

D80Z01
Maryland Insurance Administration

Operating Budget Data

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$29,697	\$33,142	\$32,129	-\$1,013	-3.1%
Adjustments	0	0	-92	-92	
Adjusted Special Fund	\$29,697	\$33,142	\$32,037	-\$1,105	-3.3%
Federal Fund	586	781	729	-53	-6.7%
Adjustments	0	0	-1	-1	
Adjusted Federal Fund	\$586	\$781	\$728	-\$53	-6.8%
Adjusted Grand Total	\$30,283	\$33,923	\$32,765	-\$1,158	-3.4%

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The fiscal 2018 adjusted allowance decreases by \$1.2 million, or 3.4%, from the adjusted fiscal 2017 working appropriation. Special funds decrease \$1.1 million, including a \$92,000 decrease for the across-the-board contingent reduction in a supplemental pension payment.
- Federal funds decrease \$53,000, or 6.8%.

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

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Personnel Data

	<u>FY 16 Actual</u>	<u>FY 17 Working</u>	<u>FY 18 Allowance</u>	<u>FY 17-18 Change</u>
Regular Positions	265.00	257.00	257.00	0.00
Contractual FTEs	<u>13.35</u>	<u>16.90</u>	<u>21.10</u>	<u>4.20</u>
Total Personnel	278.35	273.90	278.10	4.20

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	15.45	6.01%
Positions and Percentage Vacant as of 12/31/16	24.00	9.34%

- The number of regular positions for the Maryland Insurance Administration (MIA) remains the same. There are 4.2 new contractual full-time equivalents.

Analysis in Brief

Major Trends

Form Filings: MIA conducts a review of every insurance policy and contract form to ensure that all of the legal requirements for the policy and or contract have been met. As a result of vacant positions, the percent of property and casualty filings reviewed within 30 days has decreased.

Fraud Division: The Insurance Fraud Division is responsible for investigating complaints related to alleged insurance fraud committed by insurance companies, insurance producers, or consumers. MIA experienced an increase in fraud cases in fiscal 2015 related to one insurer, and fraud cases have returned to normal levels in fiscal 2016.

Issues

Premium Tax Collection: Concerns around premium tax collection have been voiced in several findings from the Office of Legislative Audits. In an effort to correct audit findings, MIA has implemented new processes for handling premium tax collections and plans to develop a new online system. **The Department of Legislative Services recommends that MIA comment on the new premium tax processes and the new premium tax collection system.**

Recommended Actions

	<u>Funds</u>
1. Reduce special funds for contractual positions.	\$ 296,827
Total Reductions	\$ 296,827

D80Z01 – Maryland Insurance Administration

D80Z01
Maryland Insurance Administration

Operating Budget Analysis

Program Description

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

The main goals of MIA are to:

