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The State of Competition in the Maine Workers' Compensation Market

Prepared by the Maine Bureau of Insurance
January 10, 2013

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Governor

Anne Head
Commissioner

Eric Cioppa
Superintendent

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DEPARTMENT OF PROFESSIONAL
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January 9, 2013

Senator Geoffrey M. Gratwick
Representative Sharon Anglin Treat
Joint Standing Committee on Insurance and Financial Services
100 State House Station
Augusta, ME 04333

Re: The State of Competition in the Maine Workers' Compensation Market, 2012

Dear Senator Gratwick, Representative Treat, and members of the Committee:

This letter and accompanying information constitutes the Maine Bureau of Insurance's Report on The State of Competition in the Maine Workers' Compensation Market. This report is provided annually to the Joint Standing Committee on Insurance and Financial Services pursuant to 24-A M.R.S.A. § 2383-A and provides a description of the workers' compensation market in Maine.

If you have any questions concerning this report, do not hesitate to contact me.

Respectfully submitted,

Eric A. Cioppa

Eric Cioppa
Superintendent

cc: Members of Insurance and Financial Services Committee; Anne L. Head, Commissioner; Colleen McCarthy Reid, Legislative Analyst

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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 (Bureau). 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 4, 2012, NCCI filed with the Bureau for an overall 1.8% decrease in advisory loss costs effective January 1, 2013. Declining claims frequency since policy year 2000 has contributed to Maine's improved underwriting results. The average indemnity cost per case has been decreasing since policy year 2007. The average medical benefit cost per case has risen significantly since policy year 2003. Policy year 2010 saw only a slight increase in medical benefit costs. Medical benefits constitute 55% 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 filing was approved by the Bureau on November 7, 2012.

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

Industry Group	Percent Decrease
Manufacturing	-3.2%
Office Clerical	-0.5%
Contracting	-2.1%
Goods & Services	-1.5%
Miscellaneous	-2.1%

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) actively competes in the voluntary market and is the insurer of last resort in Maine. Although MEMIC's market share has dropped from 63.6% in 2006 to 59.4% in 2011, 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 increased 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, and follow loss control recommendations.

MEMIC had a 1.1% decrease in market share in 2011. MEMIC's market share has declined by 4.9% since 2004. Twenty-nine insurers wrote more than $1 million each in annual premium in 2011, eight more companies than in 2010. The top 10 insurance groups wrote 92% of the workers' compensation insurance in the state in 2011, 2% less than in 2010. 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-insurance continues to be a viable alternative to the insurance market for employers. Self-insured employers represented over 45% of the overall workers' compensation market in 2011, 2.5% less than in 2010.

I. INTRODUCTION & BACKGROUND

This report examines different measures of competition in the Maine workers compensation insurance market. 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 ten years of information.

In 2012, NCCI received approval from the Bureau for an average decrease in the advisory loss costs of 1.8%. 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 and a slight increase in 2011, the most recent year of data used in the filing. Average indemnity cost—a measure of severity—has also decreased. Medical costs continue to increase and now consume 55% of Maine's total benefit costs. Indemnity costs account for the other 45%.

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. This means that payments for claims can continue over a long period 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 (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. Because workers' compensation claims are often paid out over a long period, only a small portion of calendar year losses is 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) is assigned to the period regardless of when the losses 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.

