

Comments on Norcal California Medical Malpractice Filing Dated July 1, 2003  
 CADOI Filing No. 03-5028

Date September 30, 2003  
 To Dan Zohar, Pamela Pressley  
 From Allan I. Schwartz

There are three areas of the Norcal filing that I will comment upon at the current time.<sup>1</sup> These are : (1) development, (2) trend and (3) ancillary income.

Norcal's selected ultimate losses & ALAE are higher than those derived using incurred development by about 11%. Norcal's use of a higher than appropriate trend factor results in the projected rate period losses & ALAE being inflated by about 8%. Either of these revisions alone would effectively eliminate any indication for a rate increase. Taken together, the indicated rate change would be for a material decrease in rates. We have not been able to calculate the numerical impact of our position regarding ancillary income given the time and data available.

These issues are discussed further in the remainder of this memorandum.

Development

Norcal's selected ultimate losses & ALAE are higher than those derived using incurred development by about 11%. (Exhibit page 1)

Norcal's selected ultimate losses & ALAE are based upon a combination of the results from applying incurred and paid development. Under the current circumstances, it is not appropriate to use paid development, and the results from incurred development should be relied upon for the rate level indication.

The paid loss development factors are much higher numerically than the incurred development factors. These are compared in the following table.

Comparison of Incurred and Paid Loss Development Factor

<u>Development Period</u>	<u>Development Factor</u>		<u>Ratio of Paid to Incurred</u>
	<u>Incurred</u>	<u>Paid</u>	
1st to Ultimate	2.488	36.459	14.7
2nd to Ultimate	0.055	3.080	2.9
3rd to Ultimate	0.987	1.532	1.6

<sup>1</sup> It should not be assumed that we are in agreement with any of the methods in the Norcal filing that we have not commented upon.

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As a result of the much higher numerical value of the development factors using the paid method, the paid method is subject to a much higher degree of uncertainty and variability. This is especially the case for a line of insurance such as medical malpractice with very high limits of coverage. The presence or absence of one or a few paid claims at the early maturities can have a dramatic impact on the projections of the ultimate losses. At a first maturity, a change in the reported paid losses of \$1,000,000 has an impact on the projected ultimate losses of \$36,459,000. By contrast, a change in the reported incurred losses of \$1,000,000 at a first maturity has an impact on the projected ultimate losses of only \$2,488,000. This high degree of variability using the paid development method may explain why Norcal's projection of ultimate losses using the paid method increased by about 120% from report year 1999 to report year 2002 (values of \$60,312,463 in 1999 and \$131,536,880 in 2002) even though exposures increased by less than 10% (from 16,109 in 1999 to 17,360 in 2002) and why Norcal's projection of ultimate losses for 2002 using the paid method was more than twice as high as using the incurred method (values of \$131,536,880 for paid and \$63,819,032 for incurred)

In addition, the historical development factors show a much larger degree of variability for the paid method than the incurred method.

Coefficient of Variation of Development Factors for Incurred and Paid Data

<u>Development Maturities (Mos)</u>	<u>Coefficient of Variation<sup>2</sup> of Development Factors For</u>	
	<u>Incurred</u>	<u>Paid</u>
12 to 24	15% to 20%	60% to 100%
24 to 36	10% to 15%	20%
36 to 48	5% to 10%	5% to 15%

This high degree of observed volatility in the paid development factors is another reason not to rely on the indications from that method for the analysis of this filing.

Furthermore, the original Norcal filing used only the indications for the incurred development method. (Exhibit pages 4 to 6) It was only after various adjustments were made to the Norcal rate calculation to be consistent with the rate making regulations in California and the recent SCPIE decision, that Norcal inserted paid development into the projected ultimate loss & ALAE calculations. Hence, in terms of the original filing by Norcal, the company itself believed that incurred development was the appropriate method to rely upon to derive the projected ultimate losses & ALAE.

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<sup>2</sup> The values in the table are approximate ranges. See Exhibit pages 2 and 3 for the detailed calculations.

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For all these reasons, it is appropriate to rely on the indications from the incurred development method to derive the projected ultimate values for losses & ALAE. The paid development method should not be used for the analysis of this filing.

Trend

Norcal's use of a higher than appropriate trend factor results in the projected rate period losses & ALAE being inflated by about 8%. (Exhibit page 7)

We analyzed the indicated pure premium<sup>3</sup> trend over various time periods. (Exhibit pages 8 and 9) The results of this analysis is set forth in the following table.

