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-A 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 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 rating rules 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 2.2% decrease in advisory loss costs. That filing was approved by the Bureau of Insurance. 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 53 percent of the total benefit costs in Maine and inflation of medical costs and services is at a greater rate than overall inflation as measured by the Consumer Price Index, and at a greater rate than increases in wages.

The increase in advisory loss costs is not evenly distributed across all rating classifications. Four of five industry groups experienced reductions of 3.0 to 6.8 percent. These include Contracting, Goods & Services, Manufacturing, and Office & Clerical. The Miscellaneous industry group (all other industries) experienced a 7.4% increase. 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 other employers will see increases.

Although Maine Employer's Mutual Insurance Company's (MEMIC) market share has dropped slightly over the past two years, the market is still very concentrated. Much of the business is written by a small number of companies. There are signs that pricing has become more competitive. There has been a continuous increase in the number of insurance companies becoming licensed to provide workers' compensation coverage in Maine. Additionally, some companies are lowering their rates in hopes of attracting business. However, insurers other than MEMIC do not have to offer coverage to employers and are selective in who they choose to underwrite coverage. In order to become eligible for lower rates, an employer needs to have a history of few or no losses, maintain a safe work environment, be willing to follow loss control recommendations, and strive to prevent and control any future losses.

MEMIC, which writes both competitively and employers not able to obtain coverage from other sources had a slight decrease in market share in 2006. Twenty five companies wrote more than

$1 million each in annual premium in 2006; this was two more companies writing that volume of business than in 2005. For the past three years, the top 10 insurance groups wrote 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. An insurer's willingness to offer credits and other pricing reductions may be affected by expected investment returns and other marketing objectives.

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 AND BACKGROUND

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 five NCCI loss cost filings have called for either small increases, small decreases or no change in loss costs. This is a positive trend and shows some stabilization in the market. The frequency of injuries in Maine continues to decline, but indemnity and medical severity are increasing. According to NCCI, there were five straight decreases in lost-time claims through 2005. Forty seven percent of Maine's total benefit costs are for medical benefits and 53 percent are for indemnity. This compares to 59 percent for medical benefits and 41 percent for indemnity benefits nationally. Indemnity severity tends to increase with age, so the aging of Maine's population suggests that there may be some upward pressure on indemnity costs in the future. NCCI economists, using data from the U.S. Department of Labor and Moody's Economy.com, presented projections showing much of Maine's job growth coming in Education and Health Services, Professional and Business Services and Leisure and Hospitality through 2009. These sectors tend to have relatively low frequency, so little upward pressure on frequency is expected in the near future. Overall claim frequency has also been affected by the loss of jobs in manufacturing.

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 still 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.

Accident Year, Calendar Year and Policy Year Reporting

Workers' compensation is a long-tail line of insurance, meaning payments for claims can continue over a long period of time. For more serious 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 aggregate reserve adjustments for past years. For claims expected to cost more, reserves are adjusted upward; for those 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, which can result in insurer operating losses. This can eventually force loss ratios to critical levels, causing insurers to raise their rates and be more selective on business written. Ultimately this restores insurer profitability and surplus. This situation, in time, spurs another round of price-cutting, perpetuating the cycle.

