D80Z01

Maryland Insurance Administration

Operating Budget Data

($ in Thousands)

	FY 07 Actual	FY 08 Working	FY 09 Allowance	FY 08-09 Change	% Change Prior Year
Special Fund	$145,491	$176,066	$157,974	-$18,092	-10.3%
Federal Fund	4,742	0	0	0	
Total Funds	**$150,233**	**$176,066**	**$157,974**	**-$18,092**	**-10.3%**

- The fiscal 2009 allowance decreases the Maryland Insurance Administration (MIA) budget by $18.1 million, but actual costs are masked by one-time health insurance savings and Other Post Employment Benefits (OPEB). Absent health insurance and OPEB which distort year-to-year comparisons, the underlying fiscal 2009 budget change for MIA is decreasing $19.4 million, or 11.1%

- The decreased funding is related to two things. First, the funding for the Rate Stabilization Fund is decreasing by $10.0 million as directed in statute. Second, the funding for the Maryland Health Insurance Plan (MHIP) is overstated in fiscal 2008, and as a result the MHIP allowance appears to be decreasing by $8.5 million.

Personnel Data

	FY 07 Actual	FY 08 Working	FY 09 Allowance	FY 08-09 Change
Regular Positions	289.00	294.00	291.00	-3.00
Contractual FTEs	7.30	9.70	9.60	-0.10
Total Personnel	**296.30**	**303.70**	**300.60**	**-3.10**

Vacancy Data: Regular Positions

Turnover, Excluding New Positions		13.88	4.77%
Positions Vacant as of 01/01/08		28.00	9.52%

- The fiscal 2009 allowance includes 3.0 fewer regular positions and 0.1 fewer contractual positions than the fiscal 2008 working appropriation. The 3.0 regular positions were abolished at the Board of Public Works meeting on January 30, 2008.

Note: Numbers may not sum to total due to rounding.

For further information contact: Alison Mitchell Phone: (410) 946-5530

- As of January 1, 2008, MIA had a vacancy rate of 9.5% with 28 vacant positions. This is almost twice as much as the budgeted turnover of 4.8%.

Analysis in Brief

Major Trends

Filings Reviewed Promptly: MIA reviews all insurance filings in the State, and it has consistently met the statutory timelines.

Complaints Handled Quickly: In fiscal 2007, MIA resolved at least 94% of complaints in all areas within the specified time frame. For fiscal 2008, however, it is forecasting that for life and health non-medical necessity complaints, only 85% will be resolved within 90 days due to understaffing.

MHIP Applications: MHIP received applications from less than 30% of those individuals that have been denied or offered substandard insurance coverage by other carriers, which is an indication of the universe eligible for MHIP.

MHIP Covered Medical Costs: In fiscal 2007, MHIP covered 44% of medical costs incurred by the enrollees, which is up from 35% in fiscal 2006.

Senior Prescription Drug Assistance Program Membership: Membership in the Senior Prescription Drug Assistance Program (SPDAP) fell from fiscal 2006 to 2007 because SPDAP was effective in getting seniors enrolled in federally subsidized assistance programs. SPDAP expects that membership in the program will reach 98% of program capacity in fiscal 2008 and 2009.

Issues

MHIP Finally Needs to Utilize the Fund Balance, but It Has Been Transferred: Despite an increase in enrollment, MHIP continued to accumulate a large fund balance. As a result, $75 million of the fund balance was transferred to the Health Care Coverage Fund. In fiscal 2008, however, MHIP is expected to become reliant on the fund balance because MHIP expenditures are expected to be higher than annual revenues for the first time.

Less Than Anticipated Need for Medical Malpractice Subsidies: Due to lower than anticipated medical malpractice claims, Medical Mutual, the State's largest medical malpractice insurer, refunded MIA the subsidy payments from previous years and agreed to no longer participate in the medical malpractice subsidy program. As a result, in fiscal 2008, however, the medical malpractice subsidy payments to insurers dropped from the statutory amount of $35.0 million to $23.9 million, and the payments in fiscal 2009 are expected to be $4.8 million instead of the statutory level of $25.0 million.

Task Force on the Availability and Affordability of Property Insurance in Coastal Areas: In Maryland, one major insurer announced that it would stop issuing new policies in the State's coastal areas; other insurers have reacted by implementing other underwriting standards aimed to mitigate losses. The Task Force on the Availability and Affordability of Property Insurance in Coastal Areas was created to study the impact of the recent actions of insurers.

MIA Takes Over Troubled Bond Insurer: MIA is responsible for ensuring the financial solvency of insurers in the State. For this reason, on November 21, 2007, the Insurance Commissioner called for a targeted financial examination of ACA Financial Guaranty Corporation. Then in December 2007, MIA entered into a consent agreement with ACA, which gave MIA significant control over management of the company.

Recommended Actions

		Funds
1.	Eliminate funding for medical malpractice subsidies.	$ 25,000,000
	Total Reductions	**$ 25,000,000**

Operating Budget Analysis

Program Description

The Maryland Insurance Administration (MIA) develops policies, procedures, and regulations and implements laws that affect Maryland's insurance industry. The agency performs actuarial valuations, rate and form reviews, financial audits, licensing examinations, market conduct examinations, and fraud investigations; resolves consumer complaints; and issues producer licenses (formerly agents and brokers) and company licenses. The Maryland insurance law, in conformity with national standards, no longer makes a distinction between agents and brokers, which are now known as producers.

MIA's key goals are:

- to ensure that the terms and conditions of insurance contracts are reasonable and meet the requirements of Maryland law;
- to adjudicate consumer complaints in accordance with insurance law and in a prompt and fair manner;
- to protect the public from unfair trade practices and other violations of the Insurance Code;
- to enforce solvency standards to ensure that insurers have the financial ability to pay claims when due;
- to reduce the time for approving Producer License paper applications;
- to protect Maryland citizens through enforcement of the Annotated Code of Maryland provisions relating to insurance fraud; and
- to provide access to affordable health insurance coverage and prescription drug benefits for individuals with no alternative.