Summary of Indicated Annual Pure Premium Loss & ALAE Trend

<u>Time Period</u>	<u>Indicated Annual Loss &amp; ALAE Trend</u>
1994 - 2002	+3.6%
1995 - 2002	+3.4%
1996 - 2002	+3.3%
1997 - 2002	+5.2%
1998 - 2002	+6.3%
1999 - 2002	+5.6%
2002	+0.9%
- 2002	-3.0%
Average	+3.0%

The longer term trends (over 7 to 9 years) are in the range of about 3½% a year. The intermediate term trends (over 4 to 6 years) are in the range of about 5½% a year. The shorter term trends (over 2 to 3 years) are about flat (0.9%) to decreasing (-3.0%). This may indicate a turning point and lower trends into the future. The average of all the trend indications is about 3% a year. The average excluding the two year trend from 2001 to 2002 is about 4% a year.

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<sup>3</sup> The pure premium takes into account both claim frequency and claim severity.

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Based upon these calculations we selected an annual pure premium loss & ALAE trend of 4% a year for this analysis. This reasonably balances the trend indications over the various time periods.

Norcal is using a 6.9% annual trend. This is 2.9% a year higher than a reasonable value of 4%. The average number of years of trend is 3. Hence, the trends used by Norcal inflate the projected rate period losses and ALAE by somewhat over 8%.<sup>4</sup>

Ancillary Income

Norcal calculates a projected value for ancillary income (excluding federal taxes) of a loss of approximately \$1 million. (Exhibit page 10)

The basis for this negative ancillary income is explained by Norcal as, "We expect future ancillary income to be negative in the future as the result of expenses of new reinsurance contract effective 1/1/2003."

However, rate making is supposed to be done on a direct basis before reinsurance, not on a net basis after reinsurance. Norcal, by reflecting costs of a reinsurance contract<sup>5</sup>, is effectively doing rate making on a net basis after reinsurance. This is contrary to the applicable procedures in California which call for rate making to be performed on a direct basis before reinsurance.

Any costs that Norcal has included in its rate request for the cost of reinsurance should be removed.

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<sup>4</sup> ( 6.9% - 4.0% ) X 3 = 8.7%

<sup>5</sup> The terms or details of this reinsurance contract have not been supplied.

NORCAL MUTUAL INSURANCE COMPANY

Impact of Projected Ultimate Losses & ALAE Used by NORCAL

<u>Report Year</u>	<u>Incurred Development</u>	<u>NORCAL Selected</u>	<u>Difference</u>
		<u>Losses</u>	
2000	\$64,523,516	\$70,219,945	8.8%
2001	\$67,250,505	\$76,955,727	14.4%
2002	\$63,819,032	\$83,166,989	30.3%
<b>Combined</b>	<b>\$195,593,053</b>	<b>\$230,342,661</b>	<b>17.8%</b>
		<u>ALAE</u>	
2000	\$48,409,970	\$49,345,025	1.9%
2001	\$54,726,650	\$56,550,513	3.3%
2002	\$56,651,917	\$59,718,473	5.4%
<b>Combined</b>	<b>\$159,788,537</b>	<b>\$165,614,011</b>	<b>3.6%</b>
		<u>Losses &amp; ALAE</u>	
2000	\$112,933,486	\$119,564,970	5.9%
2001	\$121,977,155	\$133,506,240	9.5%
2002	\$120,470,949	\$142,885,462	18.6%
<b>Combined</b>	<b>\$355,381,590</b>	<b>\$395,956,672</b>	<b>11.4%</b>

↑

<p><b>CONCLUSION :</b>  <b>NORCAL's selected ultimate losses &amp; ALAE increases the rate level by about 11% compared to the use of incurred development</b></p>
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preliminary draft : for settlement discussion purposes only

