DEPARTMENT OF
Professional &
Financial Regulation
STATE OF MAINE

- OFFICE OF SECURITIES
- BUREAU OF INSURANCE
- CONSUMER CREDIT PROTECTION
- BUREAU OF FINANCIAL INSTITUTIONS
- OFFICE OF LICENSING AND REGISTRATION

THE STATE OF COMPETITION IN THE MAINE WORKERS' COMPENSATION MARKET

Prepared by the Staff of the Maine Bureau of Insurance
December 15, 2011

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EXECUTIVE SUMMARY

Pursuant to 24-A M.R.S.A. § 2383-A the Superintendent of Insurance must report annually to the Governor and the Joint Standing Committee on Insurance and Financial Services 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 annual 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 for approval factors called loss cost multipliers. These account for company experience, overhead expenses, taxes, contingencies, investment income and profit. The advisory loss costs are multiplied by the loss cost multiplier to form rates for individual insurers. Other rating rules such as experience rating, schedule rating, and premium discounts also affect the ultimate premium amount paid by an individual employer.

On October 5, 2011 NCCI filed with the Bureau for an overall 3.2% decrease in advisory loss costs effective January 1, 2012. On December 6, 2011 NCCI submitted a revision to the advisory loss costs to incorporate the recently implemented Maine Workers' Compensation Board medical fee rule effective January 1, 2012. The combined effect of the two filing is for an overall 6.9% decrease in the advisory loss costs effective January 1, 2012. The filings were reviewed and approved by the Bureau. Declining claims frequency since policy year 2000 has contributed to Maine's improved underwriting results. The average indemnity cost per case decreased in policies year 2008 and 2009, the most recent data available. There was also a slight decrease in medical benefit costs in policy year 2009; however, the average medical benefit cost per case has risen significantly since policy year 2000. This development is important because medical benefits constitute 57% of the total benefit costs in Maine. Medical costs and services are rising faster than overall inflation, as measured by the Consumer Price Index, and are rising faster than wages.

The decrease in the proposed advisory loss costs is not evenly distributed across all rating classifications, as seen below.

Industry Group	Percent Decrease
Miscellaneous	-11.3%
Manufacturing	-6.5%
Office Clerical	-5.0%
Contracting	-7.0%
Goods & Services	-5.3%

The change in loss costs for individual classifications within each group varies depending on the experience within each classification. Many employers will experience premium decreases while some will experience increases.

Maine Employers' Mutual Insurance Company (MEMIC), although it actively competes in the voluntary market, functions as the insurer of last resort in Maine. Although MEMIC's market share has dropped from 63.6% in 2006 to 61.5% in 2010, the workers' compensation insurance market is still very concentrated. Much of the business is written by a small number of companies. There are, however, continued signs that pricing has become more competitive.

Some insurers have lowered their rates in hopes of attracting business. Additionally, the number of insurance companies becoming licensed to provide workers' compensation coverage in Maine has been on the increase for several years. Insurers other than MEMIC do not have to offer coverage to employers and can be more selective in choosing which employers to underwrite. 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 coverage both competitively and for employers not able to obtain coverage from other sources, had a 0.7% decrease in market share in 2010. MEMIC's market share has declined by 3.8% since 2004. Twenty-one insurers wrote more than $1 million each in annual premium in 2010, seven fewer companies than in 2008. The top 10 insurance groups wrote 94% of the workers' compensation insurance in the state in 2010, the same as in 2008. 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 also may be affected by expected investment returns and other marketing objectives.

Self-insured employers represented over 47.5% of the overall workers' compensation market in 2010, the fourth consecutive increase after reaching a low of about 40% in 2005. Self-insurance continues to be a viable alternative to the insurance market for some employers.

INTRODUCTION AND BACKGROUND

Introduction

This report examines different measures of market competition in the Maine workers compensation insurance market. 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 from the workers' compensation insurance market; and 5) comparison of variations in rates.

The tables in this report for 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 claims opened, claims closed and any claims reopened during the year. Other tables and graphs contain up to 10 years of information.

