

MAINE STATE LEGISLATURE

The following document is provided by the
LAW AND LEGISLATIVE DIGITAL LIBRARY
at the Maine State Law and Legislative Reference Library
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied
(searchable text may contain some errors and/or omissions)



The State of Competition in the Maine Workers' Compensation Market

December 29, 1999

Pursuant to 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

Angus S. King, Jr.
Governor

S. Catherine Longley
Commissioner

Alessandro A. Iuppa
Superintendent

Table of Contents

1. Introduction
2. Recent experience in the Maine Workers' Compensation Market
3. Market Structure and Competition
4. Rate Differentials
5. Tiered Rating, Schedule Rating, Dividend Plans, Retrospective Rating and Large Deductibles
6. Self-Insurance
7. Conclusion

The State of Competition in the Maine Workers' Compensation Market

**Bureau of Insurance
29 December 1999**

1) Introduction:

The Superintendent is pleased to present this report on the status of the Maine workers' compensation market. This report is required by law and is made to the Governor and the Joint Standing Committee of the Legislature having jurisdiction over workers' compensation rate regulation matters, and other interested persons.

The workers' compensation market has benefited from six years of rate decreases and an active, competitive market among insurers and self-insurers with group self-insurers returning excess funds to their members. There are however, indications that the period of rate decreases may be drawing to a close and Maine is likely to see rate increases in the near future. The loss experience of insurers writing workers' compensation insurance in Maine has deteriorated in recent years and the first proposed rate increase for loss costs since the 1992 reform is currently under review by this bureau.

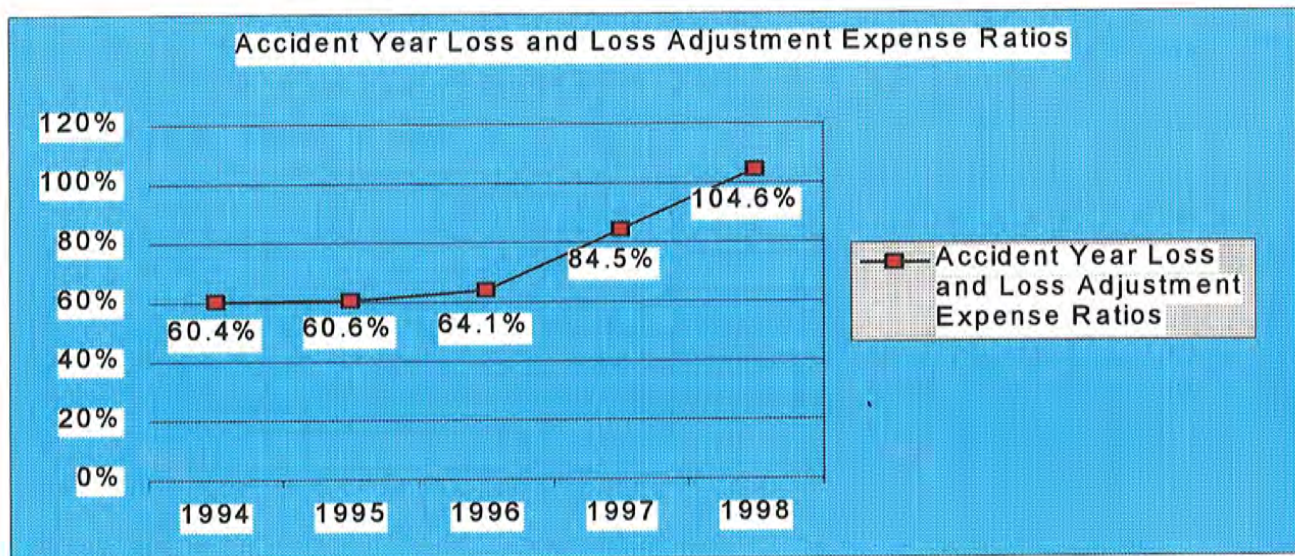
The market remains competitive, new insurers continue to enter the market and market concentration is decreasing. All indications are that Maine's market will remain competitive and employers will benefit from that competition.

