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

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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.

Prior to the year 2000, advisory loss costs had declined for six consecutive years. This was followed by two years of increases in the advisory loss costs and then another decrease. Despite decreases in the advisory loss costs, 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 already filed to increase their loss cost multipliers. Another factor responsible for market hardening is that gains from the release of excess reserves in prior years are no longer available.

As a result of the events of September 11, 2001, the National Council on Compensation Insurance filed on December 21, 2001 on behalf of insurance carriers a request for a four percent catastrophe load to be added to rates for all Maine insurance policies. This filing was disapproved by the Bureau of Insurance. At the current time, the federal government is still considering a federal reinsurance backstop for certain acts of terrorism, which would provide federal assistance to insurance companies to defray the costs of such catastrophic events that are difficult to predict and build into insurance rates. A consequence of the September 11 attacks is that reinsurance cover for terrorist acts has become more scarce and reinsurers are increasing rates for reinsurance coverage to better match the risk exposure. 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. The Bureau of Insurance does not regulate the rates of reinsurance business. Absent a federal reinsurance backstop, an event similar to September 11th could threaten the solvency of insurers providing workers' compensation coverage.

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 market concentration did increase in years 2000 and 2001, compared to the two prior years, there are still many insurers writing workers' compensation coverage in Maine. Maine Employer's Mutual Insurance Company's (MEMIC) market share remained stable at approximately 51 percent in 2001.

Although the market remains competitive, 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. Rates for some employers will increase again next year. On October 23, 2002, the National Council on Compensation Insurance (NCCI) filed for a 5.3 percent overall increase in advisory loss costs effective January 1, 2003. As of the date of publication, that filing is under review by the Bureau of Insurance.

Loss Ratios and the State of Competition

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

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

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

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

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

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 little 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 two years.

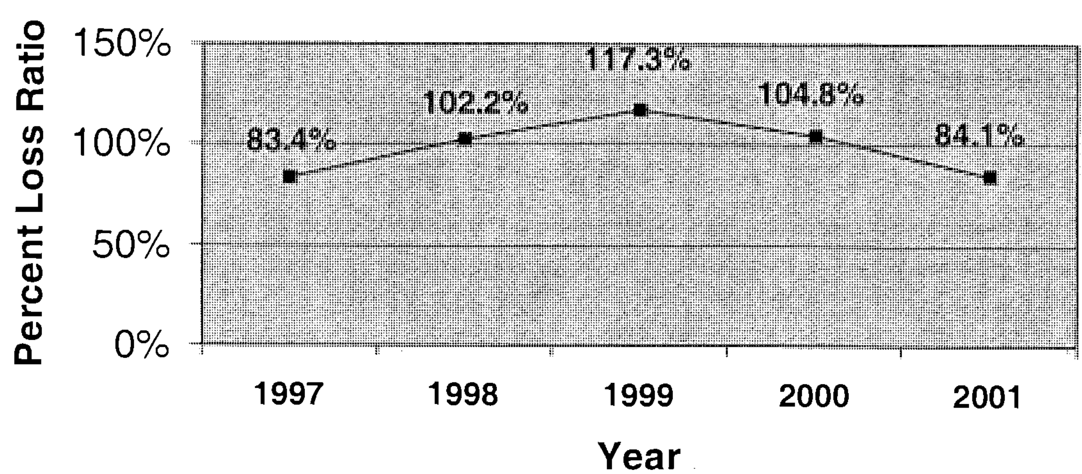
Insurers nationwide are reducing credits and increasing premiums for workers compensation and other lines of insurance. The accident year incurred loss ratio for 2001 was 84.1. For 2000 the ratio was 104.8. Loss ratios that exceed 100 mean that insurers are paying out more in benefits than they collect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

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 2001 loss ratio was 84.1, indicating that $84 is expected to be paid for losses and loss adjustment expenses for every $100 earned in premium. The 2000 loss ratio was 104.8. These ratios are down from a five year high of 117.3 in 1999. Currently, investment income is insufficient to offset high loss ratios. The decreasing loss ratio in 2001 is a result of increased rates which will eventually restore profits.