In 2011, the National Council on Compensation Insurance (NCCI) was granted approval by the Bureau for an average decrease in the advisory loss costs of 6.9%. According to NCCI, the frequency of loss-time claims has decreased from 2000 to 2007. In 2008, the frequency increased slightly followed by a decrease in 2009 which is the most recent year of data used in their filing. Also contributing to the proposed decrease in the advisory loss costs is a decrease in the average indemnity costs—a measure of severity. However, indemnity costs tend to be higher for older workers. As Maine's population ages, there may be an increase in indemnity costs in the future. NCCI in its 2010 Maine State Advisory Forum presentation stated that the percentage of Maine's population between the ages of 45 and 64 is expected to peak in 2010, although people may work longer due to the economy. Medical costs continue to increase. Forty-three percent of Maine's total benefit costs are for indemnity and 57% are for medical.

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. Insurers, however, are still being conservative in selecting businesses to cover 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. Self-insurance provides a viable alternative for some Maine employers.

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 after the year in which the injury occurred. Thus, amounts to be paid on open claims must be estimated. Insurers collect claim, premium and expense information to calculate financial ratios. This information may be presented on an accident year, calendar year, or policy year basis. This report primarily shows information on an accident year basis. A description of each method and its use in understanding workers' compensation 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 earned premium 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 more 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 in writing business. Insurer profitability and surplus eventually recover. This situation, in time, spurs another round of price-cutting, perpetuating the cycle.

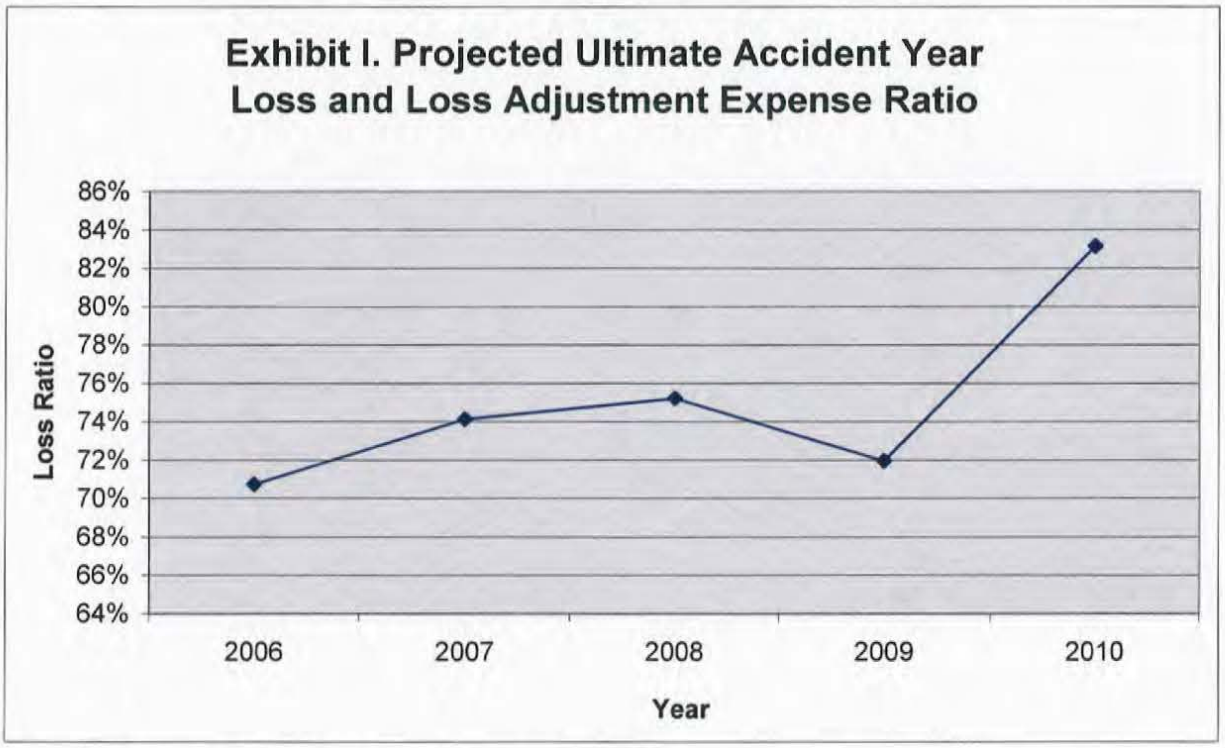
In the late 1980s and early 1990s, the Maine workers compensation insurance market was hard. From the mid-1990s until 2000, the market was considered soft. After 2000, insurance markets generally became less competitive, and this trend increased following the September 11, 2001 attacks. Over the last several years, the Maine market hardened as insurers tightened their underwriting standards and reduced premium credits.

