

D80Z01
Maryland Insurance Administration

Executive Summary

The Maryland Insurance Administration implements laws and develops policies, procedures, and regulations that affect Maryland's insurance industry.

Operating Budget Data

(\$ in Thousands)

	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19-20</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$29,582	\$32,100	\$32,061	-\$39	-0.1%
Adjustments	0	165	707	542	
Adjusted Special Fund	\$29,582	\$32,265	\$32,768	\$503	1.6%
Federal Fund	655	726	220	-505	-69.7%
Adjustments	0	1	3	3	
Adjusted Federal Fund	\$655	\$726	\$223	-\$503	-69.2%
Adjusted Grand Total	\$30,238	\$32,991	\$32,991	\$0	0.0%

Note: The fiscal 2019 appropriation includes deficiencies, a one-time \$500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

- There is no overall change from the adjusted fiscal 2019 working appropriation to the adjusted fiscal 2020 allowance. An increase in special funds driven by salary enhancements offsets the loss of federal Affordable Care Act grant funds for premium reviews.

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

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Personnel Data

	<u>FY 18 Actual</u>	<u>FY 19 Working</u>	<u>FY 20 Allowance</u>	<u>FY 19-20 Change</u>
Regular Positions	257.00	259.00	259.00	0.00
Contractual FTEs	<u>18.19</u>	<u>19.60</u>	<u>20.10</u>	<u>0.50</u>
Total Personnel	275.19	278.60	279.10	0.50

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	16.50	6.18%
Positions and Percentage Vacant as of 12/31/18	20.00	7.72%

Key Observations

- In recent years, the premium tax revenue credited to the Rate Stabilization Fund has fallen at the same time that the amount of premium tax revenue credited to the General Fund has increased. It is unclear why.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

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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:

- review insurance policy forms and other filings for compliance with applicable laws and regulations;
- resolve consumer complaints in accordance with Maryland insurance law and in a prompt and fair manner;
- protect the public from unfair trade practices and other violations of the Insurance Code;
- ensure that insurers have the financial ability to pay claims when due; and
- investigate and prosecute insurance fraud.

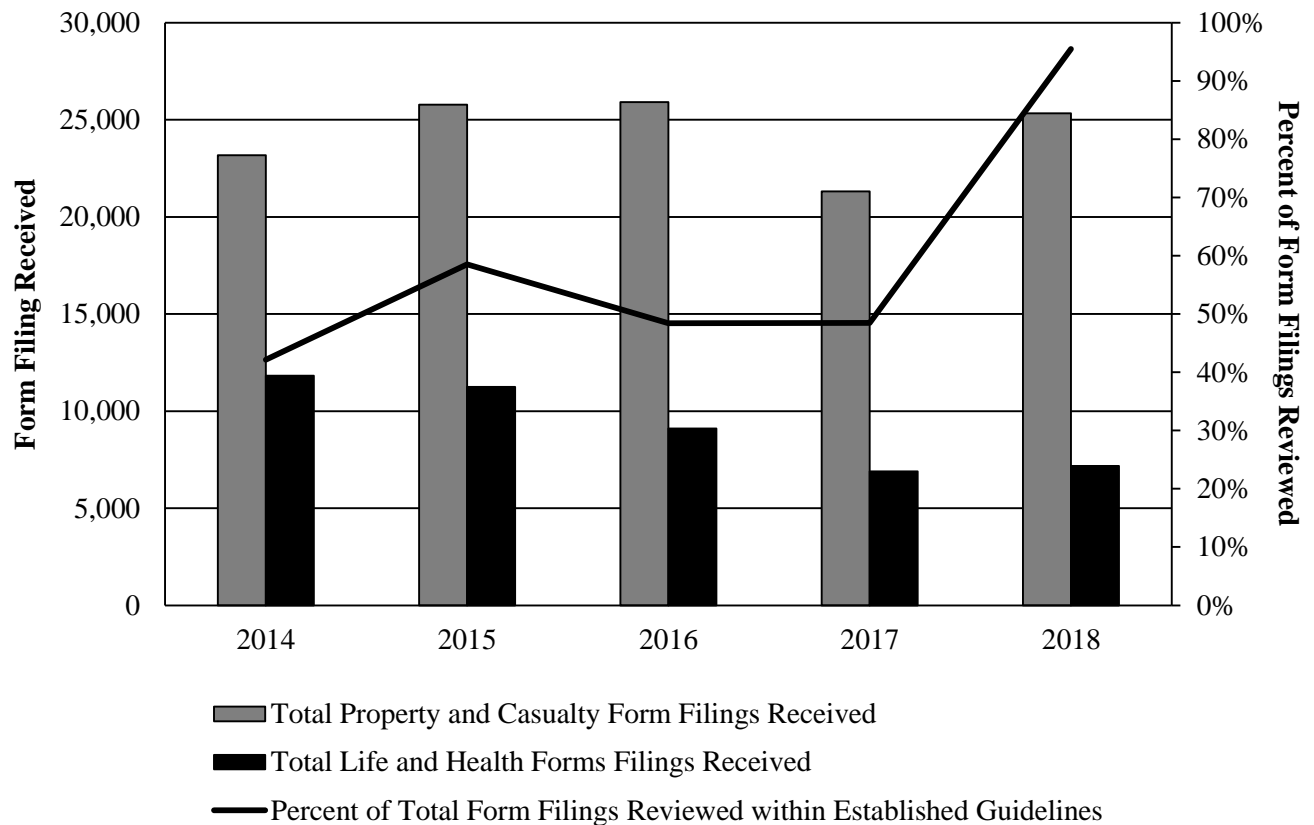
MIA is a specially funded State agency supported entirely through fees and assessments on the insurance industry. Up to 60% of MIA's annual appropriation may be funded by assessments on the insurance industry with the remainder coming from fees.

