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. Typically, the National Council on Compensation Insurance (NCCI), 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.

NCCI collected, validated and analyzed aggregate financial data for Maine valued as of December 31, 2005. They completed a full analysis of overall loss cost levels in Maine, including in-depth analysis of experience, loss development, trend, loss adjustment expense, and other key components. Their analysis indicated that no change in advisory loss costs from the current ones approved effective January 1, 2006 is warranted at this time. The Bureau of Insurance conducted a review of information provided by NCCI and of their findings and concluded that advisory loss costs should remain unchanged. This means that for the first time since 1993, the advisory loss costs will neither go up nor down.

The Maine workers' compensation insurance market has become very 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) continues to underwrite a large portion of business. Although MEMIC's market share dropped slightly from 2004 to 2005, it remains near 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 large market share is an indicator that more employers may be insuring with MEMIC out of necessity. Twenty three companies wrote more than $1 million each in annual premium in 2005; this was two more companies writing that volume of business than in 2004. The top 10 insurance groups now write over 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. Investment returns seem to be improving, so we may begin to see more insurers offering credits to attract or retain market share. Self-insured employers represent over 40% 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 up to ten years of information.

The last three loss cost filings have resulted in two small increases followed by no change. This is a positive trend and shows some stabilization in the market. Some insurers have filed to increase their loss cost multipliers though. 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 frequency of injuries in Maine continues to decline, but indemnity and medical severity are increasing. Forty eight percent of workers’ compensation costs in Maine are for indemnity benefits and 52% are for medical benefits. The countrywide average for indemnity is 42%. Indemnity severity tends to increase with age. According to NCCI, the share of Maine’s population aged 45-64 is expected to increase through 2010. The aging of Maine’s population suggests some upward pressure in indemnity costs going forward.

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. In late 2005, Congress voted to extend TRIA until December 31, 2007. 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 has become quite 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 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 to some employers and some have been moved to higher rating tiers.

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

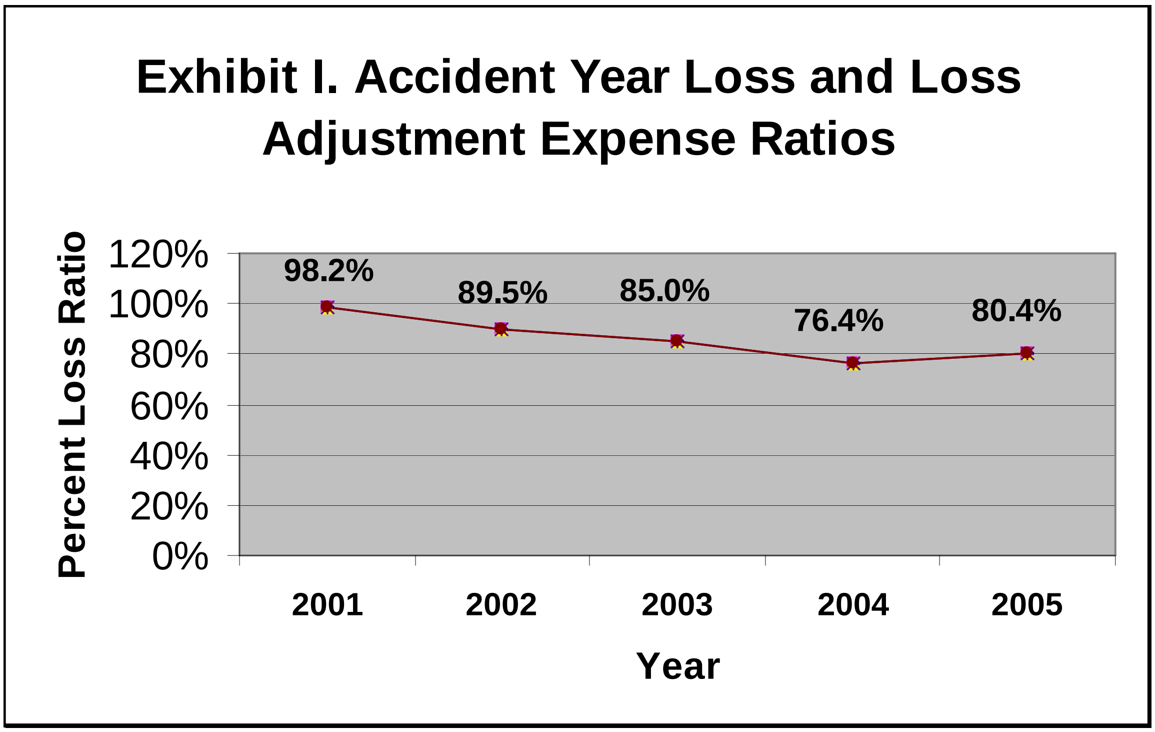
Insurance tends to go through underwriting cycles--successive periods of increasing or diminishing competition and increasing or decreasing premiums. These cycles are important factors in the short-term performance of the insurance industry. Hard markets are periods in which there is less capacity and 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 80.4% in 2005, 76.4% in 2004 and 85.0% in 2003. 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 2005 loss ratio was 80.4%, indicating that about $80 is expected to be paid out for losses and loss adjustment expenses for every $100 earned in premium. The 2004 loss ratio was 76.4%. These ratios are much lower than the 2001 loss ratio of 98.2%**.** 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 in recent years.