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. 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, improved loss experience, or changes in reserve (i.e., the amount of money expected to be paid out on claims). Conversely, an increase in the loss ratios may reflect decreased rates or worsening loss experience. The loss ratio does not include insurers' general expenses, taxes and contingencies, profit or investment income.

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 for prior years are further developed, so the loss ratios reflect more recent estimates of what the claims will ultimately cost. The accident year loss ratio has ranged from about 70% to slightly over 83% for the past five years. The 2010 loss ratio was 83.1%, indicating that $83.10 is expected to be paid out for losses and loss adjustment expenses for every $100 earned in premium.

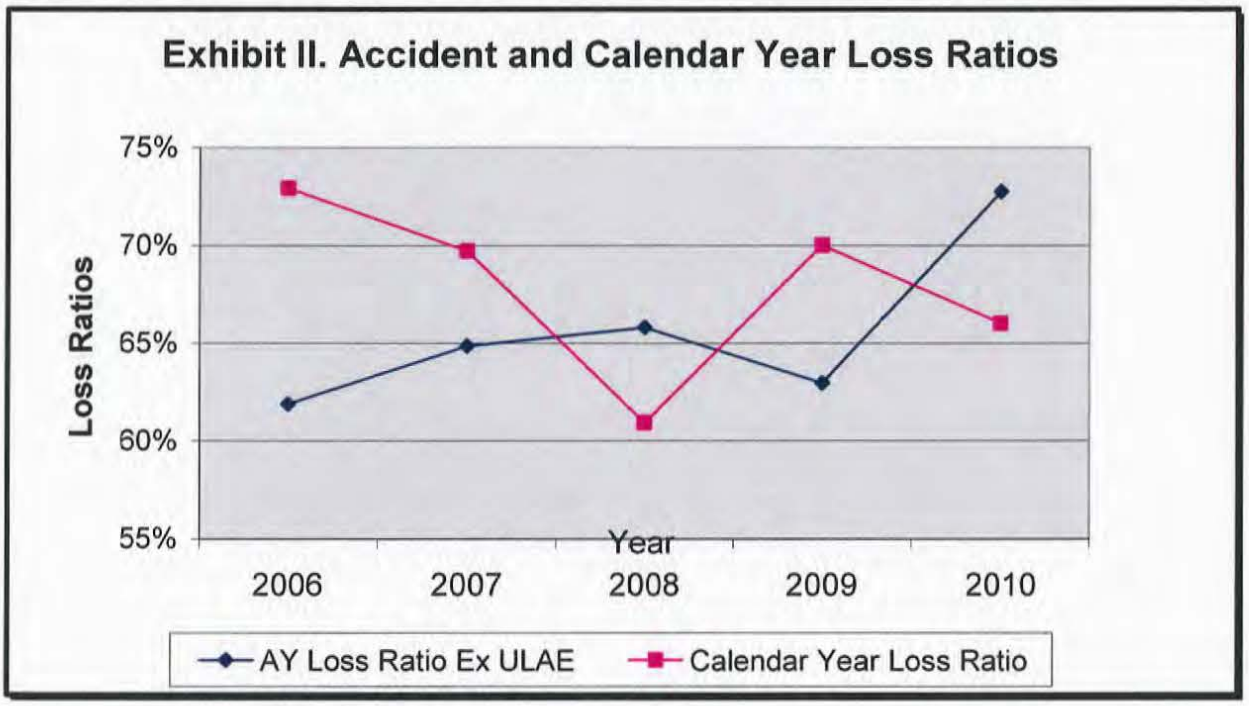


Source: National Council on Compensation Insurance

Calendar Year and Accident Year Loss Ratios

Calendar year loss ratios compare losses incurred with premium earned in the same year (although only a small portion of the losses are attributable to premiums earned that year). 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. 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. 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.

Exhibit II shows calendar year and accident year loss ratios. The calendar year loss ratio of 72.9% in 2006 was the highest in the period of 2006-2010. Since that time it dropped to 60.9% in 2008 but increased to 66.0% in 2010. The accident year loss ratio is trending upward over the period of 2006-2010, ranging from a low of 61.9% in 2006 to a high of 72.7% in 2010.