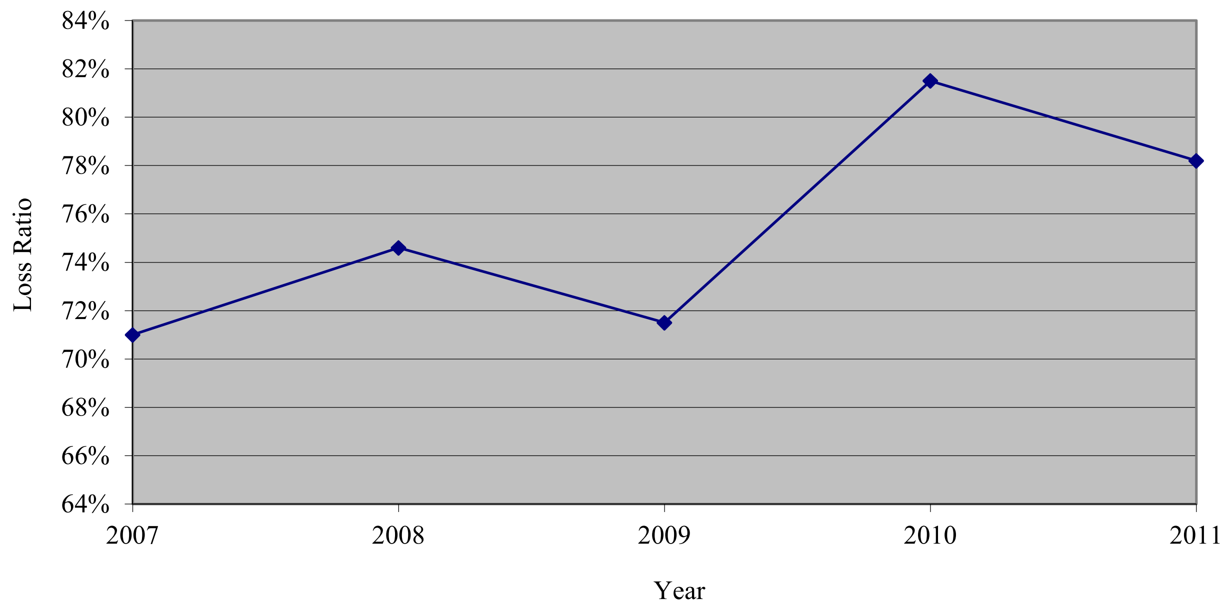
II. RECENT EXPERIENCE

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 70% to 82% for the past five years. The 2011 loss ratio was 78.2%, indicating that $78.20 is expected to be paid out for losses and loss adjustment expenses for every $100 earned in premium.

Exhibit I. Projected Ultimate Accident Year Loss and Loss Adjustment Expense Ratio