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 and 2001 resulting, in part, in increased premiums and an increased denominator for the loss ratio.

Exhibit I. Accident Year Loss and Loss Adjustment Expense Ratios



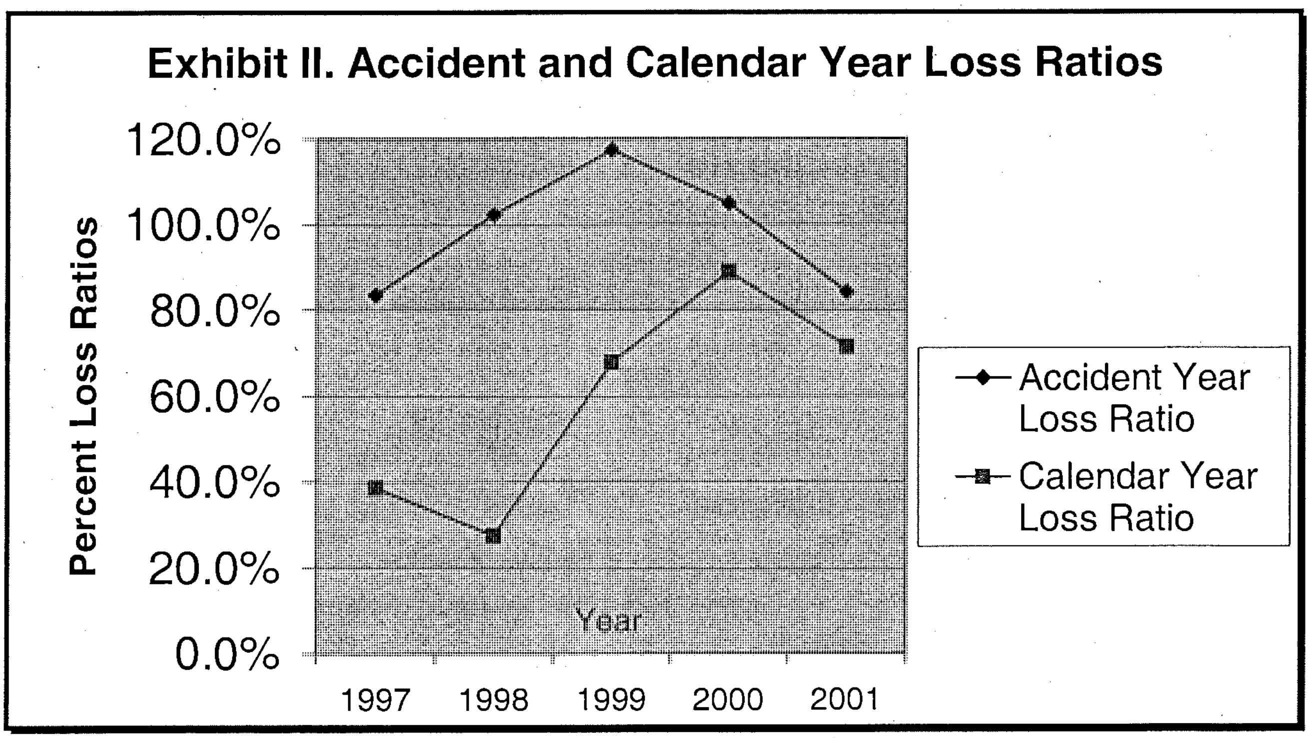
Source: National Council on Compensation Insurance

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 117.3, indicating that $117 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 104.8. Premiums earned by Maine insurers increased from less than $135 million in 1999 to over $189 million in 2001 and the accident year loss ratio decreased 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.