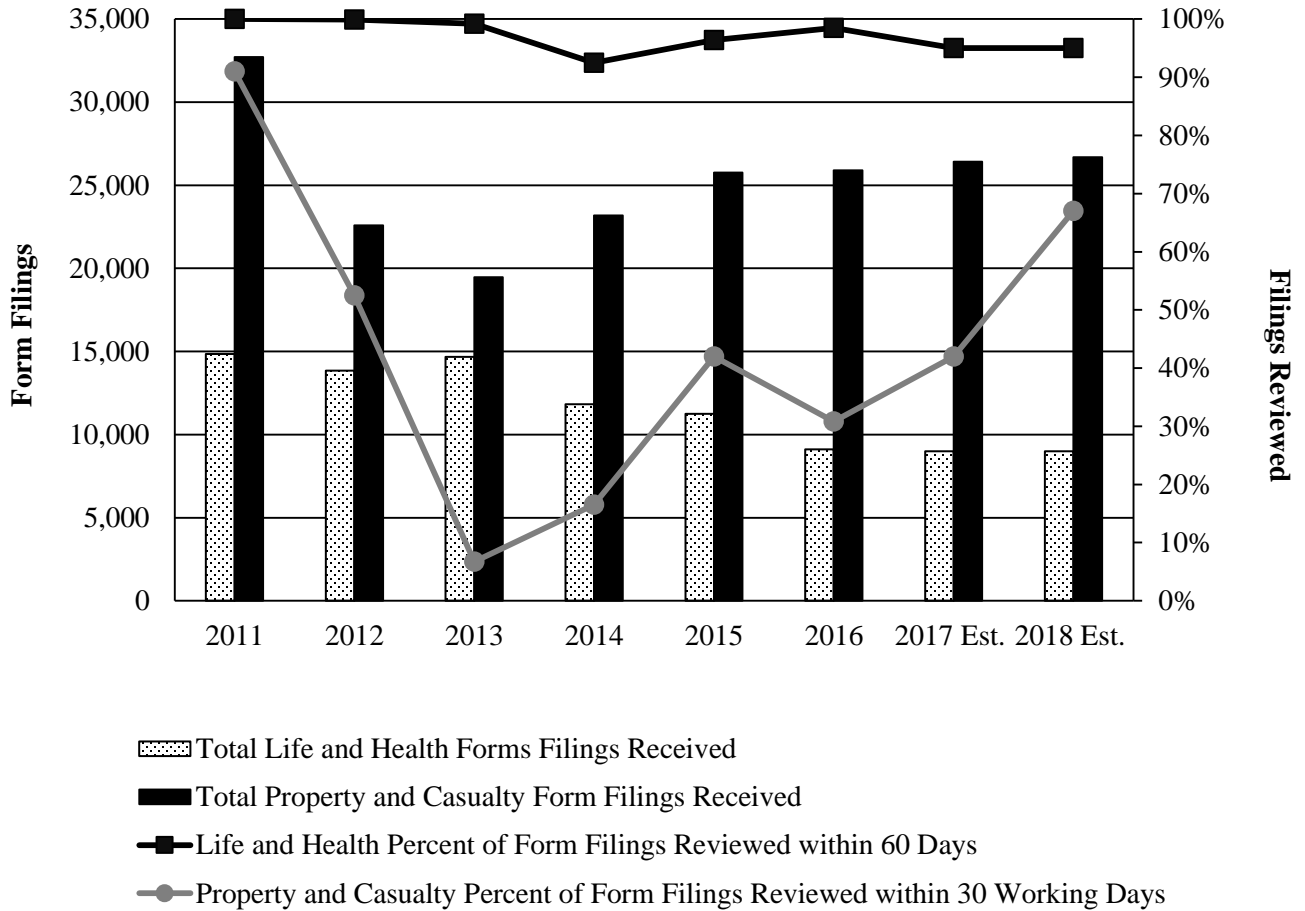
- ensure that the terms and conditions of insurance contracts are reasonable and meet the requirements of Maryland law;
- adjudicate consumer complaints in accordance with insurance law and in a prompt and fair manner;
- protect the public from unfair trade practices and other violations of the Insurance Code;
- enforce solvency standards to ensure that insurers have the financial ability to pay claims when due; and
- protect Maryland citizens through enforcement of the Annotated Code of Maryland's provisions relating to insurance fraud.

Performance Analysis: Managing for Results

1. Form Filings

MIA is responsible for a broad scope of activities related to the insurance industry. As a part of its mandate, MIA conducts a review of every insurance policy and contract form to ensure that all of the legal requirements for the policy and/or contract have been met. MIA also reviews and approves rates for all insurance products with the exception of life insurance. **Exhibit 1** outlines the number of form filings for both Life and Health insurance and Property and Casualty insurance.