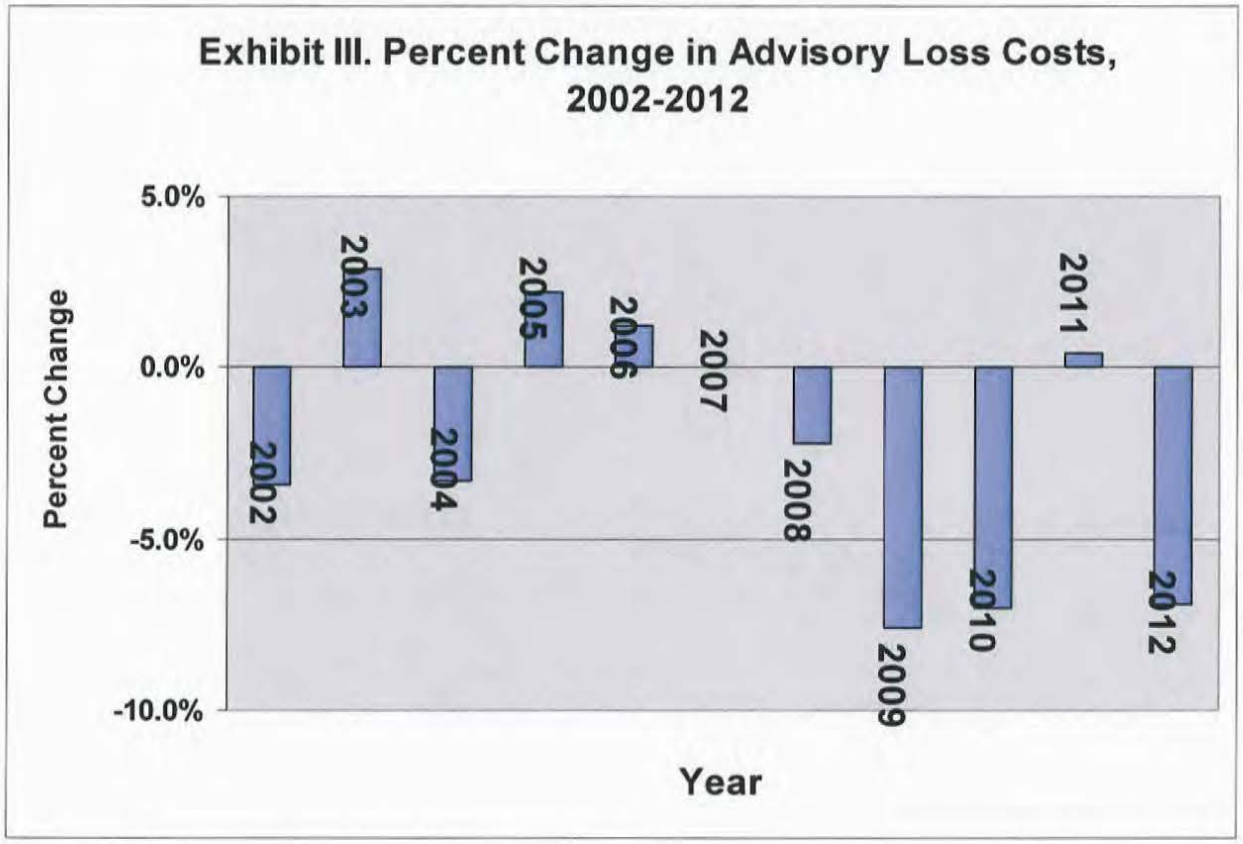
Note: ULAE means Unallocated Loss Adjustment Expense
Source: National Council on Compensation Insurance

LOSSES IN WORKERS' COMPENSATION

Changes in Advisory Loss Costs

NCCI files advisory loss costs on behalf of workers compensation carriers. 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 insurers pay for commissions, 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.

