THE STATE OF COMPETITION IN THE MAINE WORKERS' COMPENSATION MARKET

PREPARED BY THE STAFF OF
THE MAINE BUREAU OF INSURANCE

NOVEMBER 1, 2001

Angus S. King, Jr.
Governor

S. Catherine Longley
Commissioner

Alessandro A. Iuppa
Superintendent

Table of Contents

Introduction

This report looks at the status of competition in the workers' compensation insurance market by examining different measures of market competition. Among these measures are: the number of insurers providing coverage, market shares and changes in market shares, as well as ease of entry and exit by workers' compensation insurers into and out of the insurance market.

Comparing the variations in rates is another measure of the competitiveness of the industry. Each year, the National Council on Compensation Insurers, Inc. (NCCI) files, on behalf of insurers, advisory loss costs with the Bureau of Insurance. These advisory loss costs reflect what is called "pure premium", or the amounts necessary to cover losses and the costs to adjust (settle) those losses. After approved by the Bureau, the advisory loss costs become the base upon which rates are built.

Workers' compensation insurance in Maine operates in an open competitive rating system. Each insurer files factors, called loss cost multipliers, with the Bureau; the advisory loss costs are multiplied by these factors to form the rates for individual companies. The multipliers account for such things as company experience, overhead expenses, taxes, contingencies, investment income and profit. Insurers may use different multipliers for rating plans for different tiers or companies having different underwriting criteria. Other factors such as experience rating and premium discounts affect the final premium paid by an individual employer.

Prior to the year 2000, advisory loss costs declined for six consecutive years. This was followed by two years of increases in the advisory loss costs. In its most recent filing made on October 23, 2001, the National Council on Compensation Insurance filed and received approval for a 3.4 percent decrease in advisory loss costs. Unrelated to this advisory loss cost filing, the market is now going through a period of hardening. Carriers had been discounting premiums by issuing schedule rating credits, issuing dividends and departing from filed advisory loss costs. They did so to retain business during times when there were high investment returns. Insurers are now less optimistic about investment opportunities, and thus are not likely to offer discounts in order to capture or retain business. The problem of increasing rates will be further compounded by the incidents of September 11, 2001. Insurance carriers cede some of their business to re-insurers to help spread their risk. Reinsurance costs will increase because of the large losses related to September 11, and re-insurers may reduce the business they write, which in turn will affect primary insurers and the risks they write. The Bureau has indications from one insurer that, as a result of the events of September 11, they are non-renewing all workers' compensation business.

There are different criteria that may be used to determine if the insurance industry is competitive. Examples include: a large number of firms selling the product, each individual firm's market share being small enough so that no firm is able to affect the price of the product, and no barriers to new firms entering the market. Using these criteria, the market remains competitive. There are still many insurers writing workers' compensation coverage in Maine. MEMIC's market share has increased and other carriers market share has decreased somewhat, but there is still a level of competition for business.

Though the market remains competitive, insurers' willingness to offer underwriting discounts is lessening. The result is some employers have been moved to higher rating tiers and some employers have lost discounts that they were previously offered. The end result is that premiums for those employers are increasing.

PART I. RECENT EXPERIENCE

Loss Ratios and the State of Competition

Workers' compensation claims can have a long payment period. Payments on some claims may occur over many years. Thus, figures for amounts actually paid out on claims are incomplete and future amounts to be paid on claims must be estimated. Insurance companies report information used to calculate financial ratios. This information may be presented on an accident year, calendar year, or a policy year basis. Ratios may vary greatly, depending on the reporting basis utilized.

In this publication, most information is reported on an accident year basis. To better understand each basis of reporting information, a description of each method and its use follows.

- Accident year experience measures the premiums and losses relating to accidents which occurred during a 12-month period. The accident year loss ratio shows the percentage of premium received that is being paid out or expected to be paid out on claims. It enables the establishment of a basic premium reflecting the pure cost of protection. Losses are organized according to the year in which the accident occurred. Accident year losses or loss ratios are used to evaluate experience under various laws because claims are tracked by year and can be associated with the law in effect at the time of the injury. This information is projected because claim costs change over time as claims further develop. Therefore, the ratios for each year are updated on an annual basis.

- Calendar year loss ratios compare losses incurred in a given year to premium earned in that year. Because workers' compensation claims are often paid out over a long period of time, only a small portion of calendar year losses are attributable to premiums earned that year. Many of the losses paid during the current calendar year are for claims occurring in past calendar years. Calendar year loss ratios also reflect reserve adjustments for past years. If claims are expected to cost more, reserves are adjusted upward; if they are expected to cost less, reserves are adjusted downward. Calendar year incurred losses are used primarily for financial reporting.

- Policy year experience measures the premiums and losses for each 12-month period that a policy is in force. Losses occurring during this 12-month period are assigned to the period regardless of when they are actually paid. It takes time for the losses to develop, so it takes about two years before the information is useful. This data is used to determine advisory loss costs.

Part I. Recent Experience

The Underwriting Cycle

Insurance tends to go through underwriting cycles--successive periods of increasing and diminishing competition. These cycles are important factors in the short-term performance of the insurance industry. Periods in which there are little competition and few willing insurers are considered to be “hard” markets. This happened in the late 1980s and early 1990s in Maine. Competitive or “soft” markets are identified by an increased capacity to write business, falling rates, and growing loss ratios, resulting in insurer operating losses. Maine’s market from the mid-1990s until recently would be considered soft.

Soft markets, with their increased competition for business, can eventually force loss ratios to critical levels, causing insurers to raise their rates and reduce their volume. Nationally, for workers’ compensation and other lines of insurance, we are leaving a “soft” market period and appear to be entering a “hard” period. Ultimately this restores insurer profitability and surplus. This situation, in time, spurs another round of price-cutting, perpetuating the cycle.

Current data points to indicators of market hardening. Insurers nationwide are reducing credits and increasing premiums for workers compensation and other lines of insurance. The accident year incurred loss ratio for 2000 is 93.6. For 1999, the ratio is 106. Accident year loss ratios that exceed 100 mean that insurers are paying out more in benefits than they collect in premiums. The loss ratio does not include marketing and general overhead expenses, but it also does not include investment income.

