

D70J00
Maryland Automobile Insurance Fund

Operating Budget Data

(\$ in Thousands)

	<u>CY 14 Actual</u>	<u>CY 15 Budgeted</u>	<u>CY 15 Estimated</u>	<u>CY 16 Budgeted</u>	<u>CY 15-16 \$ Change</u>	<u>CY 15-16 % Change</u>
Insured Division	\$35,675	\$37,227	\$35,358	\$34,688	-\$671	-1.9%
Uninsured Division	2,225	2,963	3,429	2,945	-\$485	-14.1%
Nonbudgeted Expenditures	\$37,901	\$40,190	\$38,788	\$37,632	-\$1,156	-3.0%

- The calendar 2016 budget for the Maryland Automobile Insurance Fund (MAIF) decreases by \$1.2 million, or 3.0%, compared to calendar 2015.
- The largest reduction is a \$1.7 million decrease in salary costs due to the elimination of 39 positions since the beginning of calendar 2015.

Personnel Data

	<u>CY 14 Actual</u>	<u>CY 15 Budgeted</u>	<u>CY 15 Estimated</u>	<u>CY 16 Budgeted</u>	<u>CY 15-16 Change</u>
Regular Positions*	254.60	239.60	222.00	215.00	-7.00
Contractual FTEs*	1.00	0.00	1.00	1.00	0.00
Total Personnel*	255.60	239.60	223.00	216.00	-7.00

* As reported by the Maryland Automobile Insurance Fund.

- MAIF adjusts its total positions each year to match its anticipated needs. The calendar 2016 budget decreases regular positions by 7 compared to calendar 2015.
- Contractual full-time equivalents remain unchanged in calendar 2016.

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

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Analysis in Brief

Major Trends

Uninsured Division’s Claims Activity Decreases: The number of claims received and assigned by the Uninsured Division decreased slightly in calendar 2015 compared to the prior year. The agency also reduced the number of outstanding claims in calendar 2015 by about 5% compared to calendar 2014. The reduction in claims received drives the drop in outstanding claims.

Insured Division’s Policies and Claims Increase: The number of gross written policies in the Insured Division saw a slight increase in calendar 2015 compared to 2014, from 65,530 to 68,047. Policies in force also increased from 41,161 in calendar 2014 to 43,345 in calendar 2015. The number of claims reported in the Insured Division has steadily increased since calendar 2013.

Issues

MAIF Moves to Baltimore City: MAIF is now leasing a new headquarters in Baltimore City after moving out of a building it owns in Annapolis. The move comes several years after a significant reduction in the agency’s workforce, which left it with about 65,000 square feet of unused office space in the Annapolis building. **MAIF should comment on the impact of the move on its operations.**

Installment Payments Continue: MAIF was authorized to begin accepting installment payment plans on October 1, 2013, after the enactment of Chapter 334 of 2013. Since December 2013, MAIF has sold 1,717 policies with an installment plan, a small amount relative to the approximately 68,000 policies written in calendar 2015. MAIF also believes the high down payment required by statute – either 20% or 25% – discourages usage. **MAIF should comment on the status of the installment plan and whether it supports legislation to reduce the down payment requirement.**

Recommended Actions

1. Nonbudgeted.

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Maryland Automobile Insurance Fund

Operating Budget Analysis

Program Description

The Maryland Automobile Insurance Fund (MAIF) is an independent, nonbudgeted State agency. Similar to other insurance companies, MAIF operates on a calendar-year basis. MAIF has two main responsibilities.

MAIF's Insured Division provides automobile insurance policies for the residents of Maryland whose applications have been declined by at least two private insurers. The Insured Division, like other automobile insurance carriers, handles claims for policyholders. The Insured Division is funded through premiums, investment income, and when necessary, a surcharge on premiums statewide.

MAIF's Uninsured Division administers and pays claims to residents of Maryland who are involved in accidents in Maryland with motorists who are uninsured, or for hit-and-run incidents where a responsible party cannot be found. The Uninsured Division may recover money paid out from the uninsured at-fault party through collections on notes and judgments. In addition, MAIF receives income from investments and uninsured motorist fines.