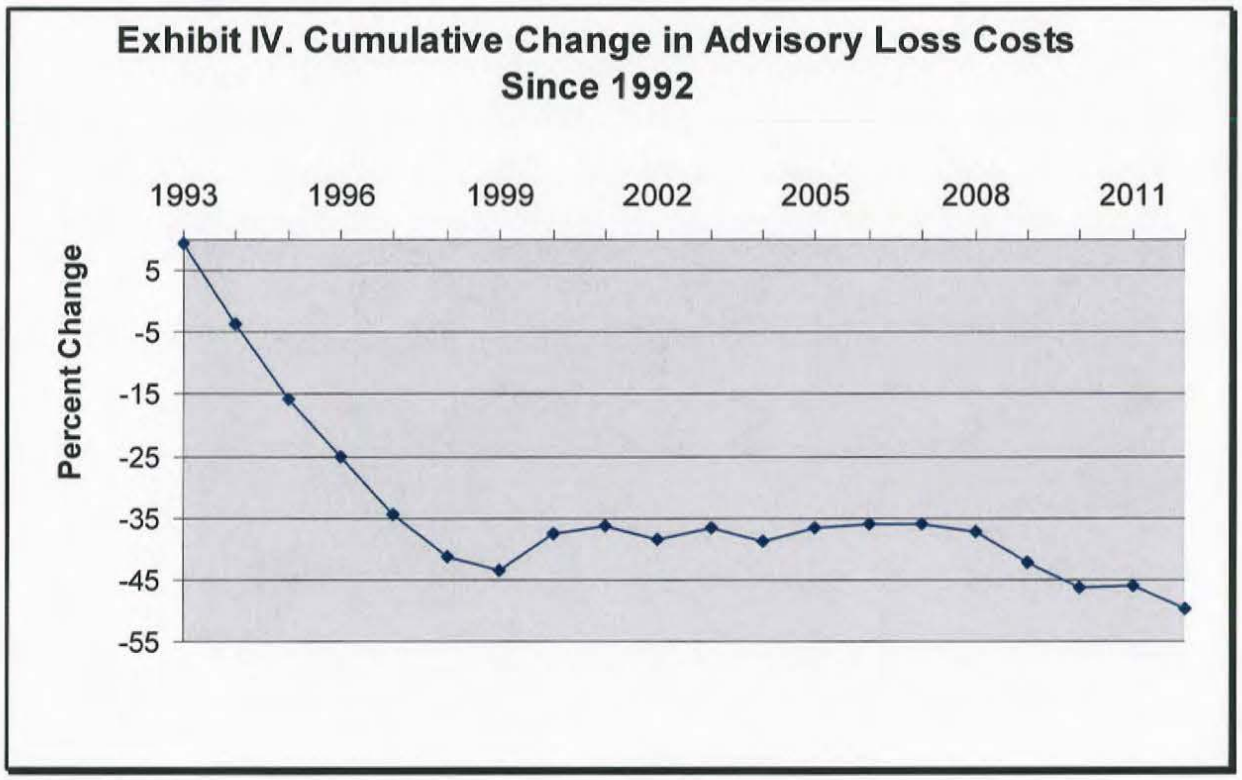
In 2010, the advisory loss costs were increased by 0.4%. The Bureau of Insurance recently approved a 6.9% decrease in advisory loss costs effective January 1, 2012. Advisory loss costs will be about 21% lower than they were five years ago and nearly 50% lower than when the most recent major reform of the workers' compensation system occurred in 1993. Changes in the advisory loss costs tend to lag behind changes in actual experience and to precede changes in rates.



Source: National Council on Compensation Insurance

Cumulative Changes in Advisory Loss Costs

Exhibit IV shows the cumulative changes in loss costs over the past 14 years. The advisory loss costs have declined over the past five years with the exeception of 2011 where the advisory loss cost increased by 0.4%.



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 greater competition because more insurers are in the market.

As of October 1, 2011, 313 companies were 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, MEMIC accounts for nearly 62% of the insured market. Although MEMIC has been successful in retaining business, other insurers are selectively increasing their market share. The following table shows the number of carriers by premium level for those carriers writing workers' compensation insurance in 2010. The number of carriers writing greater than $1 million in written premium decreased by one from 2009 to 2010.

Table I: Number of Companies by Level of Written Premium—2010

Amount of Written Premium	Number of Companies At That Level
>$10,000	127
>$100,000	80
>$1,000,000	21

Source: Annual Statements Filed with the Bureau of Insurance. Total written premium for 2010 was over $189 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 (NAIC) publishes a 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. The 2009 Database Report, prepared in 2010, shows that the HHI for workers' compensation insurance in Maine is 3,993. This is the third highest for all commercial lines in Maine behind Medical Professional Liability and Financial Guaranty. All other commercial lines were between 357 and 834, with the exception of Mortgage Guaranty which was 2,364. According to the Database Report, there is no precise point at which the HHI indicates that a market or industry is so concentrated that competition is restricted. The U.S. Department of Justice's guideline for corporate mergers uses 1,800 to indicate highly concentrated markets and the range from 1,000 to 1,800 to indicate moderately concentrated markets. A market with an HHI below 1,000 is considered not concentrated. Applying the HHI to Maine's workers compensation market might not be a helpful gauge of this market for two reasons. First, the Maine Legislature created an employer owned mutual insurer, MEMIC, to replace a highly concentrated residual market in which other insurers were reluctant to write actively in this state. Second, the market has a high percentage of employers self-insured individually or in a group.

