MAINE DEPARTMENT OF
Professional
& Financial
Regulation

THE STATE OF COMPETITION IN THE MAINE WORKERS' COMPENSATION MARKET

PREPARED BY THE STAFF OF
THE MAINE BUREAU OF INSURANCE

NOVEMBER 20, 2003

John E. Baldacci.
Governor

Robert E. Murray, Jr.
Commissioner

Alessandro A. Iuppa
Superintendent

Table of Contents

Executive Summary

The Superintendent of Insurance is required to report annually to the Governor and the Insurance and Financial Services Committee on the status of competition in the workers' compensation market. This report examines different measures of market conditions. Workers' compensation insurance in Maine operates in an open competitive rating system. Each year the National Council on Compensation Insurance (NCCI) files advisory loss costs on behalf of insurers with the Bureau of Insurance. The advisory loss costs, which represent the portion of the rates that account for losses and loss adjustment expenses, must be approved by the bureau. Each insurer files factors called loss cost multipliers which account for such things as company experience, overhead expenses, taxes, contingencies, investment income and profit. The advisory loss costs are multiplied by those factors to form rates for individual insurance companies. Other things such as experience rating, schedule rating, and premium discounts also affect the ultimate premium amount paid by an individual employer.

Recently NCCI made a filing with the bureau which calls for an overall 3.3 percent reduction in advisory loss costs. This filing, if approved, will be effective on January 1, 2004. The primary reasons for the proposed decrease are that frequency and severity of claims have decreased in recent years. Frequency, as measured by number of claims per million of premium, had decreased from 1994 through 1998 and had leveled off, but in 2001 and 2002 frequency decreased further. Average claim severity (average cost per case) had been increasing from 1994 through 1999 but decreased in policy years 2000 and 2001. The combined effect of decreased frequency and severity has caused a decrease in the on level loss ratio from the 1999 peak.

The proposed decrease in advisory loss costs is not evenly distributed across all rating classifications. The manufacturing and office & clerical industry groups average a five percent reduction, the contracting and goods & services groups a one percent and two percent average reduction respectively and the miscellaneous group averages a six percent reduction. The change in loss cost for individual classifications within each group varies based in experience within each classification. If the filing is approved as filed some employers will see premium increases while more employers will see decreases.

The Maine workers' compensation insurance market remains somewhat competitive, with numerous carriers being licensed and having rates on file. Though rates remain well below those in place during the last major reform in 1993, there have been clear signs of market hardening over the past few years. With lower investment returns, insurers have been less likely to offer credits to attract or retain market share. As a result, many employers have experienced higher premiums. Self-insured employers represent 43 percent of the overall market and self-insurance continues to be a viable alternative to the insurance market for some employers.

One thing to keep an eye on is the increasing market share held by Maine Employer's Mutual Insurance Company (MEMIC). In terms of written premium, MEMIC's market share is at its highest level in six years. Though MEMIC does not maintain records of the number of employers insured with them because they were not able to obtain coverage elsewhere, this may be an indicator that more employers are turning to MEMIC out of necessity and is a sign that the market is becoming less competitive.

Although MEMIC accounts for over 54 percent of the insured workers' compensation business in the state, twenty-eight companies wrote more than one million dollars in annual premium in 2002. 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.

Overall, Maine's loss costs are over 36 percent lower than they were in 1993. Based on the number of carriers in the marketplace and the fact that rate levels are still well below 1993 levels, Maine's workers' compensation market is much healthier than it was in the early to mid-1990s. Some insurers have more than one rating tier and some insurance groups have companies that offer different rates. Even so, some employers will not meet insurer underwriting requirements and will feel the effects of higher rates.

Introduction

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

Comparing the variations in rates is another measure of the competitiveness of the industry. Each year, on behalf of insurers and pursuant to Title 24-A §2384-A, the National Council on Compensation Insurers, Inc. (NCCI) files 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. If 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 and 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 may also affect the final premium paid by an individual employer.

The tables in this report that show accident year and calendar year loss ratios contain five years of information. Loss ratios are updated each year to account for how costs have developed for open claims, and we receive five years of information from our statistical advisory organization. Other tables and graphs contain information from 1992 forward to illustrate how things have progressed since the last major workers' compensation reform.

Prior to the year 2000, advisory loss costs had declined for six consecutive years. Since then advisory loss costs increased in three out of four years. This year's filing calls for another decrease. Some employers are experiencing the effects of a hardening market. This is due primarily to three reasons: a decrease in return on investment income, a tightening of the reinsurance market, and some insurers experiencing high loss ratios. Prior to 2000, carriers had been discounting premiums by issuing schedule rating credits, by issuing dividends and by using lower rates. Investment returns have diminished and, as a result, insurers are not likely to offer discounts in order to capture or retain business. Some insurers have filed to increase their loss cost multipliers.

On November 26, 2002, President Bush signed into law the Terrorism Risk Insurance Act. The new law establishes a temporary Federal program that provides for shared public and private compensation for insured losses resulting from acts of terrorism, in order to protect consumers by addressing market disruptions and ensure the continued widespread availability and affordability of insurance for terrorism risk. In addition, it allows for a transitional period for the private markets to stabilize, resume pricing of such insurance, and build capacity to absorb any future losses. Reinsurance contracts provide for a primary insurance carrier to cede part of its book of business to another insurer to help spread its risk and increase its capacity to take on other business. Since September 2001 reinsurance contracts are excluding coverage for terrorist acts while primary insurers are still liable for that exposure. By its nature the reinsurance is a global business hence the premium charged by reinsurance companies are not subject to supervision by state insurance departments.

