DEPARTMENT OF
Professional & Financial Regulation
STATE OF MAINE

- OFFICE OF SECURITIES
- BUREAU OF INSURANCE
- CONSUMER CREDIT PROTECTION
- BUREAU OF FINANCIAL INSTITUTIONS
- OFFICE OF PROF. AND OCC. REGULATION

THE STATE OF COMPETITION IN THE MAINE WORKERS' COMPENSATION MARKET

PREPARED BY THE MAINE BUREAU OF INSURANCE
DECEMBER 30, 2013

PAUL R. LEPAGE
GOVERNOR

ANNE L. HEAD
COMMISSIONER

ERIC A. CIOPPA
SUPERINTENDENT

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 factors called loss cost multipliers for approval by the Bureau. These account for company experience, overhead expenses, taxes, contingencies, investment income and profit. The advisory loss costs are multiplied by the loss cost multipliers 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 January 24, 2013 NCCI filed for a 3.9% increase in advisory loss costs due to changes in the medical fee schedule implemented by the Maine Workers' Compensation Board on January 1, 2013. NCCI's filing was approved by the Bureau for an effective date of April 1, 2013. Due to the potential of changes in the medical fee schedule at the end of year, NCCI will not submit another advisory loss cost filing until early 2014.

Maine Employers' Mutual Insurance Company (MEMIC) actively competes in the voluntary market and is the insurer of last resort in Maine. MEMIC's market share rose from 59.3% in 2011 to 62.1% in 2012, a nearly 3% increase. The workers' compensation insurance market is 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.

Twenty-five insurers wrote more than $1 million each in annual premium in 2012, four fewer companies than in 2011. The top 10 insurance groups wrote over 91% of the workers' compensation insurance in the state in 2012, about 1% less than in 2011. 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 also 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 nearly 45% of the overall workers' compensation market in 2012, the same as in 2011.

TABLE OF CONTENTS

1. **INTRODUCTION & BACKGROUND** 1
   - I. ACCIDENT YEAR, CALENDAR YEAR AND POLICY YEAR REPORTING 1
2. **RECENT EXPERIENCE** 3
   - I. ACCIDENT YEAR LOSS AND LOSS ADJUSTMENT EXPENSE RATIOS 3
   - II. CALENDAR YEAR AND ACCIDENT YEAR LOSS RATIOS 4
3. **LOSSES IN WORKERS' COMPENSATION** 5
   - I. CHANGES IN ADVISORY LOSS COSTS 5
   - II. CUMULATIVE CHANGES IN ADVISORY LOSS COSTS 6
4. **MARKET STRUCTURE AND COMPETITION** 7
   - I. MARKET CONCENTRATION 7
   - II. HERFINDAHL-HIRSCHMAN INDEX 7
   - III. COMBINED MARKET SHARE 8
   - IV. NUMBER OF CARRIERS IN MAINE'S WORKERS' COMPENSATION INSURANCE MARKET 9
   - V. PERCENT MARKET SHARE OF THE TOP INSURANCE GROUPS 10
   - VI. PERCENT MARKET SHARE OF THE TOP INSURANCE CARRIERS 11
5. **DIFFERENCES IN RATES AND FACTORS AFFECTING RATES** 12
   - I. RATE DIFFERENTIALS 12
   - II. ADDITIONAL FACTORS AFFECTING PREMIUMS 12
6. **ALTERNATIVE RISK MARKETS** 15
   - I. PERCENT OF OVERALL MARKET HELD BY SELF-INSURED EMPLOYERS 15
   - II. NUMBER OF SELF-INSURED EMPLOYERS AND GROUPS 16
7. **A LOOK NATIONALLY** 17
   - I. OREGON WORKERS' COMPENSATION PREMIUM RATE RANKING 17
   - II. AVERAGE LOSS COSTS BY STATE BASED ON MAINE'S PAYROLL DISTRIBUTION 17

1. 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 out of 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 2012, NCCI received approval from the Bureau for an average decrease in the advisory loss costs of 1.8% effective January 1, 2013. 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%. Then, on January 24, 2013, NCCI filed for a 3.9% increase in advisory loss costs due to changes in the medical fee schedule implemented by the Maine Workers' Compensation Board on January 1, 2013. NCCI's filing was approved by the Bureau for an effective date of April 1, 2013. Therefore, the total average change in the advisory loss costs in 2013 was an increase of approximately 2.0%. NCCI will not make another advisory loss cost filing until early 2014.

