

MAINE STATE LEGISLATURE

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The State of Competition in the Maine Workers' Compensation Market.

Pursuant of M.R.S.A. 24-A Section 2383-A this report reviews the state of competition in the workers' compensation market in Maine.

Maine Bureau of Insurance
December 12, 1995

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December 14, 1995

Senator I. Joel Abromson, Senate Chair
Representative Marc J. Vigue, House Chair
Joint Standing Committee on Banking and Insurance
115 State House Station
Augusta, Maine 04333

RE: Report on Availability

Dear Senator Abromson and Representative Vigue:

The attached Report on the State of Competition in the Maine Workers' Compensation Market for the year 1995 is submitted to the Joint Standing Committee on Banking and Insurance as required by M.R.S.A. Title 24-A, Section 2383-A (3).

Sincerely,

A handwritten signature in black ink that reads "BK Atchinson".

Brian K. Atchinson
Superintendent of Insurance

Enc.

1) Competition: Voluntary Market 1988 - 1992.

Prior to the 1992 Blue Ribbon Commission legislation, insurance carriers were writing very few risks in the voluntary market and the vast majority of all insured employers were written in what was known as the "assigned risk pool" or the "Pool". The Pool operated for the years 1988 through 1992.

On a calendar year basis, the percentage of premium written in the voluntary market for the years 1988 through 1992 was:

Year	Residual Market Share	Voluntary	Market Share
1988	82.3%		17.7%
1989	90.6%		9.4%
1990	87.8%		12.2%
1991	78.2%		21.8%
1992	82.6%		17.4%

Data Source: National Council on Compensation Insurance (NCCI) 1992 Management Summary

During this period, insured employers in Maine had few options other than self insurance and most were simply assigned to a servicing carrier. In response to these conditions the 1992 Blue Ribbon Commission reform legislation was enacted establishing the Maine Employers' Mutual Insurance Company and an open competitive rating environment.

During the same period, the residual market incurred deficits which continue to affect the workers' compensation market to this day. Public Law 289 An Act to Create the Workers' Compensation Residual Market Deficit Resolution and Recovery Act, approved by the Governor on June 23, 1995, provides a mechanism to fund this deficit and requires certain insurance carriers to contribute 65 million dollars by January 1, 1996. It also fixed the employers' share and reduced the surcharge to 6.32 percent of workers' compensation premium. This law change should add further stability to the workers' compensation marketplace.

Maine Employers Mutual Insurance Company was established as an employer owned mutual insurance company and replaced the pool beginning January 1, 1993. Although Maine Employers' Mutual is the only workers' compensation insurance company in Maine which is required to accept all risks that apply (there are a few circumstances in which they can deny coverage), they do not view themselves solely as a market of last resort and have manifested a commitment to providing a superior level of service which is answerable to the owners of the company, their policyholders -

1996. The capital contribution has gone from 15% in 1993 to being entirely eliminated in a period of three years.

As a result of the 1992 Blue Ribbon Commission legislation, the National Council on Compensation Insurance (NCCI) is no longer allowed to file full rates for workers' compensation in Maine. Beginning in 1993, NCCI can only file loss cost rates and each insurer writing workers' compensation in Maine is required to file their own rates utilizing their own expense and profit provisions.

2) Recent Experience in the Maine Workers' Compensation Market:

The experience of insurers writing workers' compensation has improved significantly in recent years as measured by industry-wide loss ratios. The 1994 calendar year loss ratio of .82 represents a 2% increase from the 1993 level of .80. These ratios represent a marked decrease from the 1991 level of 1.87 and are a sign of future stability in a previously volatile market.

Calendar Year Loss Ratios in Maine, 1988 - 1994:

Year	Loss Ratio
1988	1.44
1989	1.54
1990	1.44
1991	1.87
1992	.99
1993	.80
1994	.82

Source: Annual Statement Page 14 Compilations

3) Market Shares and Market Activity By Individual Insurance Co.:

Calendar Year 1994 Market Share Based on Written Premium:

Company	Market Share
Maine Employers' Mutual	66.1
Acadia Compensation	7.4
Commercial Union	4.6
Citizens	3.1
American Employers'	2.9
Redland	2.7
Hanover	2.2
Northern Insurance	2.0
Maryland Casualty	1.6

Many carriers have increased their writings significantly in 1995 and additional carriers continue to re-enter the market resulting in more options for Maine employers. Consequently, the market shares in 1995 will look markedly different from the 1994 numbers.

