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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Executive Summary

The Superintendent of Insurance is required pursuant to 24-A M.R.S.A. 2383 to report annually to the Governor and the Insurance and Financial Services Committee on the status of competition in the workers' compensation market. This report examines different measures of market conditions. Workers' compensation insurance in Maine operates in an open competitive rating system. Each year the National Council on Compensation Insurance (NCCI), as the state's designated statistical agent, files advisory loss costs on behalf of insurers with the Bureau of Insurance. The advisory loss costs, which represent the portion of the rates that account for losses and loss adjustment expenses, must be approved by the Superintendent. Each insurer files factors called loss cost multipliers which account for such things as company experience, overhead expenses, taxes, contingencies, investment income and profit. The advisory loss costs are multiplied by those factors to form rates for individual insurance companies. Other things such as experience rating, schedule rating, and premium discounts also affect the ultimate premium amount paid by an individual employer.

Recently NCCI made a filing with the bureau which called for an overall 1.8% increase in advisory loss costs. After a careful review, the bureau asked NCCI to amend their filing downward to a 1.2% increase. An amendment was made and the revised filing was approved and will go into effect on January 1, 2006. Frequency of indemnity claims continues to decline and this helps keep loss costs down. Conversely, costs for indemnity (lost time wage replacement) and medical claims continue to increase. Medical benefits constitute nearly 51 percent of the total benefit costs in Maine and medical inflation is greater than the Consumer Price Index.

The increase in advisory loss costs is not evenly distributed across all rating classifications. The Office Clerical and Goods & Services groups will have slight average reductions. The Manufacturing group will have a slight average increase. The Contracting and the Miscellaneous groups will have average increases of three percent and just over five percent respectively. The change in loss cost for individual classifications within each group varies based on experience within each classification. Some employers will see premium decreases while more employers will see increases.

The Maine workers' compensation insurance market is becoming more concentrated (i.e., more business written by fewer carriers or groups). Though there are more carriers being licensed and there are no barriers for carriers to enter the market, Maine Employers' Mutual Insurance Company (MEMIC) is underwriting a large portion of business. In terms of written premium, MEMIC's market share is at its highest level since 1995. MEMIC does not maintain records of the number of employers that it insures because an employer was unable to obtain coverage elsewhere; however, the increased market share is an indicator that more employers may be insuring with MEMIC out of necessity. Although 21 companies wrote more than $1 million each in annual premium in 2004, this was 25% fewer companies writing that volume of business than in 2003. The top 10 insurance groups now write nearly 96% of the workers' compensation insurance in the state. 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 have few options available. With relatively low investment returns, many insurers have been less likely to offer credits to attract or retain market share. As a result, many employers have experienced higher premiums. Self-insured employers represent over 41% of the overall workers' compensation market and self-insurance continues to be a viable alternative to the insurance market for some employers.

Introduction

This report looks at competition in the Maine workers' compensation insurance market by examining different measures of market competition. Among the measures are: 1) the number of insurers providing coverage; 2) insurer market share; 3) changes in market share; 4) ease of entry into and exit out of the insurance market by workers' compensation insurers; and 5) comparing variations in rates.

The tables in this report that show accident year and calendar year loss ratios contain five years of information. Loss ratios are updated each year to account for how costs have developed for open claims, claims closed and any claims reopened during the year. Other tables and graphs contain ten or more years of information.

Advisory loss costs have fluctuated up and down since 2000. The last two approved filings were small increases. Some employers are experiencing the effects of a hard market. The primary reasons for this are a relatively low return on investment income and a tight reinsurance market. Prior to 2000, carriers had been discounting premiums by applying schedule rating credits, by issuing dividends and by using lower rates. In the current market, insurers are less likely to offer discounts in order to capture or retain business. Some insurers have filed to increase their loss cost multipliers. In November, 2004 Maine Employer's Mutual Insurance Company (MEMIC) raised the multiplier for their standard tier to 1.45. This may not be increased again without review and approval by the Superintendent pursuant to Title 24-A, Section 3714.

The Terrorism Risk Insurance Act (TRIA), signed into law in 2002, established a temporary Federal program under which the federal government shares in the cost of terrorist attacks with the insurance industry. Its intent is to protect consumers and insurers by addressing market disruptions and ensuring the continued availability and affordability of insurance for terrorism risk. It also allowed for a transitional period for the private markets to stabilize, resume pricing of such insurance, and build capacity to absorb any future losses. In workers' compensation, losses may not be excluded from coverage due to terrorism. Unless measures are taken soon by Congress, TRIA is scheduled to expire on December 31, 2005. Since September 2001 reinsurance contracts have excluded coverage for terrorist acts, though primary insurers are still liable for that exposure. This could further disrupt the market since many insurers may decide against writing accounts where there are high concentrations of employees at a single location.

Different criteria may be used to determine if the insurance industry is competitive. Although Maine's market is becoming more concentrated and MEMIC writes a large volume of business, there are still many insurers writing some workers' compensation coverage in Maine and self-insurance remains a viable alternative for other Maine employers. Insurers, however, are being more conservative in the selection of business that they choose to provide coverage for or to renew. An insurer can decide to non-renew business for any reason as long as it provides the policyholder with the statutorily required advance written notice. Furthermore, insurers are less willing to offer underwriting discounts and some employers have been moved to higher rating tiers. The end result is that premiums for those employers are increasing.