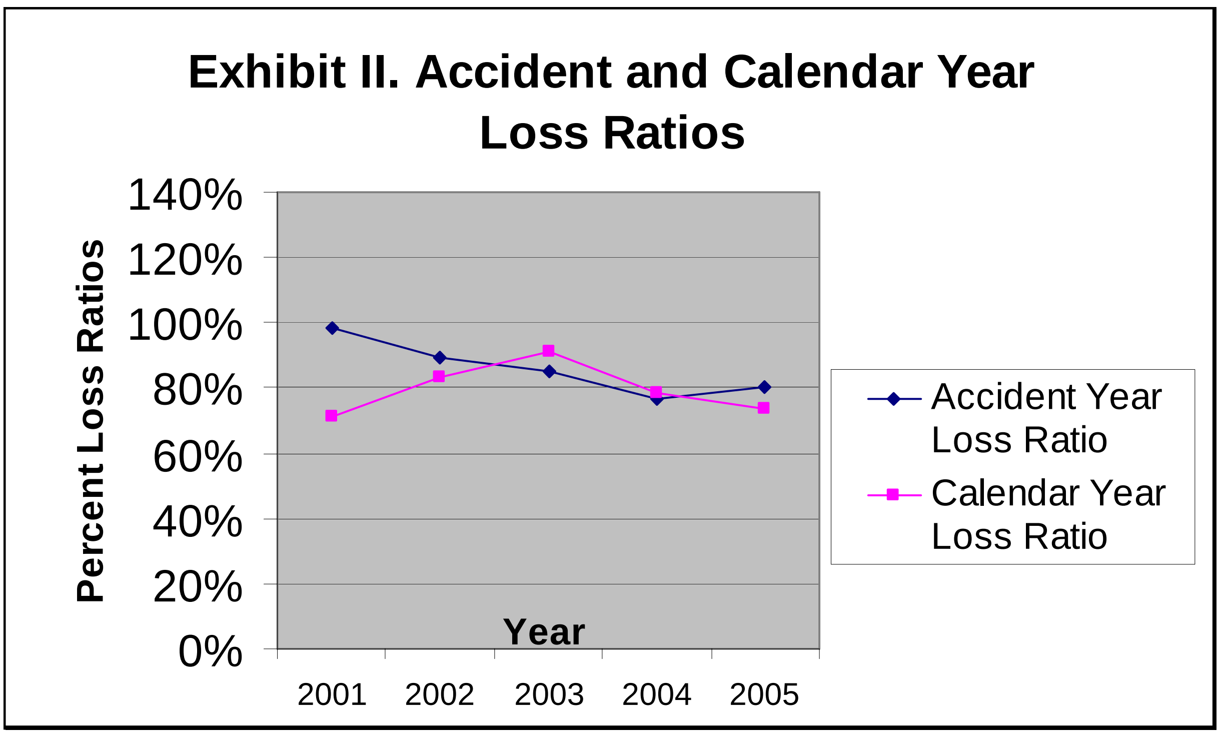
Source: National Council on Compensation Insurance

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. Over the past six years, the calendar year loss ratio has ranged from the low 70s to the low 90s. In 2005, it was 73.6, its lowest level since 2001.

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 2001 accident year loss ratio was over 98%, meaning $98 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. The accident year loss ratio did increase slightly from 2004 to 2005 though. The workers' compensation market is showing signs of softening. 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.

