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 1, 2000

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Table of Contents

Introduction

This is the seventh annual report on the status of competition in Maine's workers' compensation insurance market. The report, required under Title 24-A M.R.S.A. §2383-A, looks at 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 overhead expenses, taxes, contingencies, investment income and profit. Insurers may use different multipliers for companies judged to be at different risk levels. Other factors such as experience rating and premium discounts affect the final premium paid by an individual employer.

Prior to this year, advisory loss costs declined for six consecutive years. The most recent advisory loss costs—approved for use on March 8, 2000—increased by 10.3 percent. Reasons for the increase were projected loss experience, increased statutory benefits for permanent partial impairment claims, and a prior data reporting error. A new loss cost filing was recently received from NCCI and is in the process of being reviewed. The market is showing signs of changing.

In theory, the insurance industry would be considered competitive if a large number of firms sell the product and each individual firm's market share is small enough so that no firm is able to affect the price of the product. Additionally, there would be no barriers to new firms entering the market. Using these criteria, the market remains competitive; new insurers continue to enter the market and market concentration is decreasing. However, when looking at ratios as indicators of pricing, rates for Maine employers are likely to increase in the upcoming year.

PART I. RECENT EXPERIENCE

Loss Ratios and the State of Competition

Workers' compensation claims 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, we have decided to report most information on an accident year basis. To better understand each basis of reporting information, here is a description of when each is used:

- Accident year experience measures the premiums and losses relating to accidents which occurred during a 12-month period. These statistics show 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. The trend line generated by the record of losses is an important tool for predicting future losses. Losses are organized according to the year in which the accident occurred.

- 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.

- 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 falling rates, increased availability, excess capacity, growing loss ratios, and diminished surplus. Maine's market over the past six to seven years could be characterized as 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. This ultimately restores their profitability and their surplus. This situation, in time, spurs another round of price-cutting, perpetuating the cycle.

Current data indicate that we may be about to begin a hardening of the market. Insurers nationwide are reducing credits and increasing premiums for workers compensation and other lines of insurance. The first advisory loss cost increase since 1993 was approved effective March 8, 2000. The accident year incurred loss ratio for 1999 is projected to be 116.9.

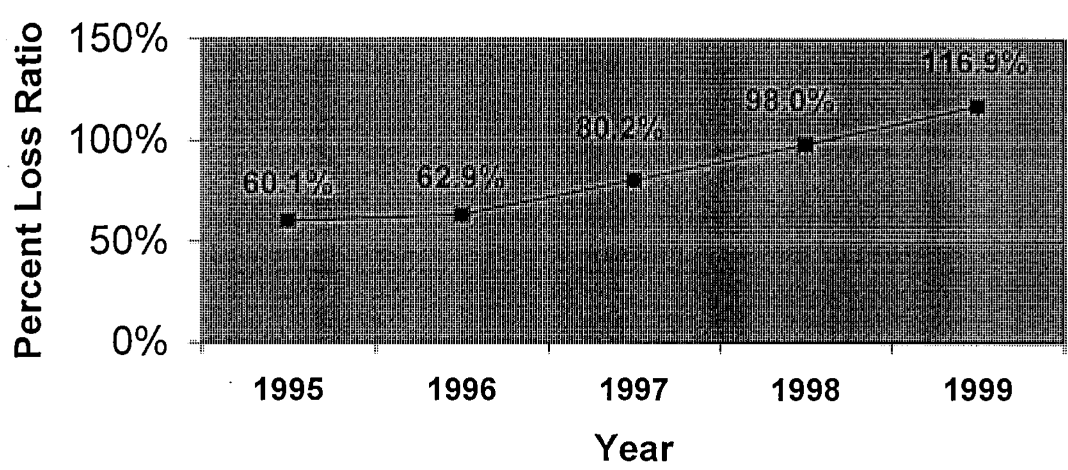
PART I. RECENT EXPERIENCE

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, below, shows the loss ratios for the past six years. In 1999, the loss ratio was 116.9, indicating that nearly $117 are expected to be paid for losses and loss adjustment expenses for every $100 earned in premium. A high accident year loss ratio is unsustainable, over the long run, for a solvent and profitable industry. This does not mean that all insurers are at risk because of it; individual companies may have lower, more reasonable loss ratios.

Loss ratios were in the 60 percent range following the 1992 law change. These ratios are relatively low and are due, most likely, to loss prevention and claims management practices of employers, combined with savings from the reduction of benefits that resulted from 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. NCCI proposed its first increase in advisory loss costs in a 1999 filing. A revised filing was subsequently approved for use beginning March 8, 2000.