Accident Year, Calendar Year and Policy Year Reporting

Workers' compensation is a long-tail line of insurance, meaning payments for claims can be made over a long period of time. For some claims, wage loss and medical services payments may occur over many years; thus, figures for amounts actually paid out on claims are incomplete and future amounts to be paid on open claims must be estimated. Insurance companies report information used to calculate financial ratios. This information is presented on an accident year, calendar year, or a policy year basis. Ratios may vary greatly, depending on the reporting basis utilized.

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

- Accident year experience matches all losses for injuries occurring during a given 12-month period of time (regardless of when the losses are reported) with all premiums earned during the same period of time (regardless of when the premium was written). The accident year loss ratio shows the percentage of premium earned that is being paid out or expected to be paid out on claims. It enables the establishment of a basic premium reflecting the pure cost of protection. Accident year losses or loss ratios are used to evaluate experience under various laws because claims are tracked by year and can be associated with the law in effect at the time of the injury. This information is projected because claim costs change over time as claims further develop, with the ultimate result determined only after all losses are settled. Therefore, the ratios for each year are updated on an annual basis.

- Calendar year loss ratios match all losses incurred within a given 12-month period (though not necessarily for injuries occurring during that 12-month period) with all premiums earned within the same period of time. Because workers' compensation claims are often paid out over a long period of time, only a small portion of calendar year losses are attributable to premiums earned that year. Many of the losses paid during the current calendar year are for claims occurring in past calendar years. Calendar year loss ratios also reflect reserve adjustments for past years. If claims are expected to cost more, reserves are adjusted upward; if they are expected to cost less, reserves are adjusted downward. Calendar year incurred losses are used primarily for financial reporting. Once calculated for a given period, calendar year experience never changes.

- Policy year experience segregates all premiums and losses attributed to policies having an inception or a renewal date within a given 12-month period. The total value of all losses for injuries occurring during the policy year (losses paid plus loss reserves) are assigned to the period regardless of when they are actually reported. They are matched to the fully developed earned premium for those same policies. The written premium will develop into earned premium for those policies. The ultimate incurred loss result cannot be finalized until all losses are settled. 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

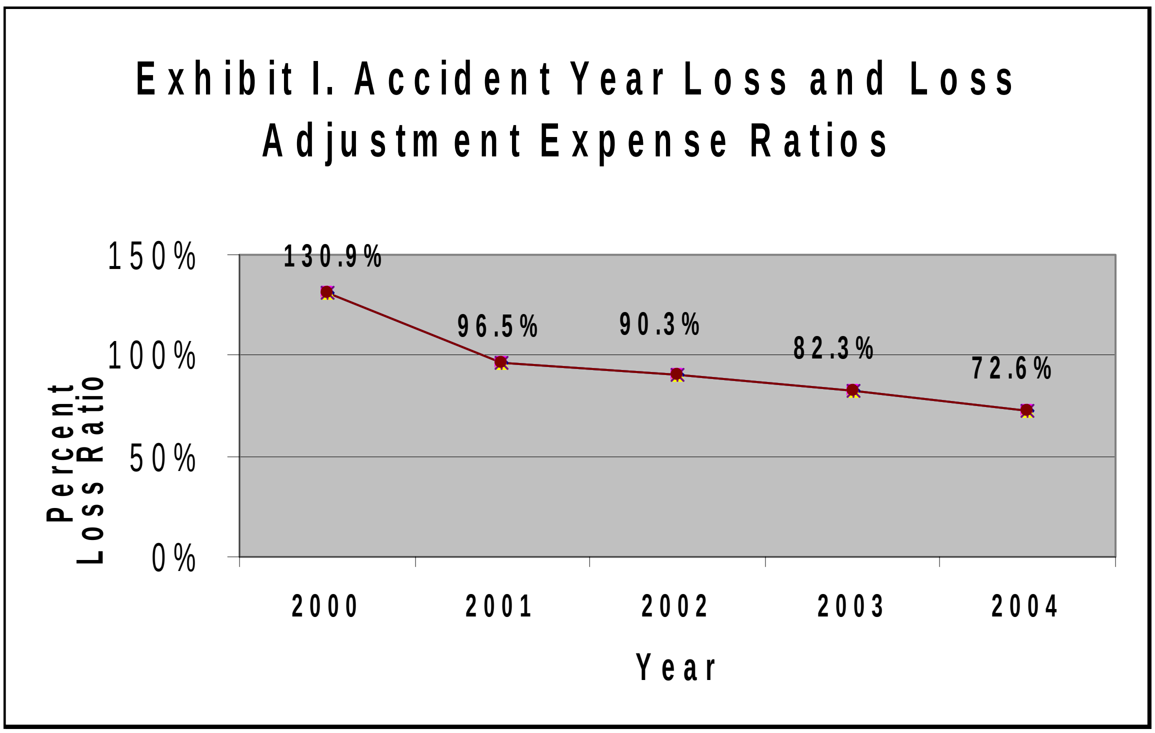
Insurance tends to go through underwriting cycles--successive periods of increasing or diminishing competition and increasing or decreasing premiums. These cycles are important factors in the short-term performance of the insurance industry. Hard markets are periods in which there is less capacity and 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 of business. 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. After 2000 insurance markets became less competitive, and this trend increased following the events of September 11, 2001. Hard markets may also occur when insurers tighten their underwriting standards or reduce their use of premium credits. This describes what has happened in Maine over the last several years. However, there are some indications nationally that the market has begun to soften.