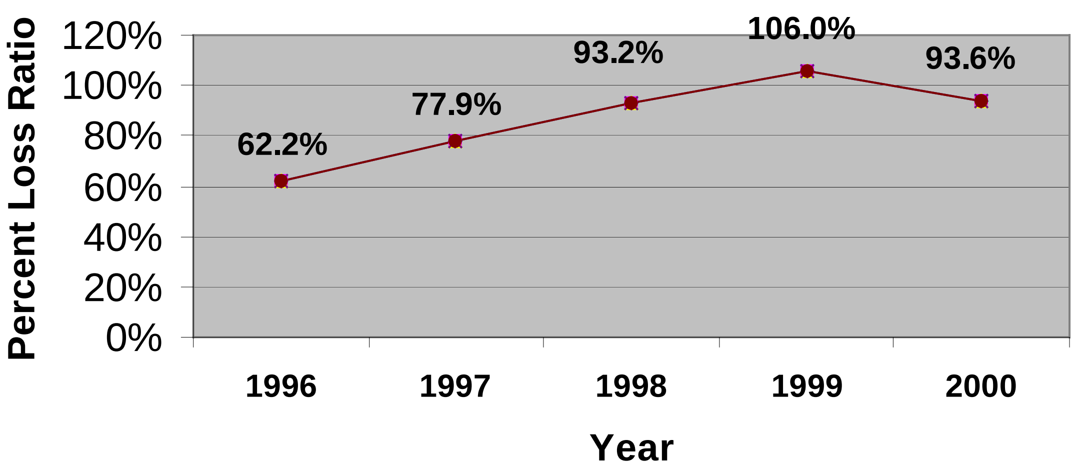
PART I. RECENT EXPERIENCE

Accident Year Loss and Loss Adjustment Expense Ratios

The accident year loss ratio shows the percent of earned premium used to fund losses and their settlement. Exhibit I, shows the loss ratios for the most recent five years available. Loss ratios in this report are more mature and may not match the loss ratios for the same years in prior reports. Claim costs and loss adjustment expenses are further developed, so the loss ratios reflect more recent estimates of what the claims will ultimately cost. The loss ratios do not include general expenses of insurance companies such as overhead and marketing, taxes, or investment income. The 2000 loss ratio is 93.6, indicating that over $93 is expected to be paid for losses and loss adjustment expenses for every $100 earned in premium. This, along with last year's loss ratio of nearly 106, indicates that workers' compensation insurance has not been very profitable in the last couple of years. A high accident-year loss ratio is unsustainable, over the long run, for a solvent and profitable industry. It is important to note that this does not mean that all insurers are at risk; individual companies may have lower, more reasonable loss ratios.

Loss ratios were in the 60 percent range following the 1992 law changes. These ratios were relatively low and due, most likely, to loss prevention and claims management practices of employers, combined with savings from the reduction of benefits that resulted from the law changes. During 1994-1996, advisory loss costs filed by NCCI were lower, the market became more competitive, and rates charged by insurers decreased. For accident years 1997 through 1999, NCCI reported that indemnity losses and loss adjustment expenses increased as rates decreased. Thus, ratios rose above the levels of prior years. Increases to advisory loss costs were approved in 1999 and 2000. For 2000, net premium levels increased more than the expected indemnity and medical payments because of changing market conditions.

