

April 13, 2010

Medical Mutual recently completed its actuarial analysis for determining hospital and physician professional liability insurance rates in Maine for the coming year. And while the actuarial indications here in our home state tell a bit of a mixed story, the news overall should be gratifying to most Maine policyholders. Specifically, Maine physicians will see a base rate reduction of five percent. Base rates for hospitals, on the other hand, will increase by nine percent. Both changes were filed and approved by the Maine Bureau of Insurance and will take effect on June 1, 2010.

The hospital rate increase is driven primarily by higher loss costs associated with an increase in claims frequency. While overall we continue to see claims frequency at a level well below the high watermark set in 2003, claims frequency per acute care bed equivalent at Maine hospitals is an exception to that trend, as frequency has increased steadily every year since 2005. Hospital claims severity is a second factor contributing to the upward pressure on rates, as the Company settled several high damage cases to claimants on behalf of Maine hospitals within the last couple of years. It's worth noting that this pattern is not unique to Maine as other insurance carriers and industry studies reveal that hospital rates, nationally, are trending upward.

The actuarial model for our physician line of business indicates continued favorable loss trends thus allowing for the base rate reduction. When you factor in the additional seven percent premium credit that eligible Maine physicians will get as their portion of the recently declared dividend, most insured physicians should realize approximately a 12 percent premium savings. Since the cost for physician coverage is typically the largest component in a hospital's comprehensive medical professional liability program, we anticipate that for most of our insured hospitals, the physician rate decrease and dividend credit will largely, if not completely, offset the impact of the hospital rate increase.

Presently, explanations for what is driving the increase in the frequency of hospital claims are speculative. A variety of factors have been cited in the trade media as possible influences. Patients filing more suits to offset job or other financial losses due to the recession, the publicity surrounding Medicare and Medicaid's new rules on reasonably preventable adverse outcomes ("never events), and even a perceived change in the public's attitude toward healthcare providers are a few factors offered as potential contributors.

Regardless of the explanation, Medical Mutual greatly respects your vigilance in subscribing to sound risk management principles and best practices every day, with every

patient. Together, I am confident that our continued collaboration to provide the best in patient care will help mitigate the adverse loss experience currently impacting Maine hospitals.

I am extremely thankful for your institution's continued support and loyalty. Should you have any questions regarding your rate changes, please do not hesitate to contact us or your independent insurance agent.

Very truly yours,



Terrance J. Sheehan, MD
President and CEO