**Alessandro A. Iuppa
Superintendent of Insurance**

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

The experience of insurers writing workers' compensation policies as measured by the industry-wide loss and loss adjustment expense (LAE) ratio has deteriorated in recent years. As shown in Exhibit I below, the loss and LAE ratio, based on recently updated information, was in the low 60's following the 1992 law change. The relatively low loss and LAE ratio reflected the loss prevention and claim management practices of employers and that the savings from the law change were greater than initially estimated by the National Council on Compensation (NCCI) and insurers. During the period 1994 through 1999 loss costs filed by NCCI were lower, the market became more competitive and rates charged by insurers decreased. Premiums decreased and the loss and LAE ratio increased. For accident year 1997 and 1998 indications from NCCI are that indemnity losses have increased while rates continued to decrease, causing the loss and LAE ratio to raise to levels above those of the prior years. The first proposed increase in loss costs was filed in 1999 for the year 2000 policies.

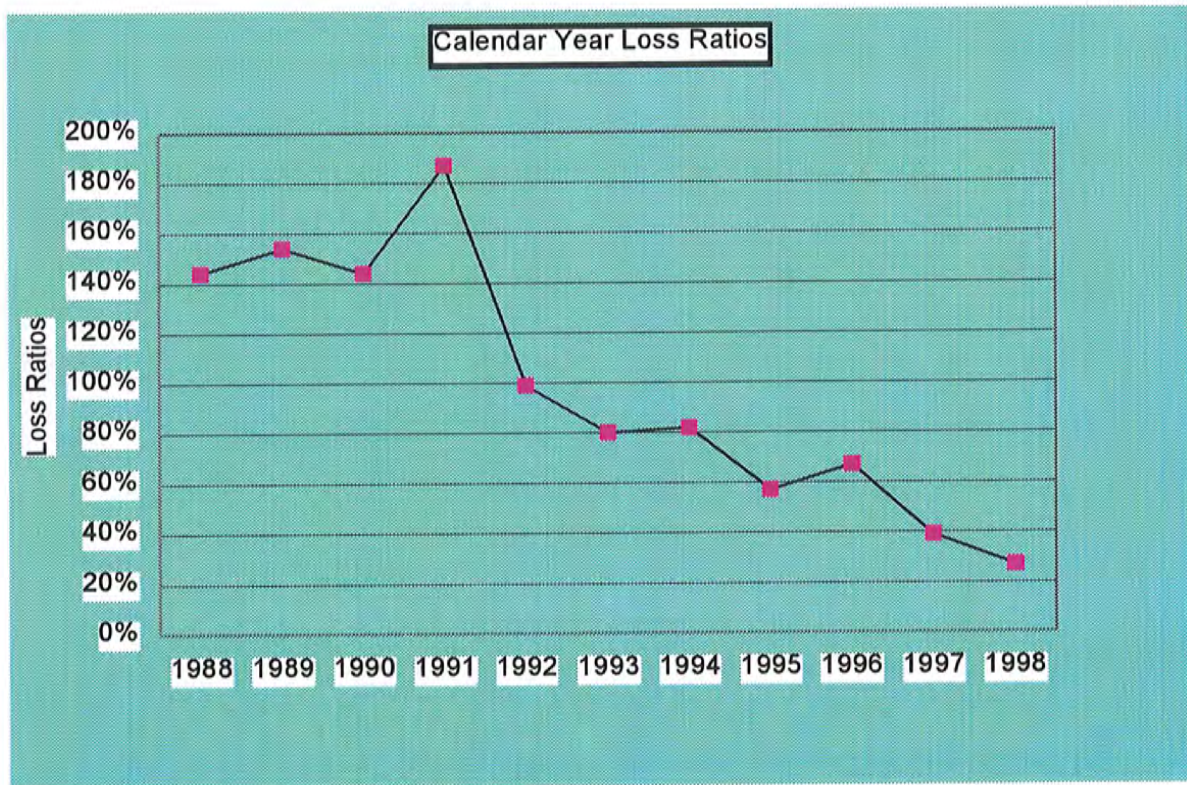
Exhibit I



Source: NCCI

Another source of information on the Maine market is the calendar year loss ratio information compiled from the Annual Statements insurers are required to file with the Bureau of Insurance. These figures, shown in Exhibit II, show improving financial results. Calendar year incurred losses and LAE reflect payments and reserve adjustments during a year on all claims including those on prior years' injuries. The improving calendar year loss and LAE ratios reflect the downward adjustment in reserves for the years prior to and immediately following the 1992 reforms. While the calendar year data may be easier 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 of a better matching of 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.