4) Rate Differentials:

Prior to the 1992 law changes all insurance companies charged the same base rates (manual rate) for workers' compensation. Although each employer's actual premium was modified by their own experience, there was little or no differentiation in the manual rates. Subsequent to the 1992 law changes, each insurance company is required to file their own manual rates based upon their own expense and profit provisions. (NCCI continues to annually make an advisory filing of pure premium rates, which are rates for losses and loss adjustment expenses, excluding all other expenses and profit provisions.) The most recent NCCI loss cost filing had an overall rate reduction of -12.5%. This followed an average decrease of 3.8% occurring in 1994. The next annual filing will be early in 1996.

As of November 1995 more than fifty (50) insurance carriers have filed and received approval from the Bureau for their workers' compensation rates. At this time, data is not available regarding the amount of business each of these companies is writing in Maine. However, the attached charts show the high and low rates for the 140 largest classification codes (in terms of payroll) for all workers' compensation insurers and compares the high and low rates to the rate which Maine Employers' Mutual Insurance charges for that classification code. For many classification codes, the wide range underscores the new competitive nature of workers' compensation in Maine and illustrates the importance of employers exploring all possible options.

5) Schedule Rating, Dividend Plans, Retrospective Rating, and Large Deductibles:

Another feature of the new workers' compensation market in Maine is the introduction of scheduled rating, dividend plans and the increased use of retrospective rating and large deductibles.

More than one dozen insurance companies have received approval to utilize scheduled rating in Maine. 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 by as much as twenty-five percent.

Indications are that retrospective rating plans are being widely utilized in Maine. Retrospective rating is a means by which an employer's final premium is a direct function of the loss experience for that policy period. To the extent the employer controls its losses it receives a reduced premium and, conversely, pays a higher premium in the event it has poor experience. Retrospective rating utilizes minimum and maximum amounts for a policy and is typically written for large employers.

Finally, more than ten companies offer large deductible plans in Maine where by the employer agrees 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 bills the deductible amounts to the insured employer. The advantage of this product is that the employer gets a discount for assuming some of the risk and offers an alternative to self-insurance.

6) Insurers Entering the Maine Workers' Compensation Market:

Since the Blue Ribbon Commission legislation was enacted in October of 1992, thirty-one insurance companies have re-entered the Maine workers' compensation market. During that time frame, exits from the workers' compensation market have been minimal. The nation's largest workers' compensation insurer, Liberty Mutual returned to the market in 1995 and one of Maine's domestic insurers, Mutual Fire of Saco was purchased and renamed Eastguard with the specific intent of entering the Maine Workers' Compensation Market.

7) Self-Insurance:

Self-insurance represents a significant part of the workers' compensation market in Maine and is a viable alternative for many employers in the State. Since 1988 eighteen new self-insured groups have been formed in Maine bringing the total number of groups to twenty. These twenty groups represent approximately 1300 employers. Additionally, there are approximately 144 individual self-insured employers in Maine of which about 70 have become self-insured since 1988. Since 1985 the self-insured's estimated standard premium has grown from more than 52 million to about 172 million dollars. It is estimated that self-insureds now represent over 45% of the insured market in Maine in terms of annual standard premium. However, the growth in self-insurance has experienced a significant decline in the last few years and some formerly self-insureds have returned to the commercial market. The competitive market could cause further returns to the commercial insurance market.

8) Conclusion

When contrasted with the conditions which existed during the years 1988 through 1992, the competition in the Maine workers' compensation market has clearly improved and some Maine employers have more options. However, according to economic theory, an industry is perfectly competitive only when a large number of firms selling a homogeneous commodity is so large, and each individual firm's share of the market is so small, that no individual firm is able to affect the price of the commodity. By this definition Maine does not yet have a competitive market. But when one considers the range amongst workers' compensation rates, the number of carriers recently entering the market place, and the decline in overall rate levels, Maine's workers' compensation market appears to be heading in the right direction.

