

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 679

(Senator Kittleman)

Finance

Economic Matters

Injured Workers' Insurance Fund - Regulation by the Maryland Insurance Commissioner

This bill subjects the Injured Workers' Insurance Fund to additional regulation by the Maryland Insurance Commissioner.

Fiscal Summary

State Effect: Special fund expenditures could increase by approximately \$48,400 in FY 2009 for additional staff to be assigned to the Maryland Insurance Administration in order to meet the enhanced examination and enforcement requirements. Future year expenditure estimates reflect annualization and inflation.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	48,400	59,700	62,800	65,900	69,300
Net Effect	(\$48,400)	(\$59,700)	(\$62,800)	(\$65,900)	(\$69,300)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Injured Workers' Insurance Fund: The bill would not directly affect IWIF finances or operations.

Local Effect: The bill would not directly affect local finances or operations.

Small Business Effect: None.

Analysis

Bill Summary: The bill subjects IWIF to examination and enforcement by the Commissioner in the same manner applied to other insurers by the Insurance Article.

The bill requires the Maryland Insurance Administration to study the impact of subjecting IWIF to the provisions of law regarding rate making, rating, and rate review that are enforced by MIA for other property and casualty insurers. The study is required to include • an analysis of whether IWIF's current rate making practices produce actuarially sound rates; • a determination of the cost impact to IWIF to be required to file rates with a rating organization; and • a comparison of the experience rating plan used by IWIF for small employers as compared to the experience rating plan established by a rating organization for small employers. MIA is also required to identify other provisions of law relating to consumer protections and financial soundness that are enforced by MIA and are applicable to other property and casualty insurers but are not applicable to IWIF. MIA is required to seek input for the study from specified relevant parties and is required to report its findings and recommendations on how rates should be established for IWIF to the Senate Finance Committee and the House Economic Matters Committee by December 1, 2008.

Current Law: IWIF is currently exempt from the provisions of State law governing insurance rate making by private insurers, including regulation, examination, and enforcement by the Commissioner. Under current law, IWIF is required to submit a detailed package of information to the Governor that includes the schedule of premium rates that IWIF will charge for the next calendar year. The board of IWIF, appointed by the Governor, has the authority to determine the schedule of premium rates based on the rating system that, in the opinion of the board • most accurately measures the level of hazard for each policyholder on the basis of the number of injuries that occur in the enterprises of the policyholder; • encourages the prevention of injuries; and • ensures the solvency of IWIF from year to year.

Each workers' compensation insurer in Maryland, except IWIF, has to be a member of a workers' compensation rating organization and adhere to the policy forms filed by the rating organization.

Background: IWIF administers workers' compensation for the State and provides workers' compensation insurance to firms unable to procure insurance in the private market. IWIF was established as the State Accident Fund, part of the State Industrial Accident Commission. In 1941, it became a separate agency and took its current name in 1990. IWIF only writes policies in Maryland and is the exclusive residual workers'

compensation insurer in the State. IWIF cannot decline businesses that seek coverage and must adjust rates in response to changing market conditions.

Chapter 567 of 2000 and Chapter 22 of 2003 extended specific regulations to IWIF, primarily Insurance Article provisions for risk-based capital (RBC) standards, assets and liabilities, reserves, reinsurance, and impaired entities.

In Maryland, IWIF is a major insurer with an approximate one-third market share. IWIF is not a member of the National Council on Compensation Insurance – the rating organization recognized in Maryland. Consequently, IWIF's written premiums and claims experience is not reflected in NCCI's pure premium loss cost filings. The largest market share for any other single group of insurers is approximately 12%. The market share of companies is continually being monitored. Currently, 45 insurance groups have direct written premiums in excess of \$1 million and an additional 57 have direct written premiums of less than \$1 million for workers' compensation insurance in the State.

NCCI is a rating and data collection organization that collects data from all writers of workers' compensation insurance in Maryland except IWIF and group self-insurance funds. NCCI is the only workers' compensation rating organization currently operating in Maryland. The pure premium rate filed by NCCI for 2008 provided a 1.7% overall drop for most industries, compared to a 5.2% decrease in 2007. Of the 18 states maintaining competitive state funds, 16 report loss data to NCCI.

Insurers report their claims data to NCCI and, from the aggregate of these reports, NCCI determines loss costs for each occupation and industry in the State (there are more than 600 separate "class codes"). By statute, IWIF is exempt from NCCI affiliation and from filing its rates with the Maryland Insurance Administration. IWIF, instead, has developed its own loss costs data system, based solely on IWIF loss experience. Rates are formulated based on these data, in consultation with IWIF's outside actuary, and approved by the board for IWIF.

State Fiscal Effect: Special fund expenditures within the Maryland Insurance Administration could increase by an estimated \$48,412 in fiscal 2009, which accounts for the bill's October 1, 2008 effective date. This estimate reflects the cost of hiring one insurance investigator, assigned to the Maryland Insurance Administration, to complete the enhanced examination and enforcement required under the bill. It includes a salary, fringe benefits, and ongoing operating expenses.

Positions	1
Salary and Fringe Benefits	\$43,594
Operating Expenses	<u>4,818</u>
Total FY 2009 State Expenditures	\$48,412

Future year expenditures reflect • a full salary with 4.4% annual increases and 3% employee turnover; and • 2% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Workers' Compensation Commission, Injured Workers' Insurance Fund, Maryland Insurance Administration, National Council on Compensation Insurance, Department of Legislative Services

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