Exhibit II



In summary, the experience of insurers as measured by the loss and LAE ratio was favorable in the years 1994 – 1996 but current indications are that the ratio has increased in recent years. The six years of rate decreases has ended and rates can be expected to increase in the near term.

3) Market Structure and Competition

A measure of market competition is market concentration. In general, greater concentration is associated with less competition. Prior to January 1993, many insurers had withdrawn from the workers' compensation insurance market. Not all insurers have returned even with the law change in 1992. The assigned risk or residual market pool had a significant share of the market. Effective January 1, 1993 Maine Employers Mutual Insurance Company (MEMIC), a state created mutual insurer replaced the residual market as the insurer of last resort. MEMIC inherited a block of business previously written by insurers acting as service carriers for the Pool. Additionally a substantial portion of the market is self-insured for workers' compensation (See Section 5).

Exhibit III contains workers' compensation insurance market share percentages for the 10 largest insurance groups for the years 1994 through 1998. See Appendix A for a listing of the groups by year. Exhibit IV illustrates market share for the 20 largest insurance groups, based on 1998 written premium. Figures are by insurance group, where a group is made up of insurance companies under common control and underwriting. Groups rather than companies are used because there is not likely to be meaningful competition among companies within the same group. The year 1993 is excluded because premiums written included that of any companies acting as servicing carriers for the assigned risk pool.

An examination of the market share percentages in Exhibit III indicates that market concentration has decreased subsequent to the revision in the rating law and other changes effective January 1, 1993. The largest group's insured market share decreased from about two thirds to less than half, and the market share of the five largest groups decreased from 91 % to 75 %. In 1994 the ten largest groups wrote virtually all of the insured market, but that percentage decreased to 87 % in 1998.

With approximately half of the market self-insured the insured market share percentages do not fully reflect the degree of competition. The concentration numbers considering the entire market would be half those in the exhibit.

The decreasing market concentration along with the disparity in rates indicate that the market is competitive, rates are not controlled or fixed, and employers have options with respect to cost and other factors influencing the selection of the insurance carrier. The trend since 1993 continues to be towards more competition, more choices and a broadening of the market even when total premium volume has decreased.