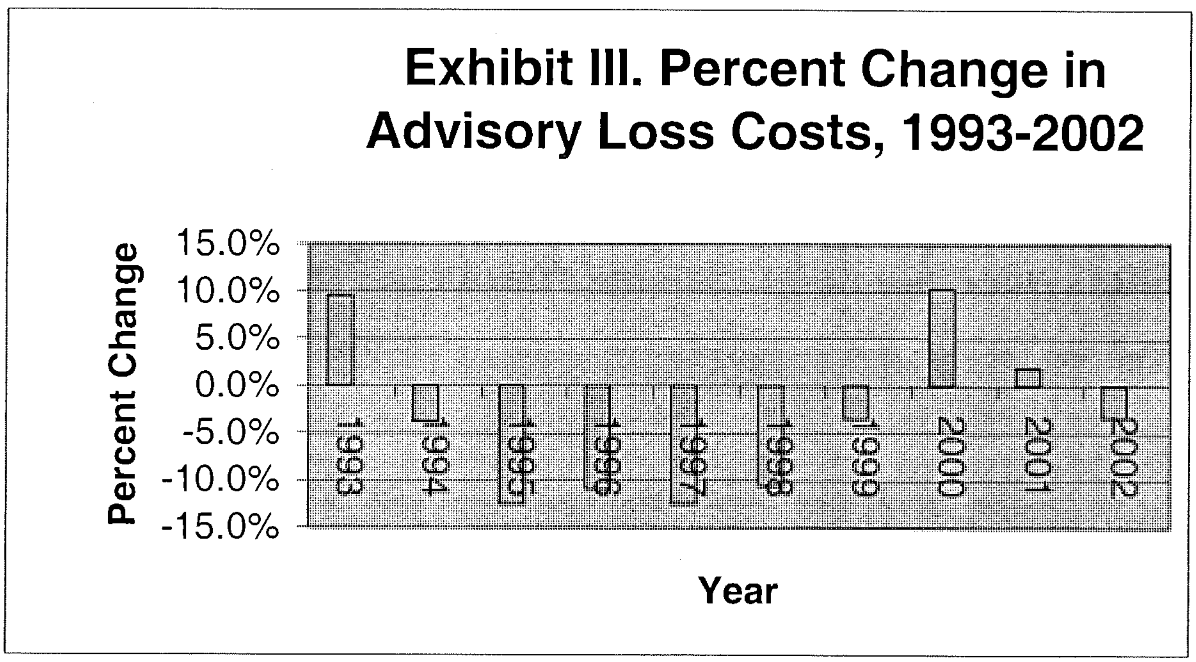


Source: National Council on Compensation Insurance

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. NCCI has recently filed for a 5.3 percent increase effective January 1, 2003, and the filing is currently being reviewed by the Bureau of Insurance. Changes in advisory loss costs tend to lag behind changes in actual experience and precede changes in rates.

