Chapter 36

(Senate Bill 465)

AN ACT concerning

Chesapeake Employers’ Insurance Company and Injured Workers’ Insurance Fund Advisory Board

FOR the purpose of authorizing the Chesapeake Employers’ Insurance Company to take certain actions relating to a subsidiary for certain purposes subject to certain requirements and under certain circumstances; specifying a certain condition of being an authorized insurer; altering the selection and appointment process for the members of the Board for the Chesapeake Employers’ Insurance Company; repealing a requirement that certain appointees take a certain oath before taking office as members of the Board; altering the staggering of the terms of members of the Board; authorizing the Governor to remove only certain members for incompetence or misconduct; authorizing the Board policyholders to remove certain members under certain circumstances; authorizing the Maryland Insurance Commissioner to remove certain members under certain circumstances; requiring the Commissioner, at certain intervals, to review the State’s Self–Insured Workers’ Compensation Program for State Employees, make a certain determination, and submit a certain report to the State Treasurer; requiring a certain designated rating organization to create a certain exception in its classification system for certain authorized insurers; authorizing the Company to remain exempt from certain insurance rate making requirements until a certain date; repealing certain provisions of law that exempt the Company from certain aspects of the insurance rate making process; repealing a provision of law that requires the Board to set rates in a certain manner; establishing the Advisory Board for the Injured Workers’ Insurance Fund; providing for the membership of the Advisory Board; requiring the Advisory Board, to the extent practicable, to reflect the geographic and demographic diversity of the State; providing for the terms of the members of the Advisory Board; prohibiting a member of the Advisory Board from serving for more than a certain number of terms or a certain number of years or serving as a member of a certain board; providing that a member of the Advisory Board is entitled to certain reimbursement and compensation; requiring a member of the Advisory Board to take a certain oath before taking office; requiring the Advisory Board to monitor and oversee the administration of a certain program, meet quarterly, and review certain information and report certain findings to certain persons; authorizing the Advisory Board to consult with certain employees, make certain recommendations, and retain certain professionals under certain circumstances; declaring the intent of the General Assembly that a rating organization, in consultation with the Company, create a certain exception in its classification system for authorized insurers before a certain date; requiring the terms of certain members to be extended until a certain date; specifying the process for appointing or selecting a certain member of the Board; authorizing requiring the Governor to appoint certain members of the Board to be a member for an additional term whose terms expire in certain years;
providing for the terms of certain members of the Board; specifying the terms of the initial members of the Advisory Board; defining a certain term; altering a certain defined term; authorizing the Governor to appoint specified members notwithstanding certain term limits and if a certain appointment complies with certain qualification requirements; providing for the appointment and the terms of the members of the Board that begin in certain years; making conforming changes; providing for delayed effective dates for certain provisions of this Act; providing for the termination of a certain provision of this Act; and generally relating to the Chesapeake Employers’ Insurance Company.

BY repealing and reenacting, with amendments,
Article – Insurance
Annotated Code of Maryland
(2011 Replacement Volume and 2014 Supplement)

BY adding to
Article – Insurance
Section 11–331 and 11–332
Annotated Code of Maryland
(2011 Replacement Volume and 2014 Supplement)

BY repealing
Article – Insurance
Section 24–305
Annotated Code of Maryland
(2011 Replacement Volume and 2014 Supplement)

BY repealing and reenacting, with amendments,
Article – Labor and Employment
Section 10–101, 10–102(d)
Annotated Code of Maryland
(2008 Replacement Volume and 2014 Supplement)

BY adding to
Article – Labor and Employment
Section 10–105.1
Annotated Code of Maryland
(2008 Replacement Volume and 2014 Supplement)

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
That the Laws of Maryland read as follows:

Article – Insurance

24–302.
The General Assembly finds and determines that:

(1) employers’ access to affordable workers’ compensation insurance is of utmost importance to the economy of the State;

(2) the Fund has been the State’s insurer of last resort for workers’ compensation insurance since 1914;

(3) since its creation, the Fund was permitted to compete with the private insurance market; however, the Fund did not become an effective competitive insurer until the General Assembly exempted the Fund from most laws that apply to State government agencies and required the Fund to be a regulated insurer;

(4) the most effective way to ensure that Maryland’s workers’ compensation system remains stable and affordable is to encourage and create as much competition in the marketplace as possible;

(5) the long–term competitive success of the Fund would be enhanced if the final barriers to full competition were eliminated by converting the Fund into a fully competitive, fully regulated, private insurer;