Exhibit I. Accident Year Loss and Loss Adjustment Expense Ratios



Source: National Council on Compensation Insurance

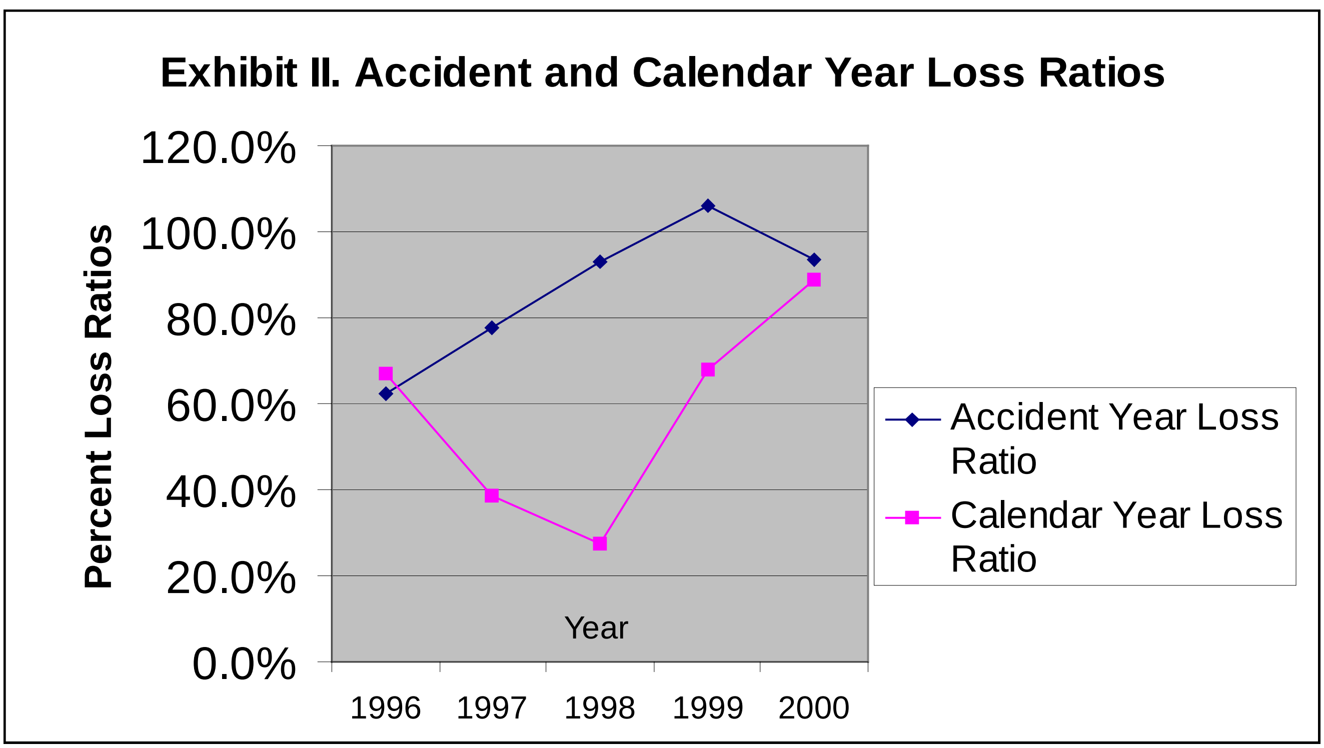
Part I. Recent Experience

Calendar Year and Accident Year Loss Ratios

Tracking loss and loss adjustment expense ratios is one way to evaluate the experience of insurers writing workers' compensation policies in Maine. They indicate what percent of premium is used to settle and pay for losses. In addition to accident year loss ratios, Exhibit II looks at calendar year loss ratios. Calendar year loss ratios compare losses incurred in a year to the premiums earned in that year. However, only a small portion of the losses are attributable to premiums earned that year. The calendar year loss ratios reflect payments and reserve adjustments (changes to estimated ultimate cost) on all claims during a particular year, including those from prior injury years. With the exception of one year, the calendar year loss ratios dropped from 1994 to 1998, reflecting a downward adjustment in reserves for years prior to and immediately following the 1992 reforms. In 1999, the ratio rose to its highest level since 1994. Another significant increase occurred in the calendar year loss ratio in 2000.

While calendar year data is relatively easy to compile and is useful in evaluating the financial condition of an insurance company, accident year data is more useful in evaluating the claim experience during a particular period because it better matches premium and loss information. In addition, the accident year experience is not distorted by reserve adjustments on claims that occurred in prior periods, possibly under a different law.

From 1994 through 1999, advisory loss costs were lowered, the market became more competitive, and rates charged by insurers decreased. Premiums decreased and the accident year loss ratios increased. In 1997 and 1998, indemnity losses increased, while rates continued to decrease. The 1999 accident year loss ratio is 106, indicating that $106 was paid or is expected to be paid in losses and loss adjustment expenses for every $100 earned in premium. In 2000, the loss ratio is 93.6. Premiums paid by Maine employers increased from over $128 million in 1999 to over $155 million in 2000 and the accident year loss ratio decreased because incurred losses increased less than premium amounts. The ratios do not include amounts paid by insurers for selling and general expenses and taxes, nor do they reflect investment income.

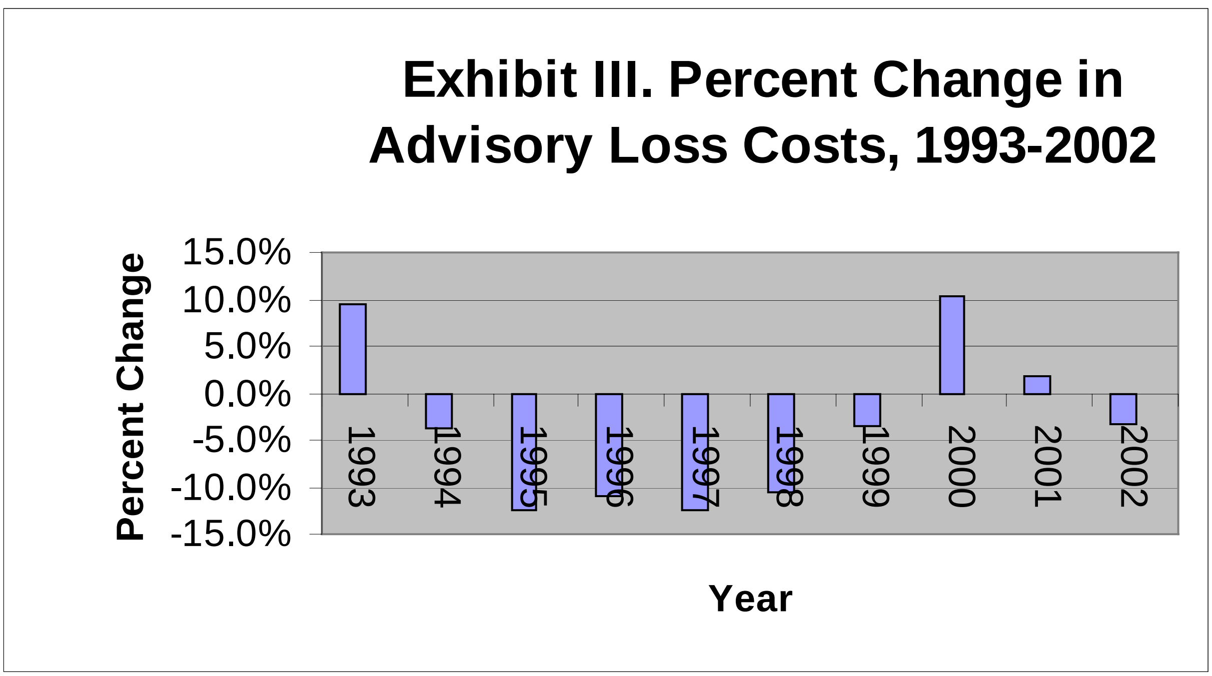


Source: National Council on Compensation Insurance

Changes in Advisory Loss Costs

The National Council on Compensation Insurance (NCCI) files advisory loss costs on behalf of workers' compensation carriers. The advisory loss costs reflect the portion of the rate that applies to losses and loss adjustment expenses. Advisory loss costs do not account for what the insurer pays for general expenses, taxes, and contingencies, nor do they account for profits and investment income. In Maine's competitive insurance market, each insurance carrier determines what it needs to cover those items.