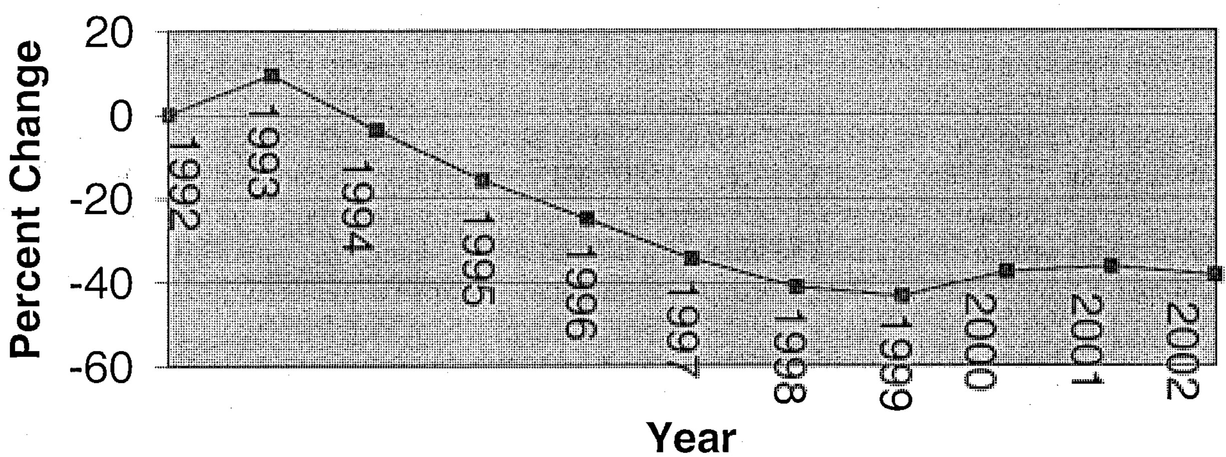


Source: National Council on Compensation Insurance

Cumulative Changes in Advisory Loss Costs

Advisory loss costs in 2002 are more than 38 percent lower than they were a decade ago. Some classifications experience increases and others experience decreases in the advisory loss cost portion of the rates. In 1999, advisory loss costs reached their lowest point in many years. Since that point, they have risen five percent.

Exhibit IV. Cumulative Change in Advisory Loss Costs Since 1992



Source: National Council on Compensation Insurance

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, now exceeds 51 percent. As of October 1, 2002, 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 2001.

Table I: Number of Companies by Level of Written Premium--2001

Amount of Written Premium	Number of Companies At That Level
>$10,000	113
>$100,000	83
>$1,000,000	28

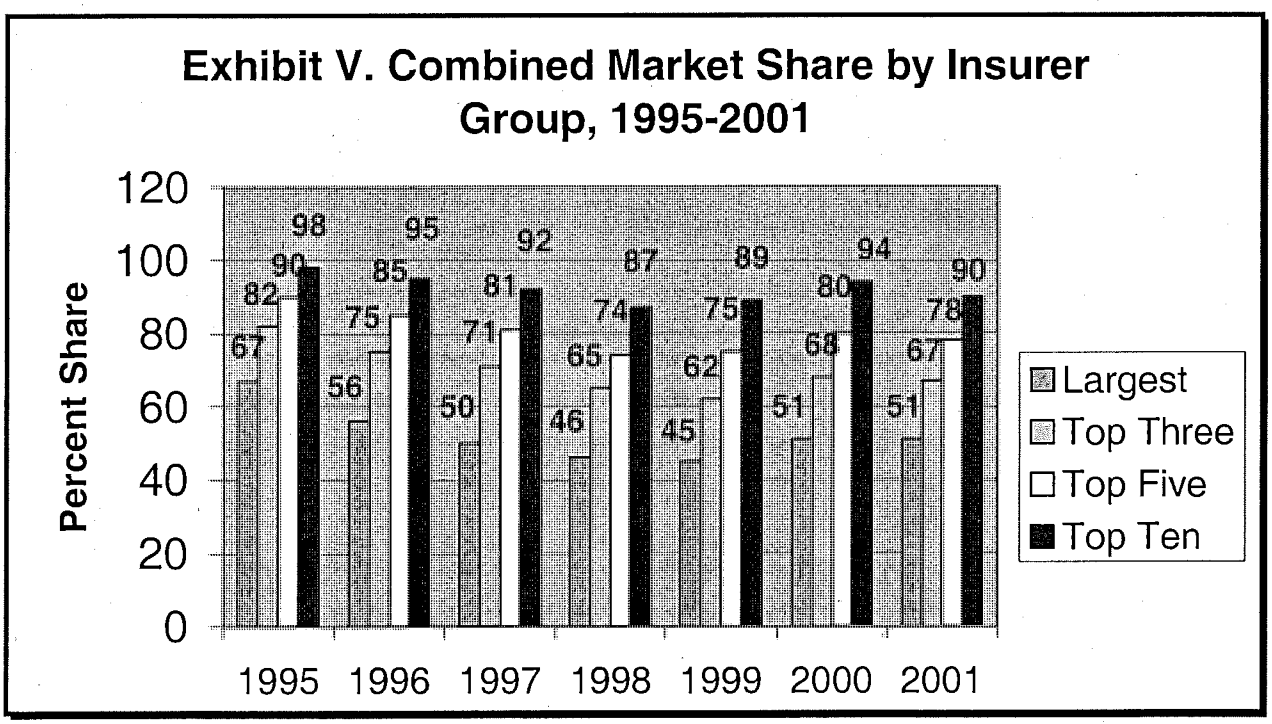
Source: Annual Statements Filed with the Bureau of Insurance

