

D80Z01
Maryland Insurance Administration

Operating Budget Data

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$37,646	\$26,901	\$28,029	\$1,127	4.2%
Contingent & Back of Bill Reductions	0	0	-634	-634	
Adjusted Special Fund	\$37,646	\$26,901	\$27,395	\$494	1.8%
Adjusted Grand Total	\$37,646	\$26,901	\$27,395	\$494	1.8%

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board budget reductions. The actual allocations are to be developed by the Administration.

- The fiscal 2011 allowance provides a \$494,000 increase over the current year working appropriation representing a 1.8% increase. The Maryland Insurance Administration (MIA) is funded entirely from special funds.

Personnel Data

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>
Regular Positions	282.00	282.00	282.00	0.00
Contractual FTEs	<u>10.80</u>	<u>8.20</u>	<u>15.00</u>	<u>6.80</u>
Total Personnel	292.80	290.20	297.00	6.80

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	14.10	5.00%
Positions and Percentage Vacant as of 12/31/09	17.90	6.35%

- The number of regular positions in the allowance remains unchanged from the current year. An additional 6.8 contractual positions are added in the allowance. Six of these are added in the Compliance and Enforcement section to handle cases of fraud in real estate transactions.

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

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Analysis in Brief

Major Trends

Financial Examinations Completed Timely: MIA is responsible for ensuring the financial solvency of insurance companies by conducting routine financial examinations. MIA has improved on this measure since fiscal 2006 and 2007 when staffing shortages severely hampered efforts.

Fraud Division Achieves Target Level of Case Closures: The percent of fraud referral cases closed within the target time frame has increased steadily since fiscal 2005, and in fiscal 2009, MIA achieved its goal of closing 75% of referrals within the target time frame.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Premium Tax Revenue Forecasting Issues Report Submitted: Language added to the fiscal 2010 budget for MIA restricted funds until the agency submitted a report in coordination with the Comptroller's Bureau of Revenue Estimates on premium tax revenue forecasting issues. MIA submitted the report in October 2009.

D80Z01
Maryland Insurance Administration

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 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 protect Maryland citizens through enforcement of the Annotated Code of Maryland provisions relating to insurance fraud.