The accident year incurred loss ratio was 90.3% in 2002, 82.3% in 2003 and 72.6% in 2004. Loss ratios that exceed 100% mean that insurers are paying out more in benefits than they collect in premiums. A decrease in these loss ratios over time may reflect increased rates, an improved loss experience or reserve adjustments (i.e., revising the amount of money expected to be paid out on claims). The loss ratio does not take into account underwriting expenses of the insurer--including things like acquisition expenses, general expenses and taxes.

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 2004 loss ratio was 72.6%, indicating that about $73 is expected to be paid out for losses and loss adjustment expenses for every $100 earned in premium. The 2003 loss ratio was 82.3%. These ratios are down considerably from a five year high of 130.9% in 2000**.** The decreasing loss ratios are primarily a result of increased rates, fewer insureds being place into lower rating tiers, and a reduction of credits issued by the insurance companies. Increases in insurance company loss cost multipliers and a reduction of credits have, in part, resulted in an increase in earned premium and a reduction in the loss ratios over the past four years.



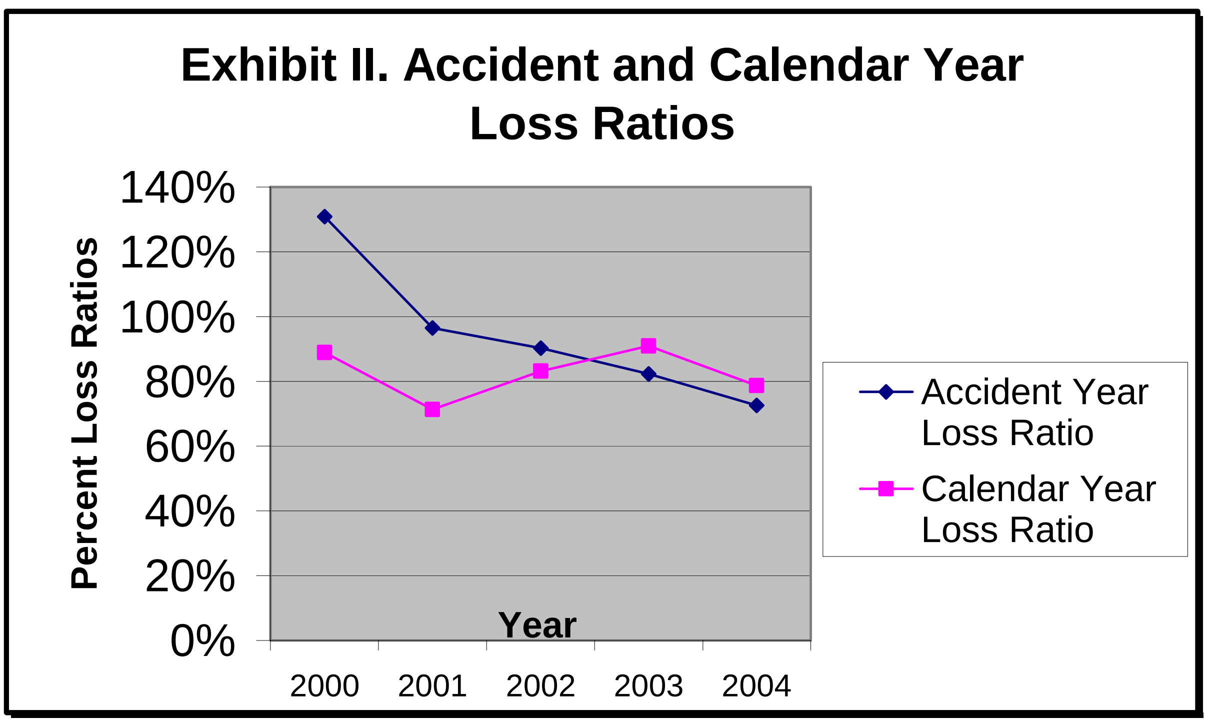
Source: National Council on Compensation Insurance

Calendar Year and Accident Year Loss Ratios

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 (although 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 specific year, including those adjustments from prior injury years. A significant decrease in the calendar year loss ratio occurred in 2001 and since then there have been two increases followed by a decrease in 2004**.** Both paid and incurred losses have shown higher than expected development. Beginning in 2002, there was an increase in the number of lump sum settlements.

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.

The 2000 accident year loss ratio was nearly 131%, meaning $131 was paid or expected to be paid in losses and loss adjustment expenses for every $100 earned in premium. Since then loss ratios have declined considerably. By 2004 the accident year loss ratio had fallen to under 73 percent. The hardening of the workers' compensation market may be leveling off and 2006 renewal prices will give an indication of which way the market is headed. These ratios do not include amounts paid by insurers for sales, general expenses and taxes, nor do they reflect investment income. The movement of the calendar year loss ratios from below to above the accident year loss ratios may reflect increases in reserves on prior accident years.