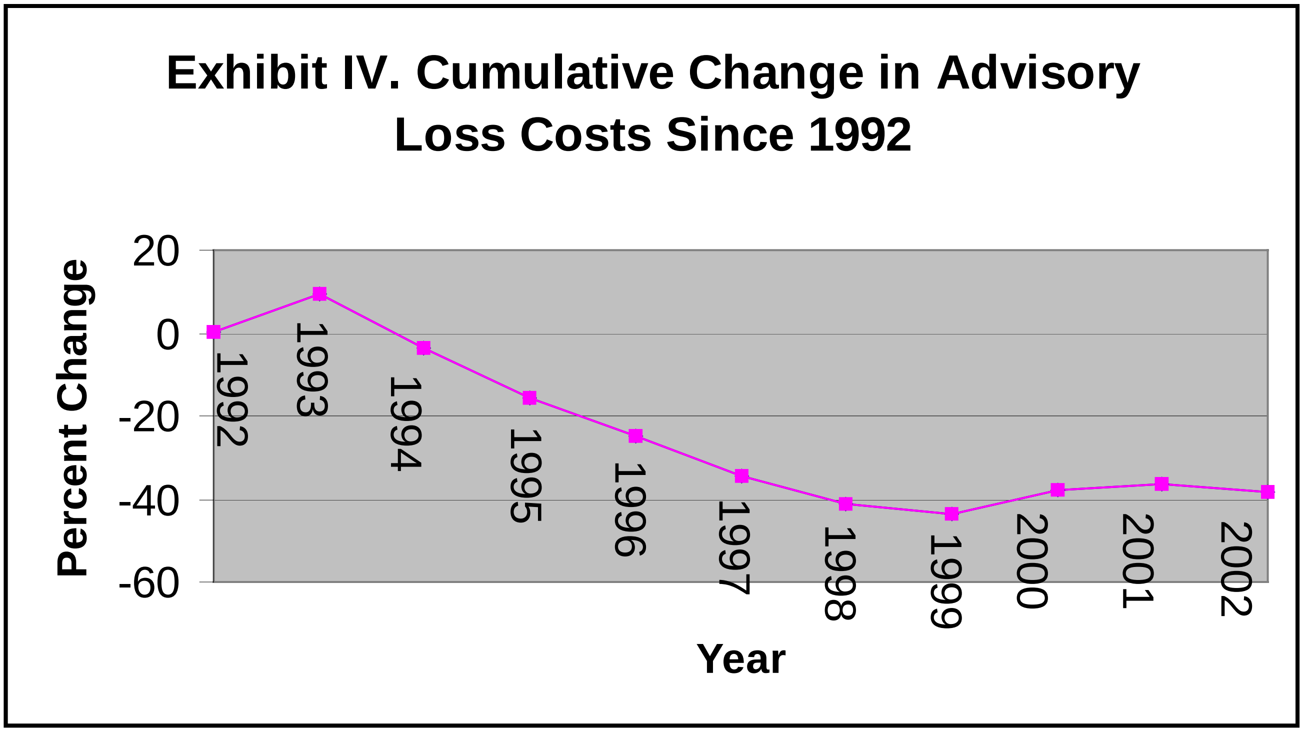
Exhibit III illustrates that from 1994 through 1999, Maine witnessed six consecutive decreases in advisory loss costs. This translated into lower premiums for Maine employers. On March 8, 2000, an increase in the advisory loss costs took effect. This was due to loss experience, to an increase in permanent partial impairment benefits, and to an adjustment to correct a prior data-reporting problem. On January 1, 2001, another, smaller increase in advisory loss costs took effect. NCCI has proposed and received approval for a 3.4 percent decrease in advisory loss costs for calendar year 2002. The 3.4 percent decrease reflects favorable indemnity claim experience and a decrease in loss settlement costs. Changes in advisory loss costs tend to lag behind changes in actual experience and precede changes in rates.



Source: National Council on Compensation Insurance

Cumulative Changes in Advisory Loss Costs

Despite two straight increases in 2000 and 2001, advisory loss costs in 2001 were still more than 36 percent lower than they were in 1992. Some classifications experience increases and some experience decreases in the advisory loss cost portion of the rates. In 2002, advisory loss costs will decrease for the first time in three years. Advisory loss costs will be 38.5 percent lower than they were prior to the 1992 reforms.



Source: National Council on Compensation Insurance

PART III. MARKET STRUCTURE AND COMPETITION

Market Concentration

A measure of competition is market concentration. Greater concentration means there are fewer insurers in the market and therefore less competition. Conversely, less concentration indicates that there are more insurers in the market and more competition.

In 1992, market concentration was great, with few insurers willing to voluntarily write workers' compensation insurance in Maine. The assigned risk or residual market pool, whose purpose was to insure employers who were unable to secure workers' compensation coverage in the voluntary market, provided a significant share of overall coverage.

Beginning January 1, 1993, Maine Employers Mutual Insurance Company (MEMIC) replaced the residual market as the insurer of last resort. MEMIC inherited a block of business previously written by insurers acting as servicing carriers for the pool. MEMIC serves as the market of last resort and writes voluntary business. It maintains the highest market share of all insurance carriers operating in Maine.

As of October 1, 2001, there are 229 companies with authority to write workers' compensation coverage in Maine. However, this number is not the best indicator of market concentration, as some insurers have no written premium. The following table shows the number of carriers, by level of written premium, for those carriers authorized to write workers' compensation insurance in 2000.

Table I: Number of Companies by Level of Written Premium--2000

Amount of Written Premium	Number of Companies At That Level
>$10,000	106
>$100,000	80
>$1,000,000	25

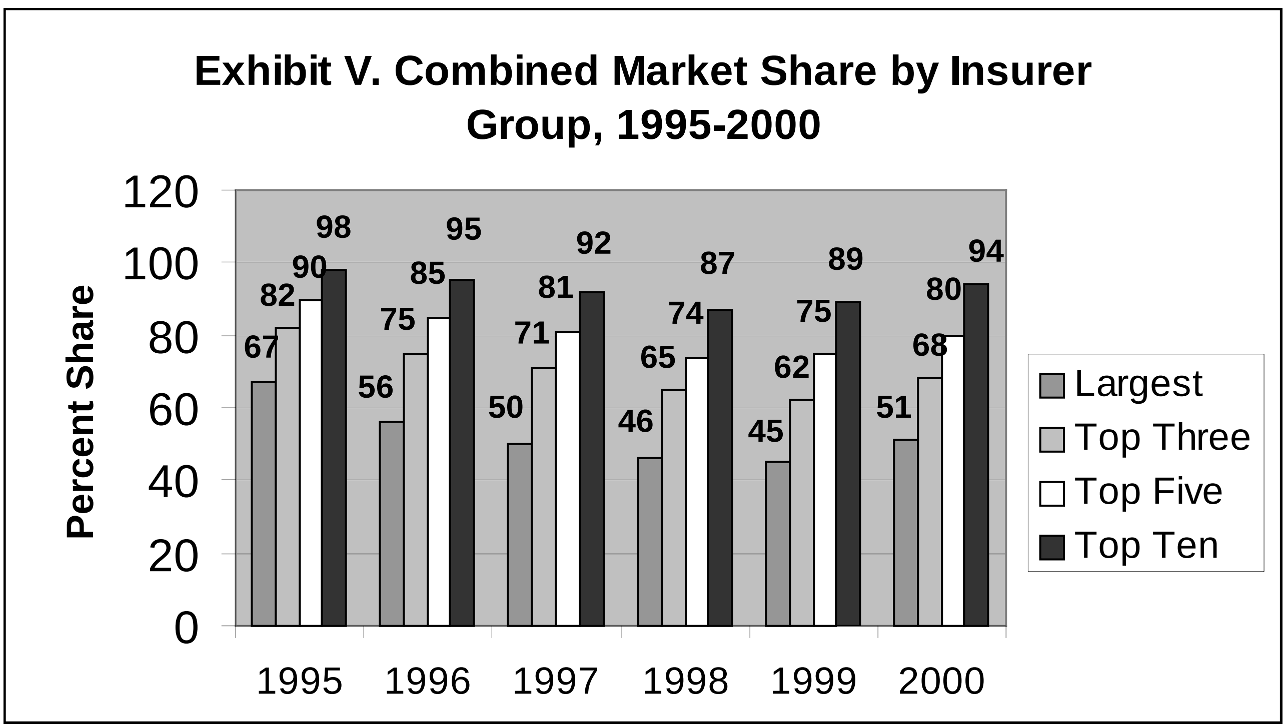
Source: Annual Statements Filed with the Bureau of Insurance