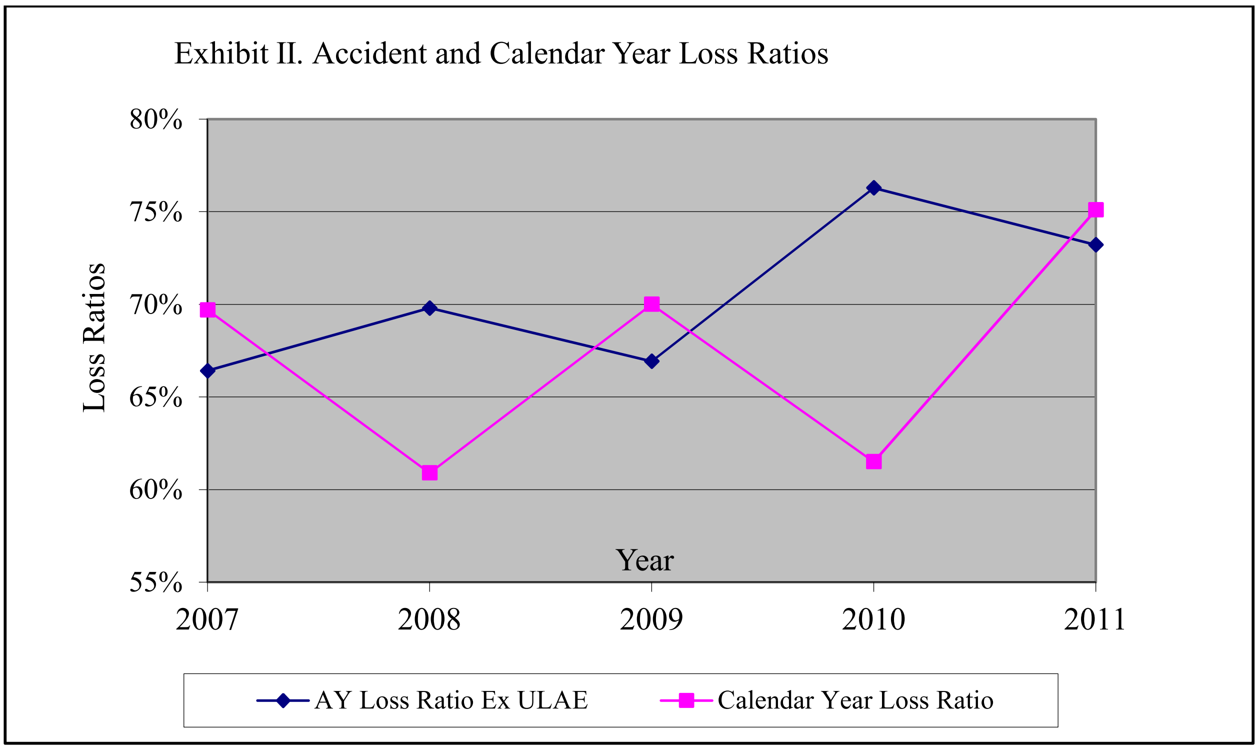


Source: NCCI

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 loss payments and adjustments to case reserves and incurred but not reported reserves on all claims during a specific year, including those adjustments from prior injury years. Calendar year data is relatively easy to compile and is useful in evaluating the financial condition of an insurance company; however, 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 also 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 75.1% in 2011 was the highest in the period of 2007-2011. Prior to 2011, the calendar year loss ratios were oscillating between 60% and 70%. The accident year loss ratio has been trending upward over the period of 2007-2010, ranging from a low of 66.4% in 2007 to a high of 73.2% in 2010**.** In 2011, however, the accident year loss ratio decreased to 73.2%.



Source: NCCI
Note: ULAE means Unallocated Loss Adjustment Expense

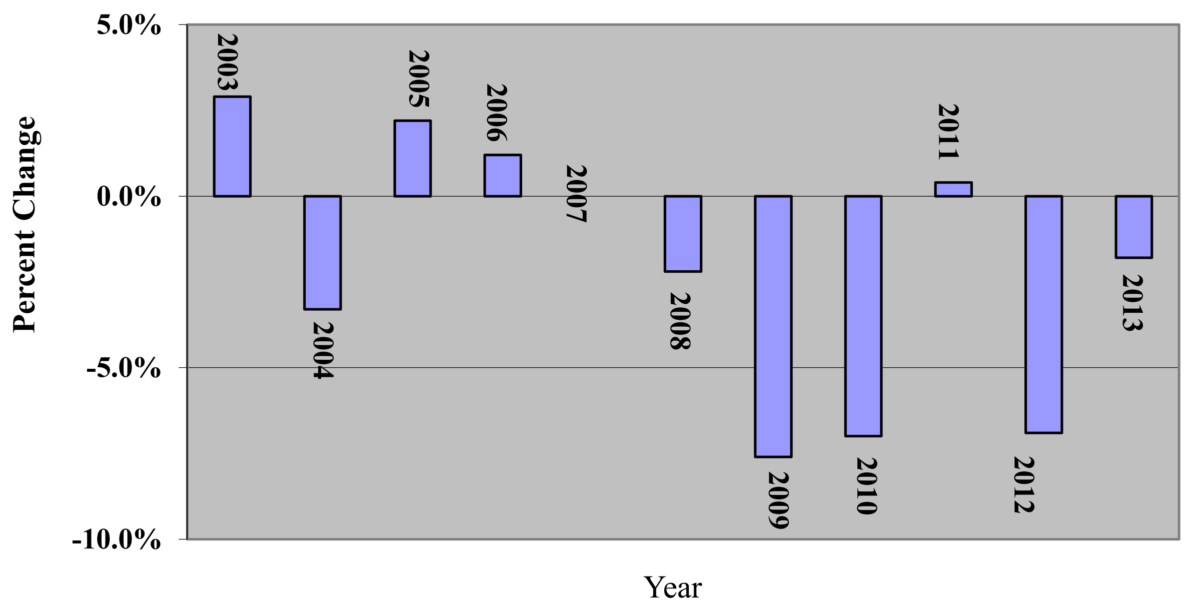
III. Losses in Workers' Compensation

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 2012, the advisory loss costs decreased by 6.90%. The Bureau recently approved a 1.8% decrease in advisory loss costs effective January 1, 2013. Advisory loss costs will be about 21% lower than they were five years ago and nearly 51% lower than when the major reform of the workers' compensation system took effect in 1993. Changes in the advisory loss costs tend to lag behind changes in actual experience and to precede changes in rates.