Exhibit I. Accident Year Loss and Loss Adjustment Expense Ratios



Source: National Council on Compensation Insurance

PART I. RECENT EXPERIENCE

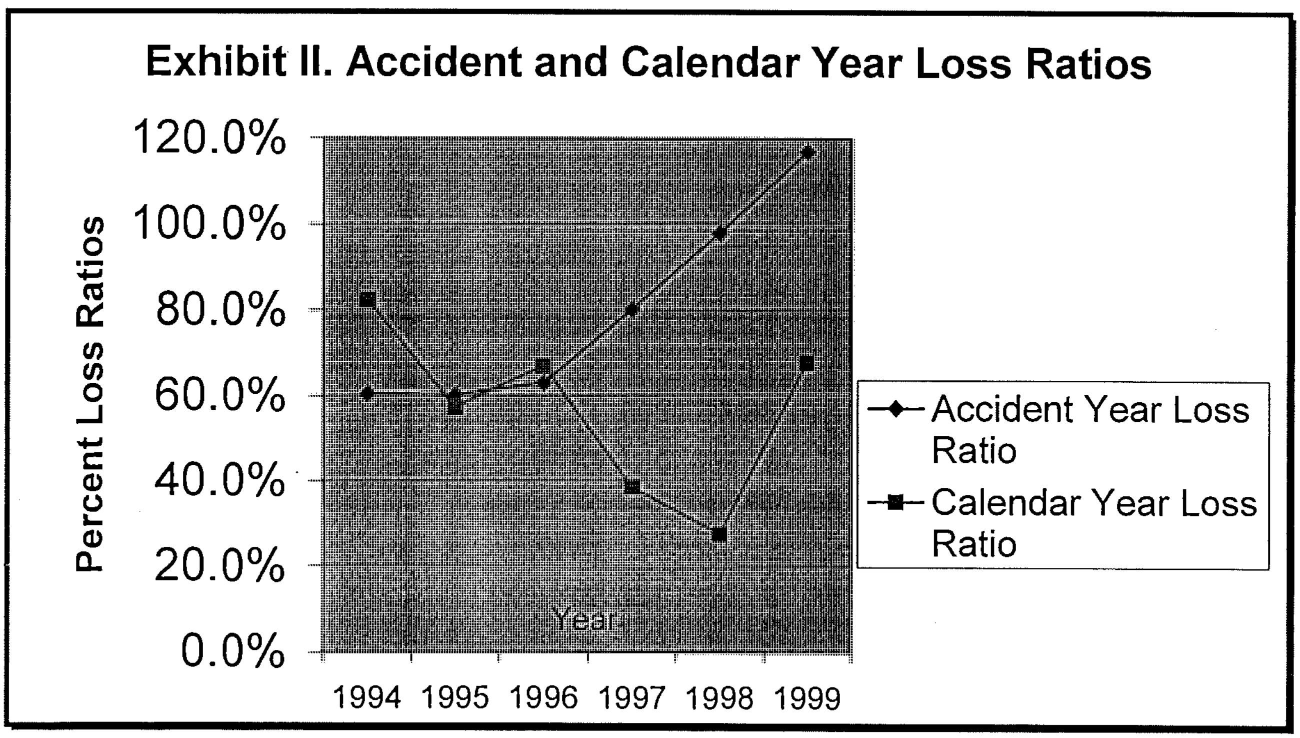
Calendar Year and Accident Year Loss Ratios

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. The ratios do not include amounts paid by insurers for general expenses and taxes, nor do they reflect investment income.

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. Only a small portion of the losses are attributable to premiums earned that year. The calendar year loss ratios reflect payments and reserve adjustments 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.

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.