Source: NAIC 2009 Competition Database Report

Combined Market Share

An insurance group is a carrier or group of carriers under common ownership. 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. MEMIC has the largest market share. Its share has ranged between 61% and 65% for the last seven years. The market share of the top 10 insurer groups was 94% in 2010; other groups accounted for only 6% of the workers' compensation premium in Maine.

In terms of premium dollars, MEMIC wrote over $116 million in premium in 2010. The top three groups, including MEMIC, wrote over $145 million in business. The top five groups wrote nearly $160 million, and the top 10 groups had nearly $178 in written premium. Overall, written premium levels in Maine have dropped considerably since 2005. MEMIC had over $44 million less in written premium in 2010 than it did in 2005. The top three groups had nearly $50 million less written premium, and the top five and top 10 groups had over $57 million and $60 million less respectively.

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 throughout the 12-year period shown in the table below. The number of carriers who may file rates and be eligible to write workers' compensation coverage has increased by 49% since 2000. There currently are no significant barriers to entry.

Table II: Entry and Exit of Workers Compensation Carriers, 2000-2011					
Year	**Number of Carriers**	**Number Entering**	**Number Exiting**	**Net Change (Number)**	**Net Change (Percent)**
2011	313	22	2	20	6.8
2010	293	6	5	1	0.3
2009	292	10	0	10	3.6
2008	282	13	4	9	3.3
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

Source: Maine Bureau of Insurance Records.

Notes: 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 the market includes companies under suspension.

Percent Market Share of the Top Insurance Groups

Table III shows market share by insurance group from 2004-2010. 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, 2004-2010

Insurance Group	2010 Share	2009 Share	2008 Share	2007 Share	2006 Share	2005 Share	2004 Share
Maine Employers' Mutual	61.5	62.2	61.3	61.6	63.6	64.8	65.4
Liberty Mutual Group	10.0	10.4	11.0	8.8	9.2	8.4	9.4
WR Berkeley Corp.	5.2	5.7	6.1	6.3	6.1	5.6	5.4
Travelers Group	3.9	3.5	2.7	2.2	1.9	1.6	2.3
American International Group	3.6	2.3	2.8	5.2	4.9	5.1	4.1
Hartford Fire & Casualty	3.2	3.4	3.7	3.6	3.3	3.8	1.9
Zurich Insurance Group	2.1	2.0	1.2	1.3	0.9	0.6	1.7
The Hanover Ins Corp.	1.5	1.6	1.8	1.7	2.1	1.9	1.7
Guard Insurance Group	1.4	1.7	1.8	2.0	2.3	2.1	2.0
Ace Ltd Group	1.3	1.9	1.2	1.6	1.3	1.6	0.9

Source: Annual Statements Filed with the Bureau of Insurance

Percent Market Share of the Top Insurance Carriers

Table IV shows the percent of market share for the top carriers for each calendar year from 2004 through 2010. Throughout the seven-year period, MEMIC has had in excess of 60% of the market. For the seventh straight year, none of the other carriers attained a 5% market share. The top 10 companies combined write over 77% of the business.

Table IV. Percent Market Share for Top Insurance Carriers, By Amount of Written Premium, 2004-2010

Insurance Carrier	2010 Share	2009 Share	2008 Share	2007 Share	2006 Share	2005 Share	2004 Share
Maine Employers' Mutual	61.5	62.2	61.3	61.6	63.6	64.8	65.3
Netherlands	2.7	2.6	2.1	1.4	0.9	0.3	0.2
Acadia Insurance Company	2.6	3.4	4.2	4.5	4.5	4.3	4.4
Liberty Insurance Corp.	2.1	2.0	2.7	2.1	2.5	1.7	1.1
Firemen's Ins Co of Wash DC	2.1	1.9	1.3	1.3	1.1	0.9	0.7
Excelsior Insurance Co.	1.4	1.3	1.4	1.4	1.2	1.0	0.9
Zurich American Ins Co.	1.3						
Hartford Ins Co of the Midwest	1.2	1.0	1.0	0.9	0.5	0.4	0.2
New Hampshire Ins Co	1.2	1.2	1.0	0.4	0.3	0.3	0.2
Standard Fire Ins Co	1.2						