RATE VARIANCE IN 1995 WORKERS' COMPENSATION BASE RATES

CODE	DESCRIPTION	LOW	MEMIC(STD.)	HIGH
34	FARM: POULTRY/EGG	\$9.81	\$14.05	\$16.65
42	LANDSCAPE GARDENING	\$7.75	\$11.11	\$13.16
1463	ASPHALT WORKS	\$6.53	\$9.03	\$11.09
2003	BAKERY	\$6.82	\$9.77	\$11.58
2070	CREAMERY	\$6.26	\$8.97	\$10.63
2111	CANNERY	\$5.47	\$7.83	\$9.28
2113	CANNERY SARDINES	\$6.46	\$9.25	\$10.96
2157	BOTTLING	\$5.08	\$7.29	\$8.63
2220	YARN OR THREAD MFG	\$6.56	\$9.40	\$11.14
2286	WOOL SPINNING/WEAVING	\$5.82	\$8.34	\$9.88
2302	SILK THREAD/YARN MFG	\$5.72	\$8.20	\$9.71
2380	WEBBING MFG	\$4.10	\$5.87	\$6.95
2501	CLOTHING MFG	\$4.15	\$5.49	\$7.05
2585	LAUNDRY	\$5.50	\$7.89	\$9.35
2623	TANNING	\$8.99	\$12.89	\$15.27
2660	BOOT OR SHOE MFG	\$6.52	\$8.89	\$11.07
2688	LEATHER GOODS MFG	\$3.77	\$5.40	\$6.40
2702	LOGGING OR LUMBERING	\$33.41	\$47.63	\$56.72
2710	SAW MILL	\$14.19	\$20.34	\$24.09
2731	PLANING/MOLDING MILL	\$7.24	\$10.38	\$12.29
2802	CARPENTRY SHOP ONLY	\$10.83	\$15.52	\$18.39
2812	CABINET WORK	\$6.63	\$9.51	\$11.26
2841	WOODENWARE MFG	\$7.98	\$10.44	\$13.54
2883	FURNITURE MFG WOOD	\$5.16	\$7.39	\$8.76
3030	IRON OR STEEL FABRICATION SHOP	\$10.75	\$15.40	\$18.25
3076	FIREPROOF EQUIPMENT MFG	\$3.19	\$4.57	\$5.42
3113	TOOL MFG NOT DROP/MAC	\$3.68	\$5.27	\$6.24
3179	ELECTRICAL APPARATUS MFG	\$6.70	\$9.60	\$11.37
3507	CONSTRUCTION/AGRI MACHINE MFG	\$5.49	\$7.86	\$9.31
3574	COMPUTING/RECORDING MACHINE MFG	\$3.89	\$5.58	\$6.61
3629	PRECISION PARTS MFG	\$3.00	\$3.99	\$5.10
3632	MACHINE SHOP	\$4.14	\$5.49	\$7.03
3634	VALVE MFG	\$4.06	\$5.82	\$6.89
3643	ELECTRIC POWER/TRANS EQUIP MFG	\$3.97	\$5.70	\$6.75
3681	TELEVISION/RADIO/TELEPHONE MFG	\$3.27	\$4.68	\$5.54
3724	MACHINERY/EQUIPMENT ERECTION	\$19.49	\$26.88	\$33.09
3726	BOILER INSTALLATION/REPAIR-STEAM	\$19.15	\$27.45	\$32.52
3826	AIRCRAFT ENGINE MFG	\$1.99	\$2.85	\$3.37
4000	SAND DIGGING	\$7.33	\$10.51	\$12.45
4034	CONCRETE PRODUCTS MFG	\$9.15	\$11.98	\$15.54
4112	INCANDESCENT LAMP MFG	\$2.38	\$3.41	\$4.04
4207	PULP MFG CHEMICAL PROCESS	\$1.52	\$2.18	\$2.58
4239	PAPER MFG	\$6.88	\$8.99	\$11.67
4279	PAPER GOODS MFG	\$5.48	\$7.22	\$9.30
4299	PRINTING	\$3.35	\$4.51	\$5.69
4304	NEWSPAPER PUBLISHING	\$3.80	\$4.84	\$6.45
4361	PHOTOGRAPHERS	\$2.45	\$3.52	\$4.17
4431	PHONOGRAPH RECORD MFG	\$5.46	\$7.57	\$9.27