Exhibit III

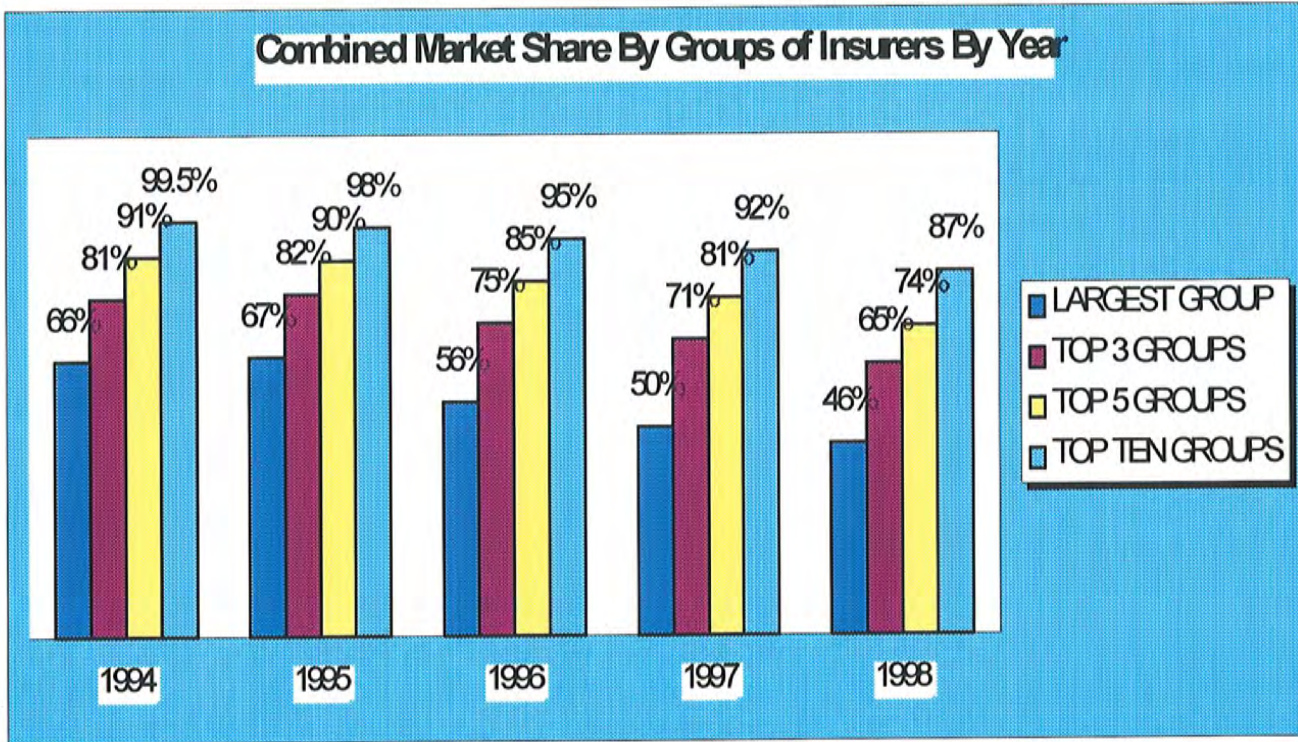
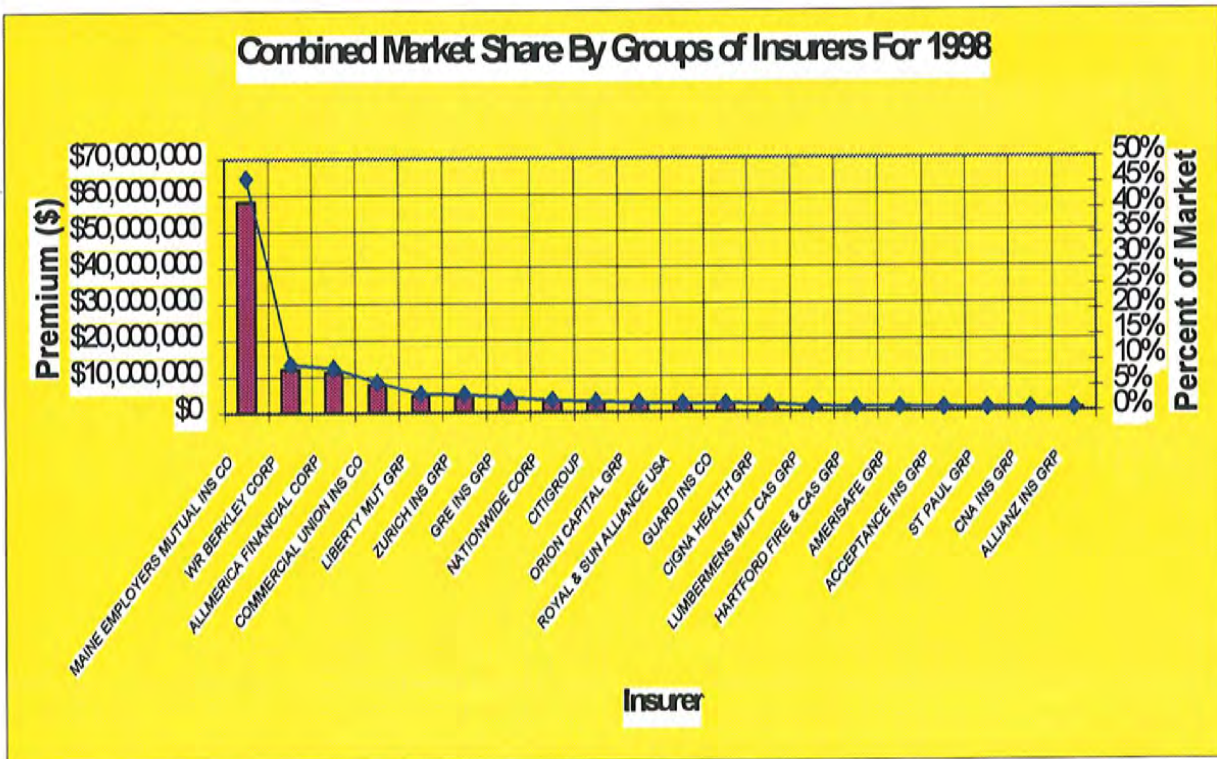


