

**The State of Massachusetts  
 Citizens Insurance Company of America (A Member of The Hanover Insurance Group)  
 Private Passenger Automobile<sup>1/</sup>  
 Effective June 8, 2010 NB & May 23, 2010 Ren**

Annual Base Rates

Coverage	Base Rate
Bodily Injury	\$225.00
Optional BI	\$225.00
Property Damage	\$323.00
Medical Payment	\$17.00
Personal Injury Protection	\$60.00
Uninsured Bodily Injury	\$9.00
Underinsured Bodily Injury	\$75.00
Comprehensive	\$120.00
Collision	\$364.00
Limited Collision	\$19.00
Substitute Transportation	\$59.00
Towing & Labor	\$8.00
Additional Customized Equipment	\$8.00
Comprehensive/Collision Auto Loan/Lease Payoff	\$20.00

1/ Excludes data for motorcycles and other miscellaneous vehicle types

**Massachusetts Private Passenger Motor Vehicle Insurance  
Citizens Insurance Company of America  
(A Member of The Hanover Insurance Group)  
Revision of Private Passenger Automobile Insurance Program  
Explanatory Memorandum**

**Proposal:** We are proposing an overall statewide increase of 4.0% with a planned effective date of June 8, 2010 for New Business and May 23, 2010 for Renewals. This rate increase consists of Base Rate changes only.

**Base Rate Changes**

In order to ensure that the overall coverage level rate changes are in line with our selected coverage level rate changes, we propose modifying our base rates as follows:

Coverage	Current Base Rate	Proposed Base Rate
Bodily Injury / Optional BI	\$214	\$225
Property Damage	\$299	\$323
Medical Payment	\$16	\$17
Personal Injury Protection	\$60	\$60
Uninsured Bodily Injury	\$9	\$9
Underinsured Bodily Injury	\$71	\$75
Comprehensive	\$115	\$120
Collision	\$364	\$364
Limited Collision	\$19	\$19
Substitute Transportation	\$59	\$59
Towing & Labor	\$8	\$8
Additional Customized Equipment	\$8	\$8

Exhibits 1 and 2 provide the derivation of our rate indication by coverage. Our selected rate changes are summarized in Exhibit 1. A comparison of our indicated rate need versus selected is as follows:

Coverage	Rate Indication	Proposed Rate Change
Bodily Injury <sup>1</sup>	+6.0%	+5.2%
PIP	+16.7%	+0.0%
Property Damage Liability	+9.3%	+8.0%
Collision	+6.1%	+0.0%
Comprehensive	+21.1%	+3.4%
TOTAL	+9.1%	+4.0%

<sup>1</sup> Includes Medical Payments, Underinsured and Uninsured coverages

## Overall Indication Description

**General Philosophy:** Hanover data within the state of Massachusetts is used whenever possible. If Hanover data within the state of Massachusetts is not available, then Hanover countrywide data or competitor information may be used in its place.

**Data:** The underlying experience is that of the Hanover Insurance Group. Experience is from the most recently available three calendar/accident year review period ending 09/30/2009.

**On-Level Premiums:** Reported premiums are adjusted to current rate level by using the parallelogram method. Please see Exhibit 3 for a summary of rate change history and current rate level factors.

**Premium Trend:** We have estimated separate retrospective and prospective premium trend rates for all coverages. The selected retrospective premium trends were based on a review of the recent year-over-year changes as well as the exponential fits of the average earned premiums at current rate levels. The prospective premium trends were selected based on a review of the recent year-over-year changes, the exponential fits of the average earned premiums at current rate levels as well as judgment in light of the shift to competitive rating. The selected retrospective and prospective premium trends by coverage can be found in Exhibit 4.

The retrospective premium trend period was selected to bring all earned premiums to a common date of 3/31/09; the average effective date underlying the latest 12-month period. The prospective premium trend period was selected to bring all earned premiums to a common date of 5/23/11.

**Losses:** Actual incurred losses (excluding ALAE) for 12-month accident periods ending 9/30/2009 were used as the basis of our indications. The loss figures are summarized in Exhibit 5.

**Loss Development:** The loss development factors used in our indications were selected based on Total Limits Incurred Losses by coverage (Bodily Injury, PIP, Property Damage, Collision and Comprehensive) as shown in Exhibit 6. The Ultimate Losses were calculated as the product of the incurred losses and the incurred loss development factor.

**Loss Trend Selections:** We have estimated separate retrospective and prospective loss trend rates for all coverages. The selected loss trends were based on a review of the recent year-over-year changes and exponential fits of the average frequency and severity. Due to the shift to competitive rating, we have relied heavily on the most recent two years of data in selecting trends.

Exhibit 7 shows Calendar Year Paid Frequency and Severity by coverage. We believe that because our total exposure is growing, the use of Calendar Year data is causing the exponential fit to underestimate the actual loss trend. With this in mind, we have judgmentally selected higher loss trends. The retrospective and prospective loss trends by coverage can be found in Exhibit 7.

The retrospective loss trend period was selected to bring all losses to a common date of 3/31/09, the average accident date underlying the latest 12-month period. The prospective loss trend period was selected to bring all losses to a common date of 5/23/11.

**Expenses:** Exhibit 8 shows historic expenses for the most recent three calendar years available. The selected provisions were based on a review of the historical experience and

reflect planned commission rates. Note: 50% of General and Other Acquisition Expense (OUE) are deemed to be variable in the indication calculations.

The 2.6% residual market loading was selected based on an estimate of our share of the residual market cost as shown in Exhibit 8 page 2.

**Credibility:** Our experience in Massachusetts is deemed to be 100% credible.

**Accident Period Weights:** We judgmentally selected to put 50% of the weight on each of the two most recent accident periods. Our premium and loss experience prior to 4/1/08 is only voluntary business, while our more recent data includes MAIP assignments. We believe that using the data prior to MAIP would distort our projected loss ratio and rate need. We chose to include only the two most recent accident periods in our calculations to minimize this distorting effect.

**Investment Income:** The assets available for investment are the Total Assets less any Premium Receivable and Paid Expense. The Total Assets are the sum of the Unearned Premium and Loss Reserves plus Required Surplus.

The unearned premium and loss reserves were determined from the expense and loss payment patterns. The required surplus is based on the Personal Auto Reserve-to-Surplus assumption. This analysis assumed overall Premium-to-Surplus ratios of 1.60 and 3.17 for Liability and Physical Damage respectively. The total surplus was allocated to individual lines of business based on the risk associated with a particular line. For Personal Auto, 2.91 and 1.64 Reserve-to-Surplus ratios were assumed.

The tax rate assumed in the model is 31.5%.

See Exhibit 9 for further details.

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