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, Maine's workers' compensation insurance market is still competitive. Although Maine Employer's Mutual Insurance Company's (MEMIC) market share increased from 51 percent to 54 percent in 2002, there are still many insurers writing workers' compensation coverage in Maine. The trend of increased market share by MEMIC is one that should be watched as it can be an indication that some businesses may not find other carriers willing to insure them. Furthermore, insurers' willingness to offer underwriting discounts is lessening. Some employers have been moved to higher rating tiers while others 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 is a long-tail line of insurance, meaning payments for claims can be made over a long period of time. For some claims payments 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. However, to better understand each basis of reporting information, a description of each method and its use follows.

- Accident year experience matches all losses occurring (regardless of when the losses are reported) during a given12-month period of time with all premiums earned (regardless of when the premium was written) during the same period of time. The accident year loss ratio shows the percentage of premium earned 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. 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, with the ultimate result determined only after all losses are settled. Therefore, the ratios for each year are updated on an annual basis.

- Calendar year loss ratios match all losses incurred (though not necessarily occurring) within a given 12 month period with all premiums earned within the same period of time. 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. Once calculated for a given period, calendar year experience never changes.

- Policy year experience segregates all premiums and losses attributable to policies having an inception or a renewal date within a given 12-month period. The total value (losses paid plus loss reserves) of all losses arising from (regardless of when reported) policies beginning or renewing during the year is divided by the fully developed earned premium for those same policies. The fully developed earned premium will always equal the written premium for those policies. The ultimate result cannot be finalized until all losses are settled. 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. Hard markets are periods in which there is less competition and fewer insurers willing to write business. Soft markets are periods of increased competition--identified by an increased capacity to write business, falling rates, and growing loss ratios, resulting in insurer operating losses. This can eventually force loss ratios to critical levels, causing insurers to raise their rates and reduce their volume. Ultimately this restores insurer profitability and surplus. This situation, in time, spurs another round of price-cutting, perpetuating the cycle.

In the late 1980s and early 1990s, Maine's workers' compensation insurance market was hard. From the mid-1990s until about 2000, Maine's market would be considered soft. Hard markets may also occur when insurers tighten their underwriting standards or reduce their use of premium credits. This describes what has been happening in Maine over the last few years.

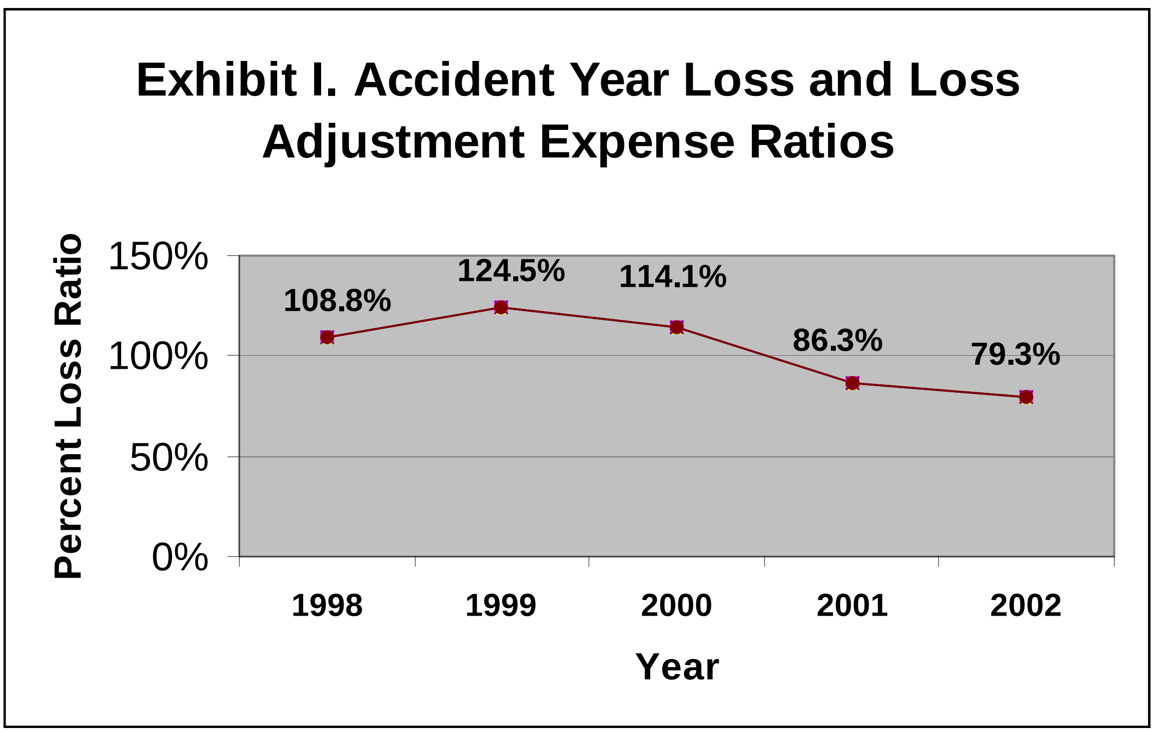
Insurers nationwide are reducing credits and increasing premiums for workers compensation and other lines of insurance. The accident year incurred loss ratio for 2001 was 84.1 percent. For 2000 the ratio was 104.8 percent. Loss ratios that exceed 100 percent mean that insurers are paying out more in benefits than they collect in premiums.