Looking only at market concentration gives an incomplete picture of market competition. A discussion of self-insurance, found in the Alternative Risk Markets section, gives a more balanced perspective.

Combined Market Share

Exhibit V illustrates the percent market share of the largest commercial insurers in terms of written premium, as well as the percent market share for the top three, top five and top ten insurer groups. Maine Employers' Mutual Insurance Company (MEMIC) has the largest market share. Their share fell from 67 percent of the comercially insured market in 1995 to 45 percent in 1999. That trend reversed in 2000 and MEMIC now holds 51 percent of that market share. MEMIC's increase in market share accounts for the increased percentages for the top three, five and ten insurance groups.

Market share of the top ten insurer groups fell 11 percent from 1995 to 1998; it has risen by seven percentage points since then. Other groups now write only six percent of the workers' compensation premium in Maine. When put in dollar terms, MEMIC wrote over $88 million in premium in 2000, $26 million more than they did in the previous year. The top three groups, including MEMIC, wrote over $118 million in business, $32 million more than in 1999. The top five groups had over $138 million in written premium, $34 million above the prior year. The top ten groups wrote $162.6 million in premium in 2000, nearly $39 million more than in 1999. The remaining groups had written premium of just over ten million dollars.



Source: Annual Statements Filed with the Bureau of Insurance

Number of Carriers in the Maine Insurance Market, 1993-2001

The table below shows that since the 1992 reforms, insurers have come back into the workers' compensation market in Maine and continue to enter it in smaller numbers. The largest influx occurred in 1996 and 1997, when 75 insurers entered or re-entered the market. During that same period, 12 insurers exited the market. Since 1997, 57 insurers became authorized to write workers' compensation insurance. Six insurers have had their licenses suspended during the last year. This table illustrates there is no significant barrier to entry.

Table II: Entry and Exit of Workers' Compensation Carriers

Year	Number of Carriers	Number Entering	Number Exiting	Net Change (Number)	Net Change (Percent)
1992	90	-	-	-	-
1993	96	8	2	6	6.7
1994	106	10	0	10	10.4
1995	115	11	2	9	8.5
1996	149	43	9	34	29.6
1997	178	32	3	29	19.5
1998	187	9	0	9	5.1
1999	198	11	0	11	5.9
2000	210	12	0	12	6.1
2001	229	25	6	19	9.1

Source: Bureau of Insurance Records.

Figures as of October 1, 2001

Note: Beginning in 2001, the number exiting includes companies under suspension. No companies voluntarily terminated their authority to write workers' compensation insurance.

PART IV. DIFFERENCE IN RATES AND FACTORS AFFECTING RATES

The information in Table III shows market share by insurance group. Information by group is more relevant when assessing competition because carriers in a group are under common control and are not likely to compete with one another. MEMIC's share is expected to be high, since they service all employers who do not obtain coverage in the voluntary market. The increase in MEMIC's market share from 1999 to 2000 may be an indicator that some employers were unable to get insurance in the voluntary market. To get a more complete picture, it would be necessary to look at the number of employers insured with each carrier.

Table III: Percent Market Share for Top Ten Insurance Groups, By Amount of Written Premium, 1994-2000

Insurance Group	2000 Share	1999 Share	1998 Share	1997 Share	1996 Share	1995 Share	1994 Share
Maine Employers' Mutual	51.2	44.7	46.2	50.4	56.0	67.4	66.1
Liberty Mutual Group	9.5	7.0	3.7	4.9	2.2	*	0.7
WR Berkeley Corp.	7.5	7.7	9.5	10.3	9.4	8.8	7.4
Allmerica Financial Corp.	6.4	9.1	8.8	9.9	9.3	4.9	6.5
CGU Insurance Group[3]	5.3	6.1	6.0	5.3	5.8	5.8	7.5
Royal & Sun Alliance USA[1]	5.0	4.7	*	*	1.4	0.5	0.8
Citigroup	2.6	2.4	2.1	2.2	*	*	*
Guard Insurance Company	2.2	*	*	*	*	*	*
Amerisafe Group	2.2	*	*	*	*	*	*
Zurich Insurance Group	2.2	2.1	3.5	3.7	4.2	3.2	3.4
GRE Insurance Group	*	2.9	3.0	*	*	*	*
Can Insurance Group	*	1.9	*	*	*	*	*
Nationwide Corp.	*	*	2.4	1.6	1.3	*	*
Orion Capital Group	*	*	1.8	*	*	*	*
Netherlands Insurance	*	*	*	2.5	2.4	2.0	1.5
Hartford Fire & Casualty	*	*	*	1.4	*	*	*
Acceptance Insurance Grp.	*	*	*	1.4	2.4	2.9	2.7
St. Paul Group	*	*	*	*	*	0.5	*
Star Insurance Group	*	*	*	*	*	0.5	*
Reliance Group Inc.[2]	*	*	*	*	*	1.9	*

Source: Annual Statements Filed with the Bureau of Insurance

Notes:
* Indicates group was not among the top 10 groups for written premium that year.
[1]On July 19, 1996, Royal Insurance Holdings merged with Sun Alliance Group forming a new holding company, Royal & Sun Alliance USA.
[2]Reliance Group, Inc. became insolvent in 2001.
[3]Now known as One Beacon.