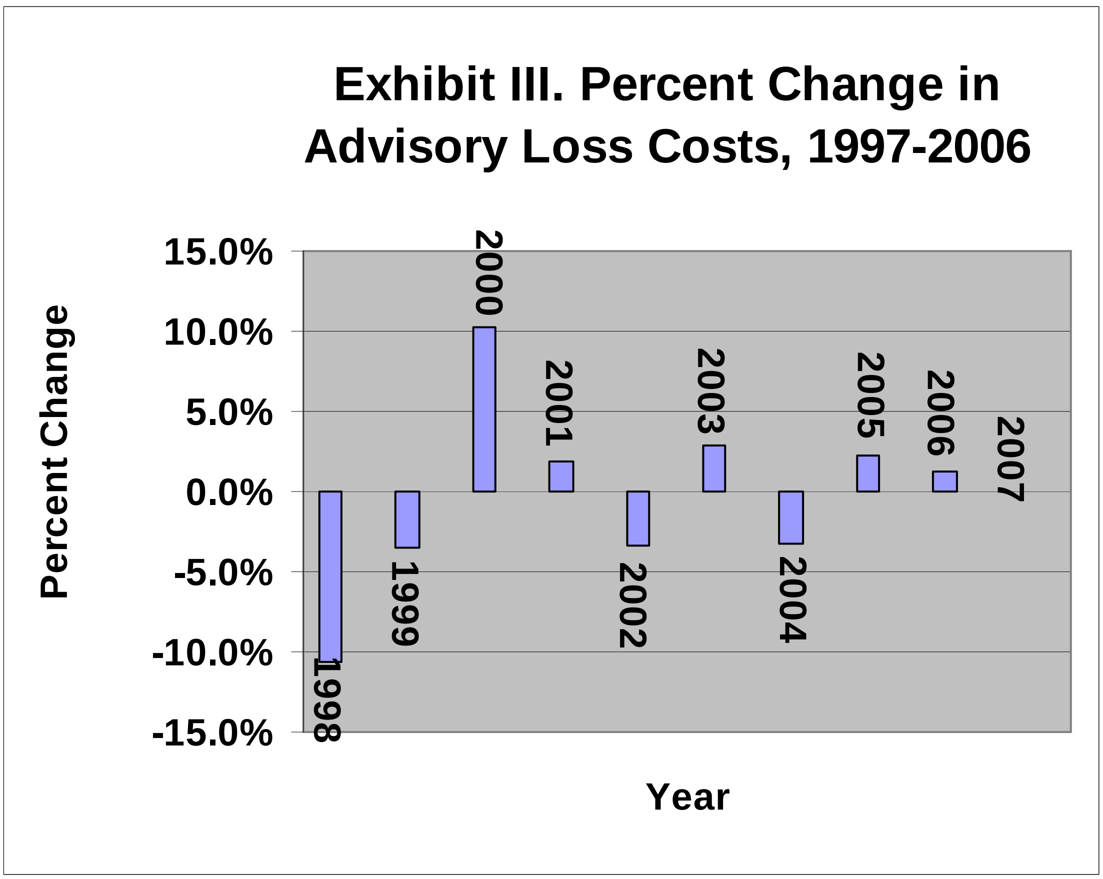


Source: National Council on Compensation Insurance

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.