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 accident year loss ratios for the most recent five years available. Loss ratios in this report are based on more mature data 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, marketing and federal or state taxes, nor do they include investment income. The 2002 loss ratio was 79.3 percent, indicating that $79 is expected to be paid for losses and loss adjustment expenses for every $100 earned in premium. The 2001 loss ratio was 86.3 percent. These ratios are down from a five year high of 124.5 percent in 1999. Currently, investment income is insufficient to offset high loss ratios. The decreasing loss ratios in 2001 and 2002 are primarily a result of increased rates and reduced credits charged by the insurance companies.

Following the 1992 law changes, loss ratios were in the 60 percent range. 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 than they were previously, 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, loss ratios rose above the levels of prior years. Increases to advisory loss costs were approved in 2000, 2001 and 2003 resulting, in part, in increased premiums and an increased denominator for the loss ratio.



Source: National Council on Compensation Insurance

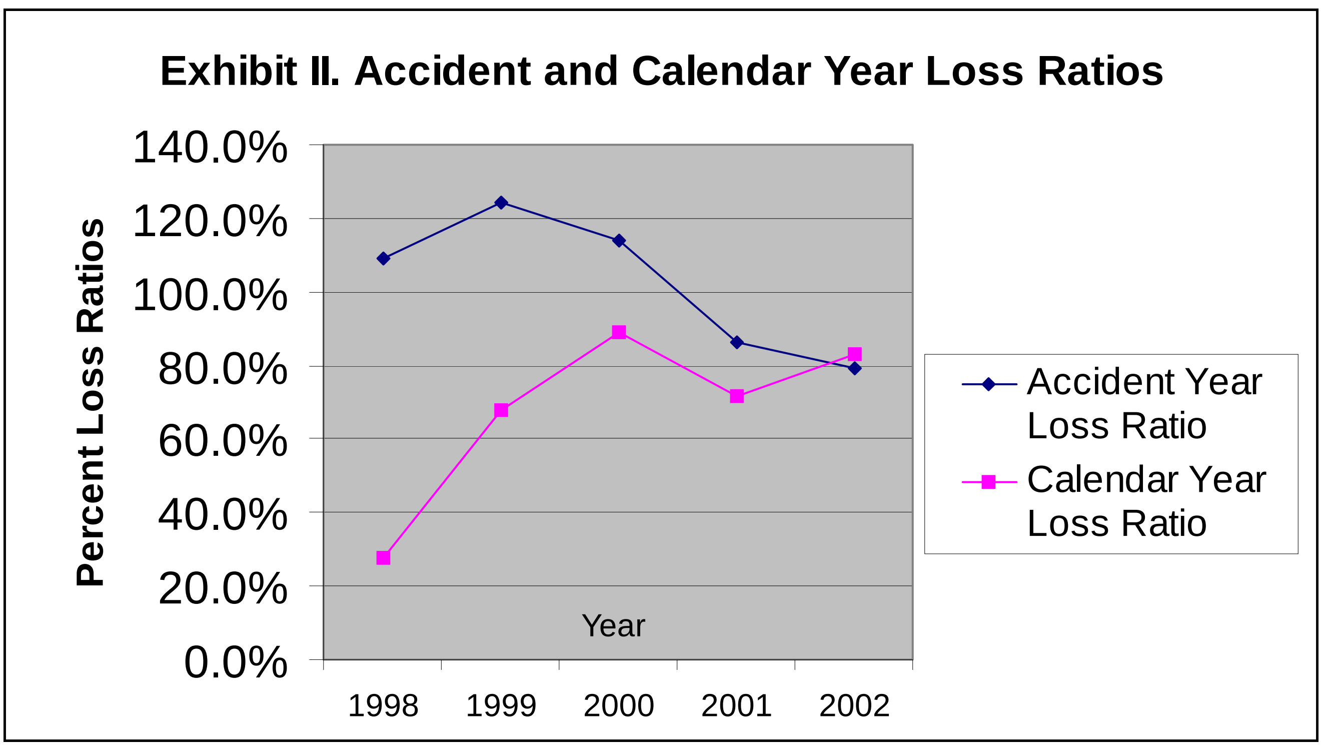
PART I. RECENT EXPERIENCE

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. These ratios indicate what percent of premium is used to settle and pay for losses. In addition to accident year loss ratios, Exhibit II shows 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 adjustments from prior injury years. With the exception of one year, 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 calendar year loss ratio rose to its highest level since 1994 and another significant increase occurred 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 was 124.5 percent, indicating that $124 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 was 114.1 percent. Premiums earned by Maine insurers increased from less than $135 million in 1999 to over $211 million in 2002 and the accident year loss ratios decreased in 2001 and 2002 because incurred losses increased less than premiums earned. The ratios do not include amounts paid by insurers for selling and general expenses and taxes, nor do they reflect investment income.