MIA also administers the Rate Stabilization Fund which is used to pay health care provider medical malpractice rate subsidies. The source of funds is a premium tax imposed upon Health Maintenance Organizations and Managed Care Organizations.

Within MIA organizationally, although not managerially, is the Health Insurance Safety Net Program which includes the Maryland Health Insurance Program (MHIP) and the Senior Prescription Drug Assistance Program (SPDAP). MHIP is an independent unit of MIA, whose purpose is to provide access to affordable, comprehensive health benefits for the medically uninsurable. The program is governed by a board, which has contracted out operational administration of the program to Maryland Physicians Care. SPDAP provides premium assistance to moderate-income (at or below 300% of the federal poverty level) Maryland residents for the purchase of outpatient prescription drugs and who are eligible for Medicare and are enrolled in a prescription drug plan. Funding for SPDAP is provided from a portion of the value of CareFirst's premium tax exemption.

Performance Analysis: Managing for Results

Filings Reviewed Promptly

MIA reviews all insurance filings for compliance with insurance statutes and regulations. As **Exhibit 1** shows, MIA has been successful in reviewing filings within the statutorily required 60 days.

Exhibit 1
Insurance Filings Processed within 60 Days
Fiscal 2004-2009

	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Estimate	2009 Estimate
Total Filings	**13,472**	**13,365**	**12,975**	**11,805**	**11,475**	**10,525**
% Processed within 60 Days	98.4%	99.9%	100.0%	99.8%	100.0%	100.0%

Source: Maryland Insurance Administration

Complaints Handled Quickly

A key service the agency provides to the public is to investigate and resolve consumer complaints. Consumer complaints may range from concerns about unwarranted policy cancellations to failure to pay a claim, to premium increases. **Exhibit 2** shows that, in fiscal 2007, MIA resolved at least 94% of complaints in all areas within the specified time frame. For fiscal 2008, however, it is forecasting that for life and health non-medical necessity complaints, only 85% will be resolved within 90 days due to understaffing. However, for the same reason, MIA's goal in 2007 for the percentage of life and health non-medical necessity complaints resolved within 90 days was 75%, but the agency was able to process 95% of the complaints within the 90-day period.

Exhibit 2
Complaints Resolved in a Timely Manner
Fiscal 2004-2009

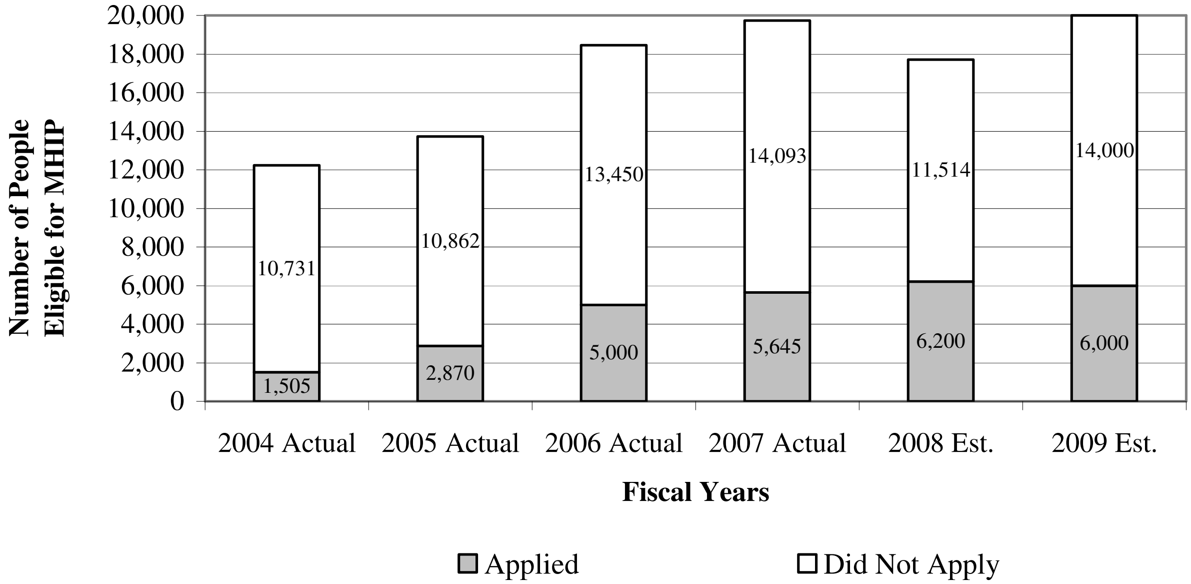
	2004	2005	2006	2007	2008 Est.	2009 Est.
Health Medical Necessity Complaints Received	1,050	963	811	898	900	900
% Resolved within 60 Days	98%	95%	95%	94%	100%	100%
Life and Health Non-medical Necessity Complaints Received	6,000	3,429	3,002	3,109	3,100	3,100
% Resolved within 90 Days	92%	90%	96%	95%	85%	85%
Property and Casualty Complaints Received	15,918	10,859	8,906	7,484	8,500	9,500
% Adjudicated within 90 Days	75%	89%	95%	95%	95%	95%

Source: Maryland Insurance Administration

MHIP Applications

Each year, MHIP receives more applications, suggesting that outreach is working. However, in fiscal 2007, MHIP received applications from less than 30% of those individuals that have been denied or offered substandard insurance coverage by other carriers, which is an indication of the universe eligible for MHIP. Medical eligibility for the program requires that applicants have been denied individual coverage, have been offered coverage that excludes or limits coverage for a medical condition, or have specific health conditions.