**Exhibit 1
Form Filings Received and Processed
Fiscal 2011-2018 Est.**



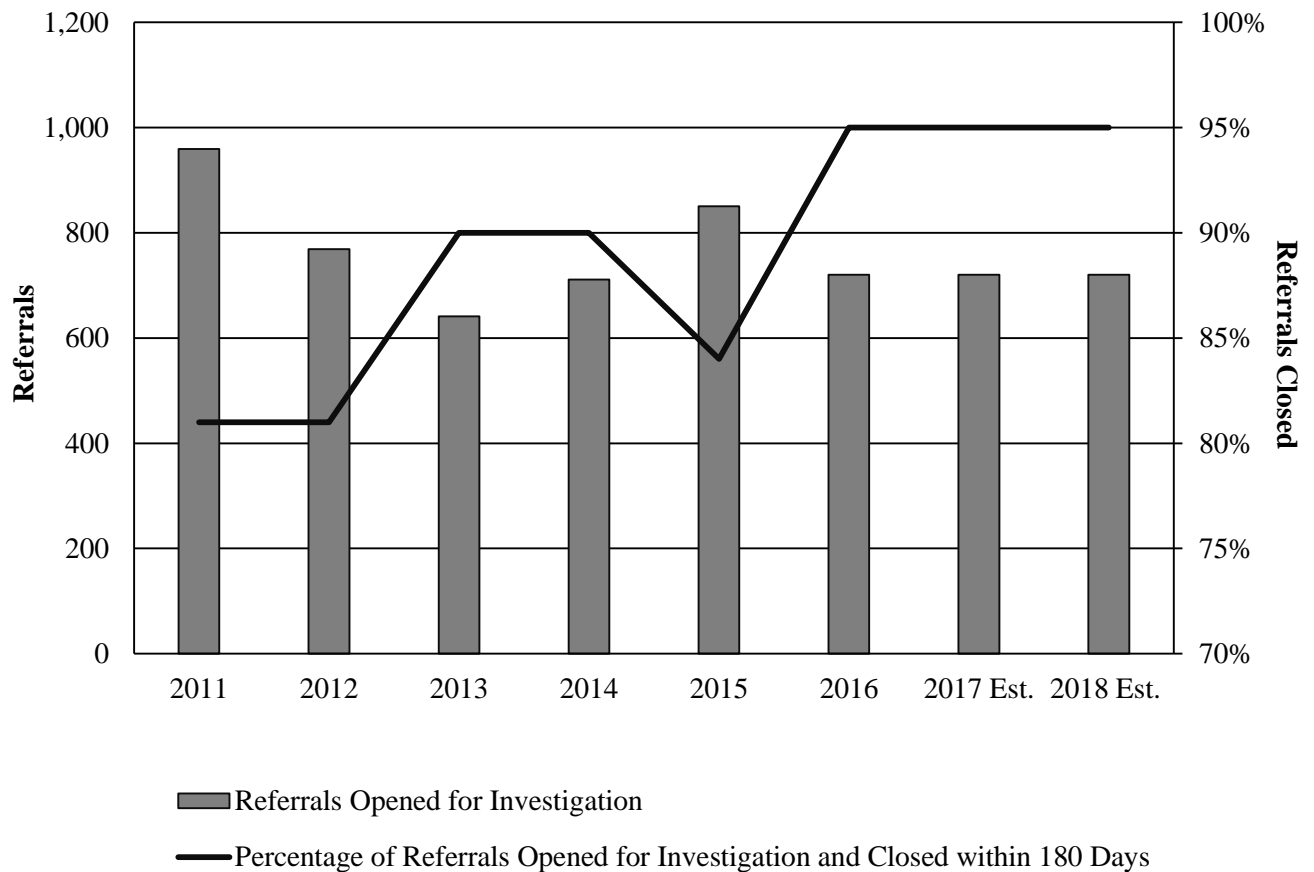
Source: Maryland Insurance Administration

As seen the exhibit, the percent of form filings reviewed within 30 days for Property and Casualty insurance is significantly lower than for Life and Health. While 98% of form filings for Life and Health were processed within that timeframe, only 31% of Property and Casualty complaints were filed within the same timeframe in fiscal 2016. MIA asserts that this is, in part, because of vacancies in the Rates and Review Forms Unit and hopes that the addition of the new contractual positions included in the fiscal 2018 budget will help shorten the review time for Property and Casualty form filings.

2. Fraud Division

The Insurance Fraud Division is responsible for investigating complaints relating to alleged insurance fraud committed by insurance companies, insurance producers, or consumers. The division also operates a toll-free insurance fraud hotline and, in cooperation with the Office of the Attorney General and the Department of State Police, conducts public outreach and awareness programs on the cost of insurance fraud. **Exhibit 2** shows the number of fraud cases and the percent of cases closed.

Exhibit 2
Fraud Referrals for Investigation and
Percent of Referrals Closed within 180 Days
Fiscal 2011-2018 Est.



Source: Maryland Insurance Administration

Fiscal 2017 Actions

Section 20

Section 20 of the fiscal 2017 budget bill required the Governor to abolish 657 regular positions and cut \$20 million in general funds and \$5 million in special funds. As a part of the reduction, MIA abolished 8 positions and cut \$200,000 in special funds.

Proposed Budget

As seen in **Exhibit 3**, there is a \$1.2 million decrease in the fiscal 2018 budget compared to the fiscal 2017 working appropriation. Special funds decreased \$1.1 million or 3.3% and federal funds decreased \$53,000 or 6.8%.

Personnel

Personnel costs decline \$765,000 from fiscal 2017 to 2018, including \$228,000 in regular earnings related to the Section 20 abolished positions. The fiscal 2018 budget bill includes a \$54.5 million (all funds) across-the-board contingent reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the Unassigned General Fund balance exceeds a certain amount at the close of the fiscal year. This agency's share of these reductions is \$91,733 in special funds and \$506 in federal funds. This action is tied to a provision in the Budget Reconciliation and Financing Act of 2017.