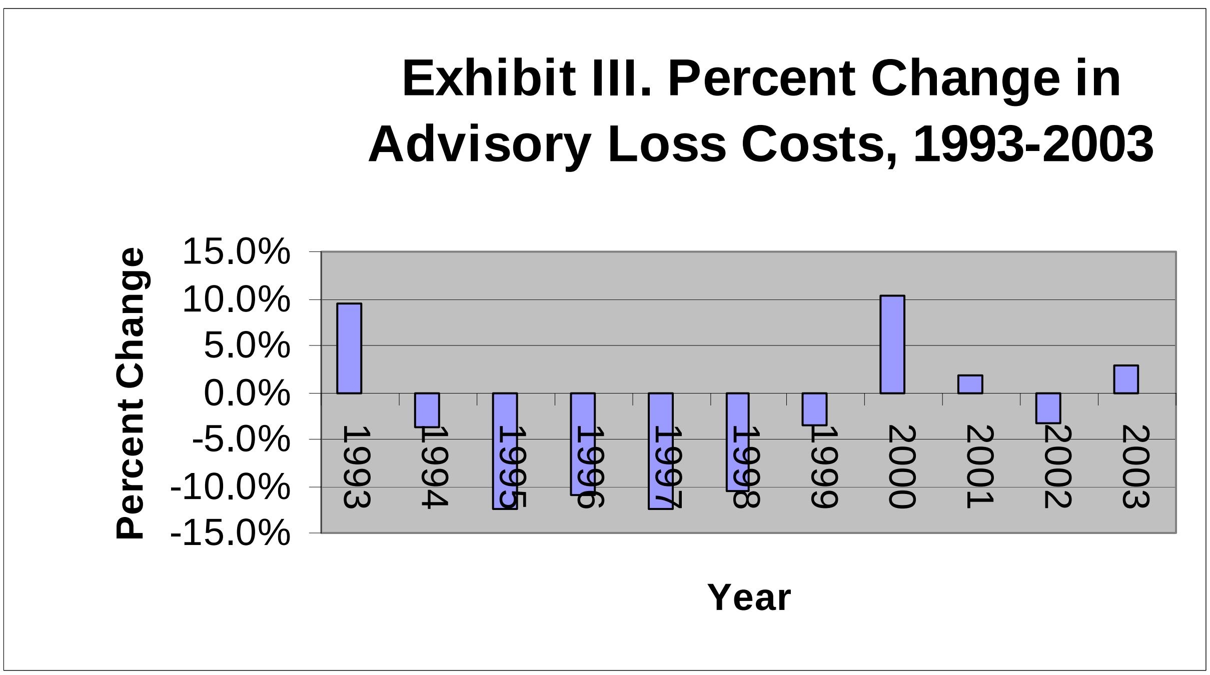


Source: National Council on Compensation Insurance

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. Under Maine's competitive rating law, each insurance carrier determines what it needs to cover those items.

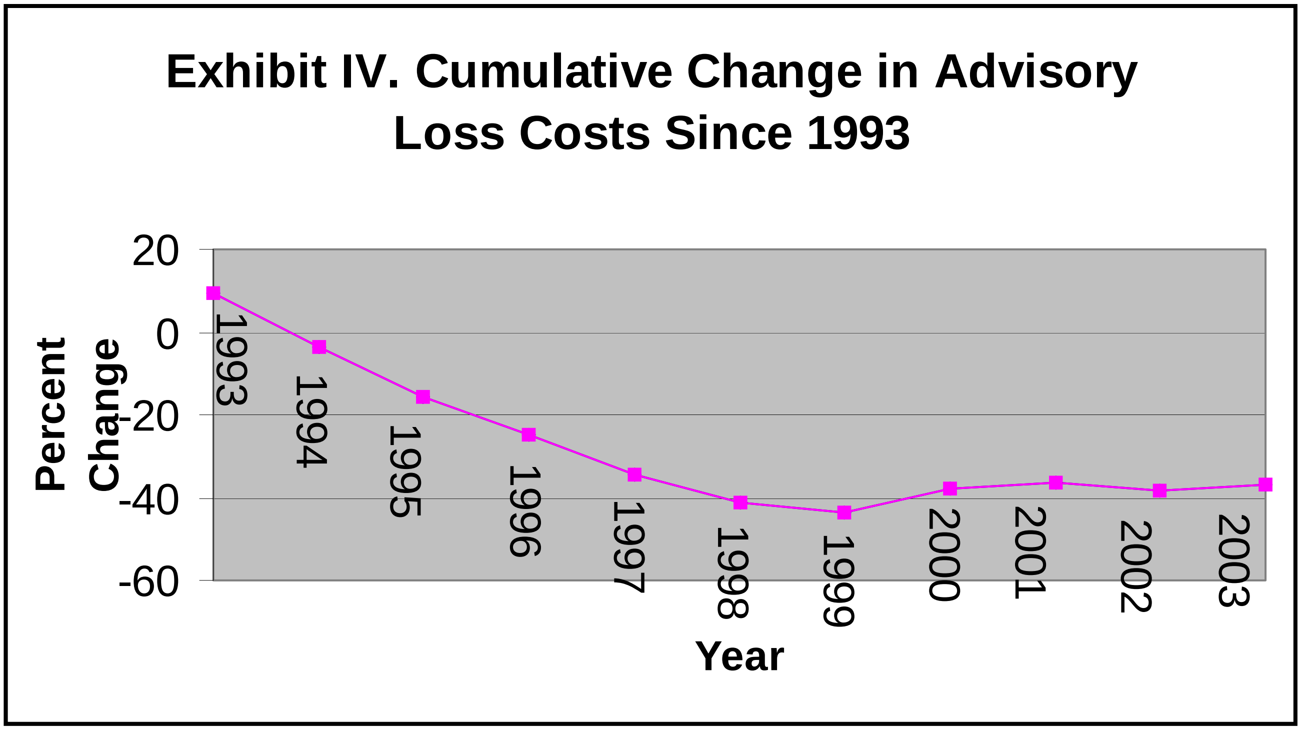
Exhibit III illustrates that from 1994 through 1999, Maine witnessed six consecutive decreases in advisory loss costs. This translated into lower premiums for Maine employers. On March 8, 2000, an increase in the advisory loss costs took effect. This increase was due to loss experience, to an increase in permanent partial impairment benefits, and to an adjustment to correct a prior data reporting problem. Another smaller increase in advisory loss costs took effect on January 1, 2001. These increases were followed by a 3.4 percent decrease in advisory loss costs for calendar year 2002 and then a 2.9 percent increase in 2003. 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