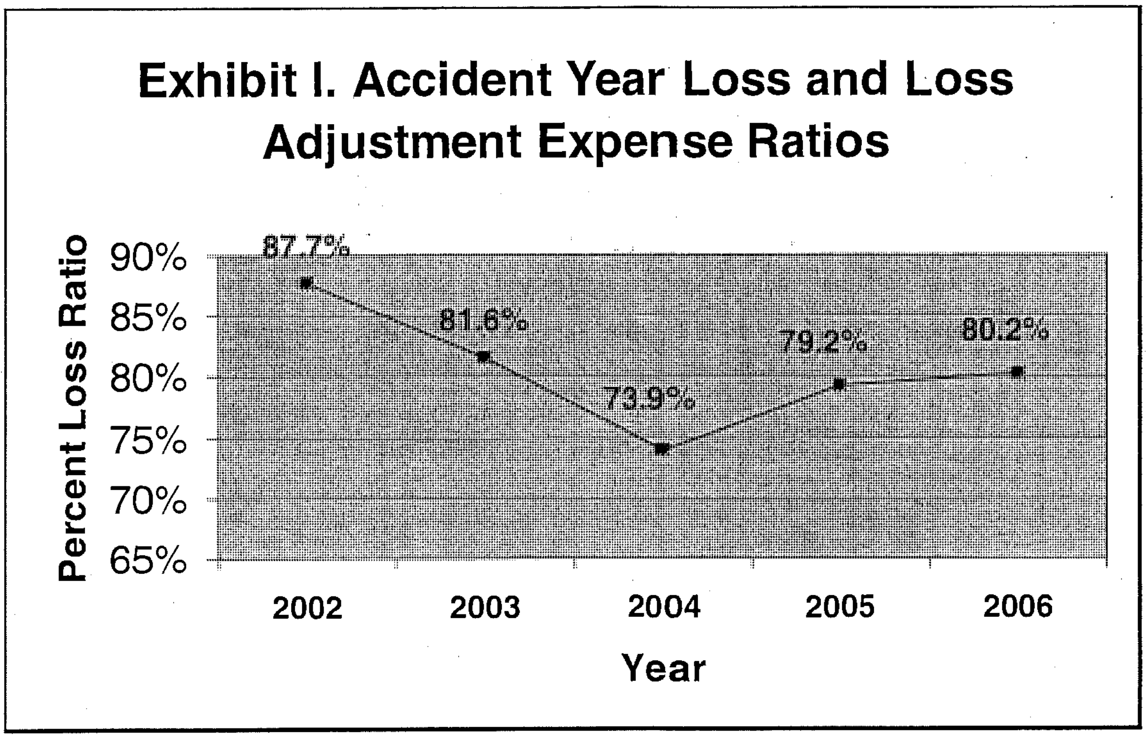
In the late 1980s and early 1990s, Maine's workers' compensation insurance market was hard. From the mid-1990s until about 2000, Maine's market would be considered soft. After 2000 insurance markets became less competitive, and this trend increased following the events of September 11, 2001. Hard markets may also occur when insurers tighten their underwriting standards or reduce their use of premium credits. This describes what happened in Maine over the last several years. However, there are indications that the market in Maine is softening. More companies have become licensed to write workers' compensation insurance and some companies have reduced their rates.

The accident year incurred loss ratio has ranged from 74% to 81% over the past four years. 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). Conversely, an increase in these loss ratios may reflect decreased rates or a worsening loss experience. The loss ratio does not take into account underwriting expenses of the insurer--including things like acquisition expenses, general expenses and taxes, nor does it consider investment income.

RECENT EXPERIENCE

Accident Year Loss and Loss Adjustment Expense Ratios

The accident year loss ratio shows the percent of earned premium used to fund losses and their settlement. Exhibit I 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 2006 loss ratio was 80.2%, indicating that about $80 is expected to be paid out for losses and loss adjustment expenses for every $100 earned in premium. The 2005 loss ratio was 79.2%. Loss ratios dropped from 2002 to 2004 and are now rebounding. The loss ratios have increased in the past two years as some insurers have begun to reduce rates and increase credits to attract business.