(6) converting the Fund into a private, nonstock, nonprofit insurer would level the competitive playing field for all workers’ compensation insurers operating in the State;

(7) converting the Fund into a private, nonstock, nonprofit insurer would provide assurance to Maryland employers that the financial success of the Fund would inure to their benefit as policyholders through dividends and lower rates and that surplus funds could not be transferred to the State’s General Fund;

(8) the interests of the State would be protected if the Fund’s statutory purpose of insurer of last resort for workers’ compensation insurance is preserved and the Governor retains the right to appoint [the] TWO members of the board of the new company;

(9) (i) the interests of the employees of the Fund would be satisfied by ensuring that current employees have the option to remain State employees of the Fund after the conversion of the Fund to a private, nonstock, nonprofit insurer; and

(ii) the interests of employees of the Fund would further be satisfied by ensuring that current long–term State employees who remain State employees of the Fund after the conversion of the Fund to a private, nonstock, nonprofit insurer shall remain in the State retirement system and, therefore, would not be unfairly penalized by being prematurely forced out of the State retirement system due to the conversion; and
(10) the interests of the residents of the State, both employers and employees, will be best met by converting the Fund into a private, nonstock, nonprofit, fully regulated, competitive insurer.

24–306.

(a) The Company:

(1) shall be an authorized insurer; and

(2) on and after October 1, 2013, **AS A CONDITION OF BEING AN AUTHORIZED INSURER**, shall be the workers’ compensation insurer of last resort for employers covered under Title 9 of the Labor and Employment Article.

(b) Before October 1, 2013, the Fund shall serve as the workers’ compensation insurer of last resort for workers’ compensation insurance and as a competitive workers’ compensation insurer under the same terms and conditions as the Fund served before October 1, 2012.

(c) The Company may not cancel or refuse to renew or issue a policy except for:

(1) nonpayment of a premium for current or prior policies issued by the Fund or the Company;

(2) failure to provide payroll information to the Fund or the Company;

(3) failure to cooperate in any payroll audit conducted by the Fund or the Company; or

(4) failure to reimburse the Company under a policy with deductibles as required under § 19–404 of this article.

(d) The Company may engage only in the business of workers’ compensation insurance in accordance with State law.

(E) **SUBJECT TO THE REQUIREMENTS OF TITLE 7 OF THIS ARTICLE, THE COMPANY MAY ESTABLISH, OWN, OR ACQUIRE A SUBSIDIARY FOR ANY LAWFUL PURPOSE IF THE SUBSIDIARY:**

(1) **IS, OR AFTER ACQUISITION WILL BE, WHOLLY OWNED BY THE COMPANY;**

(2) **ENGAGES IN A BUSINESS ACTIVITY THAT IS ANCILLARY TO THE WORKERS’ COMPENSATION INSURANCE BUSINESS; AND**
(3) IS OPERATED FOR THE PURPOSE OF BENEFITING THE COMPANY.


(a) (1) There is a Board for the Chesapeake Employers’ Insurance Company.

(2) The Board shall manage the business and affairs of the Company as a private, nonprofit corporation in accordance with State law.

(b) (1) The Board shall consist of nine members [appointed by the Governor with the advice and consent of the Senate], OF WHICH:

(I) TWO MEMBERS SHALL BE APPOINTED BY THE GOVERNOR;

AND

(II) SUBJECT TO PARAGRAPH (3) OF THIS SUBSECTION, SEVEN MEMBERS SHALL BE APPOINTED BY THE POLICYHOLDERS OF THE COMPANY UNDER PROCEDURES PROVIDED IN THE BYLAWS OF THE BOARD.

(2) To the extent practicable, the Board shall reflect the geographic and demographic, including race and gender, diversity of the State.

(3) Of the [nine] SEVEN members APPOINTED BY THE POLICYHOLDERS:

(i) [at least] two members shall have substantial experience as officers or employees of an insurer, but may not be employed by an insurer that is in direct competition with the Company while serving on the Board;

(ii) [at least] two members ONE MEMBER shall be policyholders A POLICYHOLDER of the Company;

(iii) [at least] one member shall have significant experience in the investment business;

(iv) [at least] one member shall have significant experience in the accounting or auditing field; and

(v) [at least] one member shall have significant experience as a representative, employee, or member of a labor union.

(c) Each member shall be a resident of the State.

[(d) Before taking office, each appointee to the Board shall take the oath required by Article I, § 9 of the Maryland Constitution.]
[(e)] (D) (1) The term of a member is 5 years.