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 reversed in 2000 and, for the second year in a row, MEMIC held 51 percent of the market share.

In 2001, market share of the top ten insurer groups fell by four percent. Other groups wrote just ten percent of the workers' compensation premium in Maine but achieved a slightly greater market share. In terms of dollar amounts, MEMIC wrote nearly $105 million in premium in 2001, $17 million more than it did in the previous year. The top three groups, including MEMIC, wrote over $136 million in business, $18 million more than in 2000. The top five groups had over $159 million in written premium, $21 million above the prior year. The top ten groups wrote nearly $184 million in premium in 2001, over $21 million more than in 2000. The remaining groups had written premium of around twenty million dollars, up $10 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, 1995-2001

Insurance Group	2001 Share	2000 Share	1999 Share	1998 Share	1997 Share	1996 Share	1995 Share
Maine Employers' Mutual	51.5	51.2	44.7	46.2	50.4	56.0	67.4
Liberty Mutual Group	7.9	9.5	7.0	3.7	4.9	2.2	*
WR Berkeley Corp.	7.4	7.5	7.7	9.5	10.3	9.4	8.8
Royal & Sun Alliance USA[1]	6.1	5.0	4.7	*	*	1.4	0.5
Allmerica Financial Corp.	5.4	6.4	9.1	8.8	9.9	9.3	4.9
White Mountains Group[2]	4.5	5.3	6.1	6.0	5.3	5.8	5.8
Guard Insurance Group	2.7	2.2	*	*	*	*	*
Zurich Insurance Group	2.0	2.2	2.1	3.5	3.7	4.2	3.2
CNA Insurance Group	1.4	*	1.9	*	*	*	*
Amerisafe Group	1.4	2.2	*	*	*	*	*
Lumbermen's Mutual Casualty Group	1.3	*	*	*	*	*	*
Citigroup	1.2	2.6	2.4	2.1	2.2	*	*
St. Paul Group	1.1	*	*	*	*	*	0.5
ACE Ltd	1.0	*	*	*	*	*	*
Hartford Fire & Casualty	1.0	*	*	*	1.4	*	*
Star Insurance Group	0.6	*	*	*	*	*	0.5
Sentry Insurance Group	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

Table IV shows the percent of market share for the top ten carriers for each calendar year from 1995 through 2001. MEMIC's market share increased by 6.5% from 1999 to 2000, an indication of market hardening. Its market share remained at over 51 percent in 2001, indicating that some employers may be having difficulty getting insurance coverage elsewhere. No other workers' compensation carrier accounts for more than seven percent of market share. The top ten companies combined write 76 percent of the business.

Table IV. Percent Market Share for Top Ten Insurance Carriers, By Amount of Written Premium, 1995-2001