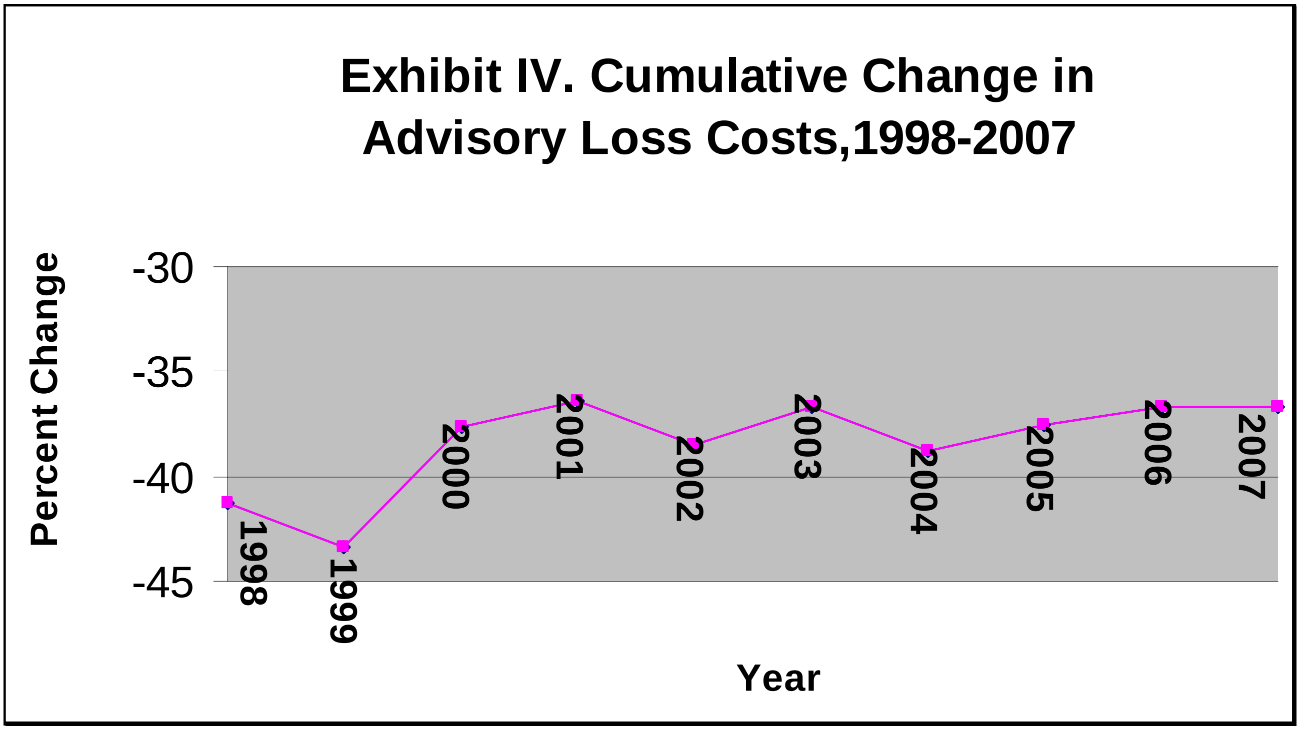
In 2007, there was no increase in the advisory loss costs. Since 2001, there have been some increases and some decreases, but overall there has been minimal change in the advisory loss costs since 2001. The last large increase in the loss costs was 10.3 percent in 2000. Changes in the advisory loss costs 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

Average advisory loss costs have remained steady over the past seven years. In fact, the 2007 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, 2006, 267 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. In terms of written premium, the market share for Maine Employers' Mutual Insurance Company (MEMIC) remains at nearly 65% of the insured market. 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 2005. The number of carriers writing over one million dollars in written premium decreased from 28 in 2003 to 21 in 2004. It increased to 23 in 2005. This information is one indicator that the market is more concentrated and somewhat less competitive than it was a couple of years ago.

Table I: Number of Companies by Level of Written Premium--2005	
Amount of Written Premium	Number of Companies At That Level
>$10,000	108
>$100,000	72
>$1,000,000	23

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.