On average, advisory loss costs in 2003 are more than 36 percent lower than they were prior to the 1993 reforms. Actual changes in loss costs vary by classification. In 1999, advisory loss costs reached their lowest point in many years. Since then, they have risen by nearly seven percent.



Source: National Council on Compensation Insurance

PART III. MARKET STRUCTURE AND COMPETITION

Market Concentration

A measure of competition is market concentration. Greater concentration means that 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, designed 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), an employer owned assessable mutual insurance company, replaced the residual market as the insurer of last resort. MEMIC inherited a block of business previously written by insurers who acted as servicing carriers for the pool. MEMIC serves as the carrier of last resort and writes voluntary business; its market share, in terms of written premium, is now 54 percent. As of October 1, 2003, 241 companies are authorized 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 writing workers' compensation insurance in 2002.

Table I: Number of Companies by Level of Written Premium--2002	
Amount of Written Premium	Number of Companies At That Level
>$10,000	118
>$100,000	80
>$1,000,000	28

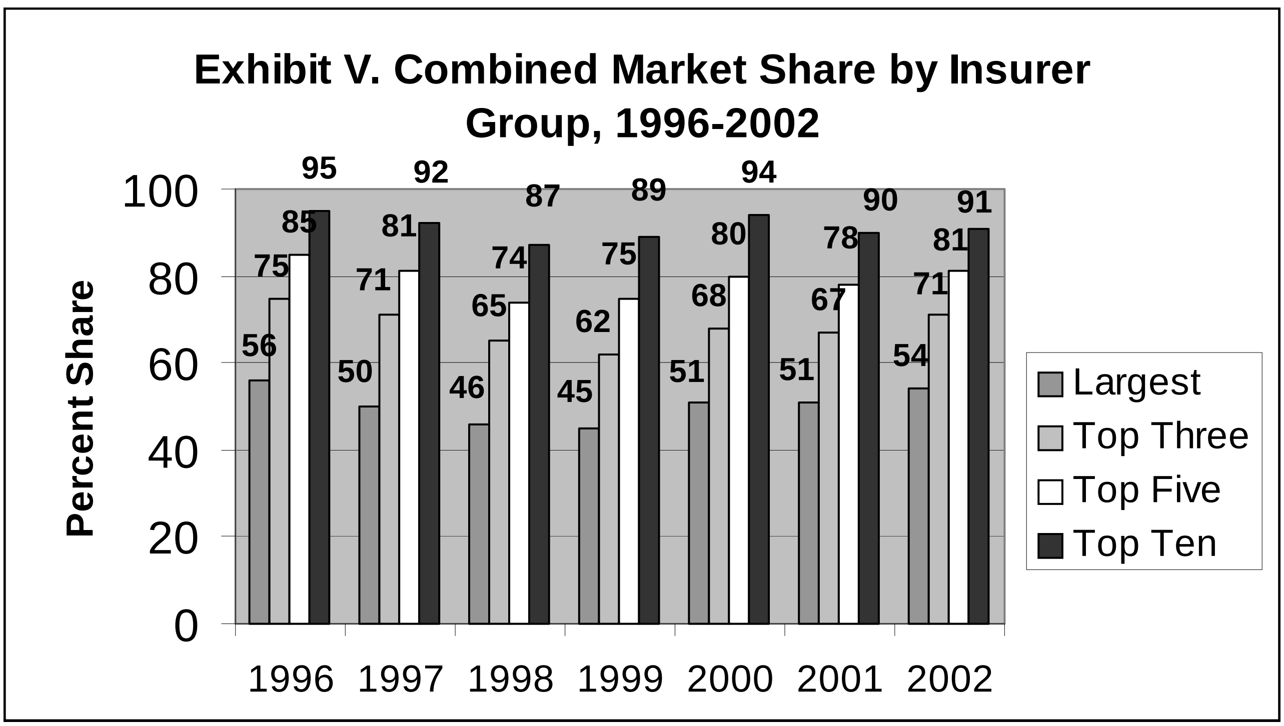
Source: Annual Statements Filed with the Bureau of Insurance

Looking only at market concentration does not give a complete 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 commercially insured market in 1995 to 45 percent in 1999. That trend began to reverse in 2000 and MEMIC now holds a 54 percent market share.