Insurance Carrier	2001 Share	2000 Share	1999 Share	1998 Share	1997 Share	1996 Share	1995 Share
Maine Employers' Mutual	51.5	51.2	44.7	46.2	50.4	56.0	67.4
Acadia Insurance Company	6.8	7.0	7.6	9.1	10.3	9.4	8.6
Commercial Union/York[1]	3.8	4.4	4.6	3.1	1.4	2.1	2.0
Hanover Insurance Co.	3.3	2.5	1.8	*	2.5	2.5	
Security Ins. Co. of Hartford	2.7	1.6	*	*	*	*	*
Norguard	2.0	1.3					
Citizens Insurance Co.	1.7	2.5	3.1	3.1	3.2	3.1	3.4
Peerless Ins. Co.	1.5	*	*	*	*	1.6	1.8
American Interstate Ins. Co	1.4	2.2	1.2	*	*	*	*
Liberty Insurance Corp.	1.3	*	1.4	1.2	2.4	*	*
Excelsior	1.1						
Employer's Ins. Of Wausau	1.1	*	*	1.2	*	*	*
Fire & Casualty Co. of CT.	1.0						
Liberty Mutual Ins. Co	0.9						
Royal Indemnity	0.8	*	*	1.5	*	*	*
Northern Ins. Co. of N.Y.	0.7	*	*	*	1.7	1.5	*
Liberty Mutual Fire Ins Co	0.7	2.8	2.8	1.2	1.8	*	*
Amguard	0.6						
Netherlands	0.6	*	*	1.2	*	*	*
Cadillac Mountain	0.6						
Travelers Insurance Co.	0.6						
St. Paul Fire & Marine Ins.	0.6						

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 One Beacon.

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. The Bureau approved a 10.3 percent increase in loss costs, effective March 8, 2000. A 1.9 percent increase in overall advisory loss costs was approved effective January 1, 2001. The Bureau approved a filing for a 3.4 percent decrease effective January 1, 2002. Advisory loss costs have fallen over 38 percent since 1992. Under consideration now is a proposed 5.3 percent increase, to be effective January 1, 2003.

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.

An annual report ranking state workers' compensation costs is compiled by Actuarial & Technical Solutions, Inc., an independent firm which compiles and studies workers' compensation on a nationwide basis. In 1996, the study ranked Maine the 42nd most expensive state for workers' compensation insurance in the manufacturing industry. Maine's rank dropped considerably over the next two years to 23rd in 1998. Our rank then rose over each of the next three years and in 2001 Maine had climbed to the 39th position. According to a recently released report for 2002, Maine is now 35th in terms of comparative costs in the manufacturing industry.

Table V: MEMIC Standard Rate and the Lowest Available Rate for Selected Classifications Effective January 1, 2002			
Class Code	**Description**	**MEMIC Standard Rate**	**Industry Low Rate**
2111	CANNERY	$5.57	$3.56
2286	WOOL SPINNING & WEAVING	$8.95	$4.22
2501	CLOTHING MANUFACTURING	$4.49	$2.58
2660	BOOT OR SHOE MANUFACTURING	$4.54	$3.29
2702	LOGGING OR LUMBERING	$33.39	$19.98
2709	MECHANIZED LOGGING	$9.38	$6.77
2710	SAWMILL	$13.78	$8.20
2721	CERTIFIED LOGGING	$18.58	$9.00
2841	WOODEN WARE MANUFACTURING	$6.59	$4.32
3629	PRECISION MACHINED PARTS MFG	$3.70	$2.02
3632	MACHINE SHOP	$5.54	$2.98
3681	TV, RADIO, TELE/ TELECOM DEVICE MFG	$2.73	$1.51
3724	MACHINERY/ EQUIP ERECTION OR REP	$16.56	$8.01
4207	PULP MFG	$1.81	$1.12
4239	PAPER MFG	$3.42	$2.13
4279	PAPER GOODS MFG	$3.95	$2.58
4299	PRINTING	$3.88	$2.30
4361	PHOTOGRAPHERS	$2.58	$1.66
4484	PLASTICS MFG: MOLDED PRODUCTS	$4.76	$2.69
4511	ANALYTICAL CHEMIST	$1.26	$0.70
4693	PHARMACEUTCL/SURGICAL GOODS MFG	$3.42	$1.82
5183	PLUMBING	$7.28	$4.30
5190	ELECTRICAL WIRING WITHIN BUILDINGS	$4.80	$3.35
5191	OFFICE MACHINE OR APPLIANCE INSTAL	$1.53	$0.80
5506	STREET CONSTRUCTION PAVING	$9.84	$4.89
5538	SHEETMETAL WORK	$9.45	$5.04
5606	CONTRACTOR EXECUTIVE SUPERVISOR	$3.09	$1.71
5645	CARPENTRY DETACHED 1 OR 2 FAMILY	$15.89	$9.13
6217	EXCAVATION	$12.19	$6.64
7228	TRUCKING LOCAL	$15.62	$10.55
7229	TRUCKING LONGDISTANCE	$15.27	$8.59
7380	DRIVERS	$11.07	$6.19
7539	ELECTRIC LIGHT OR POWER CO.	$4.06	$3.17
7600	TELEPHONE OR TELEGRAPH CO.	$5.24	$2.93
7610	RADIO OR TELEVISION BROADCASTING	$0.38	$0.26
7720	POLICE OFFICER	$4.03	$2.62