Source: Annual Statements Filed with the Bureau of Insurance

DIFFERENCES IN RATES AND FACTORS AFFECTING RATES

Rate Differentials

There is a wide range of potential rates for workers compensation policyholders in Maine, 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 factors 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 surveyed the top 10 insurance groups and all of the companies in those 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. Based upon annual statement reports, the carriers that responded accounted for 94% of the market and nearly $178 million in written premium in Maine for calendar year 2010. The results of a survey conducted by the Bureau of Insurance show that over 63% of policies are written at rates equivalent to MEMIC Standard Rating tier. Over 27% are written at rates lower than MEMIC's Standard tier. Over 8% of policyholders have policies written at rates that are above 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 although it might not otherwise, because it provides 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 enough credits to lower the overall premium; or 3) the insured would have been placed in MEMIC's High Risk Rating tier because of its poor loss history.

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

Rate Comparison	2011 Percent	2010 Percent
Below MEMIC Standard Rate	27.3%	22.6%
At MEMIC Standard Rate	63.8%	70.1%
Above MEMIC Standard Rate	8.9%	7.3%

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 insurers offer employers other options that may affect the premiums the employers pay for workers' compensation insurance. While these options might lower an employer's premium, they may also carry some risk of greater exposure.

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 insurer has more than one loss cost multiplier to use, based on where a potential insured falls in its underwriting criteria. Tiered rating may apply to groups of insurers that have different loss cost multipliers for different companies in the group. Our records indicate that over 71% of insurers either have different loss cost multipliers on file or are part of a group that does.

- **Scheduled rating** allows an insurer to consider other factors that may not be reflected in an employer's experience rating when determining an individual employer's premium. Factors including safety plans, medical facilities, safety devices and premises are considered and can result in a change in premium of up to 25%. Over 81% of insurers with filed rates in Maine have received approval to utilize scheduled rating.

- **Small deductible plans** must be offered by insurers. These include 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. Insurers must also offer deductibles of either $1,000 or $5,000 per claim for indemnity benefits. Payments are initially made by the insurer and then reimbursed by the employer. Each insurer files the percentage reductions applicable to employers who elect to have a small deductible plan and the amount of reduction varies by insurer.

- **Managed Care Credits** are credits offered by insurers to employers who use managed care plans. Eighteen 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. In calendar year 2010, MEMIC declared dividends of $11 million dollars. In October 2011, MEMIC announced it will pay a dividend totaling $12 million to about 19,000 Maine policyholders in November 2011. Employers who held policies with MEMIC for a full year, with a term beginning in 2008, will be eligible to receive the dividend. After the November 2011 dividend payment, MEMIC will have returned more than $133 million to policyholders in the form of capital returns and dividends since 1998.

- **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 law requires that the insurer pay all losses associated with this type of policy and then bill the deductible amounts to the insured employer. The advantage of this product is a discount 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. At MEMIC, loss free credits may be received by non-experience rated accounts. As of August 31, 2011, 67% of non-experience rated accounts -- 9,119 policyholders -- receive loss free credits of between 8% and 15%. This represents a 0.5% increase from 2010 and represents 50% of all MEMIC policyholders.

- **Terrorism Risk Insurance Act** (TRIA) is a federal program to protect consumers and insurers by addressing market disruptions and ensuring the continued availability and affordability of insurance for terrorism risk. Under TRIA, the federal government shares the cost of terrorist attacks with the insurance industry. Federal payments in extreme events help eliminate the insolvency risk for the insurance industry. Terrorism coverage is a separate step in determining workers' compensation premium and, like state-required workers' compensation coverage, is a charge based upon payroll for federal terrorism coverage. Acts of terrorism cannot be excluded in workers' compensation insurance and, since September 2001, reinsurance contracts have excluded coverage for terrorist acts. In 2007, the Terrorism Risk Insurance Revision and Extension Act was approved and redefined terrorism to include domestic and foreign terrorism.