MAIF's three key goals are:

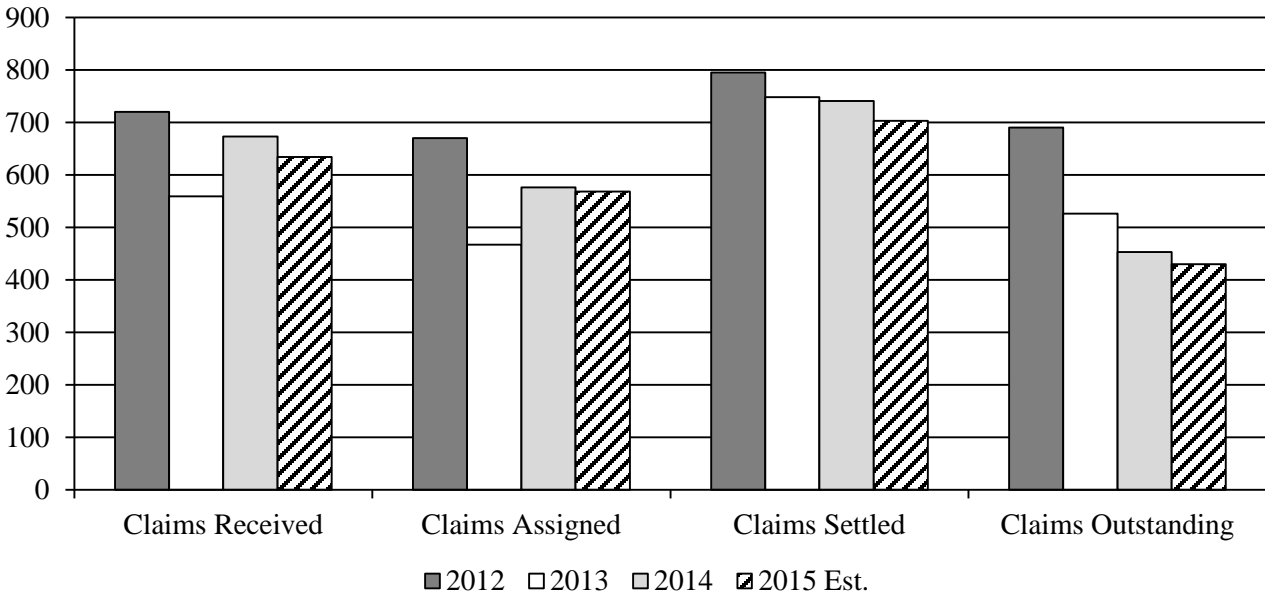
- to offer insurance to all eligible citizens of the State who are unable to obtain private insurance;
- to handle claims of the policyholders and claimants in a manner that is fair, expedient, and professional; and
- to provide services efficiently to minimize the subsidy from the State's insured motorists.

Performance Analysis: Managing for Results

1. Uninsured Division's Claims Activity Decreases

MAIF does not control the number of claims received and assigned in the Uninsured Division. Claims assigned are a function of the eligible claims received. The number of claims received and assigned by the Uninsured Division decreased slightly in calendar 2015 compared to the prior year, as shown in **Exhibit 1**.