Although Maine's market has become quite concentrated and MEMIC writes a large volume of business, there are still many insurers writing 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 a 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.

I. 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 1) all losses for injuries occurring during a given 12-month period (regardless of when the losses are reported) with 2) 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 1) all losses incurred within a given 12-month period (though not necessarily for injuries occurring during that 12-month period) with 2) 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.

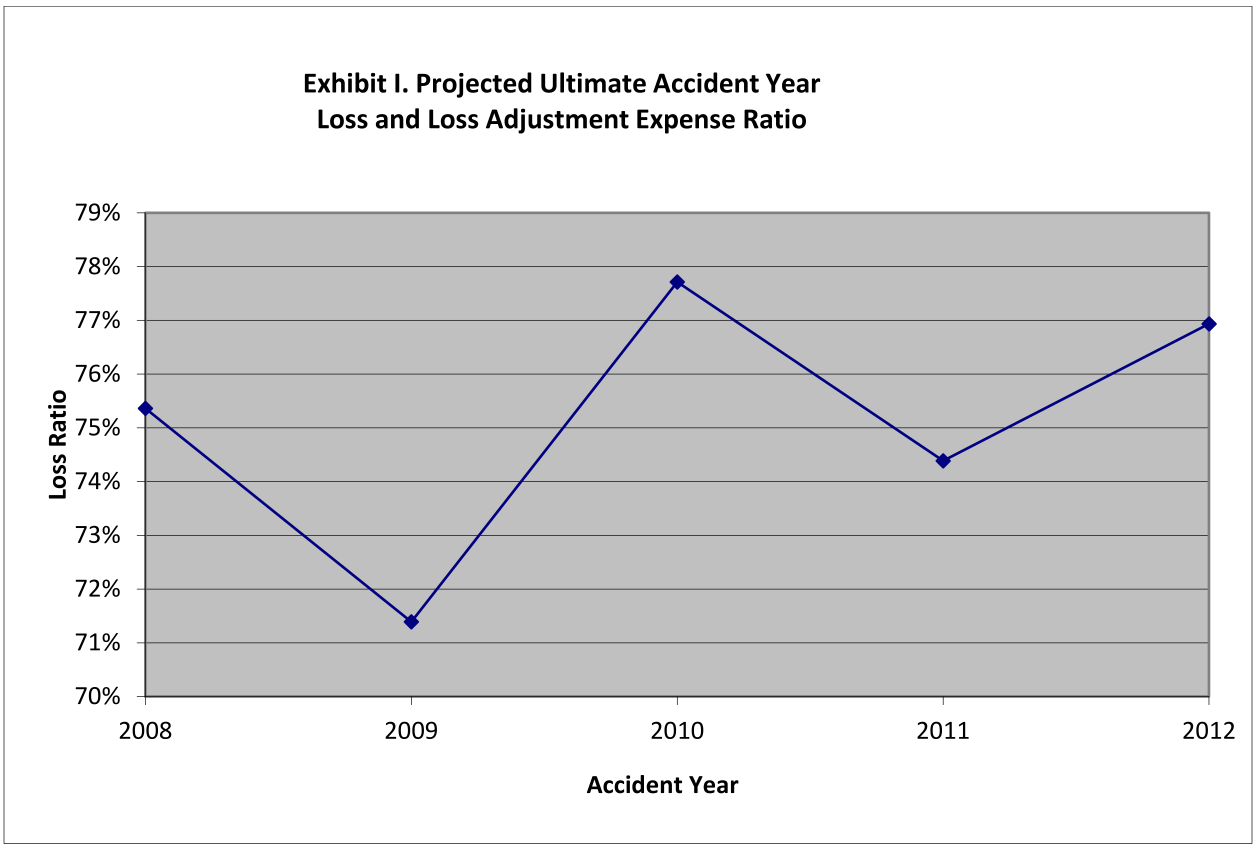
- **Policy year** experience segregates all premiums and losses attributed to policies having an inception or a renewal date within a given 12-month period. The total value of all losses for injuries occurring during the policy year (losses paid plus loss reserves) is assigned to the period regardless 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.