Exhibit III. Percent Change in Advisory Loss Costs, 2003-2013

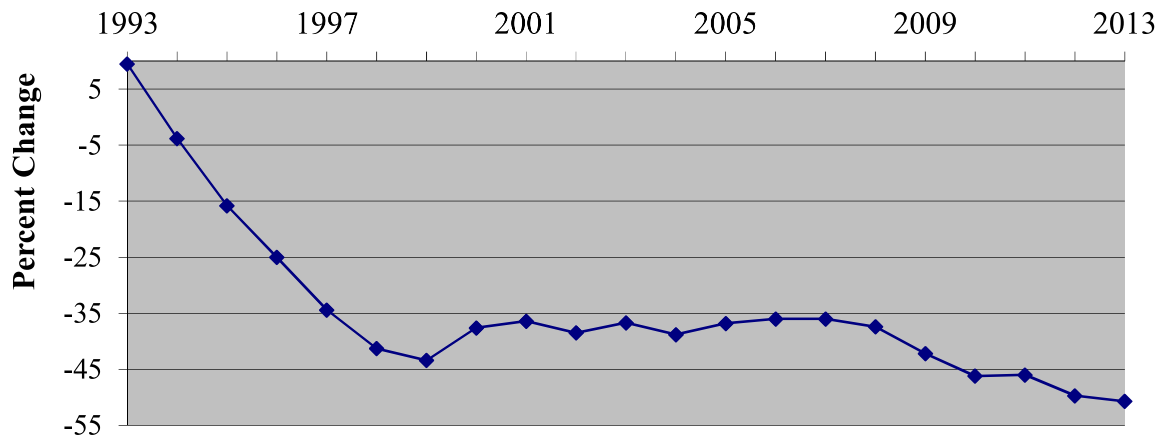


Source: NCCI

Cumulative Changes in Advisory Loss Costs

Exhibit IV shows the cumulative changes in loss costs over the past 20 years. The advisory loss costs have declined over the past five years with the exeception of 2011, when the advisory loss cost increased by 0.4%.

Exhibit IV. Cumulative Change in Advisory Loss Costs Since 1992



Source: NCCI

IV. 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 that written insurance 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, 2012, the Bureau had authorized 329 companies to write workers' compensation coverage. This number is not the best indicator of market concentration because some insurers have no written premium. MEMIC accounts for over 59% of the written premium in the insured market. Although MEMIC has succeeded 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 2011. Eight more companies in 2011 had more than $1 million in written premium.

Table I:
Number of Companies by Level of Written Premium, 2011

Amount of Written Premium	Number of Companies At That Level
>$10,000	140
>$100,000	91
>$1,000,000	29

Source: Annual statements filed with the Bureau of Insurance
Note: Total written premium for 2011 was over $206M.

Market concentration alone does not give a complete picture of market competition. A discussion of self-insurance, found in the Alternative Risk Markets section, gives a more complete perspective.