**Exhibit 1
Claims Activity
Uninsured Division
Calendar 2012-2015 Est.**



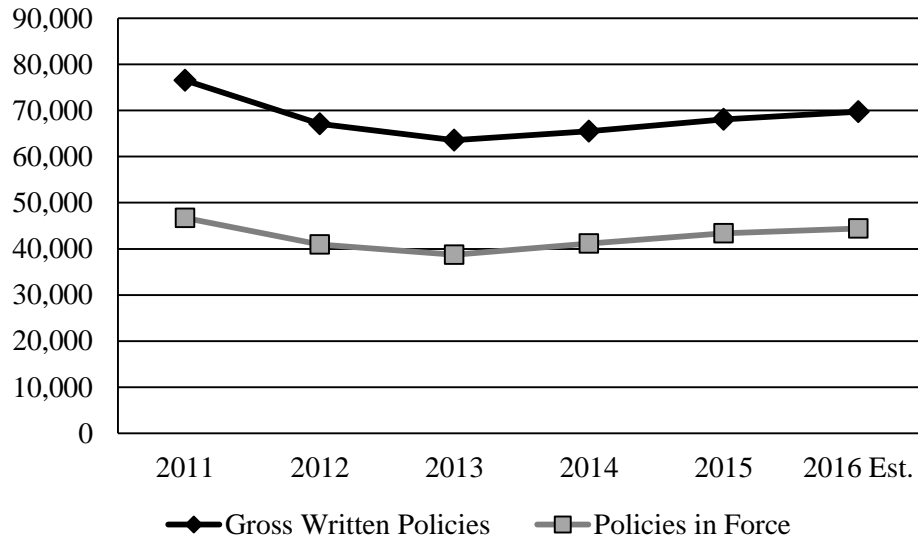
Source: Maryland Automobile Insurance Fund

The number of claims settled by the Uninsured Division declined slightly in calendar 2015 compared to 2014. The agency also reduced the number of outstanding claims in calendar 2015 by about 5% compared to calendar 2014. The reduction in claims received drives the drop in outstanding claims.

2. Insured Division’s Policies and Claims Increase

As shown in **Exhibit 2**, the number of gross written policies in the Insured Division saw a slight increase in calendar 2015 compared to 2014, from 65,530 to 68,047. Policies in force also increased from 41,161 in calendar 2014 to 43,345 in calendar 2015.

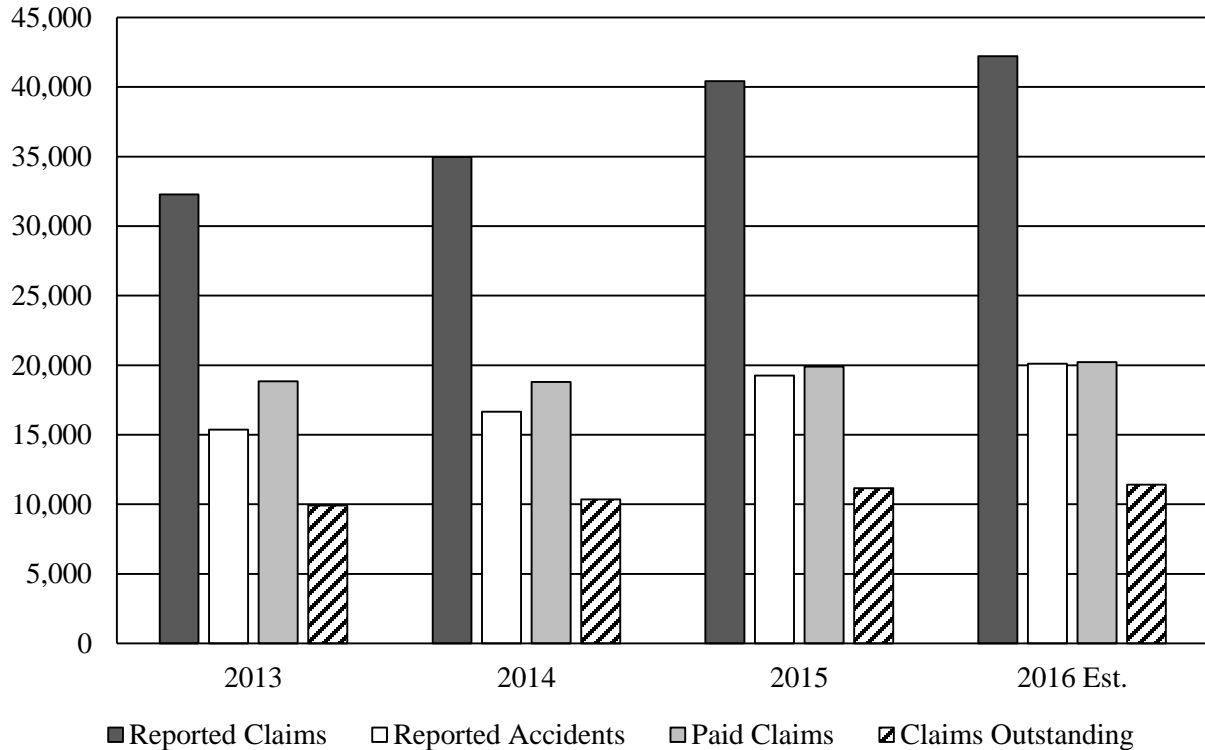
Exhibit 2
Policies
Insured Division
Calendar 2011-2016 Est.