Insurers in Maine's top 10 groups reported that over $42 in credits was provided for every $1 in debits. This was nearly $17 less than a year ago. More than $11.3 million in dividends were paid out in 2010, an increase of more than $600,000 from 2009. MEMIC accounted for over 97% of the dividends issued. The amount of credits in the top 10 groups in 2010 rose more than $1.5 million from 2009, and the amount of debits increased by nearly $600,000.

ALTERNATIVE RISK MARKETS

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. Employers who self-insure anticipate that they would be better off not paying premiums. They are likely to have active programs in safety training and injury prevention. In 2010, nearly 48% of Maine's total workers' compensation insurance market, as measured by standard premium, consisted of self-insured employers and groups. Although the estimated standard premium for 2010 decreased from 2008, the percent of the workers' compensation market represented by self-insurers has increased in 2010 from the 2008 level.

The estimated standard premium for individual self-insurance is determined by multiplying the advisory loss cost by a factor of 1.2 as specified in statute, multiplying that figure by the payroll amount, dividing the result 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, 2000-2010

Year	Estimated Standard Premium	Percent of Workers' Comp. Market (in annual standard premium)
2010	$171,478,611	47.5
2009	$160,359,285	44.5
2008	$179,280,965	44.6
2007	$174,830,526	42.1
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

Source: Annual Statements Filed with the Bureau of Insurance.

Notes:
1. Estimated standard premium figures are as of December 31of the year listed.
2. 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.

Number of Self-Insured Employers and Groups

As of October 1, 2011 there were 19 self-insured groups representing approximately 1,378 employers. The number of self insured groups has remained the same for the past five years and the number of individually self-insured employers increased by one from 2010 to 2011. The number of employers in self-insured groups dropped for the fourth straight year.

Table VII: Number of Self-Insured Groups, Employers in Groups, and Individually Self-Insured Employers 2000-2011

Year	# of Self-Insured Groups	# of Employers In Groups	# of Individually Self-Insured Employers
2011	19	1378	59
2010	19	1382	58
2009	19	1459	58
2008	19	1,461	70
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

Source: Bureau of Insurance Records

Notes:
1. For the purposes of self-insurance, affiliated employers are considered separate employers.
2. 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 2000 are as of the beginning of the year.

A LOOK NATIONALLY

Oregon Workers' Compensation Premium Rate Ranking

The State of Oregon collects information from other states on a bi-annual basis and it is used in premium rate rankings. In 2010, Maine ranked 8th highest in terms of workers' compensation premium rates for all industries. In the 2008 rankings, Maine ranked 5th highest overall and in the 2006 study, Maine ranked 8th. The Oregon premium rate rankings focus 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.

Manufacturing Industry and Office and Clerical Operations

Actuarial and Technical Solutions, Inc. (ATS) previously published information about average statutory benefit provisions (i.e., wage replacement benefits) and comparative costs in different states. Information was provided for the manufacturing industry and for office or clerical employees. ATS discontinued publishing information after 2009.

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

NCCI developed a spreadsheet that 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 8th highest average loss costs of the 38 states and the District of Columbia reporting information to NCCI. Last year Maine also ranked the 8th highest average.

State	Average Loss Cost	Rank
Illinois	2.26	1
Montana	2.21	2
Oklahoma	2.01	3
Connecticut	1.94	4
Alaska	1.78	5
New Hampshire	1.74	6
Vermont	1.65	7
Maine	**1.64**	**8**
Kentucky	1.51	9
Georgia	1.49	10
North Carolina	1.46	11
Alabama	1.45	12
Iowa	1.45	13
Maryland	1.4	14
Rhode Island	1.38	15
Tennessee	1.37	16
South Carolina	1.36	17
South Dakota	1.35	18
Louisiana	1.34	19
Idaho	1.31	20

State	Average Loss Cost	Rank
Nebraska	1.28	21
Oregon	1.25	22
New Mexico	1.24	23
Missouri	1.21	24
West Virginia	1.19	25
Arizona	1.17	26
Colorado	1.17	27
Kansas	1.15	28
Florida	1.09	29
Mississippi	1.01	30
Nevada	0.97	31
Hawaii	0.94	32
Utah	0.92	33
Virginia	0.87	34
Indiana	0.84	35
D.C	0.79	36
Arkansas	0.75	37
Texas	0.70	38
Countrywide	**1.29**	

Note: Average loss cost does not include expense and profit loading and is an average using all payrolls. The actual average for an employer will depend on the type of business and payroll mix.