2. RECENT EXPERIENCE

I. 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 71% to 78% for the past five years. The 2012 loss ratio was 76.9%, indicating that $76.90 is expected to be paid out for losses and loss adjustment expenses for every $100 earned in premium.



Source: NCCI

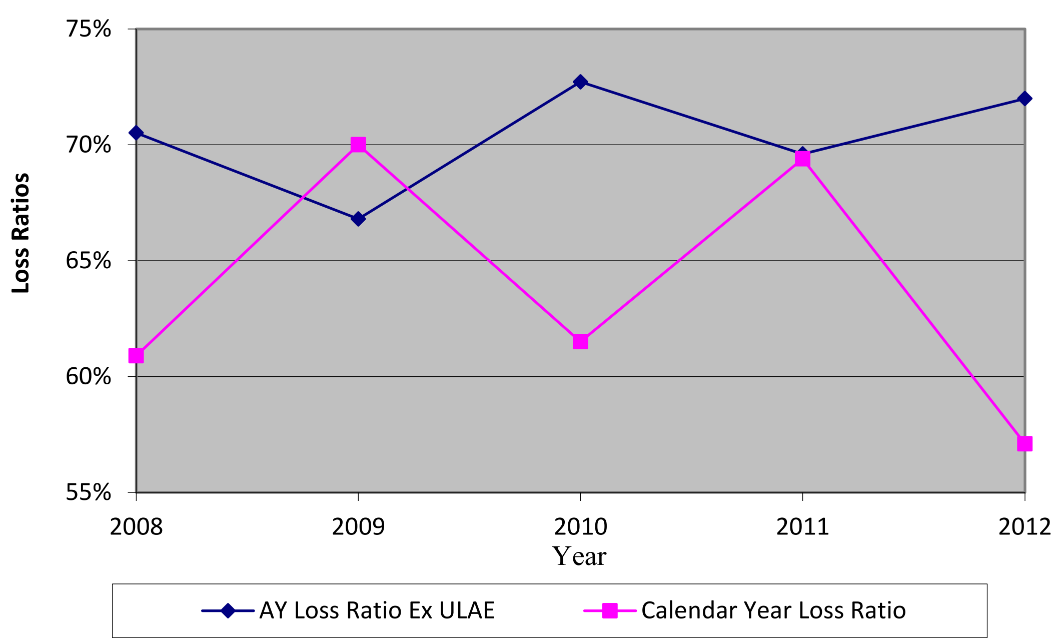
II. Calendar Year and Accident Year Loss Ratios

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 to 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 57% in 2012 was the lowest in the period of 2008-2012. Prior to 2012, the calendar year loss ratios were oscillating between 60% and 70%. Even though the accident year loss ratios have been oscillating in this time period from a low of 67% in 2009 to a high of 73% in 2010, the accident year loss ratios are exhibiting an upward trend with the accident year 2012 loss ratio at 72%.