PART III. MARKET STRUCTURE AND COMPETITION

Herfindahl-Hirschman Index

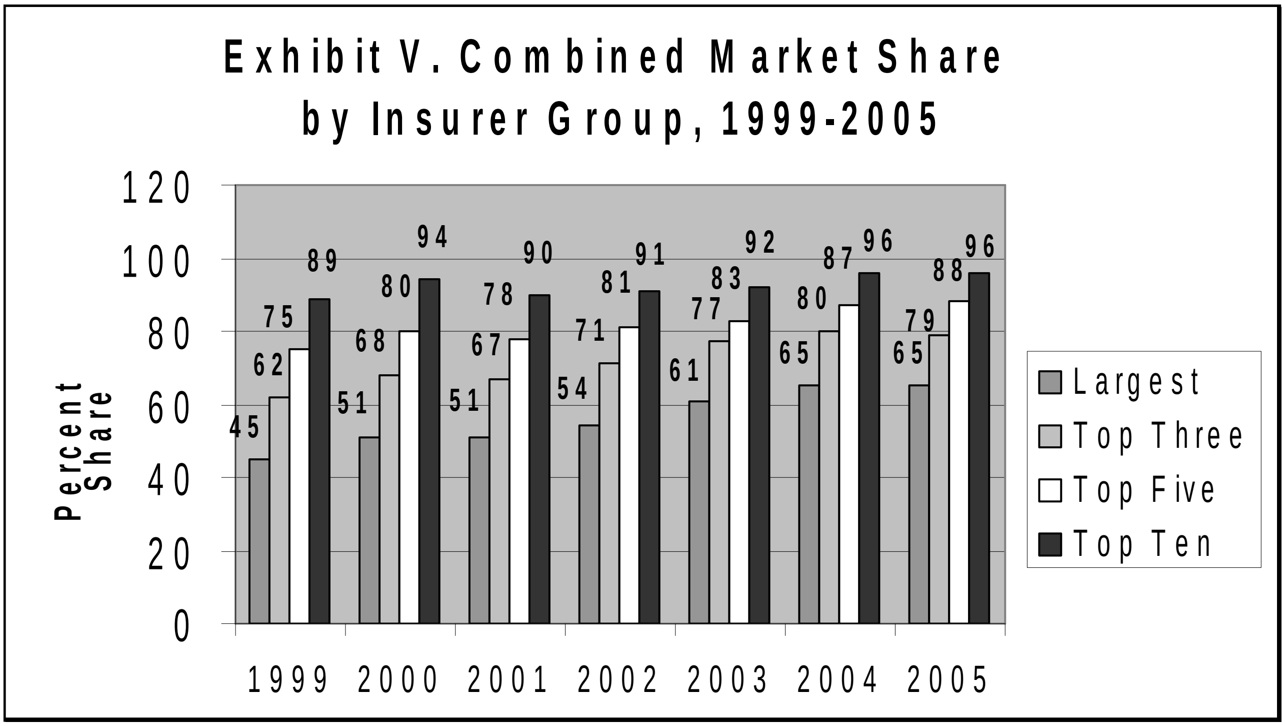
The Herfindahl-Hirschman Index (HHI) is a method to measure market concentration. The HHI is calculated by summing the squares of the market shares (percentages) of all groups in the market. The National Association of Insurance Commissioners publishes a Commercial Lines Competition Database Report as a reference source of measures to examine the competitiveness of state insurance markets, and the HHI is one of the data elements in the report. In the latest report issued in 2006 based on 2004 information the HHI for the workers' compensation line in Maine was 4,404. This was the highest for all commercial lines in Maine, with medical malpractice next at 4104 and other commercial lines between 211 and 980. Three other states were higher than Maine for workers' compensation insurance. As mentioned in the report, there is no precise point at which the HHI indicates that a market or industry is concentrated highly enough to restrict competition. The U.S. Department of Justice has developed guidelines with regard to corporate mergers and uses 1800 to indicated highly concentrated markets, the range from 1000 to 1800 to indicate moderately concentrated markets and an HHI less than 1000 is considered not concentrated. Application of these guidelines to Maine's workers' compensation market must be done with caution given Maine's unique factors: an employer owned mutual insurer created to replace a highly concentrated residual market where other insurers where reluctant to write actively in this state, and a high percentage of employers self-insured individually or in a group.

Source: NAIC 2004 Commercial Lines Competition Database Report, page 34.

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. MEMIC's market share is now approximately 65%.

In 2005, 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 nearly $161 million in premium in 2005, over $4 million more than it did in the previous year. The top three groups, including MEMIC, wrote over $195 million in business, over $3 million more than in 2004. The top five groups had over $217 million in written premium, more than $10 million above the prior year. The top 10 groups wrote over $238 million in premium in 2005, over $9 million more than in 2004. The remaining groups had written premium of less than $10 million, down by over a half million dollars from the previous year.



Source: Annual Statements Filed with the Bureau of Insurance

Number of Carriers in the Maine Insurance Market

Since 2000, 57 more insurance carriers have entered Maine's workers' compensation market than have exited. Fourteen new carriers entered the market in the past year and, the number of carriers in the market is at its highest levels. There currently are no significant barriers to entry.