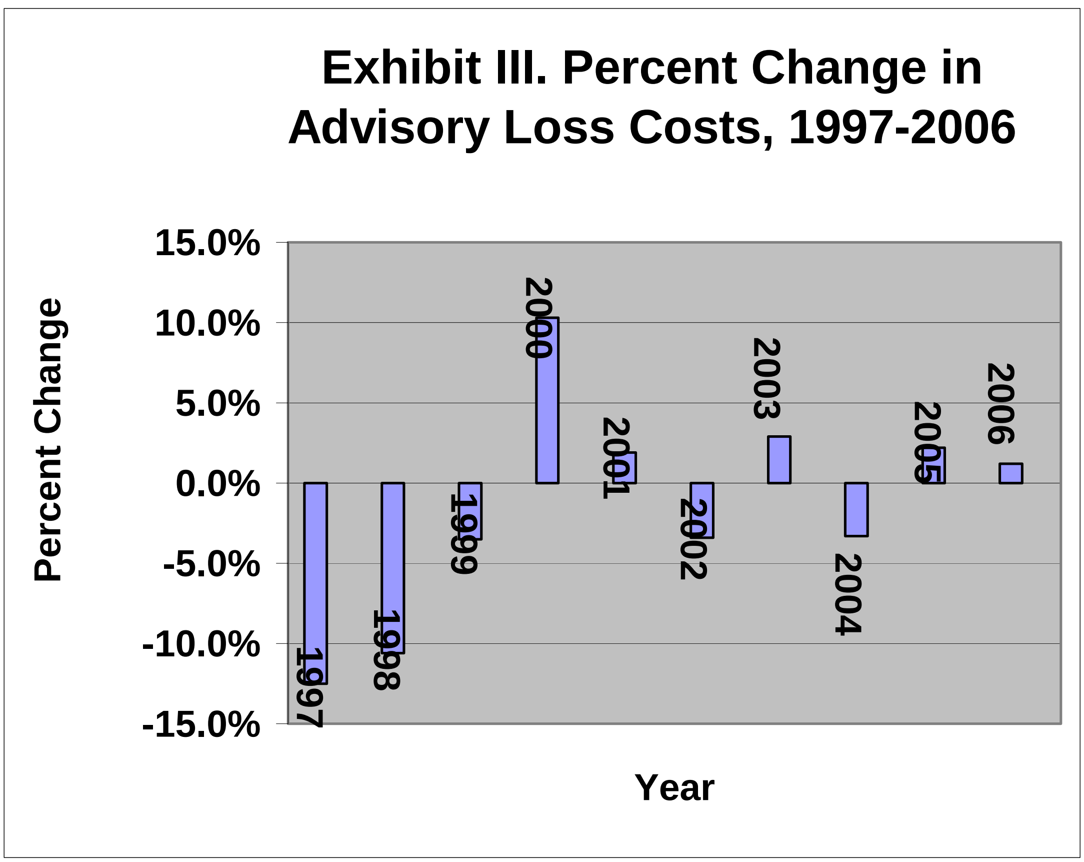


Source: National Council on Compensation Insurance

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.

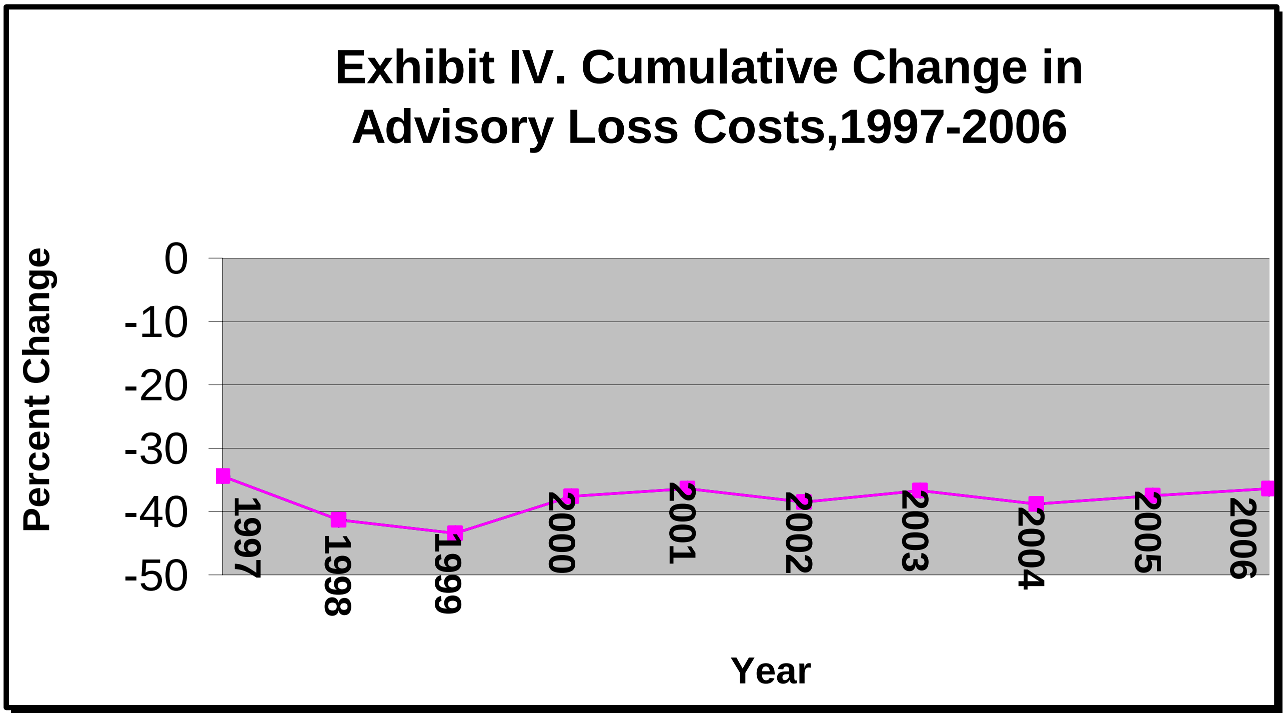
After consecutive decreases in advisory loss costs, an increase in the advisory loss costs occurred in 2000. This increase was due to loss experience, an increase in permanent partial impairment benefits, and also an adjustment to correct a prior data reporting problem. Between 2001 and 2004, the loss costs moved up and down. In the past two years, we have seen small increases in the advisory loss costs. These changes 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