Performance Analysis: Managing for Results

1. Form Filings

MIA conducts a review of every insurance policy and contract to ensure that all of the legal requirements for the policy and/or contract have been met. MIA also reviews and approves rates for most Life and Health and Property and Casualty insurance products. **Exhibit 1** outlines the number of form filings for both Life and Health and Property and Casualty insurance. The number of form filings received for both insurance classifications have increased based on a number of market and legislative factors, such as statutory changes in what requires a separate form filing. The percentage of forms reviewed by MIA within the established guidelines has increased significantly from 48.5% in fiscal 2017, to 95.5% in fiscal 2018. In previous years, there was a backlog in the Property and Casualty forms reviewed within the customary 30 days that was resolved in fiscal 2017, resulting in the increase in timely form filings reviewed in fiscal 2018.

Exhibit 1
Form Filings Received and Reviewed
Fiscal 2014-2018

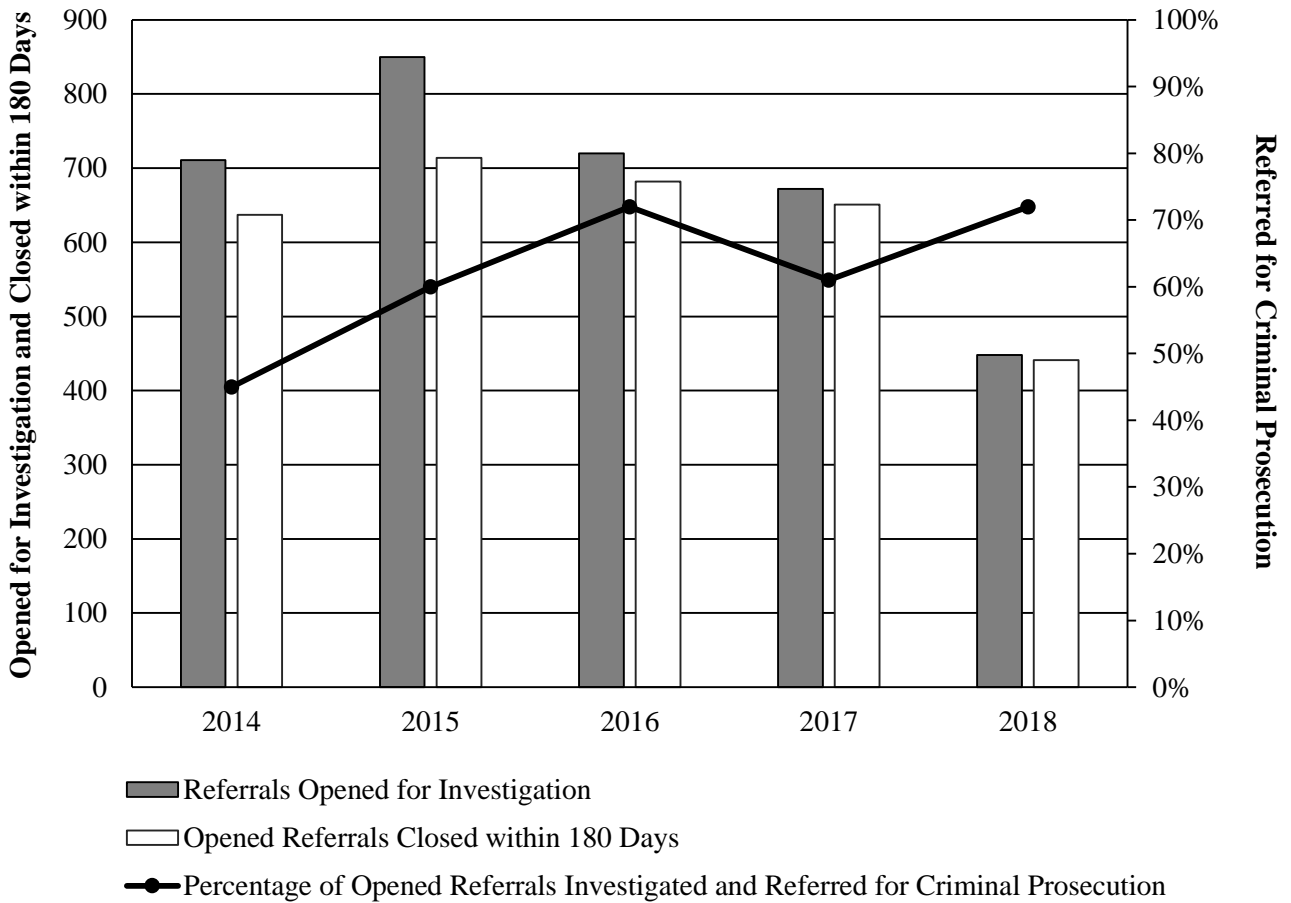


Source: Maryland Insurance Administration

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 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 opened, the number of cases closed within 180 days, and the percentage of cases referred for criminal prosecution. There has been a decrease in the number of referrals opened in fiscal 2018, with most of the cases opened being closed within 180 days. While there are a lower number of cases opened, there is an increase in the percentage of cases referred for criminal prosecution.

Exhibit 2
Cases Opened, Closed within 180 days, and
Referred for Criminal Prosecution
Fiscal 2014-2018



Source: Maryland Insurance Administration

Fiscal 2019 Actions

Proposed Deficiency

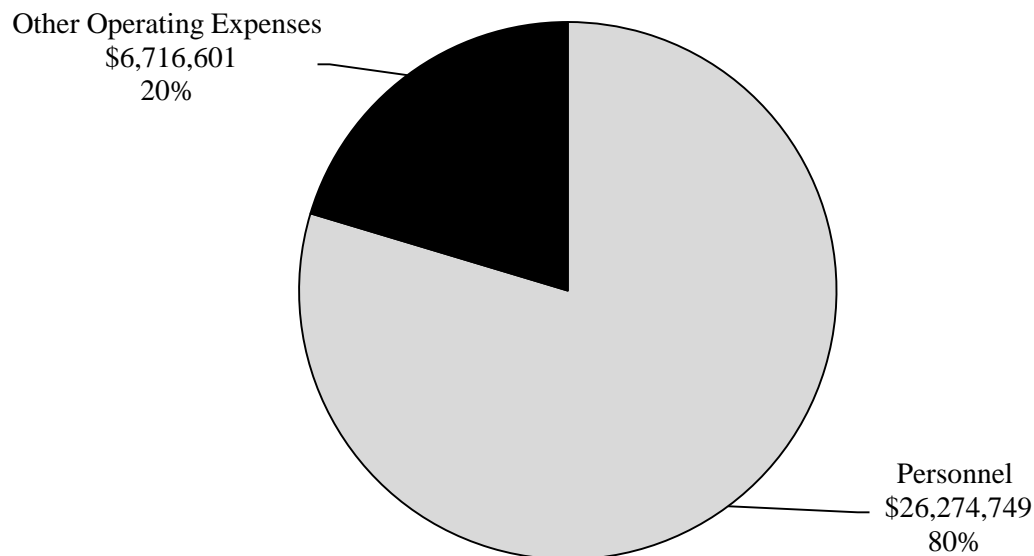
MIA will receive \$166,021 (\$165,363 in special funds and \$658 in federal funds) in centrally budgeted funding for costs associated with the April 1, 2019 one-time \$500 bonus and the 0.5% general salary increase.