Performance Analysis: Managing for Results

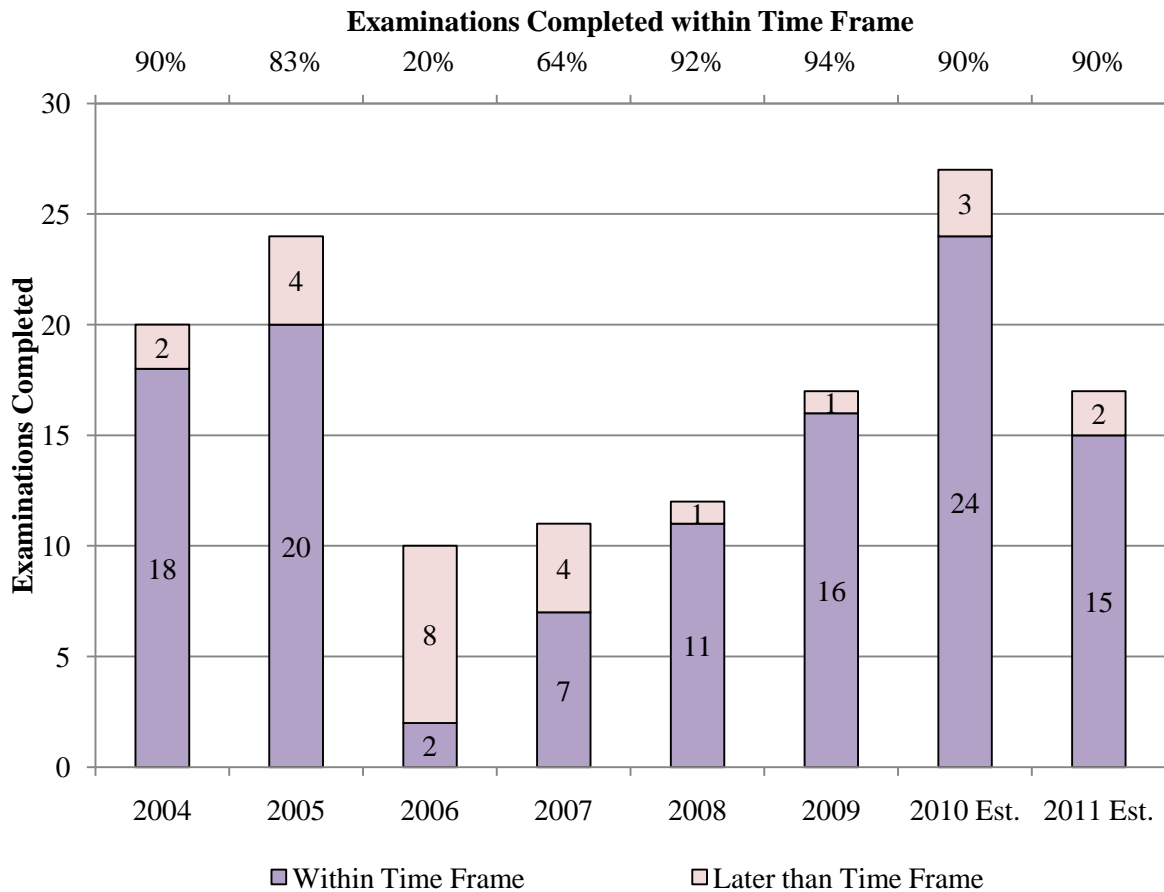
Financial Examinations Completed Timely

MIA conducts financial examinations of domestic insurance companies, those formed under Maryland law. There are approximately 75 domestic companies in the State that MIA is required to examine every five years.

The administration has a goal of completing 90% of the financial examinations with no more than a 15% variance of budgeted time because timely completion of the examinations results in earlier detection of insurers exhibiting financial distress. **Exhibit 1** shows the number of financial examinations conducted each year and the number of examinations that were conducted within the

statutory time frame. The number of financial examinations conducted in fiscal 2006 through 2008 was low due to a shortage of supervisory staff, which was partially remedied by the use of outside contractors. The staff shortage also created a backlog that caused the number of financial examinations projected for fiscal 2010 to be higher.

**Exhibit 1
Financial Examinations on Domestic Companies
Relative to the Statutory Time Frame
Fiscal 2004-2011**



Source: Maryland Insurance Administration

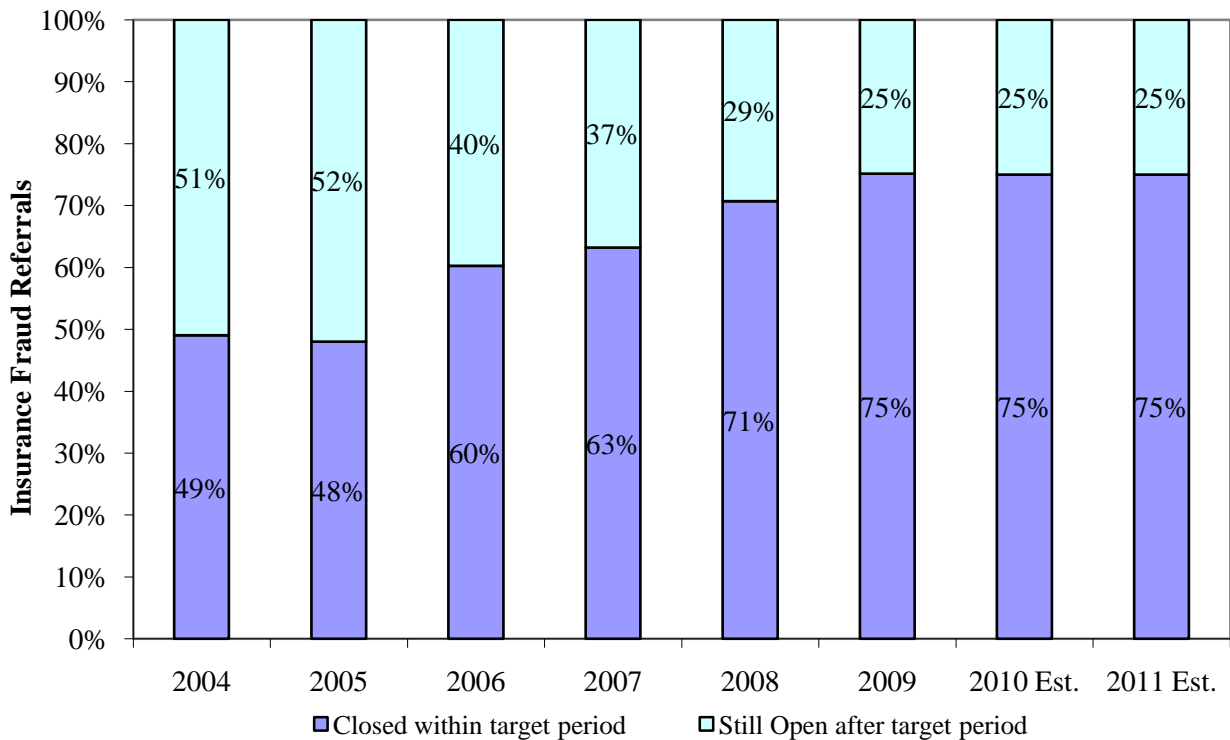
Fraud Division Achieves Target Level of Case Closures