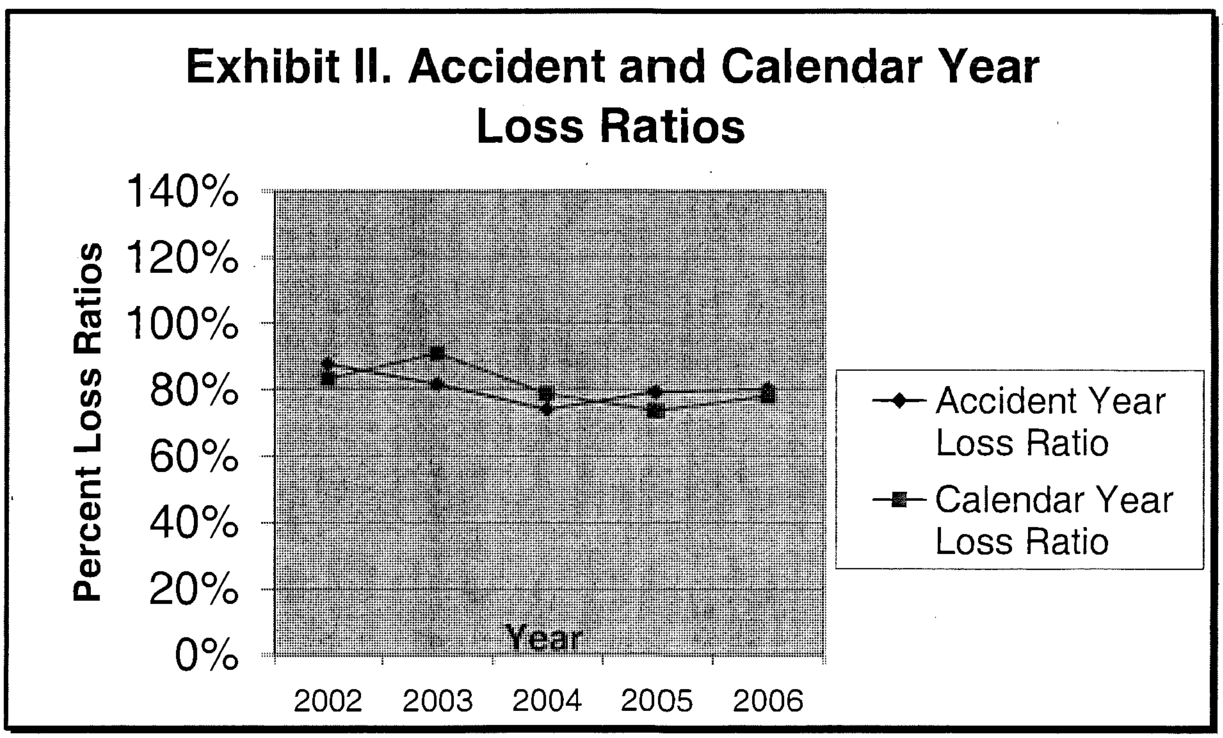
Source: National Council on Compensation Insurance

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 highest accident year loss ratio in the past five years was nearly 88 percent in 2002. Over the past four years, it has hovered around 80 percent or less. 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.

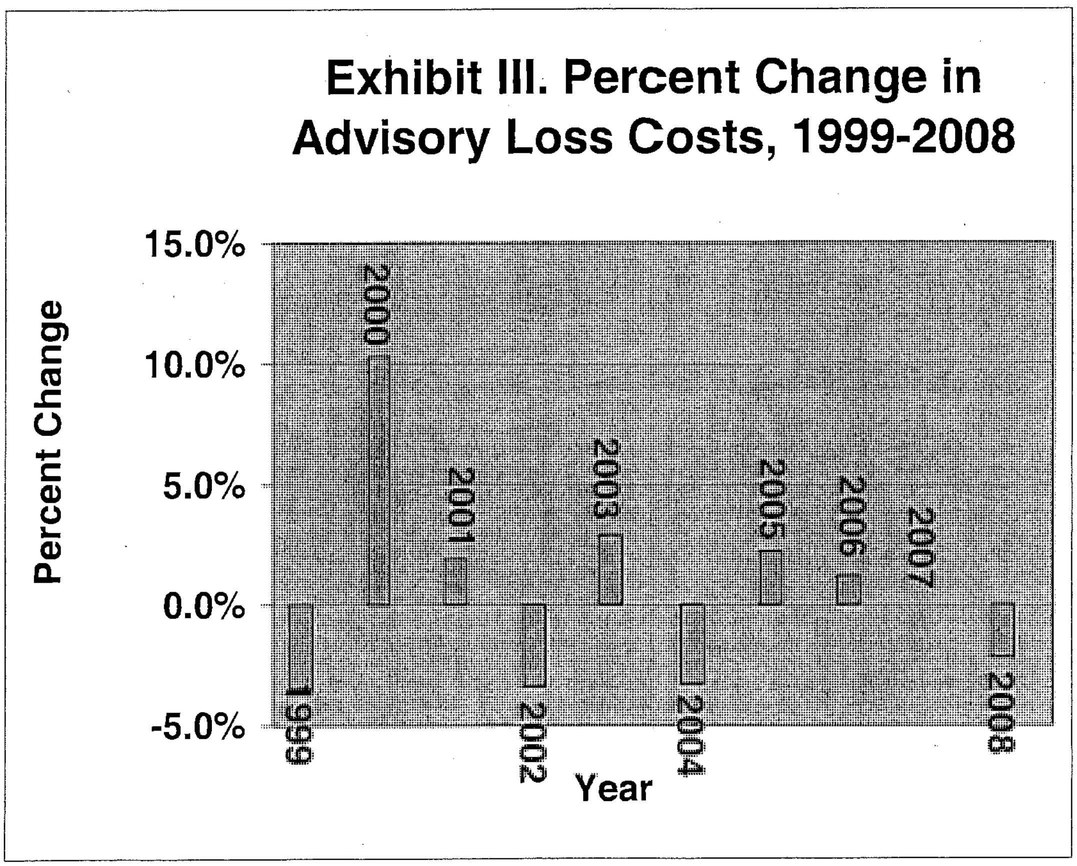


Source: National Council on Compensation Insurance

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 to load into premium to cover those items.