Fiscal 2020 Allowance

Overview of Agency Spending

The fiscal 2020 allowance for MIA is \$33.0 million. As shown in **Exhibit 3**, the budget is largely personnel expenses.

Exhibit 3
Programmed Expenditures by Type
Fiscal 2020



Source: Maryland Insurance Administration

Proposed Budget Change

As shown in **Exhibit 4**, the adjusted fiscal 2020 allowance remains flat from the adjusted fiscal 2019 working appropriation. There is a \$503,000, or 1.6%, increase in special funds to offset a decrease in federal funding primarily associated with the Affordable Care Act grant funds for premium reviews.

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

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2018 Actual	\$29,582	\$655	\$30,238
Fiscal 2019 Working Appropriation	32,265	726	32,991
Fiscal 2020 Allowance	<u>32,768</u>	<u>223</u>	<u>32,991</u>
Fiscal 2019-2020 Amount Change	\$503	-\$503	\$0
Fiscal 2019-2020 Percent Change	1.6%	-69.2%	
Where It Goes:			
Personnel Expenses			
General salary increase (3% effective July 1, 2019, and annualizing 0.5% increase effective April 1, 2019).....			\$684
Accrued leave payout.....			161
Retirement contributions.....			70
Employee and retiree health insurance			48
Other fringe benefit adjustments.....			-8
Turnover adjustments			-19
Fiscal 2019 \$500 one-time bonus effective April 1, 2019			-140
Regular earnings savings based on positions budgeted at base salaries that offsets the annualization of the fiscal 2019 2% general salary increase.....			-410
Statewide Cost Allocations			
DoIT services allocation			158
Statewide personnel system allocation			13
OAG administrative fees			-6
DBM radio costs			-22
Administrative hearings			-136
Other Changes			
Software licensing including software and ongoing maintenance for the Enterprise Complaint Tracking System (special funds).....			554
Costs of actuaries for the Affordable Care Act premium review (special funds to partially offset loss of federal funds).....			157
Temporary professional assistance (special funds).....			44
Research services on insurance rate stabilization (special funds).....			-333
Enterprise complaint tracking system project funding (special funds).....			-355

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Where It Goes:

Contracts for actuaries for premium review (federal funds).....	-487
Other	27
Total	\$0