Exhibit 3
MHIP Applications Received from Individuals That Have Been Denied or Offered Substandard Insurance
Fiscal 2004-2009



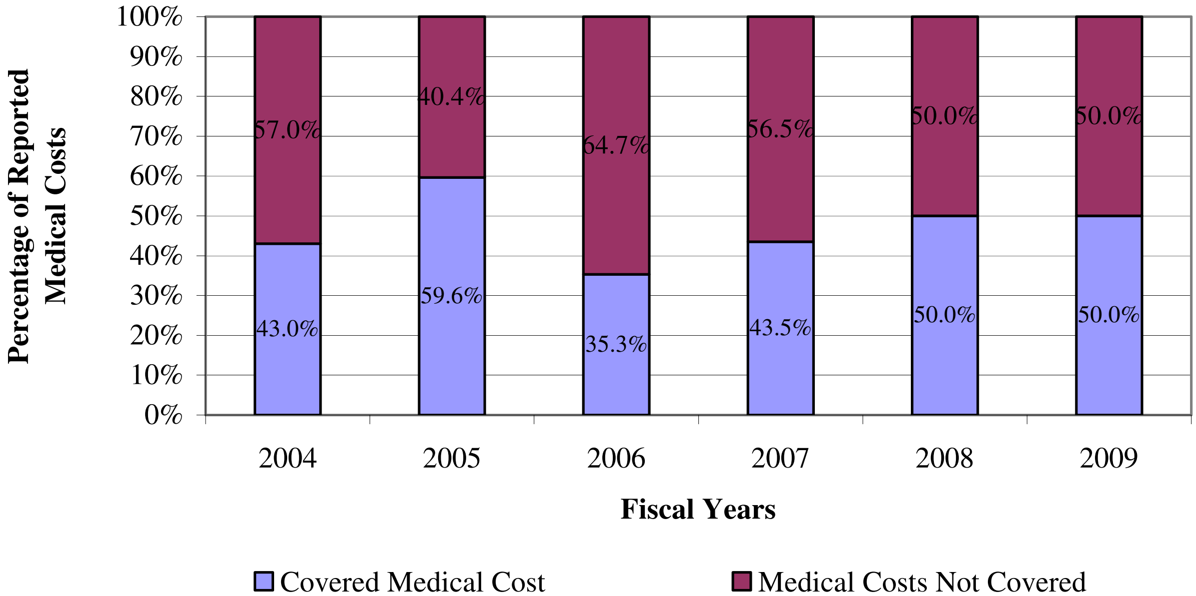
MHIP: Maryland Health Insurance Program

Source: Maryland Health Insurance Program

MHIP Covered Medical Costs

Exhibit 4 shows that, in fiscal 2007, MHIP covered 44% of medical costs incurred by enrollees. This is up from the fiscal 2006 percentage, which was 35%.

Exhibit 4
MHIP Proportion of Covered Medical Costs
Fiscal 2004-2009

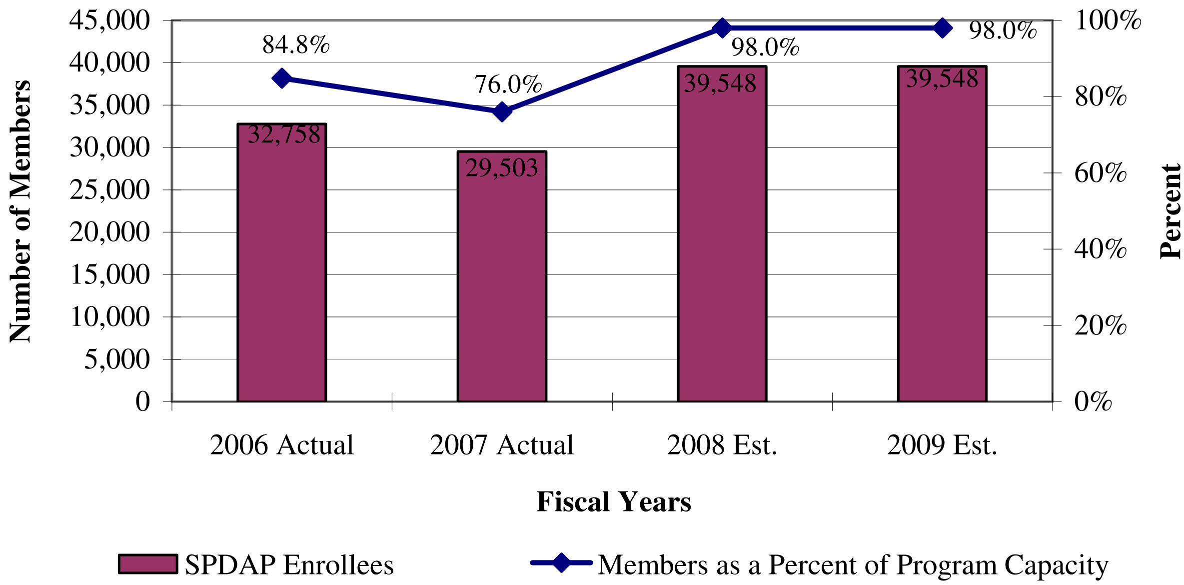


Source: Maryland Health Insurance Program

Senior Prescription Drug Assistance Program Membership

Exhibit 5 shows the number of SPDAP members and the members as a percent of program capacity. Membership in the program fell from fiscal 2006 to 2007 because SPDAP was effective in getting seniors enrolled in federally subsidized assistance programs. SPDAP expects that membership in the program will reach 98% of program capacity in fiscal 2008 and 2009 because SPDAP will be offering a new benefit that is expected to increase enrollment. SPDAP plans to begin providing an additional copay subsidy to participants that have extensive prescription drug costs that force them into the Medicare Part D coverage gap, which is called the "doughnut hole." Legislation has been introduced SB 906/HB 1492 of 2008 to implement this program.

Exhibit 5
SPDAP Enrollees as a Percentage of Program Capacity
Fiscal 2006-2009



SPDAP: Senior Prescription Drug Assistance Program

Source: Maryland Senior Prescription Drug Assistance Plan

Governor's Proposed Budget

As shown in **Exhibit 6**, the fiscal 2009 allowance decreases MIA's budget by $18.1 million, but actual costs are masked by one-time health insurance savings and Other Post Employment Benefits (OPEB). Absent health insurance and OPEB which distort year-to-year comparisons, the underlying fiscal 2009 budget change for MIA is decreasing $19.4 million, or 11.1%.