In 2002, market share of the top ten insurer groups is 91, consistent with the seven year average. Other groups wrote less than ten percent of the workers' compensation premium in Maine. In terms of dollar amounts, MEMIC wrote nearly $121 million in premium in 2002, $16 million more than it did in the previous year. The top three groups, including MEMIC, wrote over $158 million in business, $22 million more than in 2001. The top five groups had over $179 million in written premium, $20 million above the prior year. The top ten groups wrote nearly $202 million in premium in 2002, around $17 million more than in 2001. The remaining groups had written premium of over 20 million dollars, up $1 million from the previous year.



Source: Annual Statements Filed with the Bureau of Insurance

Number of Carriers in the Maine Insurance Market, 1993-2002

The table below (Table II) shows that since the 1992 reforms, insurers have come back into the workers' compensation market in Maine and continue to enter it, although 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, 71 insurers have become authorized to write workers' compensation insurance. Eight insurers have had their licenses suspended during the past two years. This continued increase in the number of carriers authorized to write workers' compensation insurance 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	228	24	6	18	8.6
2002	241	15	2	13	5.7

Source: Bureau of Insurance Records.

Figures as of October 1, 2002

Note: Beginning in 2001, the number exiting includes companies under suspension.
No companies voluntarily terminated their authority to write workers' compensation insurance in 2002.

The information in Table III shows market share by insurance group, rather than by individual carriers, from 1995-2001. 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. 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, 1996-2002

Insurance Group	2002 Share	2001 Share	2000 Share	1999 Share	1998 Share	1997 Share	1996 Share
Maine Employers' Mutual	54.4%	51.5	51.2	44.7	46.2	50.4	56.0
Liberty Mutual Group	10.4	7.9	9.5	7.0	3.7	4.9	2.2
WR Berkeley Corp.	6.5	7.4	7.5	7.7	9.5	10.3	9.4
Royal & Sun Alliance USA[1]	6.3	6.1	5.0	4.7	*	*	1.4
Allmerica Financial Corp.	3.1	5.4	6.4	9.1	8.8	9.9	9.3
Zurich Insurance Group	2.6	2.0	2.2	2.1	3.5	3.7	4.2
Guard Insurance Group	2.1	2.7	2.2	*	*	*	*
White Mountains Group[2]	2.0	4.5	5.3	6.1	6.0	5.3	5.8
Traveler's Prop. Cas. Group	1.7	*	*	*	*	*	*
St. Paul Group	1.6	1.1	*	*	*	*	*
ACE Ltd	1.2	1.0	*	*	*	*	*
Hartford Fire & Casualty	1.2	1.0	*	*	*	1.4	*
CNA Insurance Group	1.1	1.4	*	1.9	*	*	*
Amerisafe Group	0.9	1.4	2.2	*	*	*	*
Lumbermen's Mutual Casualty Group	0.8	1.3	*	*	*	*	*
Star Insurance Group	0.4	0.6	*	*	*	*	*
Sentry Insurance Group	0.4	0.5	*	*	*	*	*

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]Formerly known CGU Insurance Group

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 1996 through 2002. MEMIC's market share increased by nearly 10 percent in the past three years, an indication of market hardening. Its market share increased to over 54 percent in 2002, indicating that some employers may be having difficulty getting insurance coverage elsewhere. No other workers' compensation carrier accounts for more than six percent of market share. The top ten companies combined write over 76 percent of the business.

Table IV. Percent Market Share for Top Ten Insurance Carriers, By Amount of Written Premium, 1996-2002

Insurance Carrier	2002 Share	2001 Share	2000 Share	1999 Share	1998 Share	1997 Share	1996 Share
Maine Employers' Mutual	54.4	51.5	51.2	44.7	46.2	50.4	56.0
Acadia Insurance Company	6.0	6.8	7.0	7.6	9.1	10.3	9.4
Liberty Mutual Fire Ins Co	2.5	0.7	2.8	2.8	1.2	1.8	*
Royal Ins. Co. of America	2.4						
Peerless Ins. Co.	2.3	1.5	*	*	*	*	1.6
Hanover Insurance Co.	1.9	3.3	2.5	1.8	*	2.5	2.5
Commercial Union/York[1]	1.9	3.8	4.4	4.6	3.1	1.4	2.1
Norguard	1.7	2.0	1.3				
Traveler's Indemnity Co.	1.6						
Liberty Mutual Ins. Co	1.4	0.9					
Citizens Insurance Co.	1.2	1.7	2.5	3.1	3.1	3.2	3.1
Employer's Ins. Of Wausau	1.2	1.1	*	*	1.2	*	*
Liberty Insurance Corp.	1.1	1.3	*	1.4	1.2	2.4	*
Security Ins. Co. of Hartford	1.1	2.7	1.6	*	*	*	*
American Interstate Ins. Co	0.9	1.4	2.2	1.2	*	*	*
Royal Indemnity	0.9	0.8	*	*	1.5	*	*
St. Paul Fire & Marine Ins.	0.9	0.6	*	*	*	*	*
Maryland Casualty Co.	0.9	*	*	*	*	*	*

Source: Annual Statements Filed with the Bureau of Insurance

Notes:

* 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 York Insurance Company. Subsequently it was acquired by the White Mountain Group.

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 and 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 Maine's 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. Since then advisory loss costs have increased in three of four years. Even still, advisory loss costs are about 37 percent lower than they were in 1992.

As of October 1, 2002, 241 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, and only those who do have rates on file can actually sell workers' compensation insurance in this state.