PART IV. DIFFERENCE IN RATES AND FACTORS AFFECTING RATES

Table IV shows the percent of market share for the top ten carriers for each calendar year from 1994 through 2000. After steady decreases in market share over the past four years, MEMIC's market share increased by 6.5% in 2000, an indication of market hardening. No other workers' compensation carrier accounts for more than seven percent of market share. The top ten companies combined write less than 77 percent of the business.

Table IV. Percent Market Share for Top Ten Insurance Carriers, By Amount of Written Premium, 1994-2000

Insurance Carrier	2000 Share	1999 Share	1998 Share	1997 Share	1996 Share	1995 Share	1994 Share
Maine Employers' Mutual	51.2	44.7	46.2	50.4	56.0	67.4	66.1
Acadia Insurance Company	7.0	7.6	9.1	10.3	9.4	8.6	7.4
Commercial Union/York[1]	4.4	4.6	3.1	1.4	2.1	2.0	4.6
Liberty Mutual Fire Ins. Co	2.8	2.8	1.2	1.8	*	*	*
Citizens Insurance Co.	2.5	3.1	3.1	3.2	3.1	3.4	3.1
Hanover Insurance Co.	2.5	1.8	*	2.5	2.5		2.2
American Interstate Ins. Co	2.2	1.2	*	*	*	*	*
Security Ins. Co. of Hartford	1.6	*	*	*	*	*	*
Massachusetts Bay Ins. Co.	1.4	4.2	4.7	4.1	3.7	1.0	*
Norguard	1.3						
Liberty Insurance Corp.	*	1.4	1.2	2.4	*	*	*
Connecticut Indemnity	*	2.2	1.3	*	*	*	*
Travelers Indemnity Co.	*	1.2	1.2	*	*	*	*
American Employers Ins.	*	*	1.6	3.7	3.7	3.9	2.9
Royal Indemnity	*	*	1.5	*	*	*	*
Pacific Employers Ins. Co	*	*	1.3	*	*	*	*
Employer's Ins. Of Wausau	*	*	1.2	*	*	*	*
Netherlands	*	*	1.2	*	*	*	*
Northern Ins. Co. of N.Y.	*	*	*	1.7	1.5	*	2.0
Redlands	*	*	*	1.4	2.4	2.9	2.7
Peerless Ins. Co.	*	*	*	*	1.6	1.8	*
Maryland Casualty	*	*	*	*	*	2.7	1.6
Reliance Insurance Co.[2]	*	*	*	*	*	1.5	*

Source: Annual Statements Filed with the Bureau of Insurance

Notes: This is an indicator of turnover among top carriers.
* Indicates carrier was not among the top 10 carriers for written premium that year.
[1] York Insurance Co. of Maine became Commercial Union York Insurance Co. on October 21, 1997, following acquisition by Commercial Union Insurance Co. It is now known as One Beacon.
[2] Reliance became insolvent in 2001.

PART IV. DIFFERENCE IN RATES AND FACTORS AFFECTING RATES

Rate Differentials

Prior to the 1992 Blue Ribbon Commission Reform Legislation, all insurance companies charged the same base rates (manual rates) for workers' compensation insurance. Although each employer's actual premium was modified by its own experience, there was little or no difference in the manual rates. The Superintendent of Insurance established maximum rates; no company filed for lower rates.

Since January 1993, each insurance company is required to file its own manual rates based upon its expense and profit provisions. The National Council on Compensation Insurance (NCCI) makes an annual advisory filing of pure premium rates, which provide for losses and loss adjustment expenses. This filing does not include all other expenses and profit provisions, which are established by insurance carriers in our open competitive market.

Beginning in 1994, the Bureau approved six straight annual advisory filing decreases. The cumulative impact of these decreases was a 43 percent reduction in advisory loss costs. The Bureau approved a 10.3 percent increase in loss costs, effective March 8, 2000. A 1.9 percent increase in overall advisory loss costs was approved effective January 1, 2001. The Bureau approved a filing for a 3.4 percent decrease effective January 1, 2002. When effective, advisory loss costs will have fallen over 38 percent since 1992.

As of October 1, 2001, 229 insurance carriers have filed and received approval from the Bureau to sell workers' compensation insurance in Maine. Not all companies that are authorized to write coverage in Maine have rates on file. Only those who do actually sell insurance.

The chart on the next page compares the Maine Employers' Mutual Insurance standard base rate with the lowest available base rate for the 73 largest classification codes (in terms of payroll) for all workers' compensation insurers. MEMIC does offer loss free credits, of up to 25 percent, which are not included in this chart. For many classification codes, the wide range underscores the competitive nature of workers' compensation insurance in Maine and the importance for employers of exploring options in securing coverage for their workers' compensation claims. Insurers are more selective in accepting risks for the lower-rated plans. Their underwriting is based on such things as prior-claims history, safety programs, and classifications.

Competitive rating has also allowed for niche marketing. A company with expertise in certain areas can utilize that proficiency to lower the rate for specific risks and return an acceptable profit to the carrier. For example, some insurers specialize in underwriting employers in a specific industry, such as wood products manufacturing (including logging), healthcare, trucking, or construction.

An annual report is compiled by Actuarial & Technical Solutions, Inc., an independent firm which compiles and studies workers' compensation on a nationwide basis. In 1996, the study ranked Maine the 42nd most expensive state for workers' compensation insurance in the manufacturing industry. Maine's rank dropped to 30th in 1997 and to 23rd in 1998. In 1999 Maine returned to the 30th position, and in 2000 Maine rose to 33rd of the 45 states for which data was reported. Five states that have state funds were not included in the ranking. The primary reason is that these funds have unique characteristics that could distort the results of the study.

