

**D80Z01**  
**Maryland Insurance Administration**

***Operating Budget Data***

(\$ in Thousands)

	<b>FY 13</b>	<b>FY 14</b>	<b>FY 15</b>	<b>FY 14-15</b>	<b>% Change</b>
	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>	<b><u>Prior Year</u></b>
Special Fund	\$27,153	\$30,342	\$29,582	-\$760	-2.5%
Contingent & Back of Bill Reductions	0	0	-269	-269	
<b>Adjusted Special Fund</b>	<b>\$27,153</b>	<b>\$30,342</b>	<b>\$29,314</b>	<b>-\$1,028</b>	<b>-3.4%</b>
Federal Fund	756	1,323	1,288	-35	-2.7%
Contingent & Back of Bill Reductions	0	0	-5	-5	
<b>Adjusted Federal Fund</b>	<b>\$756</b>	<b>\$1,323</b>	<b>\$1,283</b>	<b>-\$41</b>	<b>-3.1%</b>
<b>Adjusted Grand Total</b>	<b>\$27,908</b>	<b>\$31,665</b>	<b>\$30,596</b>	<b>-\$1,069</b>	<b>-3.4%</b>

- The fiscal 2015 allowance decreases by \$1.1 million compared to the fiscal 2014 working appropriation. The new Enterprise Complaint Tracking System, a major information technology project, had its largest allocation in fiscal 2014 and is scheduled to be finished in fiscal 2015. This results in a reduction of \$1.4 million in special funds and accounts for more than the net reduction in the allowance.

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

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## ***Personnel Data***

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	<b><u>FY 13 Actual</u></b>	<b><u>FY 14 Working</u></b>	<b><u>FY 15 Allowance</u></b>	<b><u>FY 14-15 Change</u></b>
Regular Positions	266.00	266.00	266.00	0.00
Contractual FTEs	<u>17.85</u>	<u>20.25</u>	<u>17.75</u>	<u>-2.50</u>
<b>Total Personnel</b>	<b>283.85</b>	<b>286.25</b>	<b>283.75</b>	<b>-2.50</b>

### ***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	15.96	6.00%
Positions and Percentage Vacant as of 12/31/13	15.00	5.64%

- The number of regular positions remains unchanged between the current fiscal year working appropriation and the fiscal 2015 allowance.
- The fiscal 2015 turnover rate of 6% will require the Maryland Insurance Administration (MIA) to keep the equivalent of 16.0 positions vacant for the entire year. As of December 31, 2013, there were 15.0 vacant positions.
- The number of contractual full-time equivalents decreases by a net 2.5 between the current fiscal year working appropriation and the fiscal 2015 allowance.

## ***Analysis in Brief***

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### **Major Trends**

***Fraud Division Maintains Target Level of Case Closures:*** The agency sets a goal of closing 75% of fraud referrals opened for investigation within 180 days. For the past five fiscal years, the agency has met that goal; in fiscal 2012 and 2013, the agency closed 90% of fraud referrals within the goal timeframe. **The Department of Legislative Services recommends that MIA should either increase its target goal for the percentage of fraud referrals closed within 180 days or shorten its target timeframe for closing fraud referrals.**

***Compliance and Enforcement Unit Collects Fines and Restitution:*** In fiscal 2013, the agency returned \$5.6 million in restitution to State insurance consumers and collected \$4.3 million in penalties on insurers for the general fund.

## **Issues**

***Federal Grant Helps Agency Enhance Health Insurance Rate Review:*** The federal Department of Health and Human Services awarded the agency approximately \$5 million in grants related to the implementation of the Affordable Care Act, which MIA has used to enhance its health insurance rate review process. **The agency should comment on its progress in implementing all facets of the grant project and on the work remaining under the grant.**

## **Recommended Actions**

1. Concur with Governor's allowance.

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**Maryland Insurance Administration**

***Operating Budget Analysis***

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**Program Description**

The Maryland Insurance Administration (MIA) develops policies, procedures, and regulations and implements laws that affect Maryland's insurance industry. The agency performs rate and form reviews, financial audits, licensing examinations, market conduct examinations, and fraud investigations; resolves consumer complaints; and issues producer licenses and company licenses.