Nearly all the Fraud Division’s workload involves “referrals” from insurance companies pursuant to their statutory obligation to report when they have a “good faith” belief that instances of insurance fraud have occurred. The administration has set a goal of closing 75% of referrals opened

for investigation within 180 days. Prior to the fiscal 2011 Managing for Results submission, the target period was 120 days. The target period was increased to 180 days to reflect both a significant increase in the number of referrals that resulted from implementation of an electronic referral system, and the decision to include within that time period the time necessary to persuade a prosecutor to actually file criminal charges. Previously, the case was coded as closed when the investigator – who is not a law enforcement officer and does not have charging authority – decided it merited charging, regardless of the ultimate decision of the prosecutor. An investigation is considered closed when (1) the investigator, in consultation with his or her supervisor, determines that it would not yield a successful prosecution; (2) the matter is presented to a local State’s Attorney for prosecution; or (3) an application for a statement of charges has been prepared by the investigator.

Exhibit 2 shows that MIA has significantly improved the percentage of insurance fraud referrals closed within the target time frame. In fiscal 2009, MIA achieved the stated goal of closing 75% of the referrals within the target time frame, and it expects to continue to meet this goal going forward.

Exhibit 2
Percent of Insurance Fraud Referrals
Closed within 180 Days
Fiscal 2004-2011



Source: Maryland Insurance Administration

Fiscal 2010 Actions

Impact of Cost Containment

MIA's fiscal 2010 budget was reduced by \$546,847 through action of the Board of Public Works to recognize savings from employee furloughs.

Section 8 of the Budget Reconciliation and Financing Act of 2010 (SB 141/HB 151) includes a provision which would transfer \$2 million from the Insurance Regulation Fund to the general fund. This transfer includes the savings realized through employee furloughs. Chapter 774 of 1998 established the Insurance Regulation Fund to pay all costs and expenses incurred by MIA associated with regulating the insurance activities of the State. The transfer will reduce the estimated fiscal 2010 ending balance from \$3.5 to \$1.5 million. MIA is required to maintain a 5% reserve in the Insurance Regulation Fund, which amounts to \$1.3 million in fiscal 2010.

Proposed Budget

As shown in **Exhibit 3**, MIA's budget increases by \$494,000 over the current year working appropriation. Personnel expenses increase by a net \$609,000 with the remainder of the budget decreasing by a net \$115,000.

Impact of Cost Containment

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings.

For MIA, the reductions for items for which estimated savings could be calculated total \$633,604 as follows: employee furloughs (\$541,328), health insurance (\$80,944), and workers' compensation (\$11,332).

Exhibit 3
Proposed Budget
Maryland Insurance Administration
(\$ in Thousands)

How Much It Grows:	Special Fund	Total
2010 Working Appropriation	\$26,901	\$26,901
2011 Allowance	<u>28,029</u>	<u>28,029</u>
Amount Change	\$1,127	\$1,127
Percent Change	4.2%	4.2%
Contingent Reductions	-\$634	-\$634
Adjusted Change	\$494	\$494
Adjusted Percent Change	1.8%	1.8%

Where It Goes:

Personnel Expenses

Employee retirement, Social Security, and unemployment compensation	\$329
Reduced turnover	165
Employee and retiree health insurance (net of Section 19)	92
Hiring above base and promotions	83
Workers' compensation premium assessment (including Sections 21 and 23)	-55
Other fringe benefit adjustments	-5

Other Changes

Six new contractual compliance and enforcement positions to handle cases of fraud in real estate transactions	288
New allocation of administrative hearing costs	147
Software licences	110
Desktop computer replacements, including deferrals from previous year	95
Increased postage	20
Rent	15
Decrease in telecommunications	-59
Remove disaster recovery site equipment purchase funding	-730
Other	-1

Total **\$494**

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

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Premium Tax Revenue Forecasting Issues Report Submitted

Language included in the fiscal 2010 budget bill restricted \$100,000 of the MIA appropriation pending submission of a report prepared in coordination with the Comptroller's Bureau of Revenue Estimates (BRE) on agreed upon practices for forecasting and tracking the premium tax. Insurance companies are subject to a 2% tax on all new and renewal gross direct premiums that are derived from or attributable to insurance business in Maryland. By letter dated October 1, 2009, MIA submitted the required report.