RATE VARIANCE IN 1995 WORKERS' COMPENSATION BASE RATES

4484	PLASTC MFG: MOLDED	\$4.86	\$6.73	\$8.25
4511	ANALYTICAL CHEMIST	\$1.60	\$2.29	\$2.71
4693	PHARM/SURGICAL MFG	\$2.32	\$3.03	\$3.94
5022	MASONRY	\$18.09	\$25.92	\$30.71
5183	PLUMBING	\$8.38	\$10.96	\$14.22
5190	ELETRICAL WIRING WITHIN BUILDING	\$5.47	\$7.29	\$9.28
5191	OFFICE MACHINE REPAIR	\$1.08	\$1.55	\$1.84
5192	VENDING MACHINE SERVICE AND SALES	\$6.03	\$8.64	\$10.23
5213	CONCRETE CONSTRUCTION	\$17.56	\$25.16	\$29.81
5215	CONCRETE WORK PRIVATE RESIDENCE	\$11.80	\$16.91	\$20.04
5221	CONCRETE WORK	\$9.25	\$13.25	\$15.70
5403	CARPENTRY NOC	\$27.22	\$39.00	\$46.21
5437	CARPENTRY INSTALL CABINETS AND TRIM	\$8.89	\$12.74	\$15.10
5445	WALLBOARD INSTALLATION	\$13.56	\$19.43	\$23.02
5474	PAINTING/PAPERHANGING	\$12.31	\$17.64	\$20.89
5479	INSULATION WORK	\$6.41	\$9.19	\$10.88
5506	STREET OR ROAD CONSTRUCTION PAVING	\$6.56	\$8.68	\$11.14
5507	STREET/ROAD CONSTRUCTION SUBGRADE	\$11.48	\$15.28	\$19.48
5538	SHEET METAL WORK	\$8.44	\$12.10	\$14.34
5551	ROOFING ALL KINDS	\$23.59	\$33.80	\$40.04
5606	CONTRATOR EXECUTIVE	\$3.24	\$4.64	\$5.50
5645	CARPENTRY ONE/TWO FAMILY DWELLING	\$9.29	\$13.32	\$15.78
5651	CARPENTRY 3 STORIES OR LESS	\$10.70	\$15.34	\$18.17
6217	EXCAVATION	\$13.18	\$17.61	\$22.38
6306	SEWER CONSTRUCTION	\$8.70	\$12.47	\$14.78
7219	TRUCKING: NOC	\$13.88	\$18.40	\$23.57
7380	DRIVERS AND CHAUFFEURS	\$6.89	\$9.94	\$11.71
7382	BUS COMPANY	\$7.18	\$10.29	\$12.20
7390	BEER OR ALE DEALERS	\$6.45	\$9.24	\$10.95
7403	AIRCRAFT OPER REG SCH CARRIERS	\$2.91	\$4.17	\$4.94
7423	AIRCRAFT OPERATIONS ALL OTHERS	\$3.53	\$5.05	\$5.99
7520	WATERWORKS OPERATION	\$3.85	\$5.52	\$6.54
7539	ELECTRIC LIGHT OR POWER	\$3.27	\$4.44	\$5.56
7600	TELEPHONE ALL OTHERS	\$3.69	\$5.29	\$6.27
7610	RADIO OR TV BROADCASTING	\$0.79	\$1.03	\$1.35
7720	POLICE OFFICERS	\$2.50	\$3.72	\$4.25
7723	PRIVATE DETECTIVE OR PATROL AGENCY	\$4.92	\$7.32	\$8.35
8001	STORE: FLORISTS	\$2.56	\$3.66	\$4.34
8006	STORE: GROCERY RETAIL	\$2.83	\$4.05	\$4.80
8008	STORE: CLOTHING RETAIL	\$1.94	\$2.78	\$3.29
8010	STORE: HARDWARE RETAIL	\$1.95	\$2.79	\$3.31
8013	STORE: JEWELRY	\$0.67	\$0.96	\$1.14
8017	STORE: RETAIL NOC	\$1.52	\$2.10	\$2.58
8018	STORE: WHOLESALE NOC	\$5.03	\$6.83	\$8.54
8021	STORE: MEAT WHOLESALE	\$10.17	\$14.57	\$17.27
8024	SEAFOOD DEALER	\$7.15	\$10.64	\$12.13
8032	STORE: CLOTHING WHOLESALE	\$4.89	\$7.01	\$8.30
8033	STORE: PROVISIONS COMBINED	\$3.41	\$4.88	\$5.78
8039	STORE: DEPARTMENT RETAIL	\$2.74	\$3.93	\$4.66