Exhibit II. Accident and Calendar Year Loss Ratios



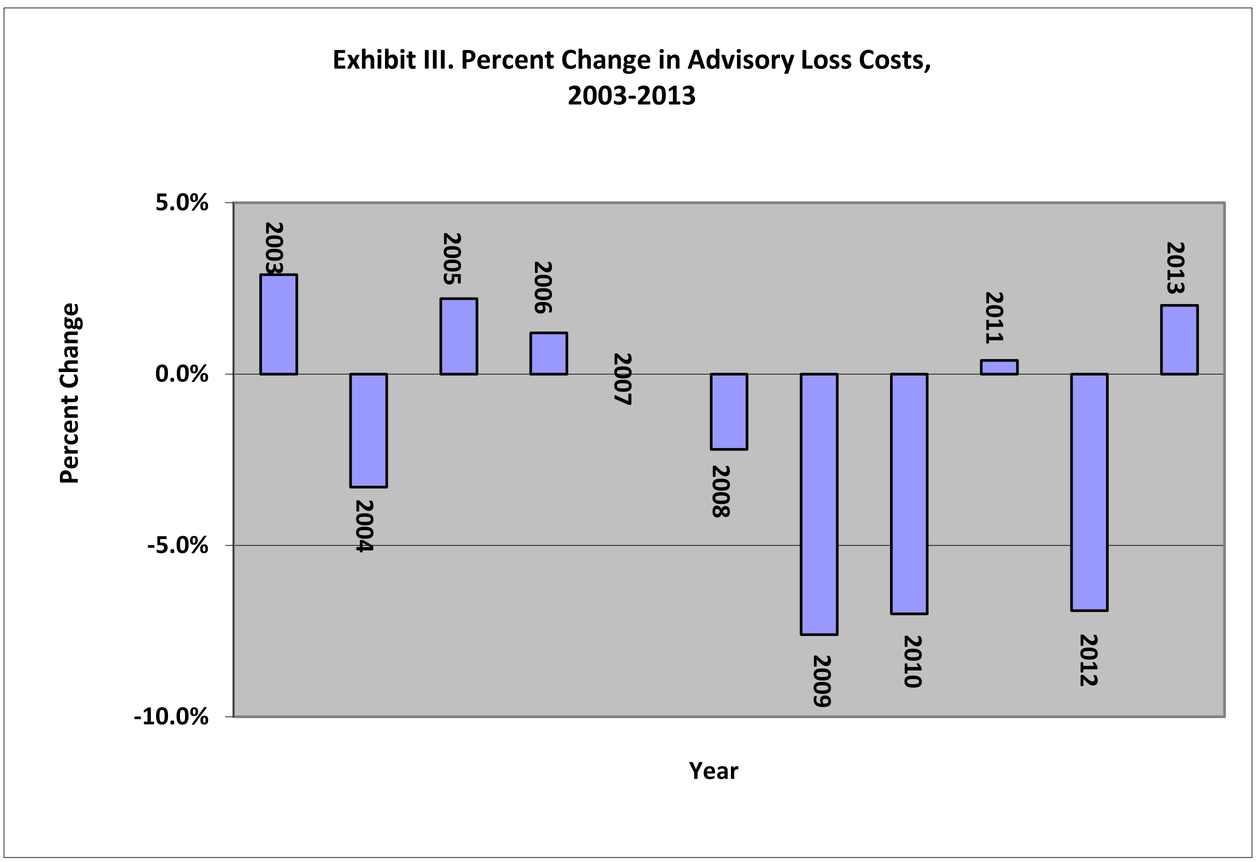
Note: ULAE means Unallocated Loss Adjustment Expense
Source: NCCI