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

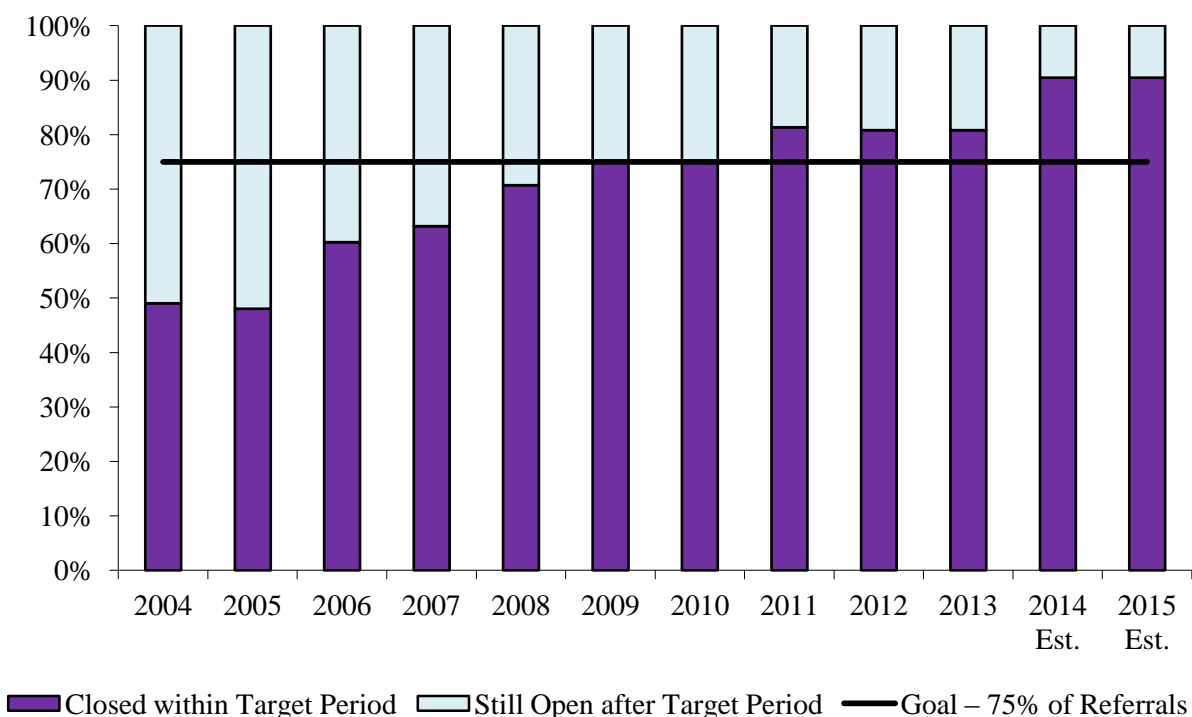
**Performance Analysis: Managing for Results**

**1. Fraud Division Maintains Target Level of Case Closures**

Nearly all of 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. 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 1** shows that, since fiscal 2009, MIA has met the stated goal of closing 75% of referrals within the target timeframe. This is at least partially driven by a large decrease in the number of cases opened for referral, from 1,698 in fiscal 2010 to 641 in fiscal 2013. **The Department of Legislative Services (DLS) recommends that MIA should either increase its target goal for the percentage of fraud referrals closed within 180 days or shorten its target timeframe for closing fraud referrals.**

**Exhibit 1**  
**Percent of Insurance Fraud Referrals Closed within 180 Days**  
**Fiscal 2004-2015**



Source: Maryland Insurance Administration

## 2. Compliance and Enforcement Unit Collects Fines and Restitution

One goal of the administration is to protect the public from unfair trade practices and other violations of the State’s insurance laws. The administration, based on investigations of consumer complaints or its own knowledge of industry practices, conducts market conduct examinations. In fiscal 2013, the administration completed 40 market conduct examinations in the life and health market, 5 in the property and casualty market, and 808 case investigations of producers.

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Depending on its finding, the administration can fine the insurance company or producer, or order restitution to a consumer, both of which are provided for in the State’s Insurance Article. A typical reason for restitution would be an insurer or producer overcharging for a premium and not refunding the consumer. A typical action resulting in a fine would be an insurer not paying a claim within the statutorily required 30 days. **Exhibit 2** shows the amount of money returned to Maryland citizens and the amount of fines collected in the last five fiscal years.