Source: Maryland Automobile Insurance Fund

The number of claims reported in the Insured Division has steadily increased since calendar 2013, as shown in **Exhibit 3**. That trend also holds across reported accidents, paid claims, and claims outstanding. With the increase in the number of policies in force, the related claims volume will also increase. In addition, more miles being driven due to a stronger economy and declining gas prices lead to more claims.

**Exhibit 3
Claims Activity
Insured Division
Calendar 2013-2016 Est.**



Source: Maryland Automobile Insurance Fund

Calendar 2016 Budget

The calendar 2016 budget for MAIF decreases by \$1.2 million, or 3%, compared to calendar 2015.

Exhibit 4
Proposed Budget
Maryland Automobile Insurance Fund
(\$ in Thousands)

How Much It Grows:	Nonbudgeted <u>Fund</u>	<u>Total</u>
2015 Estimated	\$38,788	\$38,788
2016 Proposed Budget	<u>37,632</u>	<u>37,632</u>
Amount Change	-\$1,156	\$-1,156
Percent Change	-3.0%	-3.0%

Where It Goes:

Personnel Expenses

2.7% merit increase.....	\$450
Lower incentive compensation	-150
Reduction of 39 positions since beginning of calendar 2015	-1,748
Other personnel changes	-112

Other Changes

Removal of one-time expenses for rebranding to Maryland Auto.....	-136
Contractual costs for service related to new underwriting system.....	533
Upgrades in computer software and hardware.....	352
Removal of one-time relocation expenses	-582
Communications	98
Travel.....	50
Other changes	89

Total **-\$1,156**

Note: The Maryland Automobile Insurance Fund operates on a calendar-year basis.

Maryland Auto Rebranding

In 2015, MAIF underwent a rebranding effort to change its presentation of itself to the public to Maryland Auto. It was believed that the name “MAIF” had a negative connotation among consumers, and also that many insurance agents were already using the name Maryland Auto to refer to MAIF. The calendar 2016 budget removes about \$136,000 in one-time calendar 2015 contractual costs related to the rebranding.

MAIF Assessment Threshold

MAIF is required to assess a surcharge on the Maryland automobile insurance industry, which may be passed on to the policyholders of those companies, after the following two triggers occur: (1) the surplus of the Insured Division falls below 25% of the three-year average of net direct written premiums; and (2) MAIF experiences an operating loss. The last assessment occurred in 1989.

The assessment threshold had steadily declined since 2004, when it was \$57.6 million, until calendar 2015, when it saw a slight increase for the first time since then. The expected 2016 assessment level is \$20.4 million, as shown in **Exhibit 5**.

Exhibit 5
Maryland Automobile Insurance Fund
Assessment Threshold
Calendar 2012-2016 Est.

<u>Year</u>	<u>Direct Written Premium</u>	<u>Three-year Average</u>	<u>Assessment Threshold</u>
2012	77,879,719	92,363,028	23,090,757
2013	74,154,949	79,779,845	19,944,961
2014	79,098,782	77,044,483	19,261,121
2015	81,541,937	78,265,223	19,566,306
2016 Est.	84,700,160	81,780,293	20,445,073

Note: The Maryland Automobile Insurance Fund operates on a calendar-year basis for its financial statements in accordance with State regulations for insurance companies.

Source: Maryland Automobile Insurance Fund

MAIF Insured Division Financial Statement

Exhibit 6 presents the financial statement for the Insured Division of MAIF. In calendar 2015, the Insured Division's income increased by \$2.6 million to \$93.8 million. However, net income is expected to decline to \$86.4 million in calendar 2016, reflecting a decline in investment income. The vast majority of income in the Insured Division is the result of earned premiums.

