

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 784

(Senator Middleton, *et al.*)

Finance

Economic Matters

Motor Vehicle Insurance - Personal Injury Protection - Rejection of Coverage

This bill exempts an *applicant* for a motor vehicle liability insurance policy from being required to obtain coverage for medical, hospital, and disability benefits – known as personal injury protection (PIP) benefits – that must otherwise be provided (full PIP) or waived (limited PIP). However, to be eligible for the exemption, such an applicant has to meet specified conditions, and the insurance policy being obtained cannot provide coverage in excess of the minimum liability coverage required by State law. The Maryland Automobile Insurance Fund (MAIF) *must* offer the option to reject PIP coverage to an eligible applicant while other insurers *may* do so. The bill also specifies the process by which an applicant may reject PIP coverage and requires an insurer, at the time of renewal, to upgrade such a policy to provide limited PIP coverage, unless the insured chooses to upgrade to full PIP coverage instead. MAIF and other insurers that offer the option to reject coverage must annually report specified information to the Maryland Insurance Administration (MIA) each year through 2019, and MIA must compile the information and submit its findings and recommendations to specified committees of the General Assembly by December 1, 2019.

The bill applies to all affected policies of motor vehicle liability insurance issued, sold, delivered, or renewed in the State on or after the bill's October 1, 2016 effective date.

Fiscal Summary

State Effect: Minimal increase in MIA special fund revenues in FY 2017 due to \$125 rate and form filings; the volume of the filings that must be reviewed may necessitate additional contractual support for that year only. MIA can handle the bill's reporting requirements using existing resources. General fund revenues may be affected, as discussed below.

Maryland Automobile Insurance Fund Effect: MAIF nonbudgeted revenues decrease to the extent the bill results in fewer new insureds obtaining full PIP or limited PIP

coverage; however, this impact is expected to be minimal due to the narrow scope of who can reject PIP coverage. Nonbudgeted expenditures decrease correspondingly due to the decreased liability associated with providing PIP coverage to fewer new insureds.

Local Effect: The bill does not materially affect local government operations or finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: MAIF must offer a first named insured, at the time of application, the option to reject PIP coverage only if he or she has not been insured continuously by MAIF for at least one full year prior to the application. Other insurers may offer a first named insured, at the time of application, the option to reject PIP coverage only if his or her prior insurance policy (1) was not a MAIF policy and (2) was canceled by the insurer before the end of the policy's term. An eligible applicant must choose, in writing and on the form the Insurance Commissioner requires, whether to obtain full PIP coverage, limited PIP coverage (via the existing waiver process), or no PIP coverage (via the rejection process in the bill). The form must describe the costs and benefits of each option in a specified manner. The Commissioner must consult with insurers, insurance producers, and other appropriate parties to develop the form.

An applicant's rejection of PIP coverage is effective until the end of the policy's term, at which point it is upgraded, unless the insured withdraws the rejection in writing, obtains a policy from another insurer, or increases the policy's liability coverage above the required minimum.

MAIF and other motor vehicle liability insurers that offer insureds the option to reject PIP coverage must annually report to MIA on (1) the number of applicants eligible to reject PIP coverage; (2) the number of insureds who chose to obtain full PIP coverage and limited PIP coverage and the number who chose to reject PIP coverage; and (3) any other related information the Commissioner requires.

Current Law: Maryland law requires an owner of a motor vehicle that is required to be registered in the State to maintain insurance for the vehicle during the registration period. The security required must provide at least the payment of claims:

- for bodily injury or death arising from an accident of up to \$30,000 for any one person and up to \$60,000 for any two or more persons;
- for property of others damaged or destroyed in an accident of up to \$15,000;
- unless waived, for PIP of \$2,500 per person; and

- for uninsured motorist coverage (unless waived, the amount equals the amount of liability coverage provided under the policy; if waived, the amount equals the minimum required insurance for liability coverage).

PIP is a no-fault coverage that provides a minimum limit of \$2,500 coverage for payment of reasonable and necessary medical, hospital, and disability expenses that arise from an accident, 85% of lost income, and reimbursement for essential services for care and maintenance of the family or family household. If the first named insured waives PIP, the waiver (1) constitutes a waiver under the first named insured's policy or any other motor vehicle liability insurance policy in the State and (2) is binding on each named insured, each listed driver, and each member of the first named insured's family who is age 16 or older and resides in the first named insured's household. PIP coverage cannot be waived or excluded for others that may be involved in an accident with the insured, such as a member of the first named insured's family who is younger than 16 or a pedestrian.

A person may not recover benefits related to the required securities for motor vehicle liability insurance from more than one motor vehicle liability insurance policy or insurer on a duplicative or supplemental basis.

Background: PIP coverage varies from state to state. Currently 23 states plus the District of Columbia have laws that allow insureds to obtain compensation for motor vehicle accidents from their own insurer. Of these states, 9 states have true no-fault systems, 3 states have a choice of a no-fault auto insurance policy or a traditional tort liability insurance policy, and 11 states (including Maryland) allow or mandate PIP coverage to be added onto a traditional tort motor vehicle liability insurance policy. Of the 11 "add-on" states, 2 states mandate PIP coverage. Maryland is the only state that mandates either full PIP or limited PIP coverage. The District of Columbia allows an insured to choose between a no-fault or tort liability insurance policy. The remaining states have traditional tort motor vehicle liability systems.

MAIF Fiscal Effect: Nonbudgeted revenues decrease in fiscal 2017 and subsequent years to the extent that MAIF applicants choose not to obtain PIP coverage. MAIF reports that any new such policyholders initially save money under the bill; for example, annual PIP premiums for a Baltimore City resident are \$527 for full PIP and \$213 for limited PIP. The total impact on MAIF finances is expected to be minimal due to the narrow scope of who can choose to reject PIP coverage under the bill and the requirement that such a policy be upgraded to either full or limited PIP at the time of renewal. However, the precise impact cannot be reliably estimated because the number of eligible applicants is unknown. Additionally, MAIF advises that it may increase bodily injury coverage rates to partially offset the lost PIP revenue depending on how many applicants reject PIP coverage under the bill.

State Revenues: Although the bill does not change the coverage that an insured receives when choosing to obtain full PIP or limited PIP, the bill may result in motor vehicle liability insurance applicants choosing to reject PIP coverage in order to initially lower their premiums. Therefore, general fund revenues decrease due to the 2% tax collected on premiums paid in the State. The total general fund impact is expected to be minimal due to the narrow scope of who can choose to reject PIP coverage under the bill and the requirement that such a policy be upgraded to either full or limited PIP at the time of renewal. However, the precise impact cannot be reliably estimated because the number of eligible applicants is unknown.

Additional Information

Prior Introductions: None.

Cross File: HB 900 (Delegate Frick) - Economic Matters.

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

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