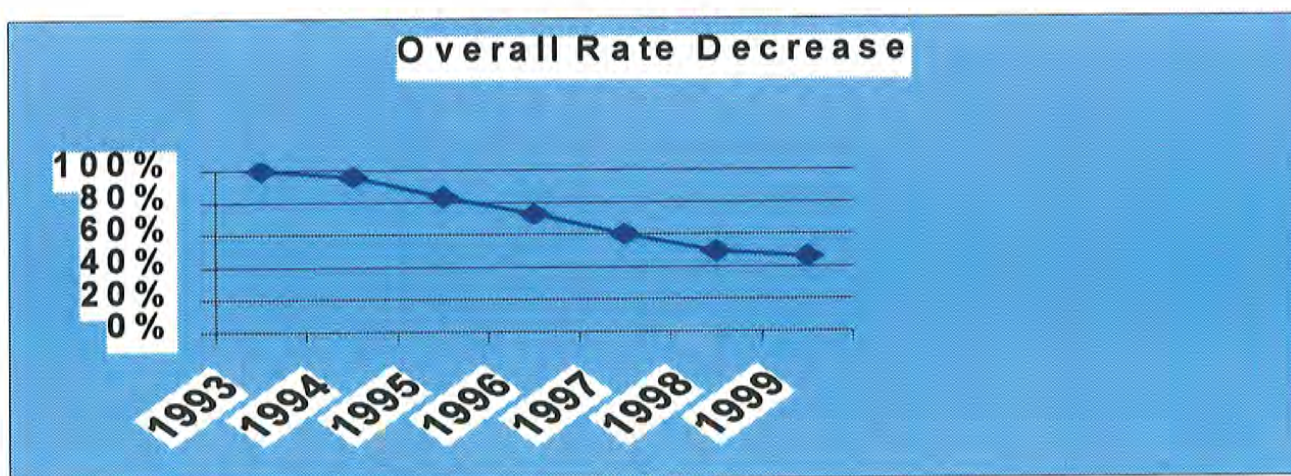
Exhibit IV



4) 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 differentiation in the manual rates. By law, maximum rates were established by the Superintendent 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) continues to make an annual advisory filing of pure premium rates, which are rates for losses and loss adjustment expenses, excluding all other expenses and profit provisions. NCCI has made two filings which are currently pending before this bureau for an aggregate increase of 13.3% effective January 1, 2000. Overall, since 1994 the cumulative impact of these rate reductions is a 43.4% decrease in loss cost rates. Exhibit V details the decrease. If the pending increase is approved, the 43.4 % decrease will have to be recalculated.

Exhibit V



As of November 1999, 149 insurance carriers have filed and received approval from the Bureau to sell workers' compensation insurance in Maine at specified rates. Appendix B 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. For many classification codes, the wide range underscores the competitive nature of workers' compensation insurance in Maine and the importance of employers exploring options in securing coverage for workers' compensation claims.

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 reentering the Maine market specialize in underwriting employers in a specific industry such as wood products manufacturing (including logging), health care, trucking or construction.

A testimony to the success of recent reforms is highlighted in an annual report 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 as the 42nd most expensive state for workers' compensation for the manufacturing industry among the states studied. We were ranked 30th in 1997. In 1998, we moved down to the 23rd position. In 1999 we returned to the 30th position.

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

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

Tiered rating provides a means for an individual carrier to offer more than one set of base rates. The carrier develops the underwriting criteria applicable to each tier and files the criteria and rates which are then reviewed to assure that they are not unfairly discriminatory.

Over 70 percent of the insurance companies with filed rates 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 25%.

Indications are that retrospective rating plans are being utilized in Maine. Retrospective rating means that an employer's final premium is a direct function of their 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, several companies offer large deductible plans in Maine where 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 advantages of this product are that the employer receives a discount for assuming some of the risk and it offers an alternative to self-insurance.