Table II: Entry and Exit of Workers' Compensation Carriers, 1997-2006

Year	Number of Carriers	Number Entering	Number Exiting	Net Change (Number)	Net Change (Percent)
2006	267	14	4	10	3.9
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

Source: Maine Bureau of Insurance Records. This is based upon the number of carriers licensed to transact workers' compensation insurance as of October 1 of each year. 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 1999-2005. 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. Though MEMIC's market share decreased a tad from 2004 to 2005, the 20% increase in market share since 1999 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, 1999-2005

Insurance Group	2005 Share	2004 Share	2003 Share	2002 Share	2001 Share	2000 Share	1999 Share
Maine Employers' Mutual	64.8	65.4	61.5	54.4	51.5	51.2	44.7
Liberty Mutual Group	8.4	9.4	9.6	10.4	7.9	9.5	7.0
WR Berkeley Corp.	5.6	5.4	5.8	6.5	7.4	7.5	7.7
American International	5.1	4.1	3.3	*	*	*	*
Hartford Fire & Casualty	3.8	1.9	2.0	3.1	5.4	6.4	9.1
Guard Insurance Group	2.1	2.0	1.8	1.2	1.0	*	*
Allmerica Financial Corp.	1.9	1.7	1.6	2.6	2.0	2.2	2.1
St. Paul Travelers Group	1.6	2.3	1.1	1.6	1.1	*	*
ACE Ltd	1.6	0.5	*	*	*	*	*
CNA Insurance Group	1.1	0.5	*	*	*	*	*
Zurich Insurance Group	*	0.9	0.8	1.2	1.0	*	*

Source: Annual Statements Filed with the Bureau of Insurance

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

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 1999 through 2005. For the second straight year, MEMIC maintains approximately 65% market share. Once again, none of the other carriers attained a five percent market share. The top ten companies combined write nearly 83% 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, 1999-2005

Insurance Carrier	2005 Share	2004 Share	2003 Share	2002 Share	2001 Share	2000 Share	1999 Share
Maine Employers' Mutual	64.8	65.3	61.5	54.4	51.5	51.2	44.7
Acadia Insurance Company	4.3	4.4	5.3	6.0	6.8	7.0	7.6
Peerless Ins. Co.	2.2	2.3	2.3	2.3	1.5	*	*
Commerce & Industry	2.1	2.1	1.2	*	*	*	*
Twin City Fire Ins Co.	2.0	0.9	*	*	*	*	*
Hanover Insurance Co.	1.7	1.8	2.0	1.9	3.3	2.5	1.8
Liberty Insurance Corp.	1.7	1.1	1.4	1.2	1.1	*	*
Norguard	1.6	2.0	1.9	1.7	2.0	1.3	
Liberty Mutual Ins. Co	1.3	1.4	0.9	1.1	1.3	*	1.4
Liberty Mutual Fire Ins Co	1.0	1.4	1.6	1.4	0.9	*	*
Employer's Ins. Of Wausau	*	1.0	0.9	*	*	*	*
Excelsior Insurance Co.	*	0.8	1.1	*	*	*	*

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

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 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 groups and all of the companies within their insurance groups. We asked for the number of policyholders and the amount of written premium for in-force policies in Maine within each of their rating tiers. Together the carriers that reported accounted for over 96% of over $248 million in written premium in Maine for calendar year 2005. The results show that 80% of policyholders are in or are written at rates equivalent to Maine Employers' Mutual Insurance Company's (MEMIC) Standard rating tier. Nearly nine percent of policyholders have policies written at rates that are above MEMIC's Standard Rating tier. This is slightly lower than the percentage reported last year. One indication that the market may be softening is that five percent more policyholders this year than last year are receiving rates below MEMIC's Standard tier pricing. Currently, about 11 percent have rates lower than MEMIC's Standard Rating tier.

Possible reasons for policyholders accepting rates higher than MEMIC's Standard Rating tier 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, 4) The insured was placed in MEMIC's High Risk Rating tier because of its poor loss history. The following table illustrates the distribution of workers' compensation policyholders.

Percent of Reported Policyholders At, Above or Below MEMIC's Standard Rating Tier Rates

Rate Comparison	2005 Percent	2006 Percent
Below MEMIC Standard Rate	5.02%	10.79%
At MEMIC Standard Rate	85.42%	80.32%
Above MEMIC Standard Rate	9.56%	8.89%

Note: Based upon the results of a survey conducted by the Bureau of Insurance. Respondents included carriers in the top 10 insurance groups in Maine.