(2) The terms of members are staggered as required by the terms provided for members of the Board for the Fund on October 1, 1991, 2015.

(3) At the end of a term, a member continues to serve until a successor is appointed and qualifies.

(4) A member who is appointed after a term has begun serves only for the rest of the term and until a successor is appointed and qualifies.

(5) A member may not serve for more than:

(i) two full terms; or

(ii) a total of 10 years.

[(f)] (E) (1) The Governor may remove a member APPOINTED BY THE GOVERNOR for incompetence or misconduct.

(2) (i) THE BOARD POLICYHOLDERS MAY REMOVE A MEMBER APPOINTED BY THE POLICYHOLDERS FOR MISCONDUCT, INCOMPETENCE, OR DERELICTION OF DUTIES. AT ANY TIME, WITH OR WITHOUT CAUSE, BY THE AFFIRMATIVE VOTE OF A MAJORITY OF ALL OF THE VOTES ENTITLED TO BE CAST GENERALLY IN THE ELECTION OF DIRECTORS.

(ii) THE COMMISSIONER MAY REMOVE A MEMBER APPOINTED BY THE POLICYHOLDERS FOR INCOMPETENCE, MISCONDUCT, OR MALFEASANCE AFTER NOTICE AND OPPORTUNITY FOR A HEARING UNDER §§ 2–210 THROUGH 2–214 OF THIS ARTICLE.

[(g)] (F) The Board shall adopt rules, bylaws, and procedures.

Article – Labor and Employment

10–102.

(d) (1) On and after October 1, 2013, the Fund may continue to be the third party administrator for the State’s Self–Insured Workers’ Compensation Program for State Employees under a contract with the State.

(2) AT LEAST ONCE EVERY 5 YEARS, THE COMMISSIONER SHALL:

(i) REVIEW THE STATE’S SELF–INSURED WORKERS’ COMPENSATION PROGRAM FOR STATE EMPLOYEES, AS ADMINISTERED BY THE
FUND, to determine whether the State is receiving effective administrative services at a reasonable cost; and

(II) submit a report to the State Treasurer on the findings of the review.

SECTION 2. AND BE IT FURTHER ENACTED, That the Laws of Maryland read as follows:

Article – Insurance

11–331.

On or before October 1, 2016, and by October 1 each year thereafter through 2020 [2022], the rating organization that the commissioner designates under § 11–329 of this subtitle, in consultation with the Chesapeake Employers’ Insurance Company, shall submit a report to the Senate Finance Committee and the House Economic Matters Committee, in accordance with § 2–1246 of the State Government Article, on the progress that the Chesapeake Employers’ Insurance Company has made in preparing to become a member of the rating organization.

SECTION 3. AND BE IT FURTHER ENACTED, That the Laws of Maryland read as follows:

Article – Insurance

11–332.

The rating organization that the commissioner designates under § 11–329 of this subtitle shall create and maintain an exception in its classification system to allow any authorized insurer in the State to use a single classification code for governmental occupations that are not included in police, firefighter, and clerical classifications.

SECTION 4. AND BE IT FURTHER ENACTED, That the Laws of Maryland read as follows:

Article – Insurance

11–202.

(a) (1) This subtitle applies to all types of insurers.
Except as provided in subsection (b) of this section, this subtitle applies to:

(i) property insurance;
(ii) casualty insurance;
(iii) surety insurance;
(iv) marine insurance; and
(v) wet marine and transportation insurance.

This subtitle does not apply to:

(1) reinsurance, except as provided in § 11–222 of this subtitle;
(2) insurance of vessels or craft or their cargoes, marine protection and indemnity insurance, or insurance of other risks commonly insured under policies of marine insurance, as distinguished from inland marine insurance;
(3) insurance against loss of or damage to aircraft including their accessories and equipment, or insurance against liability, other than workers’ compensation insurance or employer’s liability insurance, arising out of the ownership, maintenance, or use of aircraft; OR
(4) title insurance; or
(5) the Chesapeake Employers’ Insurance Company.

If a kind of insurance, subdivision or combination of kinds of insurance, or type of coverage is subject to this subtitle and is also subject to regulation by another rate regulatory provision of the statutes of the State, an insurer to which both provisions are otherwise applicable shall file with the Commissioner a designation as to which rate regulatory provision is applicable to it with respect to that kind of insurance, subdivision or combination of kinds of insurance, or type of coverage.

11–303.