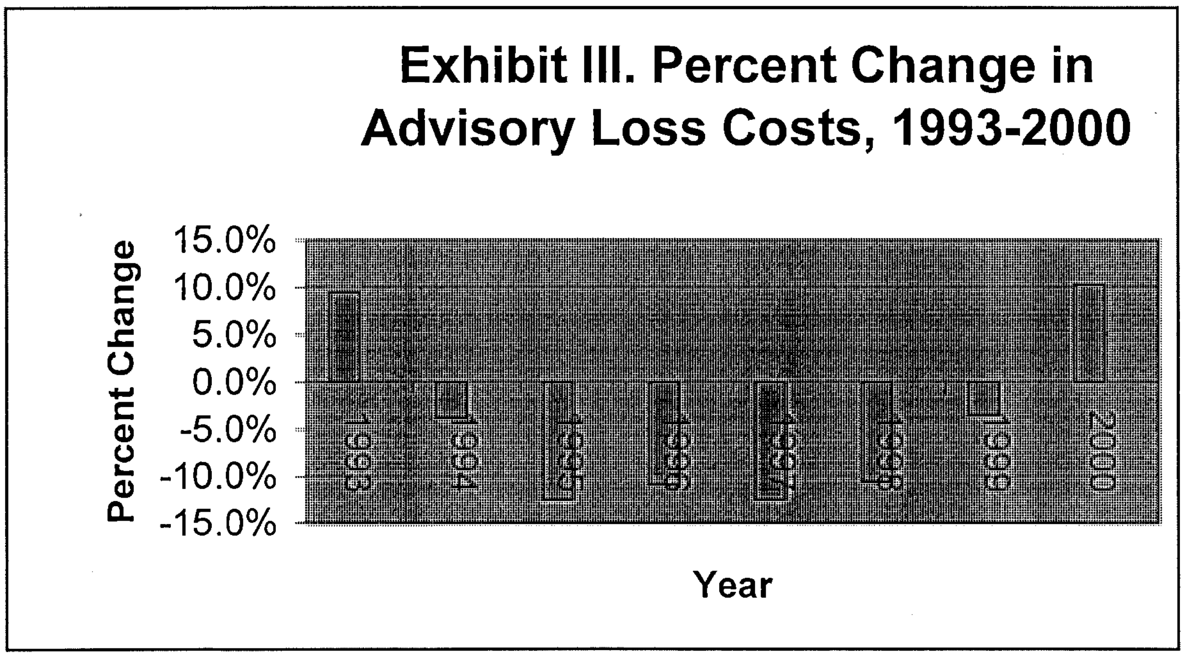
Both loss ratios are now heading upward. From 1994 through 1999, advisory loss costs were lowered, the market became more competitive, and rates charged by insurers decreased. Premiums decreased and the accident year loss ratios increased. In 1997 and 1998, indemnity losses increased while rates continued to decrease. In 1999, the accident year loss ratio was nearly 117, indicating that $117 was paid or was expected to be paid in losses and loss adjustment expenses for every $100 earned in premium.



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. They 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.

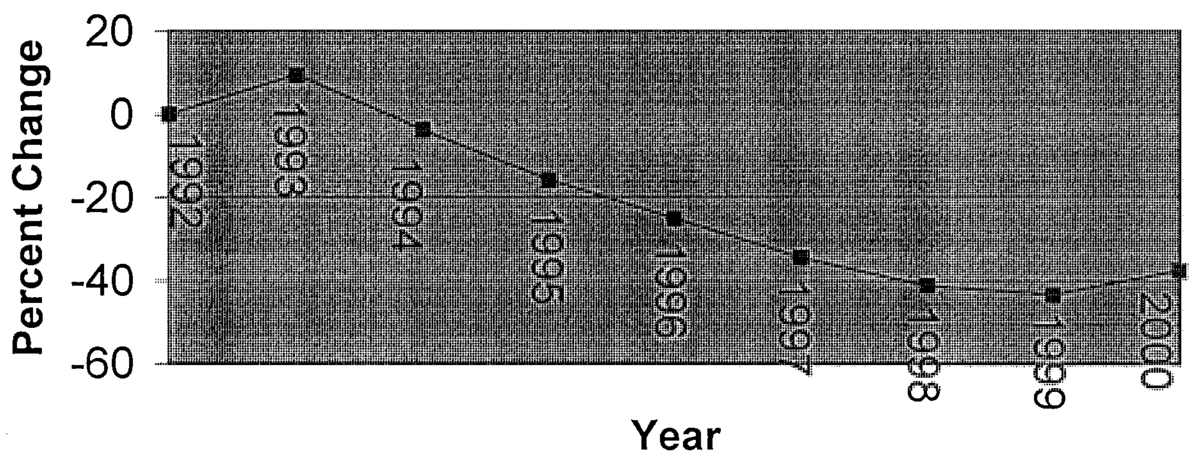
Exhibit III illustrates that prior to this year, we had seen six consecutive decreases in advisory loss costs. This translated into lower premiums for Maine employers. On March 8, 2000, an increase in the advisory loss costs took affect. This was due to loss experience, to an increase in permanent partial impairment benefits, and to an adjustment to correct a prior data-reporting problem. Changes in advisory loss costs tend to lag behind changes in actual experience and precede changes in rates.