Total expenditures increased by \$9.7 million in calendar 2015 compared to 2014. The Insured Division will have net losses for three consecutive years, leading to a surplus of \$55.0 million in calendar 2016, down from \$97.3 million in calendar 2014. The 2016 surplus is 2.7 times the estimated assessment threshold of \$20.4 million. **MAIF should comment on the health of the Insured Division and the likelihood of imposing an assessment in the future.**

Exhibit 6
Maryland Automobile Insurance Fund
Insured Division
Calendar 2014-2016 Est.

	<u>Actual</u> <u>2014</u>	<u>Actual</u> <u>2015</u>	<u>Estimated</u> <u>2016</u>
Earned Premium	\$75,167,045	\$79,879,686	\$83,158,916
Investment Income	15,960,134	13,889,257	3,211,114
Other Income	51,391	54,000	54,000
Income	\$91,178,570	\$93,822,943	\$86,424,030
Claims Incurred	\$50,011,110	\$57,649,810	\$57,109,734
Claim Expenses Incurred	21,341,248	22,527,521	23,033,574
Other Expenses	27,256,388	26,099,930	25,015,038
Expenditures	\$98,608,746	\$106,277,261	\$105,158,346
Net Gain (Loss)	-\$7,430,176	-\$12,454,318	-\$18,734,316
Beginning Surplus	\$98,882,228	\$97,255,167	\$75,412,361
Net Income	-7,430,176	-12,454,318	-18,734,316
Change to Non-admitted Assets	5,803,115	-9,388,488	-1,639,467
Release of Over-recoupment	0	0	0
Ending Surplus	\$97,255,167	\$75,412,361	\$55,038,578
Assessment Threshold	\$19,261,121	\$19,566,306	\$20,445,073
Ratio of Surplus to Assessment Threshold	5.05	3.85	2.69

Note: The Maryland Automobile Insurance Fund operates on a calendar-year basis for its financial statements in accordance with State regulations for insurance companies.

Source: Maryland Automobile Insurance Fund

MAIF Uninsured Division Financial Statement

Exhibit 7 presents the financial statement for the Uninsured Division of MAIF. The Uninsured Division's largest income source is revenue received from the Motor Vehicle Administration uninsured motorist fine, which is indexed each year based on the Consumer Price Index – All Urban Consumers – Medical Care. MAIF's share was \$3.5 million in calendar 2015. Income continues to be higher than expenses, leading to a projected surplus of \$1.5 million in calendar 2016.

Exhibit 7
Maryland Automobile Insurance Fund
Uninsured Division
Calendar 2014-2016 Est.

	<u>Actual</u> <u>2014</u>	<u>Actual</u> <u>2015</u>	<u>Estimated</u> <u>2016</u>
MVA Fines	\$3,468,211	\$3,516,968	\$3,570,527
Collections on Notes and Judgments	783,744	1,120,000	988,380
Investment Income	33,277	21,848	23,835
Income	\$4,285,232	\$4,658,816	\$4,582,742
Claims Incurred	\$1,156,837	\$1,081,790	\$984,379
Claims Expenses Incurred	585,875	1,113,704	1,030,657
Collection Expenses	498,880	821,127	759,897
Administrative Expenses	1,104,677	1,355,081	1,254,035
Expenditures	\$3,346,269	\$4,371,702	\$4,028,967
Net Gain	\$938,963	\$287,114	\$553,775
Beginning Surplus	-\$210,717	\$711,950	\$981,449
Net Income	938,963	287,114	553,775
Unrealized Gain (Losses)	-16,296	-17,615	0
Ending Surplus	\$711,950	\$981,449	\$1,535,224

Note: The Maryland Automobile Insurance Fund operates on a calendar-year basis for its financial statements in accordance with State regulations for insurance companies.

Source: Maryland Automobile Insurance Fund

MAIF Active Vehicle Analysis

Exhibit 8 provides information on the distribution of vehicles insured by MAIF by territory. This distribution may impact the number and value of expected claims. Prince George's County has the highest share of the vehicles insured by MAIF – 34.8% in calendar 2015. The number of vehicles

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insured in the Baltimore metropolitan area has increased significantly, likely due to more favorable rates available at MAIF for drivers in the area.