Table V: MEMIC Standard Rate and the Lowest Available Rate for Selected Classifications Effective January 1, 2001			
Class Code	**Description**	**MEMIC Standard Rate**	**Industry Low Rate**
2111	CANNERY	$6.23	$3.56
2286	WOOL SPINNING & WEAVING	$7.39	$4.22
2501	CLOTHING MANUFACTURING	$4.52	$2.58
2660	BOOT OR SHOE MANUFACTURING	$5.75	$3.29
2702	LOGGING OR LUMBERING	$34.96	$19.98
2709	MECHANIZED LOGGING	$11.84	$6.77
2710	SAWMILL	$14.35	$8.20
2721	CERTIFIED LOGGING	$15.75	$9.00
2841	WOODEN WARE MANUFACTURING	$7.56	$4.32
3629	PRECISION MACHINED PARTS MFG	$3.54	$2.02
3632	MACHINE SHOP	$5.21	$2.98
3681	TV, RADIO, TELE/ TELECOM DEVICE MFG	$2.65	$1.51
3724	MACHINERY/ EQUIP ERECTION OR REP	$14.01	$8.01
4207	PULP MFG	$1.96	$1.12
4239	PAPER MFG	$3.72	$2.13
4279	PAPER GOODS MFG	$4.52	$2.58
4299	PRINTING	$4.03	$2.30
4361	PHOTOGRAPHERS	$2.90	$1.66
4484	PLASTICS MFG: MOLDED PRODUCTS	$4.70	$2.69
4511	ANALYTICAL CHEMIST	$1.23	$0.70
4693	PHARMACEUTCL/SURGICAL GOODS MFG	$3.18	$1.82
5183	PLUMBING	$7.52	$4.30
5190	ELECTRICAL WIRING WITHIN BUILDINGS	$5.87	$3.35
5191	OFFICE MACHINE OR APPLIANCE INSTAL	$1.40	$0.80
5506	STREET CONSTRUCTION PAVING	$8.55	$4.89
5538	SHEETMETAL WORK	$8.82	$5.04
5606	CONTRACTOR EXECUTIVE SUPERVISOR	$3.00	$1.71
5645	CARPENTRY DETACHED 1 OR 2 FAMILY	$15.97	$9.13
6217	EXCAVATION	$11.62	$6.64
7228	TRUCKING LOCAL	$18.47	$10.55
7229	TRUCKING LONGDISTANCE	$15.04	$8.59
7380	DRIVERS	$10.84	$6.19
7539	ELECTRIC LIGHT OR POWER CO.	$5.54	$3.17
7600	TELEPHONE OR TELEGRAPH CO.	$5.12	$2.93
7610	RADIO OR TELEVISION BROADCASTING	$0.45	$0.26
7720	POLICE OFFICER	$4.59	$2.62

Table V: MEMIC Standard Rate and the Lowest Available Rate for Selected Classifications Effective January 1, 2001 (Continued)			
Class Code	**Description**	**MEMIC Standard Rate**	**Industry Low Rate**
8006	STORE: GROCERY/CONVENIENCE RETAIL	$3.21	$1.83
8008	STORE: CLOTHING/DRY GOODS RETAIL	$1.62	$0.93
8010	STORE: HARDWARE	$2.83	$1.62
8017	STORE: RETAILNOC	$2.77	$1.58
8018	STORE: WHOLESALENOC	$5.59	$3.19
8024	SEAFOOD DEALER WHOLESALE	$11.20	$6.40
8033	STORE: MEAT, GROCERY AND PROVISION	$2.95	$1.69
8039	STORE: DEPARTMENT-RETAIL	$2.42	$1.38
8044	STORE: FURNITURE	$4.12	$2.35
8058	BUILDING MATERIAL DEALER-NEWMAT.	$2.93	$1.67
8107	MACHINERY DEALER	$5.77	$3.30
8227	CONSTRUCTION PERMANENT YARD	$9.95	$5.69
8232	LUMBER YARD NEW MAT.WHOLESALE	$4.49	$2.57
8350	GASOLINE DEALERS	$6.79	$3.88
8380	AUTO SERVICE OR REPAIR CENTER	$5.14	$2.94
8601	ARCHITECT OR ENGINEER CONSULTING	$1.48	$0.85
8742	SALESPERSONS, COLLECTORS	$1.19	$0.68
8803	AUDITORS, ACCOUNTANT TRAVELING	$0.28	$0.16
8810	CLERICAL OFFICE EMPLOYEES	$0.70	$0.40
8820	ATTORNEY	$0.90	$0.51
8829	CONVALESCENT OR NURSING HOME	$5.52	$3.15
8832	PHYSICIAN	$0.95	$0.54
8833	HOSPITAL PROFESSIONAL EMPLOYEES	$1.74	$0.99
8835	NURSING-H.H., PUBLIC&TRAVELING	$6.20	$3.54
8861	CHARITABLE OR WELFARE ORGAN. PROF.	$1.40	$0.80
8868	COLLEGE: PROFESSIONAL EMPLOYEES	$0.88	$0.50
8901	TELEPHONE OR TELEG CO. OFFICE	$0.43	$0.25
9014	BUILDING OPER. BY CONTRACTORS	$6.73	$3.85
9015	BUILDING OPER. BY OWNER	$6.03	$3.45
9040	HOSPITAL ALL OTHER EMPLOYEES	$4.59	$2.62
9052	HOTEL: ALL OTHER EMPLOYEES	$3.67	$2.10
9058	HOTEL: RESTAURANT EMPLOYEES	$2.84	$1.62
9060	CLUB-COUNTRY, GOLF, FISHING OR YACHT	$2.67	$1.53
9063	YMCA, YWCA, YMHA,OR YWHA	$1.62	$0.93
9079	RESTAURANT	$3.07	$1.75
9101	COLLEGE: ALL OTHER EMPLOYEES	$4.75	$2.71
6824F	BOATBUILDING OR REPAIR	$5.98	$3.42

PART IV. DIFFERENCE IN RATES AND FACTORS AFFECTING RATES

Tiered Rating, Schedule Rating, Managed Care Credits, Dividend Plans, Retrospective Rating, and Large Deductible

Some employers have other options available that may affect the premiums they pay for workers' compensation insurance. Each is available only if the insurer is willing to write a policy using these options. Employers should carefully analyze certain options, such as retrospective rating (retros) and large deductible policies, before deciding on them. Below is a description of each:

- **Tiered rating** means that an individual carrier has more than one loss cost multiplier to use, based on where a potential insured falls in its underwriting criteria. It may apply to groups of insurers that have different loss cost multipliers for different companies in the group. Our records indicate that 43 percent of the groups offer tiered rating. When looking at companies, 122 of the 165 insurers with loss cost multipliers on file either offer tiered rating or are part of a group that does. Some of the groups on record have only one company with one loss cost multiplier on file.