NORCAL MUTUAL INSURANCE COMPANY

Incurred Loss Development as of December 31, 2002

<u>Report Year</u>	<u>12 to 24</u>	<u>24 to 36</u>	<u>36 to 48</u>
1975	2.201	0.796	2.616
1976	1.216	1.054	1.467
1977	1.694	1.369	0.869
1978	2.654	1.171	0.867
1979	1.258	1.075	0.852
1980	1.629	0.888	0.806
1981	1.400	0.859	1.012
1982	1.325	1.177	0.752
1983	1.842	0.899	0.923
1984	1.356	0.897	1.014
1985	1.516	1.187	1.042
1986	2.078	1.085	0.868
1987	1.613	1.065	0.908
1988	1.552	1.006	0.861
1989	1.684	1.135	0.952
1990	1.566	1.061	1.083
1991	1.427	1.137	1.103
1992	1.929	1.032	1.027
1993	1.952	1.082	0.913
1994	1.905	1.075	0.908
1995	2.336	0.883	0.910
1996	1.807	1.019	1.010
1997	1.641	1.260	0.914
1998	2.121	0.893	1.007
1999	2.339	1.135	0.985
2000	2.255	1.166	
2001	2.470		
<u>Average :</u>			
All Years	1.806	1.054	1.027
1980 to Present	1.807	1.045	0.950
1985 to Present	1.894	1.076	0.966
1990 to Present	1.979	1.068	0.986
1995 to Present	2.106	1.095	0.979
<u>Standard Deviation :</u>			
All Years	0.386	0.134	0.351
1980 to Present	0.336	0.116	0.088
1985 to Present	0.319	0.096	0.074
1990 to Present	0.319	0.106	0.069
1995 to Present	0.283	0.140	0.044
<u>Coefficient of Variation :</u>			
All Years	21%	13%	34%
1980 to Present	19%	11%	9%
1985 to Present	17%	9%	8%
1990 to Present	16%	10%	7%
1995 to Present	13%	13%	5%

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NORCAL MUTUAL INSURANCE COMPANY

Incurred Loss Development as of December 31, 2002

<u>Report Year</u>	<u>12 to 24</u>	<u>24 to 36</u>	<u>36 to 48</u>
1975		1.617	1.000
1976	2.654	10.917	1.349
1977	2.280	3.046	3.430
1978	90.617	1.839	2.093
1979	18.445	2.002	1.253
1980	36.539	3.399	1.918
1981	6.675	2.372	2.002
1982	42.048	2.492	1.307
1983	135.228	1.991	1.291
1984	32.275	2.077	1.280
1985	19.409	2.281	1.247
1986	54.320	1.540	1.391
1987	11.834	2.688	1.361
1988	24.953	2.996	1.379
1989	27.572	2.283	1.357
1990	5.532	2.436	1.378
1991	9.763	3.319	1.454
1992	24.962	2.275	1.212
1993	16.729	2.578	1.266
1994	37.256	2.195	1.102
1995	31.972	2.295	1.158
1996	9.077	2.393	1.209
1997	4.521	3.129	1.202
1998	22.190	1.779	1.241
1999	8.448	2.240	1.311
2000	35.711	2.023	
2001	9.045		
<u>Average :</u>			
All Years	27.694	2.700	1.448
1980 to Present	27.548	2.418	1.353
1985 to Present	20.782	2.403	1.285
1990 to Present	17.934	2.424	1.253
1995 to Present	14.832	2.313	1.241
<u>Standard Deviation :</u>			
All Years	28.697	1.712	0.479
1980 to Present	27.047	0.463	0.219
1985 to Present	13.220	0.450	0.097
1990 to Present	11.559	0.429	0.099
1995 to Present	11.684	0.418	0.051
<u>Coefficient of Variation :</u>			
All Years	104%	63%	33%
1980 to Present	98%	19%	16%
1985 to Present	64%	19%	8%
1990 to Present	64%	18%	8%
1995 to Present	79%	18%	4%

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**NORCAL MUTUAL INSURANCE COMPANY**  
**California 2004**  
**California Physicians and Surgeons Professional Liability**  
**Incurred ALAE Evaluated as of 12/31/2002**  
**Report Year Totals**