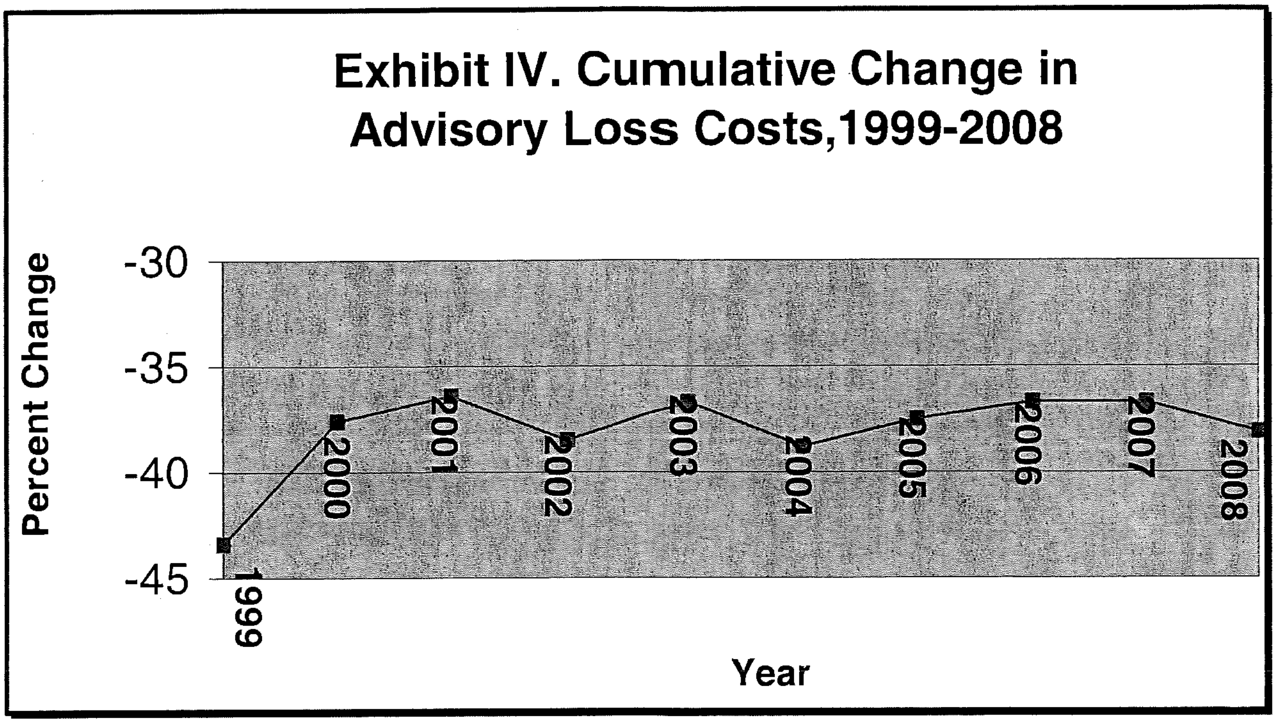
In 2007, there was no increase in the advisory loss costs. NCCI filed for a 2.2% decrease effective January 1, 2008 and that filing was approved. There have been some increases and some decreases, but overall there has been minimal change in the average loss costs since 2001. The last large increase 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 eight years. The last large increase filed was in 2000.



Source: National Council on Compensation Insurance

MARKET STRUCTURE AND COMPETITION

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. The result is less competition. Conversely, less concentration indicates that there are more insurers in the market and greater competition.