Table V: MEMIC Standard Rate and the Lowest Available Rate for Selected Classifications Effective January 1, 2002 (Continued)			
Class Code	Description	MEMIC Standard Rate	Industry Low Rate
8006	STORE: GROCERY/CONVENIENCE RETAIL	$3.49	$1.83
8008	STORE: CLOTHING/DRY GOODS RETAIL	$1.46	$0.93
8010	STORE: HARDWARE	$2.30	$1.62
8017	STORE: RETAIL NOC	$2.31	$1.58
8018	STORE: WHOLESALE NOC	$5.36	$3.19
8024	SEAFOOD DEALER WHOLESALE	$10.54	$6.40
8033	STORE: MEAT, GROCERY AND PROVISION	$2.66	$1.69
8039	STORE: DEPARTMENT-RETAIL	$2.17	$1.38
8044	STORE: FURNITURE	$4.19	$2.35
8058	BUILDING MATERIAL DEALER-NEWMAT.	$2.58	$1.67
8107	MACHINERY DEALER	$5.59	$3.30
8227	CONSTRUCTION PERMANENT YARD	$11.93	$5.69
8232	LUMBER YARD NEW MAT.WHOLESALE	$4.58	$2.57
8350	GASOLINE DEALERS	$7.25	$3.88
8380	AUTO SERVICE OR REPAIR CENTER	$5.15	$2.94
8601	ARCHITECT OR ENGINEER CONSULTING	$1.44	$0.85
8742	SALESPERSONS, COLLECTORS	$0.95	$0.68
8803	AUDITORS, ACCOUNTANT TRAVELING	$0.24	$0.16
8810	CLERICAL OFFICE EMPLOYEES	$0.63	$0.40
8820	ATTORNEY	$0.73	$0.51
8829	CONVALESCENT OR NURSING HOME	$5.08	$3.15
8832	PHYSICIAN	$0.91	$0.54
8833	HOSPITAL PROFESSIONAL EMPLOYEES	$1.75	$0.99
8835	NURSING-H.H., PUBLIC & TRAVELING	$6.79	$3.54
8861	CHARITABLE OR WELFARE ORGAN. PROF.	$1.62	$0.80
8868	COLLEGE: PROFESSIONAL EMPLOYEES	$0.77	$0.50
8901	TELEPHONE OR TELEG CO. OFFICE	$0.38	$0.25
9014	BUILDING OPER. BY CONTRACTORS	$6.23	$3.85
9015	BUILDING OPER. BY OWNER	$5.47	$3.45
9040	HOSPITAL ALL OTHER EMPLOYEES	$4.68	$2.62
9052	HOTEL: ALL OTHER EMPLOYEES	$3.32	$2.10
9058	HOTEL: RESTAURANT EMPLOYEES	$2.60	$1.62
9060	CLUB-COUNTRY, GOLF, FISHING OR YACHT	$2.62	$1.53
9063	YMCA, YWCA, YMHA, OR YWHA	$1.51	$0.93
9083	RESTAURANT: FAST FOOD	$2.73	$1.75
9101	COLLEGE: ALL OTHER EMPLOYEES	$4.61	$2.71
6824F	BOATBUILDING OR REPAIR	$6.26	$3.42

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 74 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. Seventy 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. Nearly 20 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.

