

SB0149_MAIF_FWA.pdf

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Position: FWA



TESTIMONY IN SUPPORT OF SENATE BILL 149

Date: January 27, 2021

Position: Favorable with Amendments

Bill Number: Senate Bill 149

Bill Title: Insurance-Application of the Premium Tax-Continued Exclusion of Maryland Automobile Insurance Fund

Senate Bill 149 Analysis

Senate Bill 149 repeals the Maryland Automobile Insurance Fund's (MAIF) premium tax exemption Sunset provision of Chapter 509 (2017) and thereby continues the General Assembly's grant of an exemption. The permanent exemption will continue to aid MAIF in avoiding a statewide assessment on Maryland drivers and MAIF urges a favorable report with amendments.

The Assessment

MAIF is the residual insurer in Maryland and can only insure drivers who have been rejected or cancelled by the private market. To ensure MAIF's solvency, the General Assembly has provided an assessment mechanism whereby private insurers, including MAIF would be assessed if MAIF's surplus falls below the assessment trigger. *Insurance Article §20-404*. Insurers then surcharge their policyholders for the assessment. The statute requires the premium bill to separately list the surcharge and state "Recoupment of MAIF assessment." *Insurance Article §20-408*.

Since the assessment would ultimately be paid by approximately 4 million Maryland drivers, MAIF and the General Assembly have consistently tried to avoid an assessment. This effort has been successful and since 1989, for over 30 years, Maryland Auto has been entirely self-sufficient. During this period, MAIF has insured hundreds of thousands of Maryland families, has paid all claims and expenses from premiums and investment income and there has been no need for an assessment. There has been no cost to the insurance industry or Maryland drivers.

Over the past decade, the auto insurance market has evolved and private insurers through "big data," and sophisticated algorithms have developed underwriting tools that allow them to insure a greater number of marginal risks. As a result, MAIF's market share has steadily declined and is now less than 1.5%.

Due to declining premiums, high cancellation rates, increased claims and lower investment returns, MAIF's financial results have deteriorated. As a result, MAIF's surplus has dropped substantially since 2007 making an assessment much more likely in the coming years. The premium tax exemption has helped avoid this result. While MAIF does not project an assessment in 2021 or 2022, MAIF does project a surplus uncomfortably close to the trigger in 2023 and an assessment in 2024.

The Premium Tax Exemption

In 2017, due to concerns that an assessment would be required in the next few years, the General Assembly enacted SB 910/Chapter 509 (2017), exempting MAIF from the 2% premium tax. This exemption, however, is subject to a June 30, 2022 Sunset. The purpose of the Sunset was to ensure the exemption was not used to subsidize or decrease rates but instead aid surplus. The Maryland Insurance Administration is required to review and report on MAIF's premium tax exemption to the Senate Finance Committee and House Economic Matters Committee annually to ensure the exemption was meeting the legislative intent to aid surplus.

The premium tax exemption is achieving its purpose. The MIA's December 1, 2019 report concluded that the exemption did not materially subsidize rates, and that without the 2018 exemption, MAIF's surplus would have been \$1.8 million closer to the assessment trigger. The MIA reached similar conclusions in December 2020.

MAIF paid the 2% premium tax each year for 45 years - from 1973, when MAIF was created, until 2018 when Chapter 509 (2017) went into effect. The exemption has allowed MAIF to add an average of \$1.6 million annually to its surplus. A permanent exemption from the premium tax would assist MAIF in maintaining self-sufficiency, continue to fulfill its mission and make an assessment less likely.

It is worth noting that a premium tax exemption is not without precedent.

- Although IWIF/Chesapeake is now subject to the premium tax, IWIF was exempt from taxation for nearly 100 years, from 1914 to 2011.
- Nonprofit HMOs are exempt from premium taxes provided an equal amount is transferred to a certain fund to support health care for eligible individuals. *Insurance Article §6-121.*
- CareFirst is exempt from premium taxes provided an equal amount is devoted to certain funds that increase access to, or affordability of, health care services. *Insurance Article §14-106.*

In fiscal year 2019, the Maryland Insurance Administration collected \$538,738,594 in premium tax from insurers. MAIF's exemption is less than 0.5% of the total collected.