Average advisory loss costs have remained steady over the past six years. In fact, the 2006 average loss costs will be in line with those of 2001.



Source: National Council on Compensation Insurance

Market Concentration

Market concentration is another measure of competition. Greater concentration means that there are fewer insurers in the market or insurance written is concentrated among fewer insurers and therefore less competition. Conversely, less concentration indicates that there are more insurers in the market and greater competition.

As of October 1, 2005, 257 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 market share for Maine Employers' Mutual Insurance Company (MEMIC), in terms of written premium, is now over 65% of the insured market, up from 61% a year ago. This indicates that other carriers are more selective and less willing to provide coverage for some businesses. The following table shows the number of carriers, by level of written premium, for those carriers writing workers' compensation insurance in 2004. The number of carriers writing over one million dollars in written premium decreased from 28 in 2003 to 21 in 2004. This represents a 25% decrease and shows that the market is becoming more concentrated and somewhat less competitive.

Table I: Number of Companies by Level of Written Premium--2004	
Amount of Written Premium	Number of Companies At That Level
>$10,000	109
>$100,000	71
>$1,000,000	21

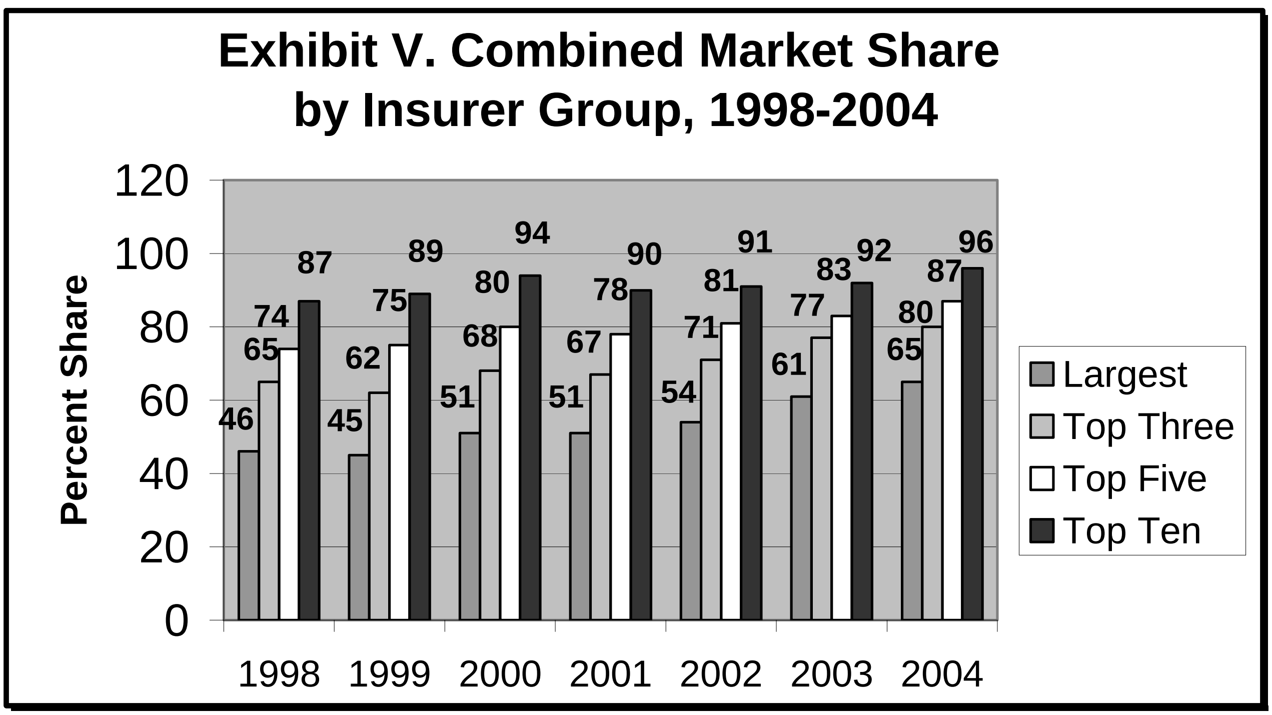
Source: Annual Statements Filed with the Bureau of Insurance

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 insurance group, in terms of written premium, as well as the percent market share for the top three, top five and top 10 insurer groups. Maine Employers' Mutual Insurance Company (MEMIC) has the largest market share. Their share fell from 67% of the commercially insured market in 1995 to 45% in 1999. That trend began to reverse in 2000 and MEMIC now is approaching its 1995 level with over 65% market share.