Notwithstanding Subtitle 2 of this title, this subtitle applies to the establishment of rates for all types of insurance except:

(1) life insurance;
(2) annuities;
(3) health insurance;
(4) marine insurance described in § 11–202(b)(2) of this title;
(5) aircraft insurance described in § 11–202(b)(3) of this title;
(6) reinsurance;
(7) insurance provided under the Maryland Automobile Insurance Fund;
(8) insurance provided under the Chesapeake Employers’ Insurance Company;
(9) title insurance;
(10) medical malpractice insurance;
(11) any form or plan of insurance regulated under § 27–217 of this article; and
(12) surety insurance.

(b) If and to the extent that the Commissioner finds that the application of any or all of the provisions of this subtitle is unnecessary to achieve the purposes of this subtitle, the Commissioner by rule may exempt a person or class of persons or a line or lines of insurance from any or all of those provisions.

[24–305.

(a) The Company is not subject to Title 11 of this article.

(b) The Board shall:

(1) adopt a schedule of premium rates in accordance with sound actuarial practices; and
(2) ensure that the rates are not excessive, inadequate, or unfairly discriminatory.

(c) The Board shall determine the schedule of premium rates by:

(i) classifying all of the policyholders of the Company on the basis of the respective level of hazard of their enterprises; and

(ii) setting a premium rate for each class on the basis of:
1. its level of hazard; and
2. incentives to prevent injuries to employees.

(2) To determine the schedule of premium rates, the Board shall use the rating system that, in the opinion of the Board:

   (i) 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;

   (ii) encourages the prevention of injuries; and

   (iii) ensures the solvency of the Company from year to year.

(3) The Board may set minimum premium rates for policies issued by the Company.

(d) The Commissioner shall review the Company’s rates as part of an examination under § 2–205 of this article to determine whether the Company’s rate making practices produce actuarially sound rates.

SECTION 5. AND BE IT FURTHER ENACTED, That the Laws of Maryland read as follows:

Article—Labor and Employment


(a) In this subtitle the following words have the meanings indicated.

(b) “Administration” means the Maryland Insurance Administration.

(c) “ADVISORY Board” means the ADVISORY Board for the Injured Workers’ Insurance Fund.

(d) “BOARD” means the BOARD FOR THE CHESAPEAKE EMPLOYERS’ INSURANCE COMPANY.

[(d)] (E) “Commissioner” means the Maryland Insurance Commissioner.

[(e)] (F) “Company” means the Chesapeake Employers’ Insurance Company established under Title 24, Subtitle 3 of the Insurance Article.

[(f)] (G) “Fund” means the Injured Workers’ Insurance Fund.
(A) There is an Advisory Board for the Fund.

(B) (1) The Advisory Board shall consist of five members appointed by the Governor with the advice and consent of the Senate.

(2) To the extent practicable, the Advisory Board shall reflect the geographic and demographic, including race and gender, diversity of the State.

(C) (1) The term of a member of the Advisory Board is 3 years.

(2) The terms of the members are staggered as required by the terms provided for members of the Advisory Board on October 1, 2015.

(3) At the end of a term, a member continues to serve until a successor is appointed and qualifies.

(4) A member who is appointed after a term has begun serves only for the rest of the term and until a successor is appointed and qualifies.

(5) A member may not:

(i) Serve for more than:

1. Three full terms; or

2. A total of 9 years; or

(ii) Serve as a member of the Board.

(D) A member of the Advisory Board is entitled to reasonable reimbursement for expenses and to compensation as provided in the budget of the Board.

(E) Before taking office, each appointee to the Advisory Board shall take the oath required by Article I, § 9 of the Maryland Constitution.
(f) The Advisory Board shall monitor and oversee the Fund’s administration of the State’s Self-Insured Workers’ Compensation Program for State Employees under § 10–102(d) of this subtitle.

(g) The Advisory Board shall:

(1) Meet quarterly; and

(2) (i) Review the amounts billed to the State for administrative fees, claims, and claims-related charges to ensure that the amounts are fair, reasonable, and in accordance with the contract specified in § 10–102(d) of this subtitle; and

(ii) Annually report its findings under item (i) of this item to the Company and the State Treasurer.

(h) The Advisory Board may:

(1) Consult with employees of the Company and the Fund who are performing duties in connection with the State’s Self-Insured Workers’ Compensation Program for State Employees;

(2) Make recommendations to the Company and to the State Treasurer to improve the financial, safety, and operating results of the State’s Self-Insured Workers’ Compensation Program for State Employees; and

(3) With the approval of the Company, retain auditors, accountants, and other professionals to assist the Advisory Board in performing its duties under this section.