Other Changes

The largest growth area in the budget is a \$371,000 increase for 4.25 contractual positions. The increase in contractual positions appears to partially offset the decrease in regular positions abolished through Section 20 of the 2017 budget bill. Due to a high number of vacancies, MIA could reclassify current positions instead of hiring contractual employees.

There are also operational increases of \$79,000 for office supplies and assistance and \$21,000 for a new vehicle after trade-in value.

There are also several large decreases including \$121,000 for computer replacements, \$151,000 for software licenses, \$181,000 in consulting fees related to best practices for informing consumers about choices for insurance in relation to the Affordable Care Act, and \$363,000 for administrative hearings.

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

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2016 Actual	\$29,697	\$586	\$30,283
Fiscal 2017 Working Appropriation	33,142	781	33,923
Fiscal 2018 Allowance	<u>32,037</u>	<u>728</u>	<u>32,765</u>
Fiscal 2017-2018 Amount Change	-\$1,105	-\$53	-\$1,158
Fiscal 2017-2018 Percent Change	-3.3%	-6.8%	-3.4%
 Where It Goes:			
Personnel Expenses			
Other fringe benefit adjustments			\$18
Social Security contributions.....			-47
Turnover adjustments			-75
Retirement			-140
Regular earnings.....			-228
Employee and retiree health insurance.....			-293
 Other Changes			
Contractual positions.....			371
Office assistance and supplies			79
Vehicle costs			21
Communications.....			10
Travel			-37
Statewide allocations.....			-40
Computer replacement program.....			-121
Software licenses.....			-151
Consultant for ACA consumers information.....			-181
Administrative hearings			-363
Other.....			19
Total			-\$1,158

ACA: Affordable Care Act

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

Issues

1. Premium Tax Collection

Currently, MIA collects the annual premium tax from insurers and submits most of the funds to the General Fund although there are revenue diversions, for example, to the Rate Stabilization Fund and the Maryland Health Benefit Exchange. A 2011 Office of Legislative Audits (OLA) audit reported several findings around MIA's processing of premium tax and the procurement process for its premium tax system. In the 2014 OLA audit, several of the findings around premium tax collection from 2011 were repeated, and this resulted in the withholding of \$150,000 in the agency's operations allocation until the findings were corrected.

In two follow-up reports released in February and March 2016, OLA found that MIA has implemented the policies and procedures to address most of the November 2014 findings related to premium taxes. Specifically, MIA now requires all financial transactions related to premium taxes to be reconciled with State accounting records in a timely manner and has implemented a manual check logging process in its mail room.

MIA is also in the process of procuring a new online tax system so that staff no longer has to administer the collection and auditing process manually. MIA advises that the system is designed with preventive measures related to previous audit findings. **The Department of Legislative Services recommends that MIA comment on the new premium tax processes and the new premium tax collection system.**

Recommended Actions

	<u>Amount Reduction</u>
1. Reduce special funds for 2 of the new contractual positions. The Maryland Insurance Administration should reclassify current vacant positions because of vacancies higher than expected turnover.	\$ 296,827 SF
Total Special Fund Reductions	\$ 296,827

Appendix 1
Current and Prior Year Budgets
Maryland Insurance Administration
(\$ in Thousands)

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2016					
Legislative Appropriation	\$0	\$30,600	\$1,234	\$0	\$31,835
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	389	8	0	397
Reversions and Cancellations	0	-1,292	-656	0	-1,948
Actual Expenditures	\$0	\$29,697	\$586	\$0	\$30,283
Fiscal 2017					
Legislative Appropriation	\$0	\$32,783	\$778	\$0	\$33,561
Cost Containment	0	0	0	0	0
Budget Amendments	0	359	4	0	362
Working Appropriation	\$0	\$33,142	\$781	\$0	\$33,923

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2016

The fiscal 2016 legislative appropriation for the Maryland Insurance Administration increased by \$397,000 through budget amendments, primarily due to restoration of a 2% pay reduction (\$389,000). There was \$1.3 million in canceled special funds including:

- \$350,000 for maintenance on the Enterprise Complaint Tracking System that was still in development;
- \$600,000 from salaries and benefits for recently opened positions;
- \$130,00 for underspent travel;
- \$140,000 for underspent fixed charges; and
- \$50,000 for the study of Stop Loss Estimates that was supposed to take place in fiscal 2016.

Federal funds increased by \$8,000 to restore a 2% pay reduction. There was also \$656,000 in canceled federal funds due to lower than budgeted federal fund attainment.