Cumulative Changes in Advisory Loss Costs

Despite an increase earlier this year, advisory loss costs have decreased by over 37 percent since 1992. In 1999, advisory loss costs were over 43 percent lower than in 1992, representing a significant savings to Maine's employers. On October 30, 2000, the National Council on Compensation Insurance filed for a 1.9 percent overall increase in advisory loss costs. If approved, some classifications would have higher increases and some would have decreases in the advisory loss cost portion of the rates. This filing is currently under review.

Exhibit IV. Cumulative Change in Advisory Loss Costs Since 1992



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. 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. Because MEMIC also serves as the market of last resort, it maintains the highest market share of all insurance carriers operating in Maine.

There are 208 companies with authority to write workers' compensation coverage in Maine. Looking at the 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 1999.

Table I: Number of Companies by Level of Written Premium--1999

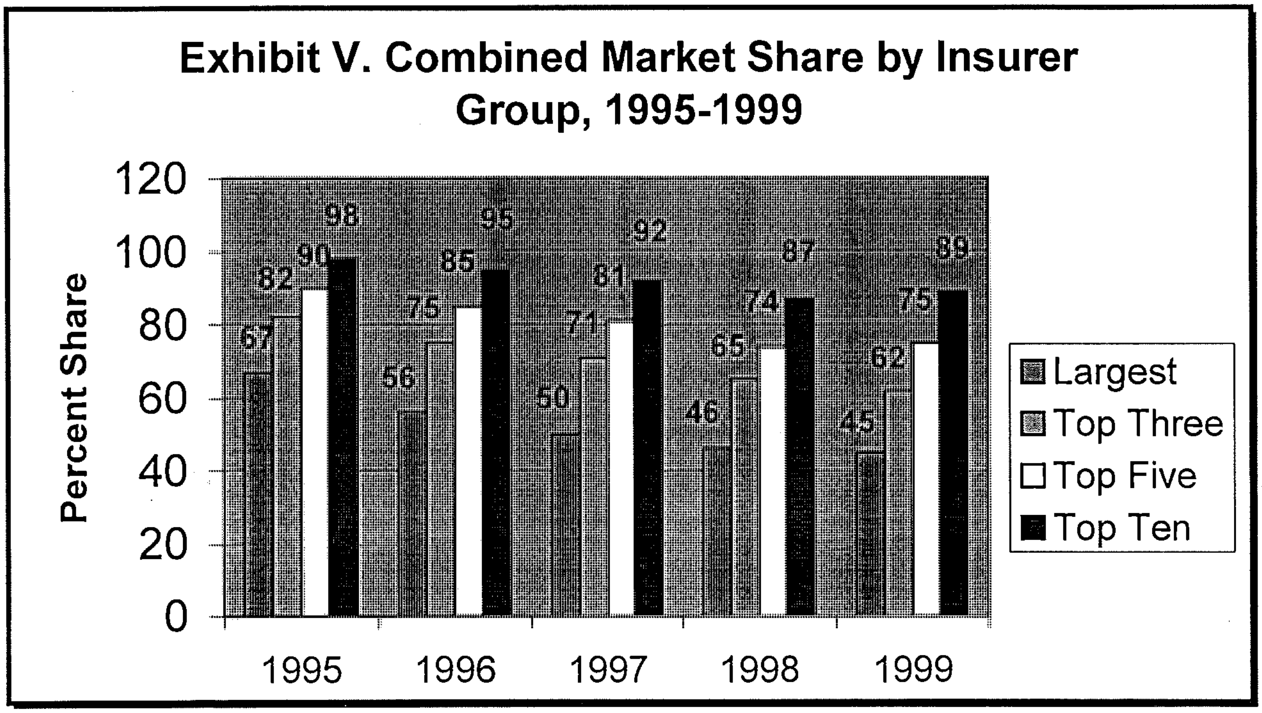
Amount of Written Premium	Number of Companies At That Level
>$10,000	107
>$100,000	79
>$1,000,000	21

Source: Annual Reports Supplied by Insurance Carriers

Looking only at market concentration gives an incomplete picture of market competition. A discussion of self-insurance, found in the Alternatives to the Insurance Market section, gives a more balanced picture.