SECTION 6. And be it further enacted, That, notwithstanding any other provision of law, it is the intent of the General Assembly that, on or before January 1, 2022, the rating organization that the Maryland Insurance Commissioner designates under § 11–329 of the Insurance Article, in consultation with the Chesapeake Employers’ Insurance Company, create an exception in its classification system, as required under § 11–332 of the Insurance Article as enacted by Section 3 of this Act, to allow any authorized insurer in Maryland to use a single classification code for governmental occupations that are not included in police, firefighter, and clerical classifications.

SECTION 7. And be it further enacted, That:
(a) Notwithstanding § 24–307 of the Insurance Article as enacted by Section 1 of this Act, the term of any member who was on the Board of the Chesapeake Employers’ Insurance Company on December 31, 2014, shall be extended until September 30, 2020.

(b) (1) Except as provided in paragraph (2) of this subsection, policyholders shall select a successor to fill a vacancy that occurs on the Board of the Chesapeake Employers’ Insurance Company before October 1, 2020, as provided in § 24–307(b)(2) of the Insurance Article as enacted by Section 1 of this Act.

(2) If a vacancy occurs on the Board before October 1, 2020, and the Board includes seven members selected by the policyholders, the Governor shall appoint a successor to fill the vacancy in accordance with § 24–307(b)(2) and (3) of the Insurance Article as enacted by Section 1 of this Act.

(c) Notwithstanding the term limits or qualifications specified in § 24–307 of the Insurance Article as enacted by Section 1 of this Act, the Governor may appoint a member who is on the Board of the Chesapeake Employers’ Insurance Company on September 30, 2020, to be a member of the Board for an additional term.

(d) The terms of members of the Board of the Chesapeake Employers’ Insurance Company that begin on October 1, 2010, shall expire as follows:

(1) two members appointed by the policyholders and one member appointed by the Governor, in 2023;

(2) two members appointed by the policyholders and one member appointed by the Governor, in 2024; and

(3) three members appointed by the policyholders, in 2025.

SECTION 6. AND BE IT FURTHER ENACTED, That:

(a) Notwithstanding § 24–307 of the Insurance Article as enacted by Section 1 of this Act, the Governor shall appoint the members of the Board of the Chesapeake Employers’ Insurance Company as follows:

in 2020:

(1) the two members whose terms expire in 2015 for a 5–year term expiring

in 2021:

(2) the one member whose term expires in 2016 for a 5–year term expiring

in 2021:

(3) the one member whose term expires in 2017 for a 4–year term expiring
(4) the three members whose terms expire in 2018 for a 4-year term expiring in 2022; and

(5) the two members whose terms expire in 2019 for a 5-year term expiring in 2024.

(b) In appointing members of the Board of the Chesapeake Employers’ Insurance Company under subsection (a) of this section, the Governor may appoint a member of the Board who was a member of the Board on December 31, 2014, and continues to be a member of the Board through the expiration of the member’s term:

(1) notwithstanding the term limits specified in § 24–307 of the Insurance Article as enacted by Section 1 of this Act; and

(2) if the member meets the qualifications specified in § 24–307 of the Insurance Article as enacted by Section 1 of this Act.

(c) The terms of the members of the Board of the Chesapeake Employers’ Insurance Company that, as provided in subsection (a) of this section, begin in:

(1) 2020 shall be appointed by the policyholders and expire in 2025;

(2) 2021 shall be appointed by the policyholders and expire in 2026;

(3) 2022 shall be appointed by the policyholders and expire in 2027; and

(4) 2024 shall be appointed by the Governor and expire in 2029.

SECTION 8. AND BE IT FURTHER ENACTED, That the terms of the initial members of the Advisory Board for the Injured Workers’ Insurance Fund shall expire as follows:

(1) one member in 2016;

(2) two members in 2017; and

(3) two members in 2018.

SECTION 9. AND BE IT FURTHER ENACTED, That Section 3 of this Act shall take effect January 1, 2020.

SECTION 10. AND BE IT FURTHER ENACTED, That Sections 4 and 5 of this Act shall take effect January 1, 2021.

SECTION 11. AND BE IT FURTHER ENACTED, That, except as provided in Sections 9 and 10 of this Act, this Act shall take effect October 1, 2015. Section 2 of
this Act shall remain effective for a period of 68 years and, at the end of September 30, 2023, with no further action required by the General Assembly, Section 2 of this Act shall be abrogated and of no further force and effect.

Approved by the Governor, April 14, 2015.