According to the report, BRE had three main issues related to forecasting premium tax revenues:

- its inability in the past to obtain timely, detailed explanations from MIA for variances in monthly collections;
- its need for historical data on premiums written and the related tax collected; and
- its need for relevant information on trends or events occurring in the insurance industry that will impact future collections.

To address these issues, MIA agreed:

- to provide BRE, on a monthly basis, with an explanation for variances in the preceding month's premium tax collection;
- to provide historical data on premiums written and premium tax collected from 2001 through 2008 (included as an appendix to the report); and
- to assemble a team of senior insurance regulators from its staff to be available at BRE's convenience to discuss trends and events occurring in the insurance industry.

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

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2009					
Legislative Appropriation	\$0	\$31,694	\$0	\$0	\$31,694
Deficiency Appropriation	0	5,400	0	0	5,400
Budget Amendments	0	2,591	0	0	2,591
Cost Containment	0	-378	0	0	-378
Reversions and Cancellations	0	-1,660	0	0	-1,660
Actual Expenditures	\$0	\$37,646	\$0	\$0	\$37,646
Fiscal 2010					
Legislative Appropriation	\$0	\$27,448	\$0	\$0	\$27,448
Cost Containment	0	-547	0	0	-547
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$26,901	\$0	\$0	\$26,901

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

Fiscal 2009

The MIA received a fiscal 2009 legislative appropriation of \$31.7 million, but the actual fiscal 2009 expenditures were \$37.6 million. Throughout the year, the special fund appropriation increased by a total \$7.6 million due the need for additional subsidies to medical malpractice insurers (\$5.4 million), relocation expenses (\$2.2 million), and cost-of-living adjustments (\$0.4 million). These special fund increases were offset by \$0.4 million in cost containment actions reducing salaries.

At the end of fiscal 2009, MIA cancelled \$1.7 million in special funds. Most of the cancelled funds (\$0.9 million) were caused by lower than anticipated expenditures related to the office relocation. Also, the office move occurred later than expected, which reduced the rent expenditures for MIA by \$0.3 million. The remaining \$0.4 million in cancelled special funds were the result of overbudgeted salaries and Other Post Employment Benefits.

Fiscal 2010

The fiscal 2010 working appropriation for MIA is \$546,847 lower than the legislative appropriation representing cost containment reductions from implementation of employee furloughs.

**Object/Fund Difference Report
Maryland Insurance Administration**

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	282.00	282.00	282.00	0	0%
02 Contractual	10.80	8.20	15.00	6.80	82.9%
Total Positions	292.80	290.20	297.00	6.80	2.3%
Objects					
01 Salaries and Wages	\$ 19,632,180	\$ 20,351,479	\$ 21,594,463	\$ 1,242,984	6.1%
02 Technical and Spec. Fees	578,370	531,180	869,380	338,200	63.7%
03 Communication	863,695	408,262	366,445	-41,817	-10.2%
04 Travel	428,456	394,000	390,500	-3,500	-0.9%
07 Motor Vehicles	94,928	227,696	227,576	-120	-0.1%
08 Contractual Services	12,758,789	1,649,201	1,884,062	234,861	14.2%
09 Supplies and Materials	342,357	365,338	342,890	-22,448	-6.1%
10 Equipment – Replacement	119,728	0	94,958	94,958	N/A
11 Equipment – Additional	1,294,201	735,477	6,586	-728,891	-99.1%
12 Grants, Subsidies, and Contributions	455,246	484,846	484,846	0	0%
13 Fixed Charges	1,077,599	1,754,018	1,767,272	13,254	0.8%
Total Objects	\$ 37,645,549	\$ 26,901,497	\$ 28,028,978	\$ 1,127,481	4.2%
Funds					
03 Special Fund	\$ 37,645,549	\$ 26,901,497	\$ 28,028,978	\$ 1,127,481	4.2%
Total Funds	\$ 37,645,549	\$ 26,901,497	\$ 28,028,978	\$ 1,127,481	4.2%

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary
Maryland Insurance Administration**

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 Administration and Operations	\$ 27,145,540	\$ 26,701,497	\$ 27,828,978	\$ 1,127,481	4.2%
05 Rate Stabilization Fund	10,500,009	200,000	200,000	0	0%
Total Expenditures	\$ 37,645,549	\$ 26,901,497	\$ 28,028,978	\$ 1,127,481	4.2%
Special Fund	\$ 37,645,549	\$ 26,901,497	\$ 28,028,978	\$ 1,127,481	4.2%
Total Appropriations	\$ 37,645,549	\$ 26,901,497	\$ 28,028,978	\$ 1,127,481	4.2%

Note: The fiscal 2010 appropriation does not include deficiencies.