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**Exhibit 2**  
**Fines and Restitution**  
**Fiscal 2009-2013**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Restitution*	\$4,288,874	\$29,091,448	\$6,598,683	\$17,544,782	\$5,619,094
Penalties**	\$2,600,376	\$1,772,375	\$2,414,214	\$1,983,597	\$4,320,008

\*An average of \$235,467 per year is collected and returned to the Maryland Affordable Housing Trust.

\*\*Fiscal 2009 and 2010 reflects penalties assessed. Starting in fiscal 2011, the Maryland Insurance Administration reports the actual amount of fines collected and directed to the general fund.

Source: Maryland Insurance Administration

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## Proposed Budget

As shown in **Exhibit 3**, the fiscal 2015 allowance decreases by \$1,068,957, mainly due to a major information technology (IT) project that has the bulk of its work planned for fiscal 2014.

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

<b>How Much It Grows:</b>	<b><u>Special</u> <u>Fund</u></b>	<b><u>Federal</u> <u>Fund</u></b>	<b><u>Total</u></b>
2014 Working Appropriation	\$30,342	\$1,323	\$31,665
2015 Allowance	<u>29,314</u>	<u>1,283</u>	<u>30,596</u>
Amount Change	-\$1,028	-\$41	-\$1,069
Percent Change	-3.4%	-3.1%	-3.4%

**Where It Goes:**

**Personnel Expenses**

Increments and other compensation.....	\$243
Annualized fiscal 2014 cost-of-living adjustment and increment.....	667
Employee and retiree health insurance.....	-565
Retirement contribution rate change .....	219
Turnover adjustments.....	-153
Other fringe benefit adjustments .....	-56

**Other Changes**

Software licenses.....	87
Out-of-state travel .....	-21
Reduction of contractual positions .....	-31
Allocation for Satewide Personnel system.....	-44
Electronic Complaint Tracking System .....	-1,435
Other changes.....	20

**Total** **-\$1,069**

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

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There is one across-the-board reduction and one contingent reduction reflected in the Governor's spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management – Personnel and the State Retirement Agency.

### **New Enterprise Complaint Tracking System**

The new Enterprise Complaint Tracking System (ECTS) will be a web browser-based document management system intended to improve the agency's complaint resolution efficiency percentages. The system will help the agency meet its Managing for Results goal of adjudicating consumer complaints in a prompt and fair manner. The existing system is more than 10 years old and requires manual entry of all complaint data, even if it is sent to MIA electronically. The fiscal 2014 working appropriation included approximately \$1.8 million for the purchase and installation of the new system, while the fiscal 2015 allowance contains \$355,000 for the completion of the implementation and initial use of the new system.

The agency has completed its requirements analysis for the project and is awaiting Department of Information Technology (DoIT) approval to proceed with a task-ordered request for proposal to identify commercial products that could be used as a core technology base, which the agency would then update with custom development to meet MIA requirements. While the majority of the allocation for this project occurs in fiscal 2014, the agency's IT project request form contains no details about the project's design, development, integration, implementation, or operations and maintenance. The agency is awaiting DoIT approval of documentation of its planning phases of the project before it can document the next steps in the project. **The agency should comment on the progress of the ECTS project.**

## ***Issues***

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### **1. Federal Grant Helps Agency Enhance Health Insurance Rate Review**

The federal Department of Health and Human Services (HHS) awarded the MIA approximately \$5 million in two rounds of grants to be used to enhance the State's rate review process in conjunction with the implementation of the Patient Protection and Affordable Care Act (ACA). The project period for the project was to stretch from August 2010 through September 2014, but the agency expects to request an extension from HHS.

Through the end of calendar 2013, MIA has spent about \$1.9 million of the federal grant money. The agency's primary aim was to create and implement an ongoing rate review process for individual and small group health plans that is ACA compliant. With the funding, the agency developed and implemented an enhanced rate review process to ensure ACA compliance with the assistance of an independent consulting firm by September 2013. The enhancements were needed in order to comply with new ACA requirements and required HHS approval. For instance, the ACA changed a carrier's minimum loss ratio from 60 to 80%, meaning carriers have to use 80 cents of every dollar to pay claims. This significantly impacts how rates are calculated, reviewed, and approved. The review process also had to conform to new HHS forms and online tools, such as the Unified Rate Review Template. With help from the consulting firm, MIA developed more than 30 enhancements to its pre-ACA process. The ACA fundamentally changed the health insurance market, which added to the complexity of MIA's rate reviews.