Exhibit 5

**Projected Ultimate ALAE Using Development  
 Technique on Incurred ALAE**

<u>Report Year</u> <b>(1)</b>	<u>Incurred ALAE</u> <b>(2)</b>	<u>Development Factor to Ultimate</u> <b>(3)</b>	<u>Projected Ultimate ALAE (2) x (3)</u> <b>(4)</b>
1975	27,748	1.000	27,748
1976	575,369	1.000	575,369
1977	1,957,034	1.000	1,957,034
1978	3,377,268	1.000	3,377,268
1979	5,172,671	1.000	5,172,671
1980	6,816,287	1.000	6,816,287
1981	7,830,433	1.000	7,830,433
1982	8,446,053	1.000	8,446,053
1983	10,124,924	1.000	10,124,924
1984	10,938,980	1.000	10,938,980
1985	14,216,380	1.000	14,216,380
1986	11,586,037	1.000	11,586,037
1987	19,174,886	1.000	19,174,886
1988	17,073,197	1.000	17,073,197
1989	20,369,528	1.000	20,369,528
1990	24,223,885	1.000	24,223,885
1991	28,338,649	1.000	28,338,649
1992	30,850,475	1.000	30,850,475
1993	35,481,317	1.000	35,481,317
1994	32,233,838	1.000	32,233,838
1995	38,999,890	1.000	38,999,890
1996	48,292,285	1.002	48,388,870
1997	42,331,654	1.010	42,755,648
1998	38,735,230	1.020	39,514,434
1999	37,881,716	1.037	39,300,695
2000	45,137,155	1.089	49,169,304
2001	40,433,110	1.374	55,540,798
2002	20,937,097	2.768	57,951,740
<b>Total</b>	<b>\$601,583,098</b>		<b>\$660,436,338</b>

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**NORCAL MUTUAL INSURANCE COMPANY**  
 California 2004  
 California Physicians and Surgeons Professional Liability  
 Incurred Indemnity Evaluated as of 12/31/2002  
 Report Year Totals

Exhibit 6  
 Sheet 1

Projected Ultimate Indemnity Using Development  
 Technique on Incurred Indemnity

Report Year <u>(1)</u>	Incurred Indemnity <u>(2)</u>	Development Factor to Ultimate <u>(3)</u>	Projected Ultimate Indemnity <u>(2) x (3)</u> <u>(4)</u>
1975	13,573	1.000	13,573
1976	2,563,533	1.000	2,563,533
1977	6,953,564	1.000	6,953,564
1978	9,582,984	1.000	9,582,984
1979	11,254,774	1.000	11,254,774
1980	12,196,144	1.000	12,196,144
1981	17,269,450	1.000	17,269,450
1982	13,944,354	1.000	13,944,354
1983	18,087,154	1.000	18,087,154
1984	14,423,444	1.000	14,423,444
1985	24,264,436	1.000	24,264,436
1986	17,077,914	1.000	17,077,914
1987	17,315,179	1.000	17,315,179
1988	16,542,810	1.000	16,542,810
1989	22,862,395	1.000	22,862,395
1990	30,636,044	1.000	30,636,044
1991	30,301,726	1.000	30,301,726
1992	36,517,480	1.000	36,517,480
1993	44,487,678	1.000	44,487,678
1994	40,056,748	0.999	40,016,692
1995	44,168,661	1.002	44,256,866
1996	61,980,515	1.002	62,104,290
1997	53,760,463	1.002	53,867,822
1998	43,369,675	1.062	46,063,661
1999	54,212,451	1.025	55,564,658
2000	65,354,118	0.989	64,639,780
2001	63,722,151	1.068	68,067,704
2002	25,652,664	2.350	60,284,523
<b>Total</b>	<b>\$798,572,081</b>		<b>\$841,160,629</b>

NORCAL Mutual Insurance Company  
 Indicated Rate Change for Policy Year 2004 with 7.02% Projected Yield