6) Self-Insurance

Self-insurance represents a significant part of Maine's workers' compensation market and is a viable alternative to commercial insurance for many employers in the State. There are 20 groups representing approximately 1,350 employers and 101 individual self-insured employers in Maine, many of which have become self-insured since 1988. Since 1985 the self-insurers' estimated standard premium has grown from more than \$52 million to about \$122 million. In terms of annual standard premium, self-insureds now represent approximately 49% of the workers' compensation market. The growth in self-insurance has slowed in the last few years and some former self-insured employers have returned to the commercial market. Some carriers have filed rating plans to allow them to assume the balance of a self-insurer's existing exposure and transition into a fully insured program.

7) Conclusion

The loss experience of insurers writing workers' compensation insurance in Maine has deteriorated in recent years and the first proposed rate increase for loss costs since the 1992 reform is currently under review.

A measure of market competition is market concentration. The trend in the Maine workers' compensation market is that more companies have a share of the market. Although this process has been deliberate, it shows a positive growth with less concentration.

The range among workers' compensation rates, the number of carriers in the market place and the overall decline in rate levels between 1994 and 1999, all indicate that Maine's workers' compensation market is healthier. Many employers have greater options and lower costs, and market competition has significantly improved.

Appendix A

10 Largest Insurance Groups For the Years 1994 through 1998.

1994	1995	1996	1997	1998
1 ME Employers' Mutual	ME Employers' Mutual	ME Employers' Mutual	ME Employers' Mutual	ME Employers' Mutual
2 Commercial Union	WR Berkley	WR Berkley	WR Berkley	WR Berkley
3 WR Berkley	Commercial Union	Allmerica Financial	Allmerica Financial	Allmerica Financial
4 Allmerica Financial	Allmerica Financial	Commercial Union	Commercial Union	Commercial Union
5 Zurich	Zurich	Zurich	Liberty	Liberty
6 Aetna	Acceptance	Netherlands	Zurich	Zurich
7 Acceptance	Netherlands	Acceptance	Netherlands	GRE
8 Netherlands	Reliance	Liberty	Citigroup	Nationwide
9 Royal	ST Paul	Royal	Nationwide	Citigroup
10 Liberty	Star	Nationwide	Hartford	Orion

Appendix B

MEMIC Standard Rate Verse the Lowest Available Rate

CLASS CODE	DESCRIPTION	MEMIC		INDUSTRY	
		STANDARD		LOW	
2111	CANNERY	\$	5.10	\$	2.76
2286	WOOL SPINNING &WEAVING	\$	4.93	\$	2.66
2501	CLOTHING MANUFACTURING	\$	4.20	\$	2.27
2660	BOOT OR SHOE MANUFACTURING	\$	7.13	\$	3.85
2702	LOGGING OR LUMBERING	\$	35.73	\$	19.32
2709	MECHANIZED LOGGING	\$	10.77	\$	5.82
2710	SAW MILL	\$	10.81	\$	5.84
2721	CERTIFIED LOGGING	\$	10.54	\$	5.70
2841	WOODENWARE MANUFACTURING	\$	7.71	\$	4.17
3629	PRECISION MACHINED PARTS MFG	\$	2.86	\$	1.54
3632	MACHINE SHOP	\$	4.47	\$	2.41
3681	TV,RADIO,TELE OR TELECOM DEVICE MFG	\$	2.00	\$	1.08
3724	MACHINERY OR EQUIP ERECTION OR REP	\$	17.88	\$	9.67
4207	PULP MFG	\$	1.65	\$	0.89
4239	PAPER MFG	\$	3.82	\$	2.07
4279	PAPER GOODS MFG	\$	3.47	\$	1.88
4299	PRINTING	\$	3.00	\$	1.62
4361	PHOTOGRAPHERS	\$	2.80	\$	1.51
4484	PLASTICS MFG: MOLDED PRODUCTS	\$	4.49	\$	2.43
4511	ANALYTICAL CHEMIST	\$	1.75	\$	0.95
4693	PHARMACEUTICAL/SURGICAL GOODS MFG	\$	2.63	\$	1.42
5183	PLUMBING	\$	6.45	\$	3.49
5190	ELECTRICAL WIRING WITHIN BUILDINGS	\$	4.55	\$	2.46
5191	OFFICE MACHINE OR APPLIANCE INSTAL	\$	1.16	\$	0.63
5506	STREET CONSTRUCTION PAVING	\$	7.57	\$	4.10
5538	SHEET METAL WORK	\$	7.39	\$	4.00
5606	CONTRACTOR EXECUTIVE SUPERVISOR	\$	3.02	\$	1.64
5645	CARPENTRY DETACHED 1 OR 2 FAMILY	\$	11.06	\$	5.98
6217	EXCAVATION	\$	10.09	\$	5.46
7228	TRUCKING LOCAL	\$	15.95	\$	8.62
7229	TRUCKING LONG DISTANCE	\$	15.95	\$	8.62
7380	DRIVERS	\$	9.63	\$	5.21
7539	ELECTRIC LIGHT OR POWER CO.	\$	4.44	\$	2.40
7600	TELEPHONE OR TELEGRAPH CO.	\$	6.01	\$	2.94
7610	RADIO OR TELEVISION BROADCASTING	\$	0.57	\$	0.28
7720	POLICE OFFICER	\$	4.66	\$	2.00
8006	STORE: GROCERY/CONVENIENCE RETAIL	\$	2.70	\$	1.48