As part of this rate review process, the agency:

- developed tools to be used by insurance carriers to submit compliant rate filings starting in April 2013, the initial deadline for ACA-compliant rate filings;
- publicly disclosed rate filing information and the Commissioner's decisions on those filings for the individual and small group markets;
- hired a consulting firm and a contractual senior actuary to provide additional staffing for the initial rate review process beginning in April 2013; and
- hired supplemental staffing to review and approve the contract forms necessary for the ACA-compliant plans.

### **Work Ongoing**

The MIA continues to enhance its rate review process. The agency is currently planning for improvements or changes its needs to make for the next cycle of annual rate reviews based on its 2013 experience. In addition to enhancing its rate review process, the agency is using the federal grant funding to improve other processes related to the ACA. For example:

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- MIA is working to improve the clarity and accessibility of rate review-related information for consumers. MIA has recently hired a web developer to add features to the agency’s website that will provide better access to rate filing and decision information;
- MIA has taken steps to secure a software package, iRate, which provides metrics and reports about the ACA-compliant rate filings and will assist in the ongoing rate review process; and
- MIA continues to work with the Maryland Health Care Commission (MHCC) to review and gather data for use in developing appropriate benchmarks to use when evaluating the impact of the ACA on health insurance rates. (HHS has also awarded MHCC a separate but related grant.)

**MIA should comment on its progress in implementing all facets of the grant project and on the work remaining under the grant.**

## ***Recommended Actions***

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1. Concur with Governor's allowance.

## ***Current and Prior Year Budgets***

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2013</b>					
Legislative Appropriation	\$0	\$27,335	\$1,316	\$0	\$28,651
Deficiency Appropriation	0	0	1,050	0	1,050
Budget Amendments	0	174	4	0	178
Reversions and Cancellations	0	-356	-1,615	0	-1,970
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$27,153</b>	<b>\$756</b>	<b>\$0</b>	<b>\$27,908</b>
<b>Fiscal 2014</b>					
Legislative Appropriation	\$0	\$29,815	\$1,314	\$0	\$31,129
Budget Amendments	0	527	9	0	536
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$30,342</b>	<b>\$1,323</b>	<b>\$0</b>	<b>\$31,665</b>

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

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## **Fiscal 2013**

Actual expenditures in fiscal 2013 were \$742,642 lower than the appropriation. A deficiency appropriation added \$1,050,000 in federal funds to be used to enhance the health insurance rate review process and the information that is provided to consumers of health insurance products through the ACA. The federal grant includes funds for actuarial staff, a web developer to enhance the State's website that provides information to consumers about health insurance rates under the ACA, and actuarial studies to help with the successful implementation of the ACA in Maryland. Approximately \$1.6 million in federal funds were canceled in fiscal 2013 because MIA was delayed in finding and hiring actuarial staff.

MIA cancelled the full \$200,000 legislative appropriation of special funds for the rate stabilization fund due to an absence of requests for the subsidy from insurers. The fund was originally created to lower malpractice insurance rates to Maryland physicians and to help retain doctors in the State. The agency cancelled another \$155,828 in special funds due to lower than expected expenses. The budget was also amended to include \$3,871 in federal funds and \$173,821 in special funds for the cost-of-living adjustment (COLA).

## **Fiscal 2014**

Salaries increased by \$8,993 in federal funds and \$434,554 in special funds due to the distribution of centrally budgeted funds for the COLA and the salary increment increase. A legislative requirement to produce a study on the captive insurance industry in the State increased the special fund allocation by \$92,250.