Exhibit 20  
 Sheet 2

	Report Year 2000	Report Year 2001	Report Year 2002	Source
(1) Historic Indemnity Losses Incurred (\$000)	\$65,354	\$63,722	\$25,653	Form RA-5, Row (6)
(2) Indemnity Loss Development Factor	0.989	1.068	2.35	Form RA-5, Row (8)
(3) Indemnity Trend	1.316	1.228	1.147	Form RA-5, Row (10)
(4) Projected Indemnity Losses (\$000)	\$85,060	\$83,572	\$89,146	= (1) x (2) x (3)
(5) Historic ALAE Incurred (\$000)	\$45,137	\$40,433	\$20,937	Form RA-5, Row (7)
(6) ALAE Development Factor	1.089	1.374	2.768	Form RA-5, Row (9)
(7) ALAE Trend	1.316	1.228	1.147	Form RA-5, Row (11)
(8) Projected ALAE (\$000)	\$64,687	\$68,221	\$66,473	= (5) x (6) x (7)
(9) Base Class Equivalent Exposures	16,576	17,063	17,360	Form RA-5, Row (5)
(10) Projected Indemnity Loss per Exposure	\$5,132	\$4,898	\$3,983	= (4) / (9) x 1000
(11) Projected ALAE per Exposure	\$3,902	\$3,998	\$3,829	= (8) / (9) x 1000
(12) DD&R Load			1.050	Norcal
(13) Other Acquisition Expenses	\$0	\$0	\$0	Form RA-5, Row (18)
(14) General Expenses	\$14,047	\$14,292	\$15,369	Form RA-5, Row (19)
(15) Taxes, Licenses, & Fees (excluding State Tax)	\$120	\$284	\$600	Form RA-5, Row (20)
(16) Unallocated Loss Adjustment Expense	\$18,853	\$17,682	\$16,185	Form RA-5, Row (21)
(17) Other Expense Items	\$1,707	\$1,854	\$1,774	Form RA-5, Row (22)
(18) Total Fixed Expenses	\$34,727	\$34,112	\$33,928	= (13) + (14) + (15) + (16) + (17)
(19) Fixed Expense per Exposure	\$2,095	\$1,999	\$1,954	= (18) / (9) x 1000
(20) Commission (as % of premium)	2.8%	4.2%	3.9%	Form RA-5, Row (17)
(21) Premium Tax (as % of premium)	2.35%	2.35%	2.35%	Dept. of Insurance
(22) Total Variable Expenses (as % of premium)	5.15%	6.55%	6.25%	= (20) + (21)
(23) Maximum After-Tax Rate of Return	15%	15%	15%	Dept. of Insurance
(24) Leverage Factor	1.0	1.0	1.0	Dept. of Insurance
(25) Federal Income Tax Rate	21.0%	21.0%	21.0%	Dept. of Insurance
(26) Federal Income Tax Factor	0.790	0.790	0.790	= 1 - (25)
(27) Profit Factor	19.0%	19.0%	19.0%	= (23) / [(24) x (26)]
(28) Projected Yield			7.02%	Dept. of Insurance
(29) Indemnity Loss Reserves (\$000)		\$188,301	\$168,359	Form RA-5, Row (27)
(30) LAE Reserves (\$000)		\$138,589	\$123,105	Form RA-5, Row (28)
(31) Unearned Premium Reserves (\$000)		\$28,372	\$32,069	Form RA-5, Row (29)
(32) Total Reserves (\$000)		\$353,242	\$323,533	= (29) + (30) + (31)
(33) Average Reserves (\$000)			\$338,388	Average of (32)
(34) Earned Premium			\$147,245	Form RA-5, Row (2)
(35) Reserves Ratio			2.30	= (33) / (34)

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NORCAL MUTUAL INSURANCE COMPANY

Impact of Trend Used by NORCAL

(1) NORCAL Selected Loss & ALAE Annual Trend	6.9%
(2) Indicated Annual Trend	4.0%
(3) Average Number of Years of Trend	3
(4) Impact of NORCAL Using an Excessive Trend $\{ [1 + (1)] / [1 + (2)] \} ^ (3)$	8.6%

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<p><u>CONCLUSION :</u>          NORCAL's selected trend increases the rate level          by about 8% compared to the indicated trend</p>
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NORCAL MUTUAL INSURANCE COMPANY