Exhibit 6
Governor's Proposed Budget
Maryland Insurance Administration
($ in Thousands)

How Much It Grows:	**Special Fund**	**Total**
2008 Working Appropriation	$176,066	$176,066
2009 Governor's Allowance	157,974	157,974
Amount Change	-$18,092	-$18,092
Percent Change	-10.3%	-10.3%

Where It Goes:	
Personnel Expenses	
Reduce Other Post Employment Benefits liability	$920
Employee and retiree health insurance	378
Increments and other compensations	255
Social Security and workers' compensation	74
Other fringe benefit adjustments	4
Three abolished positions	-151
Budgeted turnover increased from 3.3% to 4.4%	-290
Administration and Operations	
First year of computer replacement program	466
Computer programming upgrades	170
Disaster recovery resources and maintenance	263
Additional brochures for the Consumer Education and Advocacy Unit including bilingual brochures	33
Interagency agreement with the Office of the Attorney General	19
Reduced cost for mailing producer licenses	-12
Reduced funds for office supplies	-22
Reduced credit card fees related to on-line licensing	-30
One-time costs due to fiscal 2008 office move	-1,709
Rate Stabilization Fund	
Medical malpractice subsidies paid to insurers	-10,000
Maryland Health Insurance Program	
Lower than anticipated claims in the fiscal 2008 working appropriation	-8,549
Other	88
Total	**-$18,092**

Note: Numbers may not sum to total due to rounding.

Personnel

The fiscal 2009 allowance includes three fewer positions than the fiscal 2008 working appropriation. The three positions were abolished at the Board of Public Works (BPW) meeting on January 30, 2008.

As of January 1, 2008, MIA had a vacancy rate of 9.5% with 28 vacant positions. This is almost twice as much as the budgeted turnover of 4.8%. However, after the 3 positions were abolished at the BPW meeting in January, the vacancy rate was reduced to 8.6%.

Last Year of the Rate Stabilization Fund

The Maryland Health Care Provider Rate Stabilization Fund, created by Chapter 5 of the 2004 special session as the Maryland Medical Professional Liability Insurance Rate Stabilization Fund and subsequently renamed by Chapter 1 of 2005, was established for the purpose of retaining health care providers in the State by allowing insurers to charge lower premium rates for medical malpractice insurance and increasing Maryland Medical Assistance Program payment rates for physicians. Each year from fiscal 2006 through 2009, the payments for medical malpractice subsidies decreased as the payments to the Medical Assistance Program increased.

Fiscal 2009 is the last year a medical malpractice subsidy will be provided. By statute, the fiscal 2009 medical malpractice subsidy payment is supposed to be $25.0 million. However, Medical Mutual, the largest medical malpractice insurance carrier in the State, has decided not to participate in the subsidy program in fiscal 2009. As a result, the subsidy payment in fiscal 2009 is expected to be $4.8 million instead of $25.0 million with the remaining $20.2 million expected to be put in the Rate Stabilization Fund balance. Then, in fiscal 2010, the remaining fund balance will be transferred to the Medical Assistance Program.

MIA to Relocate

The fiscal 2008 working appropriation contains one-time funding in the amount of $1.7 million to relocate and consolidate MIA into a single location. Currently, the majority of MIA is located in office space on St. Paul Place in Baltimore City, while MHIP and the Insurance Fraud Division are located on separate floors of a second building on Baltimore Street approximately six blocks away. MIA will be moving to a location in downtown Baltimore, but the location has yet to be determined. MIA indicates that the actual move may not occur until fiscal 2009, but the lease will be signed and the money will be encumbered in fiscal 2008.

Issues

1. MHIP Finally Needs to Utilize the Fund Balance, but It Has Been Transferred

MHIP, the State's high-risk pool for medically uninsurable individuals, became operational in July 2003. Funded through an assessment on hospitals, MHIP as originally implemented had the capacity to serve approximately 15,000 enrollees based on 2004 medical cost projections. Enrollment has never approached this level. From an initial level of 7,300, enrollment fell steadily throughout 2003 and 2004. Higher premiums and a small health care provider network contributed to the decline. The MHIP board of directors took several steps to make the plan more attractive, and the decline reversed in 2005. These steps included:

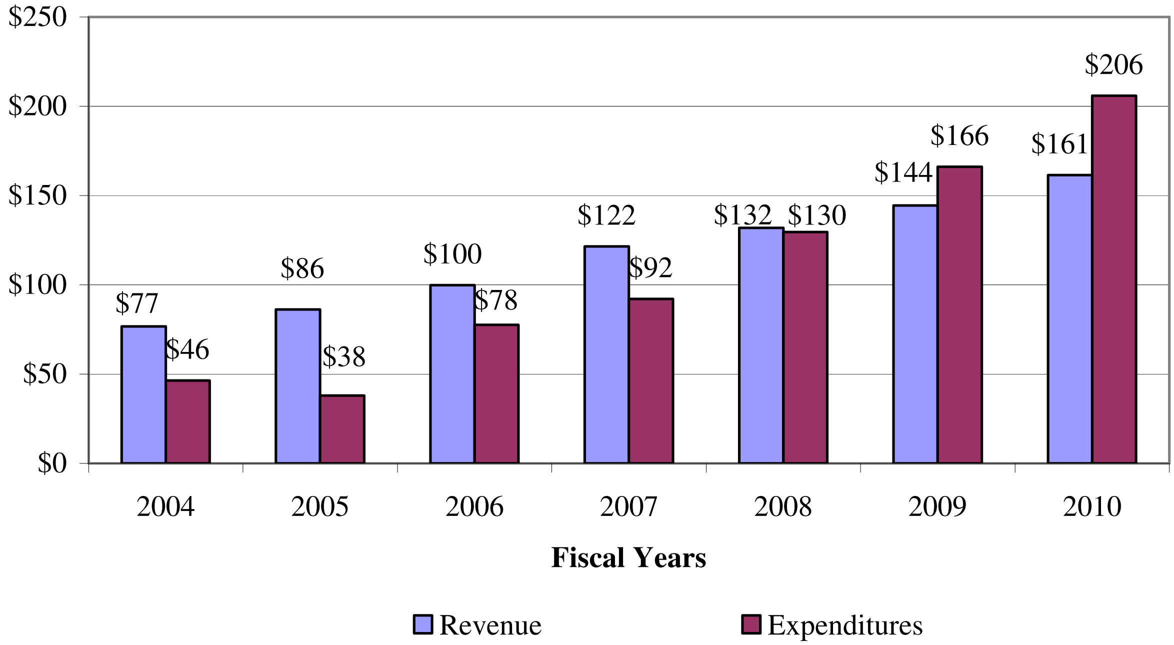
- expanding the provider network;
- lifting the ban on coverage of preexisting conditions;
- enhancing the benefit package;
- reducing premiums;
- increasing the referral fee paid to insurance producers;
- increasing the premium subsidy for low-income enrollees;
- instituting a mass marketing campaign; and
- marketing the plan to providers, insurance producers, hospitals, and local health departments.

