000	123.00	110,000	378.00	195,000	633.00
30,000	138.00	115,000	393.00	200,000	648.00
35,000	153.00	120,000	408.00	205,000	663.00
40,000	168.00	125,000	423.00	210,000	678.00
45,000	183.00	130,000	438.00	215,000	693.00
50,000	198.00	135,000	453.00	220,000	708.00
55,000	213.00	140,000	468.00	225,000	723.00
60,000	228.00	145,000	483.00	230,000	738.00
65,000	243.00	150,000	498.00	235,000	753.00
70,000	258.00	155,000	513.00	240,000	768.00
75,000	273.00	160,000	528.00	245,000	783.00
80,000	288.00	165,000	543.00	250,000	798.00
85,000	303.00	170,000	558.00		

PREMIUM CALCULATION AT MAXIMUM COVERAGE

RESIDENTIAL COVERAGE AT \$ 250,000

FIRST \$5,000:	\$5,000	x	0.0025	=	\$ 12.50
BALANCE OF \$245,000:	\$245,000	x	0.0008		\$ 196.00
TOTAL PREMIUM					\$ 208.50

NONRESIDENTIAL COVERAGE AT \$ 250,000

FIRST \$5,000:	\$5,000	x	0.0126	=	\$ 63.00
BALANCE OF \$245,000:	\$245,000	x	0.003		\$ 735.00
TOTAL PREMIUM					\$ 798.00

ATTACHMENT 5.3

COMMISSION RATE: One half of the first year's premium.