## Major Information Technology Projects

### Maryland Insurance Administration Enterprise Complaint Tracking System

<b>Project Status<sup>1</sup></b>	Planning	<b>New/Ongoing Project:</b>	Ongoing.					
<b>Project Description:</b>	Replace the current Enterprise Complaint Tracking System (ECTS) with a browser-based document management technology that automates workflow by routing electronic documents and notifications across the organization, and enables online data entry, form creation, standard reports, <i>ad hoc</i> queries and data exchange with internal and external systems.							
<b>Project Business Goals:</b>	Replacing the current ECTS with upgraded technology will provide MIA with the ability to improve complaint resolution efficiency percentages beyond current targets.							
<b>Estimated Total Project Cost<sup>1</sup>:</b>	\$2,263,866	<b>Estimated Planning Project Cost<sup>1</sup>:</b>	\$99,866					
<b>Project Start Date:</b>	October 2012.	<b>Projected Completion Date:</b>	n/a.					
<b>Schedule Status:</b>	MIA has completed an analysis of requirements, and is now preparing a task order request for proposal to identify commercially available software that will be used as the core of the new ECTS, with the expectation that custom development will also be required.							
<b>Cost Status:</b>	n/a.							
<b>Scope Status:</b>	n/a.							
<b>Project Management Oversight Status:</b>	The fiscal 2015 allowance includes \$50,000 for oversight.							
<b>Identifiable Risks:</b>	n/a.							
<b>Additional Comments:</b>	The estimate of the total costs for this project has increased by about \$324,000.							
<b>Fiscal Year Funding (\$ in Thousands)</b>	<b>Prior Years</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>Balance to Complete</b>	<b>Total</b>
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	1,799.9	355.0	54.5	54.5	0.0	0.0	0.0	2,263.9
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	90.0
<b>Total Funding</b>	<b>\$1,799.9</b>	<b>\$355.0</b>	<b>\$54.5</b>	<b>\$54.5</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$2,353.9</b>

<sup>1</sup> In calendar 2011, a two-step approval process was adopted. Initially, an agency submits a Project Planning Request. After the requirements analysis has been completed and a project has completed all of the planning required through Phase Four of the Systems Development Lifecycle (Requirements Analysis), including a baseline budget and schedule, the agency may submit a Project Implementation Request and begin designing and developing the project when the request is approved. For planning projects, costs are estimated through planning phases. Implementation projects are required to have total development costs.

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

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	266.00	266.00	266.00	0.00	0%
02 Contractual	17.85	20.25	17.75	-2.50	-12.3%
<b>Total Positions</b>	<b>283.85</b>	<b>286.25</b>	<b>283.75</b>	<b>-2.50</b>	<b>-0.9%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 21,254,623	\$ 22,764,694	\$ 23,392,199	\$ 627,505	2.8%
02 Technical and Spec. Fees	1,033,657	971,198	939,994	-31,204	-3.2%
03 Communication	165,328	293,600	284,442	-9,158	-3.1%
04 Travel	431,344	360,150	348,114	-12,036	-3.3%
07 Motor Vehicles	192,132	225,177	219,240	-5,937	-2.6%
08 Contractual Services	2,514,901	4,497,327	3,211,743	-1,285,584	-28.6%
09 Supplies and Materials	228,903	277,862	273,965	-3,897	-1.4%
10 Equipment – Replacement	11,753	0	0	0	0.0%
11 Equipment – Additional	222,777	105,000	0	-105,000	-100.0%
12 Grants, Subsidies, and Contributions	551,850	522,897	551,850	28,953	5.5%
13 Fixed Charges	1,301,007	1,647,268	1,648,544	1,276	0.1%
<b>Total Objects</b>	<b>\$ 27,908,275</b>	<b>\$ 31,665,173</b>	<b>\$ 30,870,091</b>	<b>-\$ 795,082</b>	<b>-2.5%</b>
<b>Funds</b>					
03 Special Fund	\$ 27,152,517	\$ 30,342,052	\$ 29,582,455	-\$ 759,597	-2.5%
05 Federal Fund	755,758	1,323,121	1,287,636	-35,485	-2.7%
<b>Total Funds</b>	<b>\$ 27,908,275</b>	<b>\$ 31,665,173</b>	<b>\$ 30,870,091</b>	<b>-\$ 795,082</b>	<b>-2.5%</b>

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.



**Fiscal Summary**  
**Maryland Insurance Administration**

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
01 Administration and Operations	\$ 27,908,275	\$ 29,875,173	\$ 30,515,091	\$ 639,918	2.1%
02 Major Information Technology Development Projects	0	1,790,000	355,000	-1,435,000	-80.2%
<b>Total Expenditures</b>	<b>\$ 27,908,275</b>	<b>\$ 31,665,173</b>	<b>\$ 30,870,091</b>	<b>-\$ 795,082</b>	<b>-2.5%</b>
Special Fund	\$ 27,152,517	\$ 30,342,052	\$ 29,582,455	-\$ 759,597	-2.5%
Federal Fund	755,758	1,323,121	1,287,636	-35,485	-2.7%
<b>Total Appropriations</b>	<b>\$ 27,908,275</b>	<b>\$ 31,665,173</b>	<b>\$ 30,870,091</b>	<b>-\$ 795,082</b>	<b>-2.5%</b>

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.