As of October 1, 2007, 273 companies are authorized to write workers' compensation coverage in Maine. This number is not the best indicator of market concentration because some insurers have no written premium. In terms of written premium, the market share for Maine Employers' Mutual Insurance Company (MEMIC) is 64% of the insured market. MEMIC has been successful in retaining business and other insurers are selective and less willing to provide coverage for some businesses or have been unable to increase their market share. The following table shows the number of carriers, by level of written premium, for those carriers writing workers' compensation insurance in 2006. The number of carriers writing over one million dollars in written premium increased from 21 in 2004 to 25 in 2006. This information is one indicator that the market is becoming less concentrated and somewhat more competitive than it was a couple of years ago.

Table I: Number of Companies by Level of Written Premium--2006

Amount of Written Premium	Number of Companies At That Level
>$10,000	111
>$100,000	71
>$1,000,000	25

Source: Annual Statements Filed with the Bureau of Insurance. Total written premium for 2006 was over $242 million.

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.

Herfindahl Hirschman Index

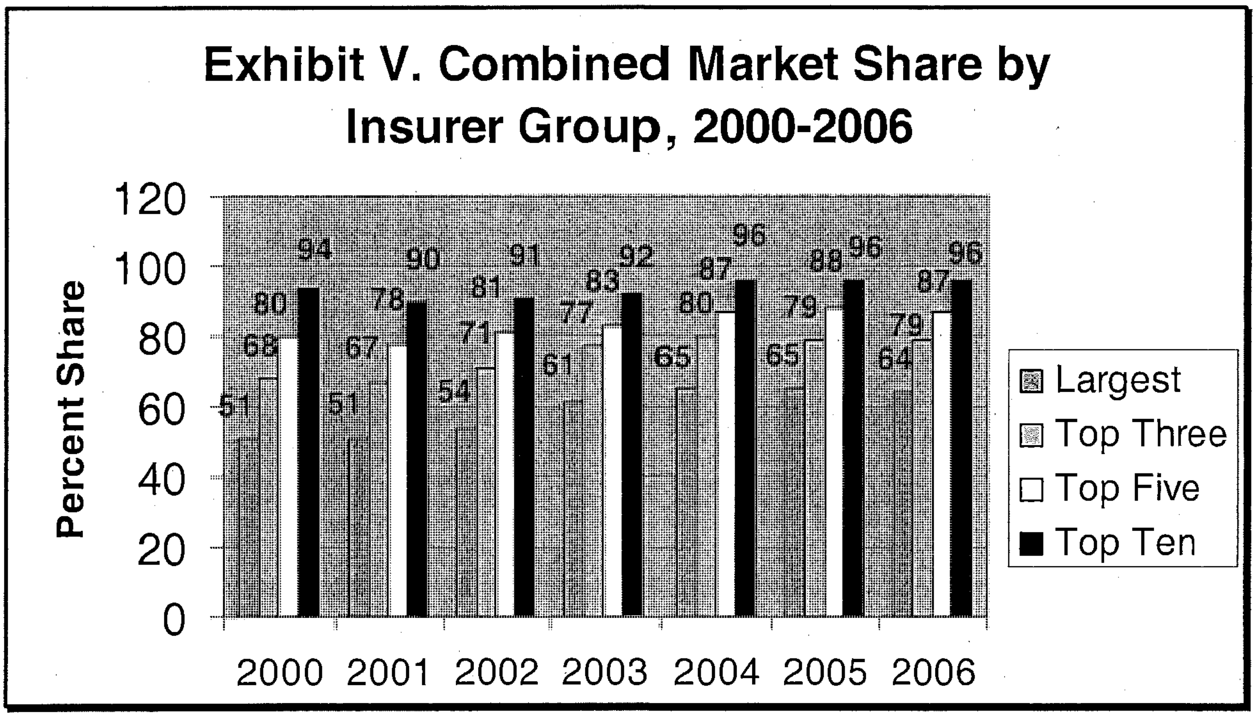
The Herfindahl-Hirschman Index (HHI) is a method to measure market concentration. The HHI is calculated by summing the squares of the market shares (percentages) of all groups in the market. The National Association of Insurance Commissioners publishes a Commercial Lines Competition Database Report as 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 2007 based on 2005 information the HHI for the workers' compensation line in Maine was 4,250. This was the second highest for all commercial lines in Maine behind medical malpractice at 4301. All other commercial lines were between 394 and 872. 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. Applying 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 2005 Commercial Lines Competition Database Report.

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. An insurance group is a carrier or group of carriers under common ownership. 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 64%, down one percentage point from last year.