DBM: Department of Budget and Management

DoIT: Department of Information Technology

OAG: Office of the Attorney General

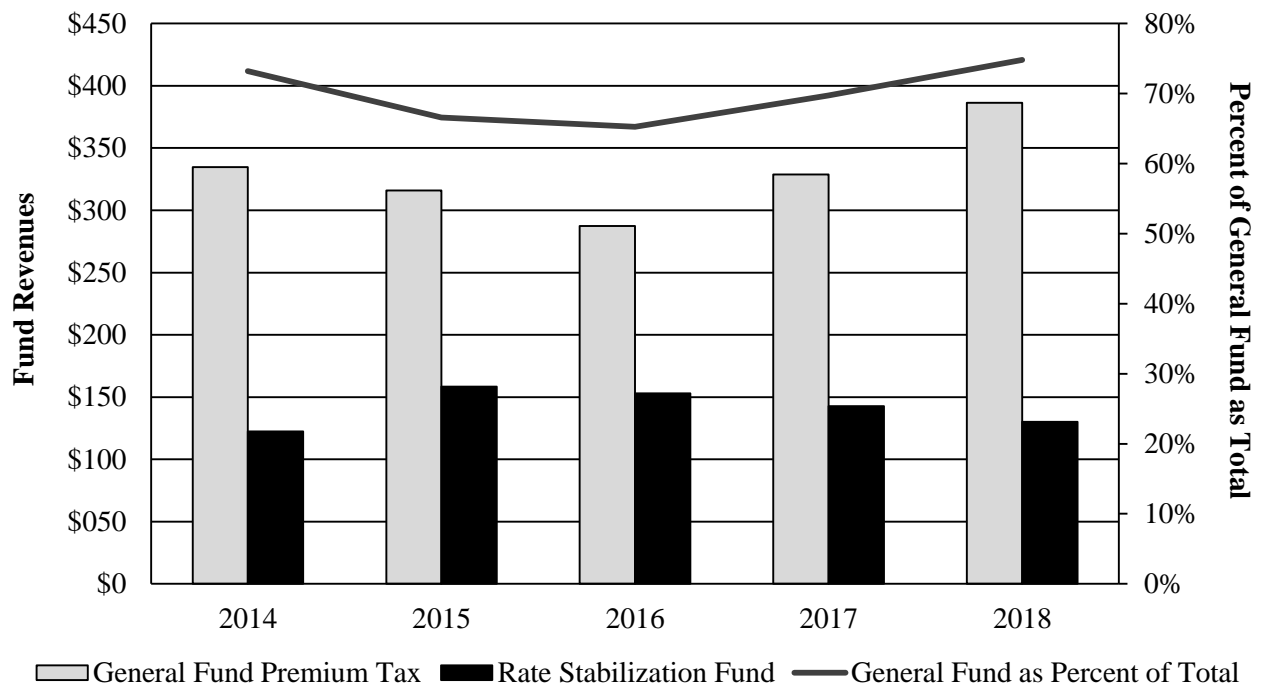
Note: Numbers may not sum to total due to rounding.

Issues

1. Rate Stabilization Fund

Premium taxes collected by MIA are deposited in the General Fund, the Rate Stabilization Fund, or diverted to the Maryland Health Benefit Exchange (\$35.0 million annually). The Rate Stabilization Fund is funded through a 2% premium tax on health maintenance organizations and managed care organizations. Originally imposed to subsidize medical malpractice premiums and support increased provider rates in Medicaid, the revenue to the fund now solely supports the Medicaid program. As shown in **Exhibit 5**, revenue into the Rate Stabilization Fund fell from a high of \$158.5 million in fiscal 2015 to \$130.1 million in fiscal 2018, well below the \$157.0 million originally included in the fiscal 2018 budget. This drop coincided with a significant and unexpected increase in total premium tax revenues deposited into the General Fund, raising the possibility that the allocation of revenue between the Rate Stabilization Fund and the General Fund may have changed in some way. **MIA should explain the reason for the shift in premium tax allocations between the General Fund and the Rate Stabilization Fund.**

Exhibit 5
Premium Taxes to the Rate Stabilization Fund and General Fund
Fiscal 2014-2018
(\$ in Millions)



Source: Maryland Insurance Administration

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

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 2018					
Legislative Appropriation	\$0	\$31,740	\$728	\$0	\$32,469
Deficiency/Withdrawn Appropriation	0	-359	-1	0	-360
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-1,799	-71	0	-1,870
Actual					
Expenditures	\$0	\$29,582	\$655	\$0	\$30,238
Fiscal 2019					
Legislative Appropriation	\$0	\$31,896	\$724	\$0	\$32,621
Budget Amendments	0	203	1	0	204
Working					
Appropriation	\$0	\$32,100	\$726	\$0	\$32,825

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. Numbers may not sum to total due to rounding.

Fiscal 2018

The fiscal 2018 legislative appropriation for the Maryland Insurance Administration decreased \$2.2 million. There was a withdrawn appropriation of \$359,000 in special funds and \$1,000 in federal funds in Section 19 of the fiscal 2019 Budget Bill due to a surplus in the health insurance account.

There was \$1.8 million in canceled special funds, including \$1.5 million in lower than anticipated contractual obligations and \$300,000 related to delays in the Enterprise Complaint Tracking System project. There was also \$71,000 in canceled federal funds due to vacancies in the agency.