A particularly effective strategy was to work with CareFirst, the State's largest carrier in the individual health insurance market, to enclose a "mini-application" for MHIP with all CareFirst denial notices. From a low of 4,952 participants in November 2004, enrollment has increased steadily and reached 12,210 in November 2007.

MHIP Fund Balance

Despite the increase in enrollment, MHIP continued to accumulate a large fund balance. As shown in **Exhibit 7**, however, in fiscal 2008 the expenditures have become relatively level with the revenues, and starting in fiscal 2009, it is expected that the expenditures will be greater than the revenues, which means MHIP will become reliant on the fund balance.

Exhibit 7
MHIP Revenues versus Expenditures and Cash Flow Activity
Fiscal 2004-2010
($ in Millions)



	2004	2005	2006	2007	2008	2009	2010
Revenues	$76.7	$86.2	$99.8	$121.5	$132.0	$144.4	$161.4
Expenditures	-46.4	-38.1	-77.6	-92.2	-129.5	-166.1	-206.0
Transfer to HCCF						-75.0	
End of Year Fund Balance	**$38.3**	**$89.1**	**$111.5**	**$139.3**	**$141.8**	**$45.0**	**$0.5**

HCCF: Health Care Coverage Fund

Source: Maryland Health Insurance Plan

During the 2007 special session, the General Assembly dedicated $75 million of the MHIP fund balance to the new Health Care Coverage Fund to pay for the Medicaid expansion and the Small Business Health Insurance Subsidy Program. As shown at the bottom of Exhibit 7, with the

$75 million transferred out of MHIP, the program is expected to deplete the fund balance by the end of fiscal 2010.

Without the transfer of the $75 million to the Health Care Coverage Fund, MHIP would have eventually depleted the fund balance, but MHIP would have had at least another year to contemplate a long-term solution to keep MHIP sustainable. However, the transfer accelerated the timeframe for dealing with the issue.

The Department of Legislative Services (DLS) understands the Department of Health and Mental Hygiene (DHMH) and the Health Services Cost Review Commission (HSCRC) are working to establish a long-term solution to keep MHIP solvent. DHMH and HSCRC are expected to propose an increase to the hospital assessment that provides roughly two-thirds of the revenue for MHIP, currently set at a 0.8% assessment on the gross revenue of each acute care hospital in the State.

The MHIP executive director should inform the committees on what, if any, actions have been taken to increase the hospital assessment revenue for MHIP. In lieu of any action to increase revenue, the executive director should explain how MHIP plans to address the financial situation of the program.

2. Less Than Anticipated Need for Medical Malpractice Subsidies

The Maryland Health Care Provider Rate Stabilization Fund, created by Chapter 5 of the 2004 special session as the Maryland Medical Professional Liability Insurance Rate Stabilization Fund and subsequently renamed by Chapter 1 of 2005, was established for the purpose of retaining health care providers in the State by allowing insurers to charge lower premium rates for medical malpractice insurance and increasing Maryland Medical Assistance Program payment rates for physicians.

The fund receives revenues from a premium tax on Health Maintenance Organizations and Medicaid Managed Care Organizations. Monies in the fund are then transferred to one of two accounts: the Rate Stabilization Account or the Medical Assistance Program Account. Monies in the Rate Stabilization Account are appropriated in the MIA budget and are used to pay subsidies to medical malpractice insurers. Monies in the Medical Assistance Program Account are appropriated in the budget of the Department of Health and Mental Hygiene.

The Statutory Plan

The payments to each account as required by statute are shown in **Exhibit 8**. Under the legislation, the Rate Stabilization Account (or medical malpractice insurance subsidy payments) receives decreasing annual payments from fiscal 2006 to 2009, while the Medical Assistance Program Account (or transfers to Medicaid) receives increasing annual payment. In addition, MIA receives an annual administrative allowance of $350,000.

Exhibit 8
Rate Stabilization Fund Payments
Required by Statute
Fiscal 2005-2010

	2005	2006	2007	2008	2009	2010
Medical Malpractice Insurance Subsidy Payments	$0	$52	$45	$35	$25	
Transfer to Medicaid	3.5	30	45	65	Remaining Revenue	Revenue and Remaining Balance
MIA Administrative Costs	0.4	0.4	0.4	0.4	0.4	

MIA: Maryland Insurance Administration

Source: Maryland Statute, Insurance 19-803

The fund is non-lapsing and any balance must remain in the fund until otherwise directed by law. Any funds remaining in the Rate Stabilization Account after fiscal 2009 are directed by statute to be transferred to be used for the purposes of the Medical Assistance Program Account.

Medical Mutual

The Rate Stabilization Fund was administered according to the statutory plan until September 12, 2007, when the Board of Directors of the Medical Mutual Liability Insurance Society of Maryland declared a dividend in the amount of $68.6 million. In Medical Mutual's view, the dividend was to be split with two-thirds going to the State and one-third to Medical Mutual's policyholders. Also, Medical Mutual announced that it would no longer participate in the medical malpractice subsidy program. On September 13, 2007, the Insurance Commissioner barred Medical Mutual from distributing the dividend until there was a MIA hearing on the issue.