8008	STORE: CLOTHING/DRY GOODS RETAIL	\$	1.69	\$	0.79
8010	STORE: HARDWARE	\$	2.65	\$	1.26
8017	STORE: RETAIL NOC	\$	2.11	\$	1.30
8018	STORE: WHOLESALE NOC	\$	6.79	\$	3.11
8024	SEAFOOD DEALER WHOLESALE	\$	8.78	\$	4.94
8033	STORE: MEAT, GROCERY AND PROVISION	\$	2.69	\$	1.32
8039	STORE: DEPARTMENT-RETAIL	\$	3.19	\$	1.42
8044	STORE: FURNITURE	\$	4.06	\$	2.13
8058	BUILDING MATERIAL DEALER-NEW MAT.	\$	3.09	\$	1.51
8107	MACHINERY DEALER	\$	4.83	\$	2.55
8227	CONSTRUCTION PERMANENT YARD	\$	6.82	\$	3.91
8232	LUMBERYARD NEW MAT. WHOLESALE	\$	4.12	\$	2.23
8350	GASOLINE DEALERS	\$	5.73	\$	2.64
8380	AUTO SERVICE OR REPAIR CENTER	\$	4.55	\$	2.41
8601	ARCHITECT OR ENGINEER CONSULTING	\$	1.13	\$	0.59
8742	SALESPERSONS, COLLECTORS	\$	0.97	\$	0.60
8803	AUDITORS, ACCOUNTANT TRAVELING	\$	0.36	\$	0.20
8810	CLERICAL OFFICE EMPLOYEES	\$	0.76	\$	0.39
8820	ATTORNEY	\$	1.18	\$	0.54
8829	CONVALESCENT OR NURSING HOME	\$	6.54	\$	2.76
8832	PHYSICIAN	\$	0.87	\$	0.39
8833	HOSPITAL PROFESSIONAL EMPLOYEES	\$	1.81	\$	0.98
8835	NURSING-H.H., PUBLIC&TRAVELING	\$	4.05	\$	2.07
8861	CHARITABLE OR WELFARE ORGAN. PROF.	\$	0.71	\$	0.47
8868	COLLEGE: PROFESSIONAL EMPLOYEES	\$	0.71	\$	0.47
8901	TELEPHONE OR TELEG CO. OFFICE	\$	0.45	\$	0.25
9014	BUILDINGS OPER. BY CONTRACTORS	\$	5.57	\$	2.75
9015	BUILDING OPER. BY OWNER	\$	6.45	\$	3.62
9040	HOSPITAL ALL OTHER EMPLOYEES	\$	4.48	\$	2.33
9052	HOTEL: ALL OTHER EMPLOYEES	\$	3.40	\$	1.91
9058	HOTEL: RESTAURANT EMPLOYEES	\$	2.83	\$	1.28
9060	CLUB-COUNTRY, GOLF, FISHING OR YACHT	\$	2.70	\$	1.35
9063	YMCA, YWCA, YMHA, OR YWHA	\$	1.44	\$	0.74
9079	RESTAURANT	\$	2.80	\$	1.49
9101	COLLEGE: ALL OTHER EMPLOYEES	\$	3.53	\$	2.01
6824F	BOAT BUILDING OR REPAIR	\$	5.95	\$	3.91