3. LOSSES IN WORKERS' COMPENSATION

I. 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.

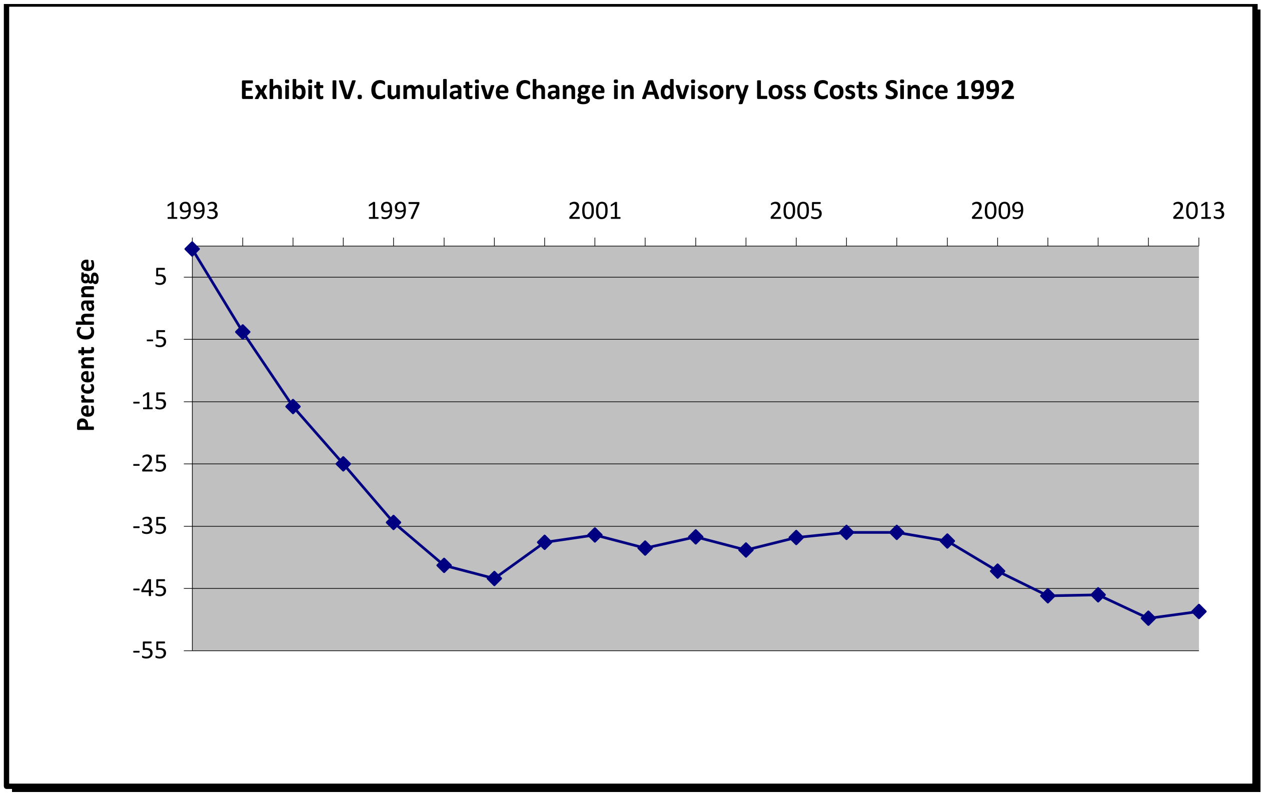
In 2013, the advisory loss costs increased by approximately 2.0%. The 2.0% is comprised of a 1.8% average decrease in loss costs effective on January 1, 2012 followed by a 3.9% increase due to changes in the medical fee schedule implemented by the Maine Workers' Compensation Board. Advisory loss costs will be about 13% lower than they were five years ago and nearly 49% 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.



Source: NCCI

II. CUMULATIVE CHANGES IN ADVISORY LOSS COSTS

Exhibit IV shows the cumulative changes in loss costs over the past 20 years. Over the past five years the advisory loss costs have declined each year, exececpt in 2011 and 2013, for an average loss cost decline of 13% since 2009.



Source: NCCI

4. MARKET STRUCTURE AND COMPETITION

I. MARKET CONCENTRATION

Market concentration is a measure of competition. Greater concentration means that there are fewer insurers in the market or that a disproportionate amount of written insurance is issued by relatively few insurers. The result is less competition. Conversely, less concentration indicates greater competition.

As of October 1, 2012, the Bureau of Insurance had authorized 330 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 more than 62% of the written premium in the insured market. Although MEMIC has succeeded in retaining business, other insurers are selective about increasing their market share. The following table shows the number of carriers by premium level for those carriers writing workers' compensation insurance in 2012. Four fewer companies in 2012 had more than $1 million in written premium.