RATE VARIANCE IN 1995 WORKERS' COMPENSATION BASE RATES

8044	STORE: FURNITURE	\$4.39	\$6.28	\$7.44
8046	STORE AUTO PARTS NEW RETAIL	\$1.98	\$2.83	\$3.36
8058	BUILDING MATERIALS DEALER	\$3.04	\$4.10	\$5.16
8107	MACHINERY DEALER	\$4.53	\$6.48	\$7.68
8111	PLUMBERS SUPPLIES	\$6.17	\$8.84	\$10.47
8227	CONSTRUCTION OR ERECTION YARD	\$4.19	\$6.00	\$7.11
8232	LUMBERYARD NEW MATERIALS	\$4.67	\$6.46	\$7.94
8235	SASH, DOOR AND MILLWORK DEALER	\$4.48	\$6.42	\$7.60
8350	GASOLINE DEALERS	\$5.18	\$7.42	\$8.79
8380	AUTOMOBILE SERVICE CENTER	\$4.72	\$6.77	\$8.02
8385	BUS COMPANY GARAGE EMPLOYEES	\$4.09	\$5.86	\$6.94
8393	AUTO BODY REPAIR	\$5.45	\$7.81	\$9.25
8601	ARCHITECT OR ENGINEER CONSULTING	\$1.57	\$2.25	\$2.66
8720	INSPECTION OF RISKS FOR INSURANCE	\$1.60	\$2.30	\$2.72
8742	SALESPERSON/OUTSIDE MESSENGER	\$0.97	\$1.44	\$1.65
8748	AUTOMOBILE SALESPERSON	\$2.00	\$2.86	\$3.39
8755	LABOR UNION	\$0.98	\$1.40	\$1.66
8803	AUDITORS TRAVELLING	\$0.29	\$0.41	\$0.49
8810	CLERICAL/OFFICE EMPLOYEE NOC	\$0.64	\$0.89	\$1.09
8820	ATTORNEY ALL EMPLOYEES	\$0.74	\$1.06	\$1.25
8829	CONVALESCENT OR NURSING HOME	\$6.97	\$9.73	\$11.83
8831	HOSPITAL VETERINARY	\$1.52	\$2.18	\$2.58
8832	PHYSICIAN AND CLERICAL	\$0.65	\$0.98	\$1.11
8833	HOSPITAL PROFESSIONAL EMPLOYEE	\$1.67	\$2.37	\$2.84
8835	NURSING- HOME HEALTH	\$4.25	\$5.98	\$7.22
8868	COLLEGE PROFESSIONAL & CLERICAL	\$0.52	\$0.66	\$0.89
8901	TELEPHONE OFFICE AND CLERICAL	\$0.49	\$0.71	\$0.84
9014	BUILDING OPERATIONS BY CONTRACTOR	\$5.87	\$8.73	\$9.96
9015	BUILDING OPERATIONS BY OWNER	\$4.91	\$6.42	\$8.33
9016	AMUSEMENT PARK	\$3.79	\$5.43	\$6.43
9033	HOUSING AUTHORITY	\$2.86	\$4.10	\$4.86
9040	HOSPITAL ALL OTHER EMPLOYEES	\$4.31	\$6.00	\$7.32
9052	HOTEL ALL OTHER EMPLOYEES	\$3.68	\$5.10	\$6.24
9058	HOTEL: RESTAURANT EMPLOYEES	\$3.09	\$4.43	\$5.24
9060	COUNTRY CLUB	\$2.63	\$3.66	\$4.47
9061	CLUB NOC AND CLERICAL	\$2.72	\$3.90	\$4.63
9063	YMCA, YWCA	\$1.14	\$1.63	\$1.93
9079	RESTAURANT NOC	\$2.70	\$3.86	\$4.58
9101	COLLEGE: ALL OTHER EMPLOYEES	\$3.07	\$4.40	\$5.21
9180	AMUSEMENT DEVICE NOT TRAVELLING	\$10.05	\$14.40	\$17.06
9402	STREET CLEANING	\$6.30	\$9.38	\$10.69
9403	GARBAGE COLLECTION	\$9.18	\$13.16	\$15.59
9410	MUNICIPAL	\$3.99	\$5.94	\$6.78
9519	HOUSEHOLD APPLIANCE REPAIR ELECTRIC	\$2.75	\$3.94	\$4.67
9521	HOUSE FURNISHINGS INSTALLATION	\$6.22	\$8.92	\$10.57
9586	BARBER SHOP	\$1.43	\$2.05	\$2.42
9620	FUNERAL DIRECTOR	\$1.15	\$1.64	\$1.95