Self-Insurance

Self-Insurance plays an important role in Maine's workers' compensation market. Self-insured employers pay for losses with their own resources rather than 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 increased in 2001, for the first time in six years. At 43.9 percent of the total market, self-insurance is at its second lowest level since the 1992 reforms. A greater market share in self-insurance could indicate a perception by insureds that premiums in the insurance market are too high.

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 37 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.

Table VI: Estimated Standard Premium for Self-Insured Employers and Percent of the Workers' Compensation Market Held by Self-Insurers, 1993-2001

Year	Estimated Standard Premium	Percent of Workers' Comp. Market (in annual standard premium)
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-insureds, dividing it by the sum of the estimated standard premium for self-insureds and the written premium in the regular insurance market, and multiplying that figure by 100

Self-Insurance

As of October 1, 2002 there were 19 self-insured groups representing approximately 1,235 employers as well as 98 individual self-insured employers in Maine. Although the number of self-insured groups has remained the same, the number of employers in those groups has fluctuated slightly. After four years of reductions, the number of individually self-insured employers increased.

Table VI: Number of Self-Insured Groups, Employers in Groups, and Individually Self-Insured Employers 1994-2002

Year	# of Self-Insured Groups	# of Employers In Groups	# of Individually Self-Insured Employers
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.

Conclusion

There are many insurers authorized to write workers' compensation insurance in Maine and competition among insurers is still present. Some employers however are not benefiting from this because of the hardening of the workers' compensation market. In years past, insurers competed more aggressively for business and gave discounted rates, offered schedule credits and issued dividends. These rating plans are being offered less in today's environment.

MEMIC's market share, in terms of written premium, is the highest it has been in five years. This may be an indicator that more employers are turning to MEMIC out of necessity; however, MEMIC does not maintain records of the number of employers insured with them because they were not able to obtain coverage elsewhere.

Though MEMIC writes over half of the workers' compensation business in the state, twenty-eight companies wrote more than one million dollars in annual premium in 2001. 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.

The first increase in advisory loss costs since the 1992 reform occurred in March of 2000. Another small increase became effective in January, 2001. On January 1, 2002, loss costs decreased by 3.4 percent. Recently, the National Council on Compensation Insurance filed for a 5.3 percent increase in advisory loss costs. If approved, Maine's loss costs will still be 35 percent lower than they were in 1993. Increases and decreases in advisory loss costs are not applied uniformly across all classifications. As a result, some classifications may go up in cost while others go down.

A study of the manufacturing industry, conducted by Actuarial & Technical Solutions, Inc., shows that Maine's benefit levels are among the highest in the nation. Possible statutory changes in benefits for workers with permanent partial impairment may have an affect on costs in the upcoming years. Criteria found in Title 39-A §213(4), to determine whether extensions of payment of permanent partial impairment benefits should occur, has been a source of controversy. Premiums charged by employers reflect 520 weeks of benefit payments. Premiums are held in escrow pending legal interpretation of the duration of benefits.

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.

Additional factors that could impact the Maine workers' compensation market in 2003 include federal legislation submitted in response to the September 11 terrorist attacks, whether the economy improves or remains sluggish, and the cost and availability of reinsurance. Costs of reinsurance, which are expected to rise, will raise the costs of many lines of insurance including workers' compensation insurance.

The Bureau of Insurance has developed a useful reference for employers entitled,
An Employer's Guide to Workers' Compensation Insurance in Maine, which may be found at http://www.state.me.us/pfr/ins/workcomp.htm