Table I:
Number of Companies by Level of Written Premium—2012

Amount of Written Premium	Number of Companies At That Level
>$10,000	141
>$100,000	94
>$1,000,000	25

Source: Annual Statements Filed with the Bureau of Insurance. Total written premium for 2012 was more than $197 million.

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.

II. 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 2011 Competition Database Report, which was prepared in 2012, shows that the HHI for workers' compensation insurance in Maine is 3,704. This is the third highest for all commercial lines in Maine behind Financial Guaranty and Medical Professional Liability. The only other commercial line at 2,300 or above in Maine was Mortgage Guaranty (2,300). 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

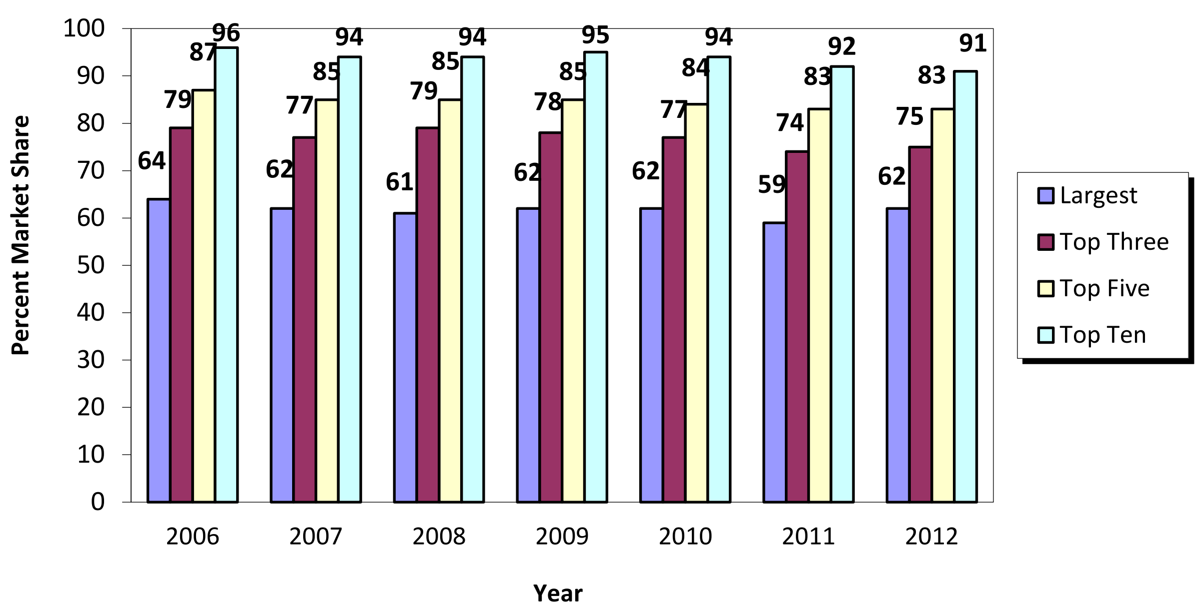
Legislature created MEMIC to replace a highly concentrated residual market in which other insurers were reluctant to write actively in this state. Second, the market has a high percentage of employers who self-insure either individually or in groups.

III. 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 at 62 percent. The market share of the top 10 insurer groups was 91% in 2012; all other groups accounted for only 9% of the workers' compensation premium in Maine.

In terms of premium dollars, MEMIC wrote more than $123 million in premium in 2012. The top three groups, including MEMIC, wrote over $148 million in business. The top five groups wrote nearly $164 million, and the top 10 groups had over $180 in written premium. The reported amounts of written premium increased slightly for MEMIC but dropped for the top groups as a whole from 2011 to 2012.

Exhibit V. Combined Market Share by Insurer Group, 2006-2012



Source: Annual Statements Filed with the Bureau of Insurance

IV. NUMBER OF CARRIERS IN MAINE'S WORKERS' COMPENSATION INSURANCE MARKET

The number of carriers in the workers' compensation market has increased throughout the 14-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 57 percent since 2000; however, the increase from 2012 to 2013 was only 0.3 percent. There currently are no significant barriers to entry.