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. In the bureau's survey of insurers in the top 10 groups, mentioned on the previous page, we found that the ratio of credits to debits was over five to one. That is, over five dollars in credits are issued for every one dollar in debits. Additionally, nearly five million dollars in dividends were paid out, with just over 80 percent of those dividends issued by MEMIC.[1]

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 81% 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%. Over 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, 2007, 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. Sixteen 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 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.

- **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. Nearly 66 percent of MEMIC's non-experience rated accounts currently receive loss free credits of between eight and 25 percent.

[1] In October, 2006, MEMIC announced that its Board of Directors voted to pay out $12 million in dividends to over 20,000 company policyholders. The dividend is based upon premium paid to MEMIC on 2003 policies.

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 2005, the percent of Maine's total workers' compensation insurance market represented by self-insured employers and groups was 40.3%. This was slight decrease from the prior year and was its lowest level since 1991.

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, 1996-2005

Year	Estimated Standard Premium	Percent of Workers' Comp. Market (in annual standard premium)
2005	$167,278,509	40.3
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

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, 2006 there were 20 self-insured groups representing approximately 1,437 employers as well as 71 individual self-insured employers in Maine. The number of self-insured groups remained the same over the past three years. The number of employers in self-insured groups has increased by over 16% since 2002. Conversely, the number of individually self-insured employers has decreased by 54% over the past ten years.

Table VII: Number of Self-Insured Groups, Employers in Groups, and Individually Self-Insured Employers 1997-2006

Year	# of Self-Insured Groups	# of Employers In Groups	# of Individually Self-Insured Employers
2006	20	1437	71
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

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

Manufacturing Industry and Office and Clerical Operations

Each year Actuarial and Technical Solutions, Inc. collects information from states that is used in a publication entitled Workers' Compensation State Rankings--Manufacturing Industry Costs and Statutory Benefit Provisions. Until 2005, the study ranked workers' compensation rates charged in the manufacturing sector only. In response to inquiries about the cost of workers' compensation in other sectors, Actuarial and Technical Solutions began publishing information on office and clerical employees. This includes classes such as accountants, engineers, school professionals, attorneys and other office and clerical employees.

In the 2006 study, Maine ranked 27th in workers' compensation average statutory benefit provisions (wage replacement benefits). Our rank in 2005 was 28th. All fifty states were ranked. A lower rank indicates lower the statutory benefits. In addition to statutory benefit provisions, states were ranked by comparative cost for both office and clerical and for manufacturing. In 2006, Maine ranked 35th in office and clerical and 27th in manufacturing. We were ranked 34th and 28th respectively in 2005. This means that our comparative costs improved one position in manufacturing and fell one position in office and clerical relative to other states.

Oregon Workers' Compensation Premium Rate Ranking

In another study, conducted bi-annually by the State of Oregon, Maine ranked 8th in terms of 2006 workers' compensation premium rates for all industries. In this study, a lower rank indicates higher premium rates. In the 2004 study, Maine ranked 13th overall and in the 2002 study, Maine also ranked 8th. 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.

PART VI. A LOOK NATIONALLY

Average Loss Costs by State Based Upon Maine's Payroll Distribution

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.

State	Average Loss Cost	Rank
Indiana	$0.91	1
Virginia	$1.07	2
Arizona	$1.20	3
Kansas	$1.20	3
Utah	$1.20	3
South Carolina	$1.25	6
South Dakota	$1.28	7
District of Columbia	$1.31	8
Iowa	$1.32	9
Maryland	$1.38	10
Nevada	$1.42	11
Oregon	$1.47	12
Georgia	$1.50	13
Idaho	$1.51	14
New Mexico	$1.51	14
North Carolina	$1.55	16
Mississippi	$1.57	17
Rhode Island	$1.58	18
Missouri	$1.59	19
Hawaii	$1.60	20
Tennessee	$1.60	20
Nebraska	$1.62	22
Colorado	$1.64	23
Oklahoma	$1.72	24
Connecticut	$1.75	25
Illinois	$1.95	26
Maine	$1.97	27
New Hampshire	$1.99	28
Florida	$2.09	29
Louisiana	$2.10	30
Kentucky	$2.15	31
Vermont	$2.15	31
Alabama	$2.19	33
Alaska	$2.89	34
Montana	$3.32	35

Note: Average loss cost does not include expense and profit loading and is an average using all payroll. The actual average for an employer will depend on the type of business and payroll mix. The relatively high total payroll and relatively low loss cost for the clerical classification causes the statewide average to be lower.