The table on the next page (Table V) 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 is unique in that it offers loss free credits of up to 25 percent based on an employer's loss history to those employers that are not experience rated. These credits are not reflected in this table. For many classification codes, the wide range of rates 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 now very selective in accepting risks for the lower-priced 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 may be able to utilize that proficiency to lower the rate for specific risks and try to 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.

PART IV. DIFFERENCE IN RATES AND FACTORS AFFECTING RATES

Table V: MEMIC Standard Rate and the Lowest Available Rate for Selected Classifications Effective January 1, 2003			
Class Code	**Description**	**MEMIC Standard Rate**	**Industry Low Rate**
2111	CANNERY	$7.13	$3.85
2286	WOOL SPINNING & WEAVING	$8.54	$4.62
2501	CLOTHING MANUFACTURING	$4.97	$2.69
2660	BOOT OR SHOE MANUFACTURING	$4.82	$2.60
2702	LOGGING OR LUMBERING	$38.35	$20.73
2709	MECHANIZED LOGGING	$8.12	$4.39
2710	SAWMILL	$17.54	$9.49
2721	CERTIFIED LOGGING	$23.77	$12.85
2841	WOODEN WARE MANUFACTURING	$5.54	$3.00
3629	PRECISION MACHINED PARTS MFG	$3.44	$1.86
3632	MACHINE SHOP	$5.73	$3.10
3681	TV, RADIO, TELE/ TELECOM DEVICE MFG	$2.66	$1.44
3724	MACHINERY/ EQUIP ERECTION OR REP	$16.94	$9.16
4207	PULP MFG	$2.30	$1.24
4239	PAPER MFG	$3.50	$1.89
4279	PAPER GOODS MFG	$3.61	$1.95
4299	PRINTING	$3.91	$2.11
4361	PHOTOGRAPHERS	$2.48	$1.34
4484	PLASTICS MFG: MOLDED PRODUCTS	$4.59	$2.48
4511	ANALYTICAL CHEMIST	$1.37	$0.74
4693	PHARMACEUTCL/SURGICAL GOODS MFG	$3.35	$1.81
5183	PLUMBING	$7.32	$3.96
5190	ELECTRICAL WIRING WITHIN BUILDINGS	$5.03	$2.72
5191	OFFICE MACHINE OR APPLIANCE INSTAL	$1.55	$0.84
5506	STREET CONSTRUCTION PAVING	$10.16	$5.49
5538	SHEETMETAL WORK	$8.86	$4.79
5606	CONTRACTOR EXECUTIVE SUPERVISOR	$3.22	$1.74
5645	CARPENTRY DETACHED 1 OR 2 FAMILY	$17.89	$9.67
6217	EXCAVATION	$12.19	$6.59
7228	TRUCKING LOCAL	$19.25	$10.41
7229	TRUCKING LONGDISTANCE	$15.18	$8.21
7380	DRIVERS	$11.45	$6.19
7539	ELECTRIC LIGHT OR POWER CO.	$3.22	$1.74
7600	TELEPHONE OR TELEGRAPH CO.	$4.76	$2.57
7610	RADIO OR TELEVISION BROADCASTING	$0.36	$0.20
7720	POLICE OFFICER	$4.00	$2.17

Table V: MEMIC Standard Rate and the Lowest Available Rate for Selected Classifications Effective January 1, 2003(Continued)			
Class Code	**Description**	**MEMIC Standard Rate**	**Industry Low Rate**
8006	STORE: GROCERY/CONVENIENCE RETAIL	$3.39	$1.83
8008	STORE: CLOTHING/DRY GOODS RETAIL	$1.58	$0.86
8010	STORE: HARDWARE	$2.45	$1.32
8017	STORE: RETAIL NOC	$2.34	$1.26
8018	STORE: WHOLESALE NOC	$6.66	$3.60
8024	SEAFOOD DEALER WHOLESALE	$9.31	$5.03
8033	STORE: MEAT, GROCERY AND PROVISION	$3.04	$1.64
8039	STORE: DEPARTMENT-RETAIL	$2.38	$1.29
8044	STORE: FURNITURE	$5.36	$2.90
8058	BUILDING MATERIAL DEALER-NEWMAT.	$2.74	$1.48
8107	MACHINERY DEALER	$5.53	$2.99
8227	CONSTRUCTION PERMANENT YARD	$9.79	$5.29
8232	LUMBER YARD NEW MAT.WHOLESALE	$5.46	$2.95
8350	GASOLINE DEALERS	$8.36	$4.52
8380	AUTO SERVICE OR REPAIR CENTER	$5.39	$2.91
8601	ARCHITECT OR ENGINEER CONSULTING	$1.33	$0.72
8742	SALESPERSONS, COLLECTORS	$0.91	$0.49
8803	AUDITORS, ACCOUNTANT TRAVELING	$0.20	$0.11
8810	CLERICAL OFFICE EMPLOYEES	$0.60	$0.33
8820	ATTORNEY	$0.59	$0.32
8829	CONVALESCENT OR NURSING HOME	$5.26	$2.85
8832	PHYSICIAN	$0.90	$0.48
8833	HOSPITAL PROFESSIONAL EMPLOYEES	$1.96	$1.06
8835	NURSING-H.H., PUBLIC & TRAVELING	$7.17	$3.88
8861	CHARITABLE OR WELFARE ORGAN. PROF.	$1.99	$1.07
8868	COLLEGE: PROFESSIONAL EMPLOYEES	$0.64	$0.35
8901	TELEPHONE OR TELEG CO. OFFICE	$0.45	$0.24
9014	BUILDING OPER. BY CONTRACTORS	$6.06	$3.28
9015	BUILDING OPER. BY OWNER	$5.46	$2.95
9040	HOSPITAL ALL OTHER EMPLOYEES	$5.54	$3.00
9052	HOTEL: ALL OTHER EMPLOYEES	$3.42	$1.85
9058	HOTEL: RESTAURANT EMPLOYEES	$2.66	$1.44
9060	CLUB-COUNTRY, GOLF, FISHING OR YACHT	$2.59	$1.40
9063	YMCA, YWCA, YMHA, OR YWHA	$1.47	$0.79
9083	RESTAURANT: FAST FOOD	$2.90	$1.57
9101	COLLEGE: ALL OTHER EMPLOYEES	$5.36	$2.90
6824F	BOATBUILDING OR REPAIR	$7.20	$3.89