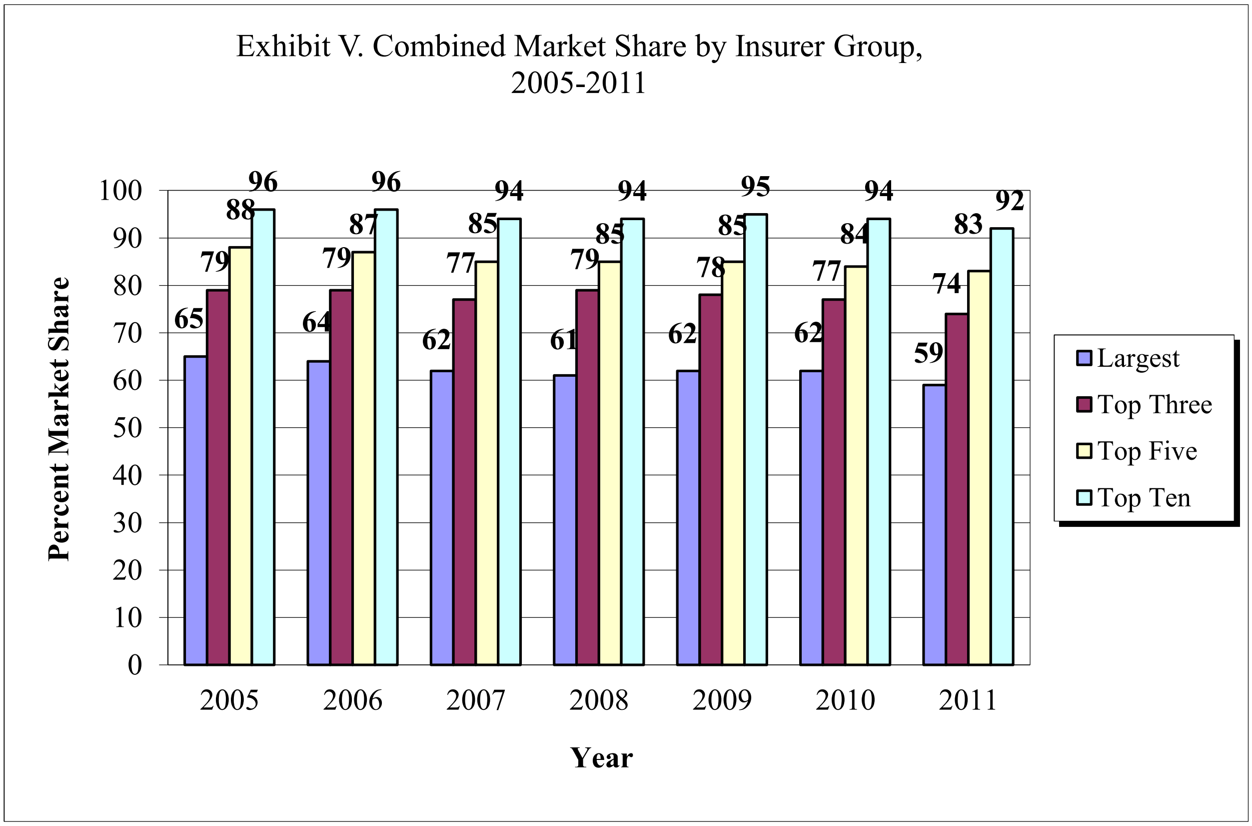
Herfindahl-Hirschman Index

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 2010 Database Report, which was prepared in 2011, shows that the HHI for workers' compensation insurance in Maine is 3,971. This is the second highest for all commercial lines in Maine behind Financial Guaranty and just ahead of Medical Professional Liability. The only other lines above 2,200 were Mortgage Guaranty (2,275) and Farmowners Multi-Peril (3,399). 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 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 who self-insure either individually or in groups.

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 fell below 60% in 2011 for the first time in the seven year range. The market share of the top ten insurer groups was 92% in 2011; other groups accounted for only 8% of the workers' compensation premium in Maine.

In terms of premium dollars, MEMIC wrote over $122 million in premium in 2011. The top three groups, including MEMIC, wrote over $153 million in business. The top five groups wrote nearly $171 million, and the top ten groups had over $190 in written premium. The reported amounts of written premium increased for MEMIC as well as for the top groups as a whole from 2010 to 2011.



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 13-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 over 56% since 2000. There currently are no significant barriers to entry.

Table II:
Entry and Exit of Workers Compensation Carriers, 2000-2012

Year	Number of Carriers	Number Entering	Number Exiting	Net Change (Number)	Net Change (Percent)
2012	329	17	1	16	5.1
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 2005-2011. The top ten groups combined write over 92 percent of the business. 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, 2005-2011

Insurance Group	2011 Share	2010 Share	2009 Share	2008 Share	2007 Share	2006 Share	2005 Share
Maine Employers' Mutual	59.4	61.5	62.2	61.3	61.6	63.6	64.8
Liberty Mutual Group	9.7	10.0	10.4	11.0	8.8	9.2	8.4
WR Berkeley Corp.	5.1	5.2	5.7	6.1	6.3	6.1	5.6
Travelers Group	4.4	3.9	3.5	2.7	2.2	1.9	1.6
American International Group	4.2	3.6	2.3	2.8	5.2	4.9	5.1
Hartford Fire & Casualty	3.1	3.2	3.4	3.7	3.6	3.3	3.8
Zurich Insurance Group	2.0	2.1	2.0	1.2	1.3	0.9	0.6
The Hanover Ins Corp.	1.6	1.5	1.6	1.8	1.7	2.1	1.9
Guard Insurance Group	1.5	1.4	1.7	1.8	2.0	2.3	2.1
CNA Insurance Group	1.1	0.6	0.9	1.2	1.2	1.1	1.1

Source: Annual statements filed by insurance carriers

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 2005 through 2011. Throughout the seven-year period, MEMIC has had in excess of 59% of the market, although its market share has dropped over five percent during that time. No other insurance carrier attained a 5% market share during this period. The top 10 companies combined write over 73% of the business.