Table II:
Entry and Exit of Workers' Compensation Carriers, 2000-2013

Year	Number of Carriers	Number Entering	Number Exiting	Net Change (Number)	Net Change (Percent)
2013	330	7	6	1	0.3
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: Bureau of Insurance Records

Notes: Totals are based on 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.

V. PERCENT MARKET SHARE OF THE TOP INSURANCE GROUPS

Table III shows market share by insurance group from 2006-2012. The top 10 groups combined wrote more than 91 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. The Berkshire Hathaway Group emerged as one of the top 10 writers with the acquisition of the Guard Insurance Group which was the 9th largest group writing workers' compensation in 2011. Also, Great Falls Insurance Company, a Maine domestic insurance company, is now one of the top 10 writers of workers' compensation business.

Table III:
Percent Market Share for Top Insurance Groups, By Amount of Written Premium, 2006-2012

Insurance Group	2012 Share	2011 Share	2010 Share	2009 Share	2008 Share	2007 Share	2006 Share
Maine Employers' Mutual	62.3	59.4	61.5	62.2	61.3	61.6	63.6
Liberty Mutual Group	8.0	9.7	10.0	10.4	11.0	8.8	9.2
Travelers Group	4.7	4.4	3.9	3.5	2.7	2.2	1.9
WR Berkeley Corp.	4.6	5.1	5.2	5.7	6.1	6.3	6.1
Hartford Fire & Casualty	3.5	3.1	3.2	3.4	3.7	3.6	3.3
Berkshire Hathaway Group	1.8	0.5	0.2	0.1	0.1	0.1	0.0
Great Falls Ins Co	1.8	0.7	-	-	-	-	-
American International Group	1.7	4.2	3.6	2.3	2.8	5.2	4.9
Zurich Insurance Group	1.6	2.0	2.1	2.0	1.2	1.3	0.9
The Hanover Ins Corp.	1.4	1.6	1.5	1.6	1.8	1.7	2.1

Source: Annual Statements Filed with the Bureau by Insurance Carriers

VI. 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 2006 through 2012. Throughout the seven-year period, MEMIC has had in excess of 59%. No other insurance carrier attained a 5% market share during this period. The top 10 companies combined write over 75% of the business. Great Falls Insurance Company, which was licensed by the Maine Bureau of Insurance at the end of 2010 and commenced writing workers' compensation in 2011, is now the 4th largest company writing workers' compensation in Maine.

Table IV:
Percent Market Share for Top Insurance Carriers, By Amount of Written Premium, 2006-2012

Insurance Carrier	2012 Share	2011 Share	2010 Share	2009 Share	2008 Share	2007 Share	2006 Share
Maine Employers' Mutual	62.1	59.3	61.5	62.2	61.3	61.6	63.6
Acadia Insurance Company	2.1	2.2	2.6	3.4	4.2	4.5	4.5
Firemen's Ins Co of Wash DC	1.9	2.3	2.1	1.9	1.3	1.3	1.1
Great Falls Ins Co	1.8	0.7	-	-	-	-	-
Netherlands	1.7	2.3	2.7	2.6	2.1	1.4	0.9
Liberty Insurance Corp.	1.6	1.4	2.1	2.0	2.7	2.1	2.5
Charter Oak Fire Ins Co	1.3	1.1	1.2	1.0	0.9	0.8	0.6
Twin City Fire Ins Co	1.1	0.8	0.8	1.0	1.2	1.4	1.6
New Hampshire Ins Co	1.0	1.2	1.2	1.2	1.0	0.5	0.4
Excelsior Ins Co	1.0	1.0	1.4	1.3	1.4	1.4	1.2