- **Scheduled rating** allows the insurance company to consider other factors that may not be reflected in an employer's experience rating when determining an individual employer's premium. Elements such as safety plans, medical facilities, safety devices, and premises are considered and can result in a change in premium of up to 25 percent. Nearly 72 percent of the insurance companies with filed rates in Maine have received approval to utilize scheduled rating.

- **Managed Care Credits** are credits offered by carriers to employers who use managed care plans. Over 23 percent of insurers offer managed care credits.

- **Dividend Plans** provide a return premium to the insured after the policy expires if losses are lower than average. Premiums are not increased if losses are greater than average. Because losses may still be open for several years after policy expiration, dividends will usually be paid periodically with adjustments for any changes in the amount of incurred losses. Dividends are not guaranteed.

- **Retrospective rating** means that an employer's final premium is a direct function of their loss experience for that policy period. If an employer controls its losses, it receives a reduced premium; conversely, if the employer has a bad loss experience, it receives an increased premium. Retrospective rating utilizes minimum and maximum amounts for a policy and is typically written for larger, sophisticated employers.

- **Large deductible plans** are for employers who agree to pay a deductible that can be in excess of $100,000 per claim. The insurance company is required by law to pay all losses associated with this policy and then bill the deductible amounts to the insured employer. The advantages of this product are discounts for assuming some of the risk. It is an alternative to self-insurance.

PART V. ALTERNATIVE RISK MARKETS

Self-Insurance

Self-Insurance plays an important role in Maine's workers' compensation market. Self-insured employers pay for losses with their own resources rather than purchasing insurance. They may, however, choose to purchase insurance for losses that exceed a certain limit. An advantage of being self-insured includes better cash flow; since there are no premiums, the employer retains the money until they pay out on losses. Employers considering self-insurance feel they would be better off not paying premiums and are likely to have active programs in safety training and injury prevention.

It is noteworthy that the percent of Maine's total workers' compensation insurance market represented by self-insureds has dropped nine percent during the past four years. At just over 42 percent of the total market, self-insurance is at its lowest level since the 1992 reforms A greater market share in self-insurance could indicate a perception by insureds that premiums in the insurance market are too high.

Since 1993, the estimated annual standard premium for self-insureds has declined from $204 million to $126 million. However, the estimated standard premium for self-insureds has risen to its highest level since 1997. The estimated standard premium is determined by taking the advisory loss cost, multiplying it by a factor of 1.2, as specified in statute, and multiplying this by the payroll amount, divided by 100. As advisory loss costs, and therefore rates, decline, so does the estimated standard premium.

As of October 1, 2001 there were 19 groups representing approximately 1,281 employers as well as 92 individual self-insured employers in Maine. Although the number of self-insured groups has remained the same, there are slightly more members within the groups. The number of individually self-insured employers has decreased in each of the past four years.

Table VI: Distribution of Self-Insurers, 1993-2000

Year	# of Self-Insured Groups	# of Employers In Groups[1]	# of Individually Self-Insured Employers	Estimated Standard Premium	Percent of Workers' Comp. Market (in annual standard premium)[3]
2000	19	1,281	92[2]	$126,096,312	42.1
1999	19	1,247	98	$116,028,759	45.4
1998	20	N/A	115	$120,799,841	49.0
1997	21	N/A	118	$147,851,730	49.9
1996	21	N/A	155	$167,983,925	51.5
1995	20	N/A	147	$180,587,422	51.9
1994	20	N/A	145	$202,430,339	49.9
1993	20	N/A	112	$204,111,260	44.7

Source: Annual Statements Filed with the Bureau of Insurance and Bureau of Insurance Records

[1]For the purposes of self-insurance, affiliated employers are considered separate employers. N/A indicates that the information is not available.
[2] The number of individually self-insured employers for 2000 is as of 10/1/2001. All other information is as of year end.
[3]The percent of the workers' compensation market held by self-insured employers is calculated by taking the estimated standard premium for self-insureds and dividing it by the sum of the estimated standard premium for self-insureds and the written premium in the regular insurance market. Multiply that figure by 100.

Conclusion

Currently, accident year loss ratios both in Maine and nationally are at relatively high levels. Some insurers are still performing well; however, others are experiencing difficult times. In years past, when investment returns were high, insurers competed more aggressively for business and gave discounted rates, offered schedule credits and issued dividends. These rating plans will be offered less in today's environment. Some insurers are losing money in the current climate, even considering investment returns. This will lead to higher rates for some Maine employers.

The first increase in advisory loss costs since the 1992 reform occurred in March of 2000. Another small increase became effective in January, 2001. Loss costs will decrease by 3.4 percent effective January 1, 2002.

A study of the manufacturing industry, conducted by Actuarial Solutions, shows that Maine's benefit levels are among the highest in the nation. Statutory increases in benefits for workers with permanent partial impairment will continue to affect costs in the upcoming years.

Options still exist in Maine's workers' compensation insurance market and no one insurer or insurance group totally dominates the market. Twenty-five companies wrote more than one million dollars in annual premium in 2000. Employers that maintain a safe work environment and control their losses should continue to see insurers competing for their business. New businesses and businesses with unfavorable loss experience will have fewer options available.

MEMIC's market share, in terms of written premium, is on the upswing. This may be an indicator that more employers are turning to MEMIC out of necessity. After dropping from 67.4 percent of the insured market in 1995 to 44.7 percent in 1999, MEMIC's market share increased to over 51 percent in 2000.

Insurers are offering different rates. The rate that an individual employer qualifies for depends on the insurer's underwriting requirements. Based on the number of carriers in the marketplace and the fact that rate levels are still well below 1994 levels, Maine's workers' compensation market is much healthier than it was in the early to mid-1990s. Even so, some employers will not meet insurer underwriting requirements and will feel the effects of higher rates.

Additional factors that could impact the Maine workers' compensation market in 2002 include federal legislation submitted in response to the September 11 terrorist attacks, whether the economy improves or remains in a recession, and national insurance and reinsurance conditions. Costs of reinsurance, which are expected to rise, will raise the costs of many lines of insurance including workers' compensation insurance.

The Bureau of Insurance website contains a useful reference entitled, An Employer's Guide to Workers' Compensation Insurance in Maine. The link is http://www.state.me.us/pfr/ins/workcomp.htm