For the past three years, 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 $154 million in premium in 2006, nearly $7 million less than it did in the previous year. The top three groups, including MEMIC, wrote over $191 million in business, about $4 million more than in 2005. The top five groups had nearly $211 million in written premium, which is $6 million less than the prior year. The top 10 groups wrote over $231 million in premium in 2006, approximately $7 million less than in 2005. The remaining groups had written premium of less than $11 million.



Source: Annual Statements Filed with the Bureau of Insurance

Number of Carriers in the Maine Insurance Market

The number of carriers in the workers' compensation market has increased in each of the last nine years listed in the table. Eleven new carriers became licensed in the past year and, the number of carriers now licensed is at its highest levels. There currently are no significant barriers to entry.

Table II: Entry and Exit of Workers' Compensation Carriers, 1998-2007

Year	Number of Carriers	Number Entering	Number Exiting	Net Change (Number)	Net Change (Percent)
2007	273	11	5	6	2.3
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

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 of the Top Insurance Groups

Table III shows market share by insurance group from 2000-2006. 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.

Table III. Percent Market Share for Top Insurance Groups, By Amount of Written Premium, 2000-2006

Insurance Group	**2006 Share**	**2005 Share**	**2004 Share**	**2003 Share**	**2002 Share**	**2001 Share**	**2000 Share**
Maine Employers' Mutual	63.6	64.8	65.4	61.5	54.4	51.5	51.2
Liberty Mutual Group	9.2	8.4	9.4	9.6	10.4	7.9	9.5
WR Berkeley Corp.	6.1	5.6	5.4	5.8	6.5	7.4	7.5
American International	4.9	5.1	4.1	3.3	*	*	*
Hartford Fire & Casualty	3.3	3.8	1.9	2.0	3.1	5.4	6.4
Guard Insurance Group	2.3	2.1	2.0	1.8	1.2	1.0	*
Allmerica Financial Corp.	2.1	1.9	1.7	1.6	2.6	2.0	2.2
St. Paul Travelers Group	1.9	1.6	2.3	1.1	1.6	1.1	*
ACE Ltd	1.3	1.6	0.5	*	*	*	*
CNA Insurance Group	1.1	1.1	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.

Percent Market Share of the Top Insurance Companies

Table IV shows the percent of market share for the top carriers for each calendar year from 2000 through 2006. For the fourth straight year, MEMIC maintains a market share in excess of 60 percent. For the third straight year, none of the other carriers attained a five percent market share. The top ten companies combined write nearly 82% of the business. No carrier outside the top 12 accounts for more than one percent of the written premium.

Table IV. Percent Market Share for Top Insurance Carriers, By Amount of Written Premium, 2000-2006

Insurance Carrier	2006 Share	2005 Share	2004 Share	2003 Share	2002 Share	2001 Share	2000 Share
Maine Employers' Mutual	63.6	64.8	65.3	61.5	54.4	51.5	51.2
Acadia Insurance Company	4.5	4.3	4.4	5.3	6.0	6.8	7.0
Liberty Insurance Corp.	2.5	1.7	1.1	1.4	1.2	1.1	*
Commerce & Industry	2.1	2.1	2.1	1.2	*	*	*
Hanover Insurance Co.	1.6	1.7	1.8	2.0	1.9	3.3	2.5
Peerless Ins. Co.	1.6	2.2	2.3	2.3	2.3	1.5	*
Twin City Fire Ins Co.	1.6	2.0	0.9	*	*	*	*
American Home Assurance Co.	1.5	*	*	*	*	*	*
Norguard	1.4	1.6	2.0	1.9	1.7	2.0	1.3
Liberty Mutual Fire Ins Co	1.2	1.0	1.4	1.6	1.4	0.9	*
Excelsior Insurance Co.	1.2	*	*	*	*	*	*
Fireman's Fund of Wash DC	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.

DIFFERENCES IN RATES AND FACTORS AFFECTING RATES

Rate Differentials

There are a wide range of potential rates for workers' compensation policyholders, 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 insurance 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 the market and over $238 million in written premium in Maine for calendar year 2006. The results show that nearly 73% of policyholders are written at rates equivalent to Maine Employers' Mutual Insurance Company's (MEMIC) Standard rating tier. Over nineteen percent are written at rates lower than MEMIC's Standard Rating tier. This is an increase of over three percent from last year's survey and is an indicator of market softening. Nearly eight percent of policyholders have policies written at rates that are above MEMIC's Standard Rating tier, just a bit lower than last year.