Amendment

Clarifies the bill by adding MAIF to the list of exempt entities in Insurance Article §6-101(b).

Conclusion

Accordingly, MAIF urges the Senate Finance Committee to issue a favorable report on Senate Bill 149, as amended.

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SB 149 Testimony 127.pdf

Uploaded by: Kelley, Delores

Position: FWA

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THE SENATE OF MARYLAND
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TESTIMONY OF SENATOR DELORES G. KELLEY
REGARDING SENATE BILL 149-INSURANCE- APPLICATION OF THE PREMIUM
TAX-COUNTINUED EXCLUSION OF THE AUTOMOBILE INSURANCE FUND

BEFORE THE SENATE FINANCE COMMITTEE

ON JANUARY 27, 2021

Senate Finance Colleagues:

Senate Bill 149 is a straightforward Bill which does one thing: it removes the Sunset provision for the Maryland Automobile Insurance Fund (MAIF) premium tax exemption and continues the Legislature's grant of an exemption.

As you know, MAIF is the residual insurer and can only insure drivers who have been rejected or cancelled by the private market. To ensure MAIF's solvency, the Legislature has provided an assessment mechanism whereby private insurers would be assessed if their surplus falls below the assessment trigger. These assessments are ultimately paid by approximately 4 million

Senate Bill 149

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Maryland drivers and for this reason the Legislature has consistently tried to avoid an assessment.

There has not been an assessment for over 30 years. In 2017, we were concerned that an assessment would be required in the next few years and the Legislature enacted SB 910, Chapter 509 (2017), which exempts MAIF from the 2% premium tax. Some insurers were concerned that this exemption would allow MAIF to unfairly subsidize rates, so the Legislature made the exemption subject to a June 30, 2022 Sunset. The 2017 bill also required the Maryland Insurance Administration to report on this issue to the Senate Finance Committee and House Economic Matters Committee to ensure the exemption was meeting the legislative purpose of increasing surplus and not subsidizing rates. This exemption is achieving its purpose.

This Bill only does one thing. It makes the MAIF premium tax exemption permanent to assist with avoiding an assessment on Maryland drivers. I urge your favorable report of SB 149.

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Uploaded by: Kelley, Delores

Position: FWA



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AMENDMENTS
PREPARED
BY THE
DEPT. OF LEGISLATIVE
SERVICES

22 JAN 21
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BY: Senator Kelley
(To be offered in the Finance Committee and the Budget and
Taxation Committee)

AMENDMENTS TO SENATE BILL 149
(First Reading File Bill)

AMENDMENT NO. 1

On page 1, in line 6, after “tax;” insert “making conforming changes;”; and after
line 12, insert:

“BY repealing and reenacting, with amendments,
Article – Insurance
Section 6-101(b)
Annotated Code of Maryland
(2017 Replacement Volume and 2020 Supplement)”.

AMENDMENT NO. 2

On page 2, after line 6, insert:

- “(b) The following persons are not subject to taxation under this subtitle:
- (1) a nonprofit health service plan corporation that meets the requirements established under §§ 14–106 and 14–107 of this article;
 - (2) a fraternal benefit society;
 - (3) a surplus lines broker, who is subject to taxation in accordance with Title 3, Subtitle 3 of this article;
 - (4) an unauthorized insurer, who is subject to taxation in accordance with Title 4, Subtitle 2 of this article; [or]

(Over)

(5) a nonprofit health maintenance organization authorized by Title 19, Subtitle 7 of the Health – General Article that is exempt from taxation under § 501(c)(3) of the Internal Revenue Code; OR

(6) THE MARYLAND AUTOMOBILE INSURANCE FUND.