Exhibit 8
Active Vehicle Analysis
Insured Division
Calendar 2012-2015 Est.

<u>Territory</u>	<u>2012</u>	<u>% Dist.</u>	<u>2013</u>	<u>% Dist.</u>	<u>2014</u>	<u>% Dist.</u>	<u>Est. 2015</u>	<u>% Dist.</u>
Baltimore Metropolitan Area	4,419	10.3%	4,092	10.1%	6,450	15.0%	7,480	16.3%
Northeastern Maryland	3,319	7.8%	3,055	7.5%	3,425	8.0%	3,490	7.6%
Eastern Shore	3,899	9.1%	4,023	9.9%	3,667	8.6%	3,751	8.2%
Southern Maryland and Anne Arundel County	4,580	10.7%	4,407	10.9%	4,351	10.1%	3,981	8.7%
Western Maryland	624	1.5%	660	1.6%	838	2.0%	842	1.8%
Montgomery and Howard Counties	7,990	18.7%	7,336	18.1%	9,496	22.1%	10,325	22.5%
Prince George's County	17,981	42.0%	16,913	41.8%	14,632	34.1%	15,927	34.8%
Rest of State	11	0.0%	14	0.0%	13	0.0%	10	0.0%
Total Vehicles	42,823		40,500		42,872		45,806	

Dist.: distribution

Source: Maryland Automobile Insurance Fund

Issues

1. MAIF Moves to Baltimore City

MAIF is now leasing a new headquarters in Baltimore City after moving out of a building it owns in Annapolis. The move comes several years after a significant reduction in the agency's workforce, which left it with about 65,000 square feet of unused office space in the Annapolis building.

The move, which took place in the summer of 2015, cost approximately \$4.4 million for new furniture, improvements to the new space, and the physical move. MAIF spent approximately \$400,000 in operating costs on the Annapolis facility. Rent at the Baltimore City facility is about \$1.5 million per year, and operational costs are about \$100,000 annually. MAIF still owns the Annapolis building and hopes to sell it sometime this year for a price in the range of \$8 million to \$16 million. **MAIF should comment on the impact of the move on its operations.**

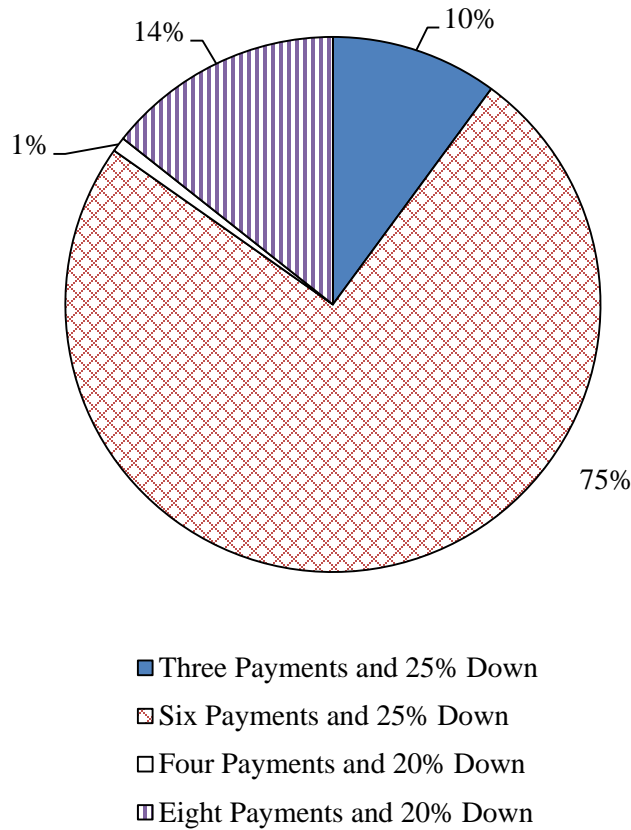
2. Installment Payments Continue

MAIF was authorized to begin accepting installment payment plans on October 1, 2013, after the enactment of Chapter 334 of 2013. Previously, MAIF required either payment of a full year's premium or the acceptance of a loan agreement via a premium finance company, which added significant origination fees and interest costs to the consumer's total payment. MAIF estimates the installment plan saves policyholders an average of \$250 annually compared to a premium finance agreement plan.