In 2004, market share of the top 10 insurer groups was 96%. Other groups wrote only 4% of the workers' compensation premium in Maine. In terms of dollar amounts, MEMIC wrote over $156 million in premium in 2004, $9 million more than it did in the previous year. The top three groups, including MEMIC, wrote over $192 million in business, $8 million more than in 2003. The top five groups had nearly $208 million in written premium, also around $8 million above the prior year. The top 10 groups wrote over $229 million in premium in 2003, around $8 million more than in 2003. The remaining groups had written premium of over $10 million, down around $8 million from the previous year.



Source: Annual Statements Filed with the Bureau of Insurance

Number of Carriers in the Maine Insurance Market

Since 2000, 47 more insurance carriers have entered Maine's workers' compensation market than have exited. Though the number of carriers entering the market over the past two years is at its lowest levels since 1993, the number of carriers in the market is at its highest levels. This continued increase in the number of carriers authorized to write workers' compensation insurance indicates that there are no significant barriers to entry.

Table II: Entry and Exit of Workers' Compensation Carriers, 1993-2005

Year	Number of Carriers	Number Entering	Number Exiting	Net Change (Number)	Net Change (Percent)
2005	257	4	1	3	1.1
2004	254	5	2	3	1.2
2003	251	11	1	10	4.2
2002	241	15	2	13	5.7
2001	228	24	6	18	8.6
2000	210	12	0	12	6.1
1999	198	11	0	11	5.9
1998	187	9	0	9	5.1
1997	178	32	3	29	19.5
1996	149	43	9	34	29.6
1995	115	11	2	9	8.5
1994	106	10	0	10	10.4
1993	96	8	2	6	6.7
1992	90	-	-	-	-

Source: Bureau of Insurance Records.

Figures as of October 1, 2005

Note: Beginning in 2001, the number exiting includes companies under suspension.

Percent Market Share for the Top Insurance Groups

Table III shows market share by insurance group from 1998-2004. 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 it services all employers who do not obtain coverage in the voluntary market; however, the 21% increase in market share over the past five years signifies that there is less competition. 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 Insurance Groups, By Amount of Written Premium, 1998-2004

Insurance Group	2004 Share	2003 Share	2002 Share	2001 Share	2000 Share	1999 Share	1998 Share
Maine Employers' Mutual	65.4	61.5	54.4	51.5	51.2	44.7	46.2
Liberty Mutual Group	9.4	9.6	10.4	7.9	9.5	7.0	3.7
WR Berkeley Corp.	5.4	5.8	6.5	7.4	7.5	7.7	9.5
American International	4.1	3.3	*	*	*	*	*
St. Paul Travelers Group	2.3	1.1	1.6	1.1	*	*	*
Guard Insurance Group	2.3	2.2	2.1	2.7	2.2	*	*
Hartford Fire & Casualty	2.0	1.8	1.2	1.0	*	*	*
Allmerica Financial Corp.	1.9	2.0	3.1	5.4	6.4	9.1	8.8
Zurich Insurance Group	1.7	1.6	2.6	2.0	2.2	2.1	3.5
CNA Insurance Group	1.2	1.5	1.1	1.4	*	1.9	*
ACE Ltd	0.9	0.8	1.2	1.0	*	*	*
BCBS of Mi Group	0.5	*	*	*	*	*	*
Chubb & Sons, Inc.	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.

PART III. MARKET STRUCTURE AND COMPETITION

Percent Market Share for the Top Insurance Carriers

Table IV shows the percent of market share for the top carriers for each calendar year from 1998 through 2004. MEMIC now maintains a 65% market share, nearly two thirds of the written premium in the insurance market. None of the other carriers attained a five percent market share in 2004. The top ten companies combined write nearly 84% of the business. No carrier outside the top 10 accounts for more than one percent of the written premium.

Table IV. Percent Market Share for Top Insurance Carriers, By Amount of Written Premium, 1998-2004

Insurance Carrier	2004 Share	2003 Share	2002 Share	2001 Share	2000 Share	1999 Share	1998 Share
Maine Employers' Mutual	65.3	61.5	54.4	51.5	51.2	44.7	46.2
Acadia Insurance Company	4.4	5.3	6.0	6.8	7.0	7.6	9.1
Peerless Ins. Co.	2.3	2.3	2.3	1.5	*	*	*
Commerce & Industry	2.1	1.2	*	*	*	*	*
Norguard	2.0	1.9	1.7	2.0	1.3		
Hanover Insurance Co.	1.8	2.0	1.9	3.3	2.5	1.8	*
Liberty Mutual Fire Ins Co	1.8	1.9	2.5	0.7	2.8	2.8	1.2
Liberty Mutual Ins. Co	1.4	1.6	1.4	0.9	*	*	*
Liberty Insurance Corp.	1.4	0.9	1.1	1.3	*	1.4	1.2
Employer's Ins. Of Wausau	1.1	1.4	1.2	1.1	*	*	1.2
Twin City Fire Ins Co.	1.0	0.9	*	*	*	*	*
Excelsior Insurance Co.	0.9	*	*	*	*	*	*
American Home Assurance	0.8	1.1	*	*	*	*	*
Zurich American Ins. Co.	0.8	*	*	*	*	*	*

Source: Annual Statements Filed with the Bureau of Insurance

Notes:
* Indicates carrier was not among the top 10 carriers for written premium that year.