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 would have been placed in MEMIC's High Risk Rating tier because of its poor loss history.

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

Rate Comparison	2007 Percent	2006 Percent
Below MEMIC Standard Rate	19.37%	16.05%
At MEMIC Standard Rate	72.76%	75.59%
Above MEMIC Standard Rate	7.88%	8.37%

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. 2006 figures were adjusted to reflect additional information reported by one carrier.

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 nearly $16 in credits were provided for every $1 in debits. Additionally, over 12.5 million dollars in dividends were paid out in 2006, with about 95 percent of those reported dividends issued by MEMIC.

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 80% 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 72 percent 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. Nearly fifteen 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. On September 21, 2007, MEMIC declared a dividend of $14,000,000. The dividend was based upon premium paid to MEMIC on 2004 policies and was paid to 20,000 policyholders.

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

- **Terrorism Risk Insurance Act** is a separate element of the premium calculation. It is a final step of the workers' compensation premium determination and is a charge based upon payroll for federal terrorism coverage. Acts of Terrorism cannot be excluded in workers' compensation and since September 2001 reinsurance contracts have excluded coverage for terrorist acts. 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. Federal payments in extreme events help eliminate the insolvency risk for the insurance industry. In late 2005, Congress voted to extend TRIA until December 31, 2007. The House recently passed the Terrorism Risk Insurance Revision and Extension Act of 2007. If approved, the legislation would extend TRIA for 15 years with the current co-payments and deductibles for conventional terrorism acts and change TRIA's definition of act of terrorism to include acts of domestic terrorism.

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 or be required by the Bureau of Insurance 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 2006, the percent of Maine's total workers' compensation insurance market represented by self-insured employers and groups was nearly 41%. This was first increase in market share held by self-insurers in three years.

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, 1997-2006

Year	Estimated Standard Premium	Percent of Workers' Comp. Market (in annual standard premium)
2006	$167,535,911	40.9
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

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, 2007 there were 19 self-insured groups representing approximately 1,478 employers as well as 70 individual self-insured employers in Maine. The number of self-insured groups has been either 19 or 20 for the past nine years. The number of employers in self-insured groups has increased by nearly 20% since 2002. Conversely, the number of individually self-insured employers has decreased by 55% over the past 11 years.

Table VII: Number of Self-Insured Groups, Employers in Groups, and Individually Self-Insured Employers 1998-2007

Year	# of Self-Insured Groups	# of Employers In Groups	# of Individually Self-Insured Employers
2007	19	1,478	70
2006	20	1,437	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

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.

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 2007 study, Maine ranked 25th in workers' compensation average statutory benefit provisions (wage replacement benefits). Our rank in 2006 was 27th. All fifty states were ranked. A lower rank indicates lower statutory benefits. In addition to statutory benefit provisions, states were ranked by comparative cost for both office and clerical operations and for manufacturing. In 2007, Maine ranked 36th in office and clerical and 29th in manufacturing. We were ranked 35th and 27th respectively in 2006. This means that our comparative costs fell two positions 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. The next report will be in 2008.

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

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 sixth highest average loss costs of the 35 states and the District of Columbia reporting information to NCCI.

State	Average Loss Cost	Rank
Indiana	$0.87	1
Virginia	$0.98	2
Arkansas	$1.02	3
District of Columbia	$1.11	4
Utah	$1.12	5
Kansas	$1.21	6
Arizona	$1.22	7
South Dakota	$1.27	8
Maryland	$1.32	9
Idaho	$1.37	10
New Mexico	$1.38	11
Oregon	$1.42	12
Iowa	$1.43	13
Missouri	$1.44	14
Hawaii	$1.45	15
South Carolina	$1.45	15
Nevada	$1.47	17
Rhode Island	$1.48	18
Mississippi	$1.55	19
Georgia	$1.56	20
Nebraska	$1.56	20
Tennessee	$1.60	22
Colorado	$1.64	23
North Carolina	$1.67	24
Oklahoma	$1.71	25
Connecticut	$1.74	26
Louisiana	$1.74	26
Florida	$1.85	28
Kentucky	$1.87	29
New Hampshire	$1.95	30
Maine	$1.97	31
Illinois	$2.01	32
Alabama	$2.07	33
Vermont	2.12	34
Alaska	$2.51	35
Montana	$3.25	36

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.