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. However, each of these options is available only if the insurer is willing to write a policy using them. 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 over 76 percent of companies either have different loss cost multipliers on file or are part of a group that does.

- **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. Over sixty nine 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 19 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. A LOOK NATIONALLY

Percent of Overall Market Held by Self-Insured Employers

Self-Insurance plays an important role in Maine's workers' compensation market. Self-insured employers pay for losses with their own resources rather than by 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 it pays 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.

The percent of Maine's total workers' compensation insurance market represented by self-insured employers and groups decreased slightly in 2002. At 43.0 percent of the total market, self-insurance is at its second lowest level in ten years. A greater market share in self-insurance indicates that some employers feel that premiums in the insurance market are too high, so they are willing to accept some risk in lieu of making premium payments.

From 1993 to 1999, the estimated annual standard premium for self-insureds declined from $204 million to $116 million. Since that time, the estimated standard premium for self-insured employers has increased by over 44 percent. The estimated standard premium for individual self-insurance is determined by taking the advisory loss cost and multiplying it by a factor of 1.2, as specified in statute, and multiplying that figure by the payroll amount divided by 100 and then applying experience modification. As advisory loss costs, and therefore rates, decline, so does the estimated standard premium. Group self-insurers determine their own rates subject to review by the Bureau of Insurance. Group self insurance premiums have been driven up by some of the same factors affecting the insurance market: reduced individual investment returns and higher reinsurance costs.

Table VI: Estimated Standard Premium for Self-Insured Employers and Percent of the Workers' Compensation Market Held by Self-Insurers, 1993-2002

Year	Estimated Standard Premium	Percent of Workers' Comp. Market (in annual standard premium)
2002	$167,803,123	43.0
2001	$159,548,698	43.9
2000	$126,096,312	42.1
1999	$116,028,759	45.4
1998	$120,799,841	49.0
1997	$147,851,730	49.9
1996	$167,983,925	51.5
1995	$180,587,422	51.9
1994	$202,430,339	49.9
1993	$204,111,260	44.7

Source: Annual Statements Filed with the Bureau of Insurance.

Notes: Estimated standard premium figures are as of December 31.
The percent of the workers' compensation market held by self-insured employers is calculated by taking the estimated standard premium for self-insured employers, dividing it by the sum of the estimated standard premium for self-insured employers and the written premium in the regular insurance market, and then multiplying that figure by 100

Number of Self-Insured Employers and Groups

As of October 1, 2003 there were 19 self-insured groups representing approximately 1,351 employers as well as 91 individual self-insured employers in Maine. Although the number of self-insured groups has remained the same, the number of employers in those groups increased by over nine percent from 2002 to 2003. During that same time, the number of individually self-insured employers decreased by seven.

Table VI: Number of Self-Insured Groups, Employers in Groups, and Individually Self-Insured Employers 1994-2003

Year	# of Self-Insured Groups	# of Employers In Groups	# of Individually Self-Insured Employers
2003	19	1,351	91
2002	19	1,235	98
2001	19	1,281	92
2000	19	1,247	98
1999	20	N/A	115
1998	21	N/A	118
1997	21	N/A	155
1996	20	N/A	147
1995	20	N/A	145
1994	20	N/A	112

Source: Bureau of Insurance Records

Notes:
For the purposes of self-insurance, affiliated employers are considered separate employers. N/A indicates that the information is not available.

- The number of individually self-insured employers and self-insured group information beginning in 2001 is as of October 1 of the year listed. Figures for years 2000 and before are as of the beginning of the year listed.

PART V. A LOOK NATIONALLY

Comparisons with Other States

According to a recently released report for 2003, Maine ranked 32nd out of 45 states in terms of comparative costs in the manufacturing industry. A higher rank indicates higher comparative costs. The annual report, ranking state workers' compensation costs, was compiled by an independent firm named Actuarial & Technical Solutions, Inc. This ranking indicates that Maine is a relatively high cost state. Since 1996, Maine has been ranked as high as 42nd among other states for workers' compensation insurance costs in the manufacturing industry and as low as 23rd. In 2002, Maine's ranking was 35th. These ranking are impacted by the benefit structures in the various states.

In another study, conducted bi-annually by the State of Oregon, Maine ranked 28th in terms of 2002 workers' compensation premium rates for all industries. In the 2000 study, Maine ranked 19th. In this study, a higher rank indicates lower premium rates. This study focused on 50 classifications based on their relative importance as measured by their share of losses in Oregon. It reports results for all 50 states and the District of Columbia.