PART IV. DIFFERENCES IN RATES AND FACTORS AFFECTING RATING

Rate Differentials

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. In October, NCCI filed for a 1.8 percent increase. After a careful review, the Bureau of Insurance asked NCCI to revise this downward to a 1.2 percent increase and that was approved. Advisory loss costs have increased in four of the six years through 2006. There was, however, a slight reduction in advisory loss costs overall for this period.

Competitive rating allows companies to target particular segments of the market. 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, an insurer may specialize in underwriting employers in a specific industry, such as wood products manufacturing (including logging), healthcare, trucking or construction.

There are a wide range of rates, but most employers are not able to get the lowest rates. 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.

An indication that the current workers' compensation market may not be fully price competitive is the distribution of policyholders among companies with different loss cost multipliers or among a single company with multiple rating tiers. The Bureau of Insurance did a survey of the top ten carriers and all of the other companies within their insurance groups. We asked for the number of policyholders and the amount of written premium for in-force policies in Maine (or the most recent data available) within each of their rating tiers. Together the carriers that reported accounted for over 87% of the nearly $240 million in written premium in Maine for calendar year 2004.

The results show that a large proportion of employers are being charged rates higher than Maine Employers' Mutual Insurance Company's (MEMIC) Standard rating tier. Nearly twice as many policies are written at rates that are above MEMIC's Standard Rating tier than are written below it. Possible reasons for this are: 1) an insurer, other than MEMIC, provides workers' compensation coverage, even though they might not otherwise, because they provide coverage for other lines of insurance and the insurer provides a good overall package to the insured; 2) an insurer, other than MEMIC, charges a higher rate but offers a sufficient amount of credits to lower the overall premium; 3) the insured has chosen to purchase all coverages from the same insurer or producer, or 4) an insured may be able to obtain a more favorable rate from MEMIC than from another carrier.

The insurers responding to the survey reported that 321 policyholders are paying rates (standard premium after experience rating but prior to credits or debits) above the base level for MEMIC's High Risk rating tier. The High Risk base level is 20% higher than for MEMIC's Standard rating tier. In addition to the 20% rate differential, MEMIC surcharges those policyholders whose actual incurred losses during the previous three-year experience rating period are greater than the expected losses for the risk. These surcharges are in increasing increments as the loss ratio increases. The primary reason for a policyholder in this situation to pay rates higher than MEMIC's base level for the High Risk rating tier is that they may be able to get a lower rate from another carrier than they would from MEMIC with the surcharge.

The following table illustrates the distribution of workers' compensation policyholders, including MEMIC insureds, relative to MEMIC's standard rate tier.

Percent of Reported Policyholders At, Above or Below MEMIC's Standard Rating Tier Rates	
Rate Comparison	**Percent**
Below MEMIC Standard Rate	5.02%
At MEMIC Standard Rate	85.42%
Above MEMIC Standard Rate	9.56%

Note: Based upon the results of a survey conducted by the Bureau of Insurance. Respondents included the top 10 insurance carriers in Maine and the other companies in their insurance groups. Cumulatively these insurers accounted for over 87% of the workers' compensation insurance written premium in 2004.

Additional Factors Affecting Premiums

Some employers have other options available that may affect the premiums they pay for workers' compensation insurance. However, each of these options is available only if the insurer is willing to write a policy using them. Employers should carefully analyze certain options, such as retrospective rating (retros) and large deductible policies, before deciding on them. Below is a description of each:

- **Tiered rating** means that an individual carrier has more than one loss cost multiplier to use, based on where a potential insured falls in its underwriting criteria. It may apply to groups of insurers that have different loss cost multipliers for different companies in the group. Our records indicate that over 76% 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%. Approximately two-thirds of the insurance companies with filed rates in Maine have received approval to utilize scheduled rating.

- **Small deductible plans** shall be offered by insurance carriers. Carriers must offer medical benefit deductibles in the amounts of $250 per occurrence for non-experience rated accounts and either $250 or $500 per occurrence for experience rated accounts. Carriers must also offer deductibles of either $1,000 or $5,000 per claim for indemnity benefits. Payments are initially made by the insurance carrier and then reimbursed by the employer. The table below lists, effective January 1, 2006, the percentage reduction in the advisory loss costs received for electing small deductibles.

Deductible Amount	Percentage
$1,000 Per Claim for Indemnity Payments	0.9%
$5,000 Per Claim for Indemnity Payments	3.0%
$250 Per Occurrence for Medical Payments	1.3%
$500 Per Occurrence for Medical Payments	2.7%

- **Managed Care Credits** are credits offered by carriers to employers who use managed care plans. Over 16% 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 its 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.

PART IV. DIFFERENCES IN RATES AND FACTORS AFFECTING RATING

- **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.