Fiscal 2017

To date, the fiscal 2017 legislative appropriation increased \$358,821 in special funds and \$3,574 in federal funds by budget amendment for statewide salary adjustments.

Appendix 2
Major Information Technology Projects
Maryland Insurance Administration
Enterprise Complaint Tracking System

Project Status	Implementation.	New/Ongoing Project:	Ongoing.					
Project Description:	The Maryland Insurance Administration (MIA) has identified the need to 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.							
Project Business Goals:	Replacing the current ECTS with upgraded technology will provide MIA with the ability to improve complaint resolution efficiency percentages beyond current targets.							
Estimated Total Project Cost:	\$3,054,500	Estimated Planning Project Cost:	n/a					
Project Start Date:	October 26, 2014	Projected Completion Date:	June 2017					
Schedule Status:	The ECTS project schedule was updated in November 2016 to reflect the security and functional requirements. System implementation is now scheduled for fiscal 2017.							
Cost Status:	There is a \$210,000 increase with \$120,000 to enhance security on ECTS document uploads and \$90,000 to improve document management functionality with the ability to view and edit documents directly in the ECTS application.							
Scope Status:	New security requirements and functional requirements have been incorporated into the project.							
Project Management Oversight Status:	The project manager has been identified.							
Identifiable Risks:	As the system design became more fully understood, security vulnerabilities took on an increased level of focus. The project team has identified new requirements and development changes to enhance the overall security of the system to mitigate potential security risks.							
Additional Comments:	n/a							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	2,699.5	355.0	0.0	0.0	0.0	0.0	0.0	3,054.5
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$2,699.5	\$355.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3,054.5

**Appendix 3
Object/Fund Difference Report
Maryland Insurance Administration**

<u>Object/Fund</u>	<u>FY 16 Actual</u>	<u>FY 17 Working Appropriation</u>	<u>FY 18 Allowance</u>	<u>FY 17 - FY 18 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	265.00	257.00	257.00	0.00	0%
02 Contractual	13.35	16.90	21.10	4.20	24.9%
Total Positions	278.35	273.90	278.10	4.20	1.5%
Objects					
01 Salaries and Wages	\$ 23,573,997	\$ 25,440,124	\$ 24,767,430	-\$ 672,694	-2.6%
02 Technical and Spec. Fees	855,654	871,788	1,242,365	370,577	42.5%
03 Communication	286,098	308,217	318,532	10,315	3.3%
04 Travel	248,996	378,710	341,471	-37,239	-9.8%
07 Motor Vehicles	194,016	216,247	237,650	21,403	9.9%
08 Contractual Services	2,389,971	3,569,142	2,875,702	-693,440	-19.4%
09 Supplies and Materials	238,823	267,252	299,966	32,714	12.2%
10 Equipment – Replacement	242,209	421,000	310,000	-111,000	-26.4%
11 Equipment – Additional	13,785	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	556,396	622,200	634,644	12,444	2.0%
13 Fixed Charges	1,683,415	1,828,563	1,829,941	1,378	0.1%
Total Objects	\$ 30,283,360	\$ 33,923,243	\$ 32,857,701	-\$ 1,065,542	-3.1%
Funds					
03 Special Fund	\$ 29,697,106	\$ 33,142,026	\$ 32,129,000	-\$ 1,013,026	-3.1%
05 Federal Fund	586,254	781,217	728,701	-52,516	-6.7%
Total Funds	\$ 30,283,360	\$ 33,923,243	\$ 32,857,701	-\$ 1,065,542	-3.1%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

**Appendix 4
Fiscal Summary
Maryland Insurance Administration**

<u>Program/Unit</u>	<u>FY 16 Actual</u>	<u>FY 17 Wrk Approp</u>	<u>FY 18 Allowance</u>	<u>Change</u>	<u>FY 17 - FY 18 % Change</u>
01 Administration and Operations	\$ 30,231,073	\$ 33,568,243	\$ 32,502,701	-\$ 1,065,542	-3.2%
02 Major Information Technology Development Projects	52,287	355,000	355,000	0	0%
Total Expenditures	\$ 30,283,360	\$ 33,923,243	\$ 32,857,701	-\$ 1,065,542	-3.1%
Special Fund	\$ 29,697,106	\$ 33,142,026	\$ 32,129,000	-\$ 1,013,026	-3.1%
Federal Fund	586,254	781,217	728,701	-52,516	-6.7%
Total Appropriations	\$ 30,283,360	\$ 33,923,243	\$ 32,857,701	-\$ 1,065,542	-3.1%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.