Source: Annual Statements Filed with the Bureau by Insurance Carriers

5. DIFFERENCES IN RATES AND FACTORS AFFECTING RATES

I. 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, 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 more than 91% of the market and over $180 million in written premium in Maine for calendar year 2012. The survey showed that over 64% of policies are written at rates equivalent to the MEMIC Standard Rating tier. More than 20% are written at rates lower than MEMIC Standard Rating tier. Fifteen percent 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 that might not otherwise provide workers' compensation coverage provides it as part of a package with other lines of insurance at an overall competitive price 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	2013 Percent	2012 Percent
Below MEMIC Standard Rate	20.3%	25.3%
At MEMIC Standard Rate	64.7%	63.6%
Above MEMIC Standard Rate	15.0%	11.1%

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

II. 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 opting for 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%. More than 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 in premium applicable to their small deductible plan. The Bureau must review and approve this filing.

- **Managed Care Credits** are credits offered by insurers to employers who use managed care plans for workers' compensation injuries. 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 2012, MEMIC declared dividends of $13 million. In October 2013, MEMIC announced it would pay a dividend totaling $16 million to nearly 18,000 qualified policyholders in November 2013. After the November 2013 dividend payment, MEMIC will have returned more than $160 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 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 totals approximately 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 nearly $10 in credits (for policies in force as of August 31, 2013) were provided for every $1 in debits. The amount of credits provided by companies in the top 10 groups, for policies in force as of August 31, 2013, was more than $16.5 million, an increase of $11 million over the prior year. The amount of debits, for policies in force as of August 31, 2013, was nearly $1.7 million, $160,000 less than the prior year.

6. ALTERNATIVE RISK MARKETS

I. 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 2012, 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 that is self-insured 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 of Insurance.

Table VI:
Estimated Total of All Standard Premiums for Self-Insured Employers and
Percent of the Workers' Compensation Market Held by Self-Insurers, 2001-2012

Year	Estimated Total of All Standard Premiums	Percent of Workers' Comp. Market (in annual standard premium)
2012	$159,230,371	44.6
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

Source: Annual Statements Filed with the Bureau of Insurance

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

II. NUMBER OF SELF-INSURED EMPLOYERS AND GROUPS

As of October 1, 2013 there were 19 self-insured groups representing 1,363 employers. The number of self-insured groups has remained the same for the past seven years. The number of employers in self-insured groups has dropped by 115 during that time. The number of individually self-insured employers has been in the high fifties for the past five 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
2013	19	1,363	58
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: For the purposes of self-insurance, affiliated employers are considered separate employers.
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 January 1.

7. A LOOK NATIONALLY

I. OREGON WORKERS' COMPENSATION PREMIUM RATE RANKING

The State of Oregon collects information from other states on a bi-annual basis, which 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.

II. 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 9th highest average loss cost of the 38 states, and the District of Columbia, reporting information to NCCI in 2012 (see table below). In 2011 Maine had the 8th highest average.

State	Average Loss Cost	Rank
Connecticut	2.08	1
Oklahoma	1.95	2
Montana	1.90	3
Illinois	1.81	4
New Hampshire	1.76	5
Alaska	1.73	6
Vermont	1.72	7
Iowa	1.56	8
Maine	1.49	9
Rhode Island	1.48	10
Maryland	1.44	11
Louisiana	1.42	12
New Mexico	1.41	13
North Carolina	1.38	14
Georgia	1.38	14
Tennessee	1.37	16
South Carolina	1.36	17
Idaho	1.33	18
Alabama	1.33	18
Nebraska	1.30	20
Missouri	1.29	21
South Dakota	1.26	22

State	Average Loss Cost	Rank
Colorado	1.22	23
Florida	1.21	24
Kentucky	1.16	25
Arizona	1.15	26
Oregon	1.15	26
Mississippi	1.13	28
Kansas	1.13	28
Hawaii	1.00	30
Nevada	0.94	31
W. Virginia	0.88	32
Indiana	0.87	33
Virginia	0.85	34
Utah	0.85	34
D.C.	0.83	36
Arkansas	0.64	37
Texas	0.63	38
Countrywide	1.23	

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.