Fiscal 2019

To date, the fiscal 2019 legislative appropriation increased \$204,000 for a general salary increase effective January 1, 2019, that was centrally budgeted.

Appendix 2
Audit Findings

Audit Period for Last Audit:	August 5, 2013 – January 30, 2017
Issue Date:	May 2018
Number of Findings:	7
Number of Repeat Findings:	1
% of Repeat Findings:	14%
Rating: (if applicable)	n/a

- Finding 1:** The Maryland Insurance Administration (MIA) used a premium tax spreadsheet system that lacked adequate controls to ensure the propriety of data recorded and the results of premium tax audits performed.
- Finding 2:** MIA did not establish adequate controls over the processing of premium tax refunds paid to insurance companies.
- Finding 3:** Employees who processed certain producer license applications also had the capability to approve the licenses.
- Finding 4:** Controls over cash receipts and noncash credits were not sufficient.
- Finding 5:** Business partners had excessive access into the MIA computer network.
- Finding 6:** MIA did not have a complete information technology disaster recovery plan for recovering computer operations.
- Finding 7:** **MIA lacked assurance that the insurance producer prelicensing, licensing, and disaster recovery services systems, each managed by separate service providers, were each sufficiently protected against operational and security risks.**

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 3
Object/Fund Difference Report
Maryland Insurance Administration

<u>Object/Fund</u>	<u>FY 18 Actual</u>	<u>FY 19 Working Appropriation</u>	<u>FY 20 Allowance</u>	<u>FY 19 - FY 20 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	257.00	259.00	259.00	0.00	0%
02 Contractual	18.19	19.60	20.10	0.50	2.6%
Total Positions	275.19	278.60	279.10	0.50	0.2%
Objects					
01 Salaries and Wages	\$ 23,754,085	\$ 24,643,117	\$ 24,484,338	-\$ 158,779	-0.6%
02 Technical and Special Fees	1,083,091	1,062,707	1,080,076	17,369	1.6%
03 Communication	239,813	298,319	277,758	-20,561	-6.9%
04 Travel	237,367	300,101	298,362	-1,739	-0.6%
07 Motor Vehicles	211,981	190,036	191,947	1,911	1.0%
08 Contractual Services	1,837,015	3,457,463	3,064,919	-392,544	-11.4%
09 Supplies and Materials	282,102	251,303	265,730	14,427	5.7%
10 Equipment – Replacement	24,468	218,096	218,752	656	0.3%
11 Equipment – Additional	50,924	21,202	1,402	-19,800	-93.4%
12 Grants, Subsidies, and Contributions	725,951	584,699	594,133	9,434	1.6%
13 Fixed Charges	1,790,851	1,798,025	1,803,598	5,573	0.3%
Total Objects	\$ 30,237,648	\$ 32,825,068	\$ 32,281,015	-\$ 544,053	-1.7%
Funds					
03 Special Fund	\$ 29,582,213	\$ 32,099,560	\$ 32,060,843	-\$ 38,717	-0.1%
05 Federal Fund	655,435	725,508	220,172	-505,336	-69.7%
Total Funds	\$ 30,237,648	\$ 32,825,068	\$ 32,281,015	-\$ 544,053	-1.7%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.

**Appendix 4
Fiscal Summary
Maryland Insurance Administration**

<u>Program/Unit</u>	<u>FY 18 Actual</u>	<u>FY 19 Wrk Approp</u>	<u>FY 20 Allowance</u>	<u>Change</u>	<u>FY 19 - FY 20 % Change</u>
01 Administration and Operations	\$ 30,158,313	\$ 32,470,068	\$ 32,281,015	-\$ 189,053	-0.6%
02 Major Information Technology Development	79,335	355,000	0	-355,000	-100.0%
Total Expenditures	\$ 30,237,648	\$ 32,825,068	\$ 32,281,015	-\$ 544,053	-1.7%
Special Fund	\$ 29,582,213	\$ 32,099,560	\$ 32,060,843	-\$ 38,717	-0.1%
Federal Fund	655,435	725,508	220,172	-505,336	-69.7%
Total Appropriations	\$ 30,237,648	\$ 32,825,068	\$ 32,281,015	-\$ 544,053	-1.7%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.