The hearing was held on October 5, 2007, and arguments were heard on October 26, 2007. MIA disputed Medical Mutual's interpretation of how the monies were to be repaid to the State under Section 19-805(h)(1) of the Insurance Article and objected to the splitting of the dividend payment between the State and renewing policyholders. MIA's position was that the entire amount of the dividend was required to be repaid to the State. On November 20, 2007, the Insurance Commissioner issued his final order directing Medical Mutual to pay the entire $68.6 million dividend to the State. However, the Insurance Commissioner delayed the payment to the State by 30 days to see if an agreement could be reached to encourage Medical Mutual to use a portion of the dividend to lower the 2008 rates for its policyholders. If in 30 days an agreement was not reached, the entire dividend payment would be paid to the State.

Then, on December 12, 2007, Medical Mutual rescinded the $68.6 million dividend and declared a $97.8 million dividend. MIA and Medical Mutual agreed that the State would receive a payment of $84.1 million, which consists of two components: $72.4 million in a cash refund to repay the State for medical malpractice subsidies paid to Medical Mutual policyholders and $11.7 million in subsidy payments that Medical Mutual agreed not to request in calendar 2007. The remaining $13.8 million of the declared dividend went to renewing Medical Mutual policyholders as a credit towards their 2008 premiums. Additionally, Medical Mutual reduced its base rates for all its policyholders by 8% which, taken together, kept premiums flat for 2008.

The Result

Since Medical Mutual is the largest medical malpractice insurer in Maryland and it is no longer participating in the subsidy program, the expenditures through the Rate Stabilization Fund have changed substantially from the statutory plan. The projected spending for fiscal 2008 and 2009 are shown in **Exhibit 9**. In fiscal 2008, the medical malpractice subsidy payments to insurers drop from the statutory amount of $35.0 million to $23.9 million, and the payment in fiscal 2009 is expected to be $4.8 million instead of $25.0 million.

Exhibit 9

Rate Stabilization Fund
Revenues and Expenditures
Fiscal 2005-2010

	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Wrking Appr.	FY 2009 Allowance	FY 2010 Estimate
Revenues						
Current Year	$30,178,428	$82,114,639	$87,958,274	$92,350,000	$98,350,000	$105,000,000
Prior Year Fund Balance		1,747,703	25,306,136	22,965,968	110,093,168	47,068,168
Medical Mutual Refund				84,075,699		
Total Revenues	**$30,178,428**	**$83,862,342**	**$113,264,410**	**$199,391,667**	**$208,443,168**	**$152,068,168**
Expenditures						
Medical Malpractice Subsidy Payments	24,930,725	28,409,257	45,165,442	23,948,499	4,750,000	-
Transfers to Medicaid	3,500,000	30,000,000	45,000,000	65,000,000	73,000,000	152,068,168
MIA Administrative Expenses		146,949	133,000	350,000	350,000	-
Transfer to the Health Care Coverage Fund*					83,275,000	-
Total Expenditures	**$28,430,725**	**$58,556,206**	**$90,298,442**	**$89,298,499**	**$161,375,000**	**$152,068,168**

*This is proposed in the 2008 Budget Reconciliation and Financing Act.

Source: Maryland Insurance Administration

A majority of the additional money available due to the Medical Mutual's refund payment and nonparticipation is proposed to be transferred to Medicaid through the Budget Reconciliation and Financing Act of 2008. In fiscal 2010, it is expected that the remaining $152.1 million will be transferred to Medicaid.

MIA should inform the budget committees about whether the other medical malpractice insurance carriers are having similar favorable claims experiences and, therefore, may not need the medical malpractice subsidy payments to temper the rate of growth to medical malpractice premiums.

3. Task Force on the Availability and Affordability of Property Insurance in Coastal Areas

Background

Since the record storm seasons of 2004 and 2005 caused billions of dollars in damage to the Gulf Coast and Eastern Seaboard, several of the nation's largest insurers have stopped renewing homeowner's policies in some regions of the country considered at-risk for future hurricanes and floods. In Maryland, insurers continue to renew homeowners' insurance policies in coastal areas – areas most at-risk for future hurricanes and floods. However, in January of 2007, Allstate was the first of several insurers in Maryland to announce that it would stop issuing new policies in the coastal areas of the State. In response to these actions, Chapter 486 of 2007 established the Task Force on the Availability and Affordability of Property Insurance in Coastal Areas to examine this issue. The six-member task force consists of four members of the General Assembly, the Maryland Insurance Commissioner, and the People's Insurance Counsel.

Specifically, the task force is charged with studying:

- the availability and affordability of homeowners' insurance and other property insurance in coastal areas of the State, including the Eastern Shore and Southern Maryland, and whether there is sufficient competition within those areas;

- the current number and types of insurers in the coastal markets, including admitted carriers, excess and surplus lines carriers, residual market mechanisms, captives and the reinsurance market, and the types of products offered;

- the competition and rate adequacy in the coastal markets for storm-related perils;

- the impact of coastal markets on the availability and affordability of property insurance in noncoastal areas and the costs associated with spreading property insurance risks among homeowners across the entire State;
- the regulatory framework within the State for the pricing and underwriting of property insurance, including the use of named storm deductibles;
- the development and evolution of storm modeling and its use by the insurance industry in the assessment of potential losses from significant storms and the need for a regulatory framework in the use of storm modeling;
- potential structural protections for properties in coastal areas that would result in the mitigation of storm damage in coastal areas and the extent to which such mitigation has had a beneficial impact on the availability and affordability of property insurance in other states;
- the ability of the State to influence patterns of real estate development in coastal areas in a manner that minimizes future exposure of the State and Maryland residents to severe storm damage to property;
- the effectiveness, cost, and long-term viability of alternative market mechanisms, such as limited coverage products, wind pools, the expansion of residual market mechanisms, and catastrophe funds that have been implemented or are being considered in other states or by the federal government;
- initiatives adopted in other states to increase availability and affordability of property insurance in coastal areas; and
- any other matter the Commissioner deems relevant to the availability and affordability of homeowner's insurance in coastal areas of the State.

The task force, which terminates on May 31, 2008, was expected to report its findings and recommendations to the Governor, Senate Finance Committee, and House Economic Matters Committee by December 31, 2007. However, the final report had not been completed as of February 15, 2008.

