

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 398
Economic Matters

(Delegate Barnes, *et al.*)

Vehicle Laws - Required Security - Minimum Amounts

This bill increases the minimum security required for a motor vehicle liability insurance policy for bodily injury or death: (1) of a single individual from \$20,000 to \$30,000; and (2) of more than one individual from \$40,000 to \$60,000.

Fiscal Summary

State Effect: General fund revenues would increase from increased premium taxes, including taxes from the Maryland Automobile Insurance Fund (MAIF). Special fund revenues could increase by \$31,300 in FY 2008 from rate and form filing fees. Potential additional increase in general fund revenues and Transportation Trust Fund (TTF) revenues from lapsed required security penalties. Potential increase in MAIF nonbudgeted expenditures in FY 2008 only for computer reprogramming costs.

Local Effect: Minimal increase in motor vehicle liability insurance costs for local governments that purchase liability insurance at the minimum level.

Small Business Effect: Minimal.

Analysis

Current Law: The minimum security required for a motor vehicle liability insurance policy for the bodily injury or death of a single individual is \$20,000. The minimum security required increases to \$40,000 for the bodily injury or death of more than one individual. The minimum security required for property damage is \$15,000, in addition to interest and costs.

State Revenues: Special fund revenues for the Maryland Insurance Administration (MIA) could increase by \$31,250 in fiscal 2008 from insurers paying the \$125 rate filing fee to comply with the increased bodily injury rates minimum coverage. MIA estimates that approximately 250 motor vehicle insurers would file revised rates/rules.

General fund revenues would increase from the 2% insurance premium tax. MIA advises that, in fiscal 2005, private passenger auto insurance premiums for the State totaled approximately \$3.5 billion. MIA was not able to estimate how large the increase in premium tax revenues would be, as it was not able to estimate what percentage of private passenger auto insurance holders only carry the minimum liability insurance and what the average premium increase would be. However, the premium tax MAIF would pay is discussed below.

State Expenditures: MAIF estimates that the bill would affect approximately 99.4% of its insureds. MAIF further estimates that an increase in the mandatory bodily injury liability limit would result in an increase of approximately \$10.6 million in premiums each year, an estimated 6.9% increase over the premiums collected in calendar 2006.

Assuming the amount of insurance premiums MAIF collected would otherwise remain constant at calendar 2006 levels, this would result in an \$8.0 million increase in bodily injury premium charges in fiscal 2008 and \$10.6 million annually thereafter. MAIF would pay MIA increased premium taxes of \$159,000 in fiscal 2008 and \$212,000 annually thereafter.

MAIF advises that computer reprogramming would cost \$80,000 in fiscal 2008 to revise its electronic/rating system. Legislative Services concurs that there could be some additional costs; however, Legislative Services also advises that this is only an estimate, and the actual cost could be lower. In addition, Legislative Services advises that, if other legislation is passed requiring computer reprogramming changes, economies of scale could be realized. This would reduce the costs associated with this bill and other legislation affecting MAIF.

Higher insurance costs could encourage some people to no longer maintain auto insurance. Therefore penalty revenue for failure to maintain the required minimum security (liability insurance) could increase; however, the magnitude of this increase cannot be reliably estimated. Any such increase in penalty revenue would be distributed between the TTF and the general fund.

The Motor Vehicle Administration (MVA) advises that it would incur some costs to revise forms. Legislative Services advises that the MVA must revise its forms annually

to include various law changes; reprinting is simply a part of doing business and could be handled with the MVA's existing resources.

Additional Information

Prior Introductions: SB 72 of 2003 and SB 141 of 2002 would have increased the minimum required liability insurance to \$25,000 for an individual and to \$50,000 for more than one individual. Both bills received an unfavorable report from the Senate Finance Committee.

Cross File: None.

Information Source(s): Maryland Automobile Insurance Fund, Maryland Insurance Administration, Maryland Department of Transportation, Department of Legislative Services

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