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

Insurance Carrier	2011 Share	2010 Share	2009 Share	2008 Share	2007 Share	2006 Share	2005 Share
Maine Employers' Mutual	59.3	61.5	62.2	61.3	61.6	63.6	64.8
Netherlands	2.3	2.7	2.6	2.1	1.4	0.9	0.3
Firemen's Ins Co of Wash DC	2.2	2.1	1.9	1.3	1.3	1.1	0.9
Acadia Insurance Company	2.3	2.6	3.4	4.2	4.5	4.5	4.3
Liberty Insurance Corp.	1.4	2.1	2.0	2.7	2.1	2.5	1.7
Standard Fire Ins Co	1.3	1.2	0.5	0.2	0.1	0.0	0.0
New Hampshire Ins Co	1.2	1.2	1.2	1.0	0.5	0.4	0.3
National Union Fire Ins Co	1.2	0.3	0.6	0.9	0.3	0.6	0.9
Zurich American Ins Co.	1.1	1.3	1.0	0.7	0.9	0.7	0.9
Charter Oak Fire Ins Co	1.1	1.2	1.0	0.9	0.8	0.6	0.5

Source: Annual statements filed by insurance carriers

V. 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 surveyed the top ten insurance groups and all of the companies in those insurance groups, requesting the number of policyholders and the amount of written premium for in-force policies in Maine within each of their rating tiers. Annual statement reports show that carriers in the top ten groups accounted for 92% of the market and $190 million in written premium in Maine for calendar year 2011. The survey showed that over 63% of policies are written at rates equivalent to the MEMIC Standard Rating tier. Over 25% are written at rates lower than MEMIC's Standard Rating tier. Over 11% of policyholders have policies written at rates that are above MEMIC's Standard Rating tier.

Possible reasons that policyholders accept 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 competitively priced overall insurance 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	2012 Percent	2011 Percent
Below MEMIC Standard Rate	25.3%	27.3%
At MEMIC Standard Rate	63.6%	63.8%
Above MEMIC Standard Rate	11.1%	8.9%

Note: Based upon the results of a survey conducted by the Bureau of Insurance

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. Bureau 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 2011, MEMIC declared dividends of $12 million dollars. In September 2012, MEMIC announced it will pay a dividend totaling $13 million to about 19,000 Maine policyholders in November 2012. Employers who held policies with MEMIC for a full year, with a term beginning in 2009, will be eligible to receive the dividend. After the November 2012 dividend payment, MEMIC will have returned more than $146 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 ten groups reported that nearly $15 in credits (for policies in force as of August 31, 2012) was provided for every $1 in debits. The amount of credits provided by companies in the top ten groups, for policies in force as of August 31, 2012, was over $27.6 million, slightly less than the prior year. The amount of debits, for policies in force as of August 31, 2012, was over $1.8 million, over $250,000 more than in the prior year.

VI. 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 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 2011, nearly 45% of Maine's total workers' compensation insurance market, as measured by standard premium, consisted of self-insured employers and groups. The percent of the workers' compensation market has exceeded 40 percent in each of the twelve years listed in the table below.

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.

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)
2011	$166,712,916	44.7
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, 2012, there were 19 self-insured groups representing 1,370 employers. The number of self-insured groups has remained the same for the past six years. The number of employers in self-insured groups has dropped by over 100 during that time. The number of individually self-insured employers has been in the high fifties for the past four years.

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
2012	19	1,370	59
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.

VII. 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 2012, Maine ranked 10th highest in terms of workers' compensation premium rates for all industries. In the 2010 rankings, Maine ranked 8th highest overall and in the 2008 study, Maine ranked 5th highest. 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.

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
Montana	2.08	1
Illinois	2.04	2
Oklahoma	1.98	3
Connecticut	1.96	4
Alaska	1.82	5
N. Hampshire	1.80	6
Vermont	1.67	7
Maine	1.49	8
Georgia	1.49	9
Iowa	1.46	10
Rhode Island	1.42	11
N. Carolina	1.41	12
Louisiana	1.40	13
Tennessee	1.38	14
Kentucky	1.36	15
Maryland	1.36	16
Idaho	1.32	17
S, Dakota	1.32	18
Nebraska	1.31	19
S. Carolina	1.31	20

State	Average Loss Cost	Rank
Alabama	1.29	21
N. Mexico	1.29	22
Oregon	1.25	23
Colorado	1.18	24
Florida	1.16	25
Missouri	1.13	26
Arizona	1.12	27
Kansas	1.12	28
Mississippi	1.09	29
W. Virginia	1.06	30
Nevada	0.97	31
Hawaii	0.96	32
Virginia	0.92	33
Utah	0.90	34
Indiana	0.85	35
D.C.	0.81	36
Arkansas	0.70	37
Texas	0.67	38
Countrywide	1.25	

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.