Work of the Task Force

As of November 7, 2007, the task force had met three times and had covered all of the study topics with which the task force was charged. The task force heard from a variety of representatives, including Maryland insurance regulators; a South Carolina insurance regulator; insurance and reinsurance associations; an insurance rating service; an advisory organization on actuarial and statistical policy; building and home safety associations; a certified inspector for Florida and South Carolina; consumer groups; insurers; agents and agent associations; catastrophe loss modeling, consulting and risk management companies; a Florida mitigation association; and the Joint Insurance

Association. Because the task force has not yet completed its work, specific recommendations are unknown at this time.

Maryland Insurance Market

Although over 100 insurance companies issue homeowner's insurance policies in the State, approximately 85% of policies issued in the State are written by 10 insurance groups. Frequently, policy changes implemented by one of these insurance groups are adopted in a similar fashion by the other insurance groups, thereby affecting the vast majority of homeowner's insurance policies in the State.

While many states are experiencing cancellations and nonrenewals on homeowners' policies in coastal areas, this had not been the experience in Maryland. What Maryland has experienced has been the alteration of underwriting guidelines in coastal areas. These changes, governed by statute, must be filed with the Commissioner. The changes must be reasonable and have an objective basis. Once a change to an insurer's underwriting guidelines is filed with the Commissioner, the insurer may apply the change immediately, a system also known as "file and use." Under the file and use system, MIA reviews the filing to ensure compliance with the law and to ensure that the change is justified.

The most recent underwriting guideline changes filed by homeowners' insurers in Maryland with MIA include (1) limiting the number of new policies an insurer will issue; (2) placing minimum limitations on the distance a home must be from tidal waters; and (3) requiring a deductible equal to a percentage (*i.e.*, up to 3 or 5%) of the homeowner's insurance policy limits for damage caused by a windstorm or when the National Weather Service names a tropical storm or declares a hurricane watch or warning, also known as a "named storm deductible."

Other State Actions

South Carolina and Florida, states with considerable coastal exposures, have implemented significant insurance reform initiatives aimed at ensuring the availability and affordability of homeowner's insurance in their states. These initiatives include (1) state tax credits for homeowner catastrophe savings accounts; (2) state-sponsored catastrophe funds; (3) grant programs for the retrofitting of homes in order to make homes more resistant to loss from future weather events; (4) state tax credits for costs associated with retrofitting homes in order to mitigate losses from future weather events; and (5) mandatory credits or discounts on a homeowner's policy premium if the homeowner has retrofitted the home to mitigate losses from future weather events.

Allstate Stops Writing Policies for Coastal Areas

As an advocate for consumers, the Insurance Commissioner received and thoroughly reviewed and investigated Allstate's filing to no longer write homeowners insurance policies in certain geographic areas. After concluding that Allstate had met its obligations under the existing law, the Commissioner accepted Allstate's filings. Thereafter, the People's Insurance Counsel (PIC) sought and was granted a hearing in which PIC challenged Allstate's actions. In February 2008, the Insurance Commissioner issued a decision affirming that Allstate's actions met the existing statutory requirements.

MIA should comment on the impact this decision will have on the property insurance markets in coastal areas. Also, MIA should explain how this decision may increase the pressure on the State to implement options used by other states to provide affordable home insurance in the coastal areas of the State. In addition, MIA should update the committees on the final recommendations of the task force and whether any of the recommendations will have a budgetary impact for MIA.

4. MIA Takes Over Troubled Bond Insurer

ACA Financial Guaranty Corporation (ACA) is now a New York-based company, but the company was once part of Baltimore's United States Fidelity and Guaranty Company (USF&G) Financial that was bought out by St. Paul Travelers Company in 1998. The company does not have any offices or employees in Maryland, but ACA remains under the authority of MIA because the company was incorporated in Maryland.

MIA is responsible for ensuring the financial solvency of insurers in the State. For this reason, on November 21, 2007, the Insurance Commissioner called for a targeted financial examination of ACA, which is the bond insurance division of ACA Capital Holdings Incorporated, to determine ACA's financial exposure to delinquencies and loan defaults in the subprime mortgage market. At the time, ACA was financially solvent, but ACA had recently been placed on the credit watches with negative implications by Standard & Poor's due to concerns about ACA's ability to generate new business.

Then, on December 19, 2007, ACA was downgraded by Standard & Poor's from investment grade "A" to a non-investment grade of "CCC." The downgrade was related to concerns about increasing claims from defaults on mortgage-backed bonds and the risk that those claims could drain bond insurers of needed capital.

The downgrade led Standard & Poor's to cut ratings on more than $6 billion of municipal bonds issued nationwide because the credit ratings of those bonds relied on insurance from ACA. The insurance of bonds is important because municipalities receive high credit ratings when their bonds are insured.

Among the bonds downgraded were $8.4 million in bonds from Maryland Economic Development Corporation, which acts as a conduit for bond sales on behalf of the government entities in the State. The revenue bonds were issued to raise money for student housing at the Allegany College of Maryland.

Under the forbearance agreement with ACA's clients, ACA had until January 18, 2008, to post collateral against its insurance contracts. The purpose of the forbearance agreement is that the counterparties agreed not to force ACA to post collateral, which they could have required as a result of the downgrade, and, during the forbearance period, ACA and the counterparties were to work on a long-term solution.

In December, MIA sent examiners to the ACA offices to begin an investigation. As the insurance regulator, if MIA found the company to be insolvent, MIA could have put ACA into receivership or taken over the company completely. MIA decided to hold off on filing delinquency proceedings while ACA sought capital. In December 2007, MIA executed two documents with ACA, a consent agreement, under which ACA agreed not to contest a filing for receivership if MIA proceeded in that manner, and a Letter of Representation, which provided the administration with some additional oversight of the company's operations. However, ACA continues to be operated by company management.

MIA entered into a consent agreement with ACA, which gave MIA significant control over management of the company. The agreement restricted ACA's ability to issue dividends to its parent company or enter into certain transactions without approval from MIA. Also, the company was required to provide unspecified documents to MIA.