Analysis of Trends Based Upon Incurred Development

Report Year	Projected Ultimate Pure Premium	Fitted Pure Premium During the Period From							
		<u>1994 - 2002</u>	<u>1995 - 2002</u>	<u>1996 - 2002</u>	<u>1997 - 2002</u>	<u>1998 - 2002</u>	<u>1999 - 2002</u>	<u>2000 - 2002</u>	<u>2001 - 2002</u>
1994	\$5,180	\$5,292							
1995	\$5,503	\$5,483	\$5,542						
1996	\$6,306	\$5,681	\$5,729	\$5,753					
1997	\$5,783	\$5,886	\$5,922	\$5,940	\$5,588				
1998	\$5,652	\$6,098	\$6,121	\$6,134	\$5,877	\$5,718			
1999	\$5,872	\$6,318	\$6,327	\$6,334	\$6,181	\$6,076	\$6,147		
2000	\$6,813	\$6,546	\$6,541	\$6,541	\$6,501	\$6,456	\$6,494	\$6,902	
2001	\$7,149	\$6,782	\$6,761	\$6,754	\$6,837	\$6,860	\$6,860	\$6,966	
2002	\$6,940	\$7,026	\$6,988	\$6,974	\$7,191	\$7,290	\$7,248	\$7,030	
Annual Change		3.6%	3.4%	3.3%	5.2%	6.3%	5.6%	0.9%	
Constant		-62.05	-57.45	-55.39	-92.10	-112.67	101.04	-9.56	
Std Err of Y Est		0.06	0.07	0.07	0.05	0.05	0.06	0.03	
R Squared		0.73	0.63	0.52	0.81	0.82	0.65	0.14	
No. of Observations		9	8	7	6	5	4	3	
Degrees of Freedom		7	6	5	4	3	2	1	
X Coefficient(s)		0.035	0.033	0.032	0.050	0.061	0.055	0.009	
Std Err of Coef.		0.008	0.010	0.014	0.012	0.017	0.028	0.022	

NORCAL MUTUAL INSURANCE COMPANY

Derivation of Pure Premiums for Analysis of Trends Based Upon Incurred Development

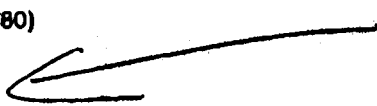
Report Year	Projected Ultimate Using Incurred Development			Exposures	Pure Premium
	Losses	ALAE	Losses & ALAE		
1994	\$39,951,135	\$32,267,685	\$72,218,820	13,942	\$5,180
1995	\$44,050,005	\$38,979,933	\$83,029,938	15,089	\$5,503
1996	\$61,261,463	\$48,259,227	\$109,520,690	17,369	\$6,306
1997	\$53,729,095	\$42,558,098	\$96,287,193	16,651	\$5,783
1998	\$46,717,682	\$39,319,627	\$86,037,309	15,223	\$5,652
1999	\$55,517,200	\$39,078,371	\$94,595,571	16,109	\$5,872
2000	\$64,523,516	\$48,409,970	\$112,933,486	16,576	\$6,813
2001	\$67,250,505	\$54,726,650	\$121,977,155	17,063	\$7,149
2002	\$63,819,032	\$56,651,917	\$120,470,949	17,360	\$6,940

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**NORCAL MUTUAL INSURANCE COMPANY**  
 California 2004  
 Medical Malpractice - Physicians and Surgeons Professional Liability

Exhibit 16

Ancillary Income

- (1) 2000 Ancillary Income 125,341  
 Source: Line 1202, Pg. 4 of NORCAL's 2000 Annual Statement
- (2) 2001 Ancillary Income 93,199  
 Source: Line 1302, Pg. 4 of NORCAL's 2001 Annual Statement
- (3) 2002 Ancillary Income 39,187  
 Source: Line 1402, Pg. 4 of NORCAL's 2002 Annual Statement
- (4) Average Ancillary Income 85,909  
 Average of (1), (2), & (3)
- (5) 2003 Ancillary Income as of 6/30/2003 (492,390)  
 Source: Line 1402, Pg. 4 of 6/30/03 Quarterly Financial Statement
- (6) Projected Ancillary Income for 2003 (984,780)  
 = (5) x 2. We expect future ancillary income to be negative in the future as the result of expenses of new reinsurance contract effective 1/1/2003. The cost for the first six months of the year is pro-rated to a twelve month period. 
- (7) 2002 Net Tax Liability (4,550,000)  
 Source: Line 19, Pg. 4 of NORCAL's 2002 Annual Statement
- (8) Projected Ancillary Income (5,534,780)  
 (6) + (7)

CCR Section 2644.18:

(a) "Federal income tax factor" means 1.0 minus the insurer's effective federal income tax rate reported in the most recent year for which historical data are available, giving full account to all tax credits and offsets used or available to the insurer. Where there has been a change in tax laws between the recorded period and the rating period, the effective tax rate shall be calculated using the historical data and the tax rules for the rating period.

(b) Where the insurer had a net tax credit, or where the insurer had a net tax liability on a net pretax loss, the effective tax rate shall be zero and

(1) if the insurer had a net tax credit, the amount of the credit shall be added, as a positive number to nationwide projected ancillary income;

(2) if the insurer had a net tax liability, the amount of the liability shall be subtracted from nationwide projected ancillary income.

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