The new law allows for four different payment plan options, as shown in **Exhibit 9**:

- 25% down and either three or six subsequent payments if the total annual premium is less than \$3,000; or
- 20% down and either four or eight subsequent payments if the total annual premium is \$3,000 or more.

Exhibit 9
Installment Plan
October 2013 through December 2015



Source: Maryland Automobile Insurance Fund

Since October 2013, MAIF has sold 2,460 policies with an installment plan, a small amount relative to the approximately 68,000 policies written in calendar 2015. MAIF also believes the high down payment required by statute – either 20% or 25% – discourages usage. The typical plan offered by premium financing companies in the State requires a down payment of between 10% and 12%. **MAIF should comment on the status of the installment plan and whether it supports legislation to reduce the down payment requirement.**

Recommended Actions

1. Nonbudgeted.

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

<u>Object/Fund</u>	<u>CY 2014 Actual</u>	<u>CY 2015 Projected</u>	<u>CY 2016 Estimated</u>	<u>CY15-CY16 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	254.60	222.00	215.00	-7.00	-3.2%
02 Contractual	1.00	1.00	1.00	1.00	0.0%
Total Positions	255.60	223.00	216.00	-7.00	-3.1%
Object					
01 Salaries, Wages and Fringe Benefits	\$27,059,027	\$27,904,855	\$26,347,703	-\$1,557,152	-5.6%
02 Tech and Special Fees	\$5,826,275	\$5,800,098	\$5,736,107	-\$63,991	-1.1%
03 Communications	\$1,020,595	\$1,033,094	\$1,131,486	\$98,392	9.5%
04 Travel	\$146,733	\$103,470	\$153,306	\$49,836	48.2%
06 Fuel and Utilities	\$287,618	\$146,808	\$102,720	-\$44,088	-30.0%
07 Motor Vehicle Operations and Main	\$238,166	\$210,676	\$182,702	-\$27,974	-13.3%
08 Contractual Services	\$2,540,323	\$2,552,484	\$3,099,801	\$547,317	21.4%
09 Supplies & Materials	\$133,597	\$126,802	\$130,169	\$3,367	2.7%
10 Equipment Replacement	\$0	\$0	\$0	\$0	n/a
11 Equipment Additional	\$150,872	\$157,442	\$519,601	\$362,159	230.0%
13 Fixed Charges	\$319,337	\$170,026	\$228,633	\$58,607	34.5%
14 Land and Structures	\$178,135	\$582,186	\$0	-\$582,186	-100.0%
Total Objects	37,900,678	38,787,941	37,632,228	-1,155,713	-3.0%
Funds					
07 Non-budgeted Fund	\$37,900,678	\$38,787,941	\$37,632,228	-\$1,155,713	-3.0%
Total Funds	\$37,900,678	\$38,787,941	\$37,632,228	-1,155,713	-3.0%

**Fiscal Summary
Maryland Automobile Insurance Fund**

<u>Program/Unit</u>	<u>CY14 Actual</u>	<u>CY15 Projected</u>	<u>CY16 Estimated</u>	<u>CY15-CY16 Change</u>	<u>% Change</u>
42 Insured Division	\$35,675,321	\$35,358,453	\$34,687,520	-\$670,933	-1.9%
47 Uninsured Division	2,225,357	3,429,488	2,944,708	-\$484,780	-14.1%
Total Expenditures	\$37,900,678	\$38,787,941	\$37,632,228	-\$1,155,713	-3.0%
Nonbudgeted Fund	\$37,900,678	\$38,787,941	\$37,632,228	-\$1,155,713	-3.0%
Total Appropriations	\$37,900,678	\$38,787,941	\$37,632,228	-\$1,155,713	-3.0%