It was thought that the arrangement between ACA and MIA would provide ACA with time to raise capital before the January 18, 2008, deadline for ACA to post collateral. Then, in January, ACA extended the agreement that waives collateral requirements, policy claims, and termination rights until February 19, 2008. At which point, the forbearance agreement was extended an additional 60 days. The additional time will allow ACA to work with its trading partners to develop a permanent solution to stabilize its capital position.

Understanding that MIA's examination of ACA is confidential until a final report is issued, MIA should update the budget committees on any public information regarding the ACA situation. Also, MIA should comment on how the ACA situation has impacted municipalities in Maryland and any potential implications for MIA.

Recommended Actions

		Amount Reduction	
1.	Eliminate the fiscal 2009 funding for medical malpractice subsidies. In fiscal 2008, the largest medical malpractice insurance carrier, Medical Mutual, refunded the Maryland Insurance Administration the subsidy payments paid in previous fiscal years and agreed to no longer participate in the medical malpractice subsidy program. In fiscal 2009, only $5 million of the $25 million appropriated is anticipated to be used to pay for medical malpractice subsidies. However, the actions taken by Medical Mutual question the need for providing medical malpractice subsidies.	$ 25,000,000	SF
	Total Special Fund Reductions	**$ 25,000,000**	

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Maryland Insurance Administration
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2007					
Legislative Appropriation	$0	$162,110	$0	$0	$162,110
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	306	4,742	0	5,048
Reversions and Cancellations	0	-16,925	0	0	-16,925
Actual Expenditures	**$0**	**$145,491**	**$0**	**$0**	**$150,233**
Fiscal 2008					
Legislative Appropriation	$0	$175,708	$0	$0	$175,708
Cost Containment	0	0	0	0	0
Budget Amendments	0	358	0	0	358
Working Appropriation	**$0**	**$176,066**	**$0**	**$0**	**$176,066**

Note: Numbers may not sum to total due to rounding.

Fiscal 2007

MIA received a fiscal 2007 legislative appropriation of $162.1 million in special funds. Throughout the year, the appropriation increased by $5.1 million through budget amendments. Most of the increase ($4.7 million) came from federal funds. The appropriation for the Maryland Health Insurance Plan increased by $4.0 million in federal funds to cover up to 50% of high risk pool losses. The remaining federal funds ($1.7 million) went to the Senior Prescription Assistance Program for activities related to the Medicare Part D and Medicare Advantage prescription drug plans. Also, special funds increased by $0.3 million due to cost-of-living adjustments.

In fiscal 2007, MIA cancelled $16.9 million in special funds. Most of the canceled funds ($11.6 million) were caused by lower than anticipated enrollment and claims expenditures in the Maryland Health Insurance Program. Also, the Senior Prescription Drug Program cancelled $4.8 million due to lower than anticipated claims expenditures. The remaining $0.5 million in cancelled special funds were the result of unused administrative funds.

Fiscal 2008

The fiscal 2008 legislative appropriation for MIA was $175.7 in special funds, and the working appropriation has increased by $0.4 million in special funds due to cost-of-living adjustments.

Object/Fund Difference Report
Maryland Insurance Administration

Object/Fund	FY07 Actual	FY08 Working Appropriation	FY09 Allowance	FY08-FY09 Amount Change	Percent Change
Positions					
01 Regular	289.00	294.00	291.00	-3.00	-1.0%
02 Contractual	7.30	9.70	9.60	-0.10	-1.0%
Total Positions	**296.30**	**303.70**	**300.60**	**-3.10**	**-1.0%**
Objects					
01 Salaries and Wages	$ 19,544,877	$ 20,871,031	$ 22,061,752	$ 1,190,721	5.7%
02 Technical and Spec. Fees	460,645	612,901	685,403	72,502	11.8%
03 Communication	531,441	618,493	626,559	8,066	1.3%
04 Travel	414,909	397,220	396,420	-800	-0.2%
07 Motor Vehicles	98,829	69,938	71,257	1,319	1.9%
08 Contractual Services	127,076,638	151,181,531	131,163,512	-20,018,019	-13.2%
09 Supplies and Materials	420,482	334,641	348,338	13,697	4.1%
10 Equip. – Replacement	91,368	148,434	138,156	-10,278	-6.9%
11 Equip. – Additional	123,378	56,734	538,961	482,227	850.0%
12 Grants, Subsidies, and Contributions	431,665	446,813	466,198	19,385	4.3%
13 Fixed Charges	1,038,990	1,328,065	1,477,302	149,237	11.2%
Total Objects	**$ 150,233,222**	**$ 176,065,801**	**$ 157,973,858**	**-$ 18,091,943**	**-10.3%**
Funds					
03 Special Fund	$ 145,491,215	$ 176,065,801	$ 157,973,858	-$ 18,091,943	-10.3%
05 Federal Fund	4,742,007	0	0	0	0.0%
Total Funds	**$ 150,233,222**	**$ 176,065,801**	**$ 157,973,858**	**-$ 18,091,943**	**-10.3%**

Note: The fiscal 2008 appropriation does not include deficiencies.

Appendix 2

Fiscal Summary
Maryland Insurance Administration

Program/Unit	FY07 Actual	FY08 Wrk Approp	FY09 Allowance	Change	FY08-FY09 % Change
01 Administration and Operations	$ 23,957,301	$ 26,721,884	$ 26,993,880	$ 271,996	1.0%
05 Rate Stabilization Fund	45,306,522	35,350,000	25,350,000	-10,000,000	-28.3%
01 Maryland Health Insurance Program	70,037,199	99,993,917	91,629,978	-8,363,939	-8.4%
02 Senior Prescription Drug Program	10,932,200	14,000,000	14,000,000	0	0%
Total Expenditures	**$ 150,233,222**	**$ 176,065,801**	**$ 157,973,858**	**-$ 18,091,943**	**-10.3%**
Special Fund	$ 145,491,215	$ 176,065,801	$ 157,973,858	-$ 18,091,943	-10.3%
Federal Fund	4,742,007	0	0	0	0.0%
Total Appropriations	**$ 150,233,222**	**$ 176,065,801**	**$ 157,973,858**	**-$ 18,091,943**	**-10.3%**

Note: The fiscal 2008 appropriation does not include deficiencies.