Combined Market Share

Exhibit V illustrates the percent market share of the largest insurer—in terms of written premium—as well as the percent market share for the top three, top five and top ten groups. Maine Employers' Mutual Insurance Company (MEMIC) has the largest market share, though their share fell from 67 percent of the market in 1995 to 45 percent in 1999. Other insurers in the top ten groups have picked up most of this business.



The difference between the percent share for the top ten groups and the percent for the largest was 31 percent in 1995. The difference is now 44 percent--the largest difference in the five-year period. Market share of the top ten groups fell 11 percent from 1995 to 1998; it rose by two percentage points, to 89 percent, in 1999. Other groups write only 11 percent of the premium for Maine insurers. To put this in dollar terms, MEMIC wrote over 62 million dollars in premium. The top three groups, including MEMIC, wrote nearly 86 million in business. The top five groups had over 104 million in written premium. The top ten groups wrote 123.7 million in premium. The remaining groups had written premium of just over 15.7 million dollars. No other group had at least two percent market share.

PART IV. DIFFERENCE IN RATES AND FACTORS AFFECTING RATES

Number of Carriers in the Maine Insurance Market, 1993-2000

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 small numbers. The largest influx occurred in 1996 and 1997, when 75 insurers entered or re-entered the market. During that time, 12 insurers exited the market. Since then, 30 new insurers became authorized to write workers' compensation insurance and no insurers have left the market. 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	197	10	0	10	5.3
2000	208	11	0	11	5.6

PART IV. DIFFERENCE IN RATES AND FACTORS AFFECTING RATES

The information in Table III shows market share by 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. An increase in MEMIC's market share could indicate that some employers are unable to get insurance in the voluntary market. To get a fuller picture, you would have to look at the number of employers insured with each carrier, also. Conversely, a decrease in MEMIC's market share could indicate that some employers have more options.

Table III: Percent Market Share for Top Ten Insurance Groups, By Amount of Written Premium, 1993-1999

Insurance Group	1999 Share	1998 Share	1997 Share	1996 Share	1995 Share	1994 Share	1993 Share
Maine Employers' Mutual	44.7	46.2	50.4	56.0	67.4	66.1	57.9
Allmerica Financial Corp.	9.1	8.8	9.9	9.3	4.9	6.5	14.5
WR Berkeley Corp.	7.7	9.5	10.3	9.4	8.8	7.4	4.4
Liberty Mutual Group	7.0	3.7	4.9	2.2	*	0.7	1.3
CGU Insurance Group	6.1	6.0	5.3	5.8	5.8	7.5	9.1
Royal & Sun Alliance USA[1]	4.7	*	*	1.4	0.5	0.8	0.8
GRE Insurance Group	2.9	3.0	*	*	*	*	*
Citigroup	2.4	2.1	2.2	*	*	*	*
Zurich Insurance Group	2.1	3.5	3.7	4.2	3.2	3.4	4.2
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	1.2
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	*	*
Aetna	*	*	*	*	*	2.9	3.4
Compensation Mutual	*	*	*	*	*	*	2.2
Reliance Group Inc.	*	*	*	*	1.9		

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.

PART IV. DIFFERENCE IN RATES AND FACTORS AFFECTING RATES

Table IV shows the percent of market share for the top ten carriers for each year from 1993 through 1999. MEMIC's market share has decreased steadily since 1995. Of the remaining carriers writing workers' compensation coverage in Maine, none has more than 7.6 percent of the market share. The top eleven companies write less than 75 percent of the business.

Table IV. Percent Market Share for Top Ten Insurance Carriers, By Amount of Written Premium, 1993-1999

Insurance Carrier	1999 Share	1998 Share	1997 Share	1996 Share	1995 Share	1994 Share	1993 Share
Maine Employers' Mutual	44.7	46.2	50.4	56.0	67.4	66.1	57.9
Acadia Insurance Company	7.6	9.1	10.3	9.4	8.6	7.4	4.4
Commercial Union/York[1]	4.6	3.1	1.4	2.1	2.0	4.6	7.1
Massachusetts Bay Ins. Co.	4.2	4.7	4.1	3.7	1.0	*	*
Citizens Insurance Co.	3.1	3.1	3.2	3.1	3.4	3.1	2.6
Liberty Mutual Fire Ins. Co	2.8	1.2	1.8	*	*	*	1.3
Connecticut Indemnity	2.2	1.3	*	*	*	*	*
Hanover Insurance Co.	1.8	*	2.5	2.5		2.2	11.1
Liberty Insurance Corp.	1.4	1.2	2.4	*	*	*	*
American Interstate Ins. Co	1.2	*	*	*	*	*	*
Travelers Indemnity Co.	1.2	1.2	*	*	*	*	*
American Employers Ins.	*	1.6	3.7	3.7	3.9	2.9	1.9
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.	*	*	*	*	1.5	*	*
Aetna Casualty & Surety	*	*	*	*	*	2.9	3.7
Maine Bonding	*	*	*	*	*	*	2.4
Compensation Mutual	*	*	*	*	*	*	2.2

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.