- **Loss Free Credits** may be given to employers who have had no losses for specified periods of time. Over 61 percent of MEMIC's non-experience rated accounts currently receive some level of a loss free credit.

Percent of Overall Market Held by Self-Insured Employers

Self-insurance plays an important role in Maine's workers' compensation market. Self-insured employers pay for losses with their own resources rather than by purchasing insurance. They may, however, choose to purchase insurance for losses that exceed a certain limit. One advantage of being self-insured is better cash flow. Since there are no premiums, the employer retains the money until it pays out on losses. Employers who self-insure anticipate that they would be better off not paying premiums and are likely to have active programs in safety training and injury prevention. In 2004, the percent of Maine's total workers' compensation insurance market represented by self-insured employers and groups was 41.7%. This was about a four percent decrease from the prior year and was its lowest level since 1991.

After four straight increases, the estimated standard premium for self-insured employers dropped by over 10 million dollars in 2004. The estimated standard premium for individual self-insurance is determined by taking the advisory loss cost and multiplying it by a factor of 1.2, as specified in statute, and multiplying that figure by the payroll amount divided by 100 and then applying experience modification. As advisory loss costs, and therefore rates, decline, so does the estimated standard premium. Group self-insurers determine their own rates subject to review by the Bureau of Insurance. Group self insurance premiums have been driven up by some of the same factors affecting the insurance market: reduced individual investment returns and higher reinsurance costs.

Table VI: Estimated Standard Premium for Self-Insured Employers and Percent of the Workers' Compensation Market Held by Self-Insurers, 1993-2004

Year	Estimated Standard Premium	Percent of Workers' Comp. Market (in annual standard premium)
2004	$171,662,347	41.7
2003	$182,379,567	43.1
2002	$167,803,123	43.0
2001	$159,548,698	43.9
2000	$126,096,312	42.1
1999	$116,028,759	45.4
1998	$120,799,841	49.0
1997	$147,851,730	49.9
1996	$167,983,925	51.5
1995	$180,587,422	51.9
1994	$202,430,339	49.9
1993	$204,111,260	44.7

Source: Annual Statements Filed with the Bureau of Insurance.

Notes: Estimated standard premium figures are as of December 31.
The percent of the workers' compensation market held by self-insured employers is calculated by taking the estimated standard premium for self-insured employers, dividing it by the sum of the estimated standard premium for self-insured employers and the written premium in the regular insurance market, and then multiplying that figure by 100.
2003 Estimated Standard Premium was revised to reflect updates to information by one self-insured group.

Number of Self-Insured Employers and Groups

As of October 1, 2005 there were 20 self-insured groups representing approximately 1,416 employers as well as 80 individual self-insured employers in Maine. The number of employers in groups remained the same over the past year. Since 2000, the number of employers in self-insured groups has increased by over 13%. During the past year, the number of individually self-insured employers decreased by six. Since 1997, when the number of individually self-insured employers peaked in Maine, the number has been reduced by nearly one half.

Table VII: Number of Self-Insured Groups, Employers in Groups, and Individually Self-Insured Employers 1996-2005

Year	# of Self-Insured Groups	# of Employers In Groups	# of Individually Self-Insured Employers
2005	20	1,416	80
2004	20	1,417	86
2003	19	1,351	91
2002	19	1,235	98
2001	19	1,281	92
2000	19	1,247	98
1999	20	N/A	115
1998	21	N/A	118
1997	21	N/A	155
1996	20	N/A	147

Source: Bureau of Insurance Records

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

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

PART VI. A LOOK NATIONALLY

Comparisons with Other States

According to an annual report compiled by Actuarial & Technical Solutions, Inc and released in 2005, Maine ranked 28th out of 45 states in terms of comparative costs in the manufacturing industry (1^{st} indicates lowest cost; 45^{th} indicates highest). This was the same rank that Maine received in 2004. This ranking indicates that Maine is a relatively high cost state. Since 1996, Maine has been ranked as high as 42^{nd} among other states for workers' compensation insurance costs in the manufacturing industry and as low as 23^{rd}. In 2003, Maine's ranking was 32nd. These ranking are impacted by the benefit structures in the various states.

In this same study, comparative costs for office and clerical operations were ranked for the first time. Actuarial & Technical Solutions reviewed rates for approximately 20 classification codes to come up with their rankings. These codes included: accountants, engineers, school professionals, attorneys, and other office and clerical employees. Maine ranked 34^{th} out of 45 states. Once again, the lower the ranking the lower are the costs.

In another study, conducted bi-annually by the State of Oregon, Maine ranked 13^{th} in terms of 2004 workers' compensation premium rates for all industries. In this study, a lower rank indicates higher premium rates. In the 2002 study, Maine ranked 8^{th} overall and in the 2000 study, Maine ranked 19^{th}. Maine's 2002 ranking was adjusted downward after the State of Oregon discovered an oversight that resulted in an understatement of Maine's 2002 rates. This study focused on 50 classifications based on their relative importance as measured by their share of losses in Oregon. Results are reported for all 50 states and for the District of Columbia.

Finally, the National Council on Compensation Insurance (NCCI) developed a spreadsheet which shows the average loss cost for Maine compared to the average loss cost for other states based upon Maine's payroll distribution. Maine had the tenth highest average loss costs of the 35 states reporting information to NCCI.