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 advisory filing decreases. The cumulative impact of these decreases was a 43 percent reduction in advisory loss costs. In 1999, NCCI made two filings calling for an aggregate increase of 13.3% in advisory loss costs. The Bureau of Insurance approved a 10.3 percent increase in loss costs, effective March 8, 2000. Overall, since 1994, advisory loss costs have fallen over 37 percent.

As of November 2000, 208 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 can 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. 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 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 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 we returned to the 30th position, and in 1999 Maine increased to 33rd of the 45 states for which data was reported. Five states that have state funds were not included in the rankings. The primary reason is that these funds have unique characteristics that could distort the results of the study.

PART IV. DIFFERENCE IN RATES AND FACTORS AFFECTING RATES

Table V: MEMIC Standard Rate and the Lowest Available Rate for Selected Classifications Effective March, 2000

Class Code	Description	MEMIC Standard Rate	Industry Low Rate
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	SAWMILL	$10.81	$5.84
2721	CERTIFIED LOGGING	$10.54	$5.70
2841	WOODEN WARE 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/ TELECOM DEVICE MFG	$2.00	$1.08
3724	MACHINERY/ 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	PHARMACEUTCL/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	SHEETMETAL 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 LONGDISTANCE	$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

Table V: MEMIC Standard Rate and the Lowest Available Rate for Selected Classifications Effective March, 2000 (Continued)

Class Code	Description	MEMIC Standard Rate	Industry Low Rate
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: RETAILNOC	$2.11	$1.30
8018	STORE: WHOLESALENOC	$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-NEWMAT.	$3.09	$1.51
8107	MACHINERY DEALER	$4.83	$2.55
8227	CONSTRUCTION PERMANENT YARD	$6.82	$3.91
8232	LUMBER YARD 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	BUILDING 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	BOATBUILDING OR REPAIR	$5.95	$3.91

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. Employer 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 half of the groups offer tiered rating. When looking at companies, 116 of the 155 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. Over 76 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 twenty six 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-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. With over 45 percent of the market self-insured (looking at estimated standard premium), a review of competition without considering self-insurance is incomplete.

The percent of the total workers' compensation insurance market represented by self-insureds[1], has dropped slightly, however, from 49 percent in 1998 to 45.4 percent in 1999. This is its lowest level since 1993. 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. A greater market share in self-insurance could indicate a perception by insureds that premiums in the insurance market are too high.

During this same time period, the estimated standard premium for self-insureds shrank from $204 million to $116 million. The estimated standard premium is determined by taking the manual rate and multiplying it by a loss cost multiplier of 1.2, as specified in statute. Keep in mind that as advisory loss costs, and hence rates, decline, so does the estimated standard premium. Since an increase in advisory loss costs was approved in March of 1999, the estimated standard premium will increase in 2000, barring no further decline in the number of self-insured employers.

As of December, 1999, there were 19 groups representing approximately 1,247 employers as well as 98 individual self-insured employers in Maine. Some former self-insured employers returned to the commercial market in 1999; however, the number of individually self-insured employers has increased during this year.

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)[2]
2000	19	-	106	N/A	N/A
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

[1] For the purposes of self-insurance, affiliated employers are considered separate employers. N/A indicates that the information is not available.
[2] 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. That figure is then multiplied by 100.

Conclusion

The loss experience of insurers writing workers' compensation insurance in Maine is beginning to increase faster than payroll. The first increase in advisory loss costs since the 1992 reform occurred in March of this year. A small increase has been requested for 2001.

Many insurance options still exist and no one insurer or insurance group dominates the market. MEMIC's market share, in terms of written premium, dropped from 67.4 percent in 1995 to 44.7 percent in 1999. Twenty-one companies had more than one million dollars in written premium in 1999.

The range among workers' compensation rates, the number of carriers in the marketplace, and the overall decline in rate levels since 1994, indicate that Maine's workers' compensation market is much healthier than it was in the early to mid-1990s. Employers that maintain a safe work environment and control their losses will continue to have options.