

DJ.00
Maryland Automobile Insurance Fund

Operating Budget Data

(\$ in Thousands)

	CY 00	CY 01		% Change
	<u>Actual</u>	<u>Estimate</u>	<u>Change</u>	<u>Prior Year</u>
Nonbudgeted Fund	\$29,869	\$31,412	\$1,544	5.2%
Total Funds	\$29,869	\$31,412	1,544	5.2%

- The budget increase reverses the downward trend of the last several years and reflects the increase in the Maryland Automobile Insurance Fund policies issued beginning in calendar 2000.
- There are 27 payroll payment periods in calendar 2001; this accounts for \$606,577 of the \$1,662,511 increase in salaries and wages.

Personnel Data

	CY 00	CY 01	
	<u>Actual</u>	<u>Working</u>	<u>Change</u>
Regular Positions	348.0	359.0	11.0
Contractual FTEs	2.5	2.0	(0.5)
Total Personnel	350.5	361.0	10.5

- The budget reflects eight additional positions in the Insured Division and three additional positions in the Uninsured Division.

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

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Analysis in Brief

Recommended Actions

1. Nonbudgeted.

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Operating Budget Analysis

Program Description

The Maryland Automobile Insurance Fund (MAIF) was created by the 1972 General Assembly. MAIF currently performs two major functions: providing automobile insurance coverage for those individuals who are otherwise unable to obtain insurance and continuing the "Unsatisfied Claim and Judgment Fund" which has been in statute since 1959. This second function allows Maryland residents, who are involved in accidents in Maryland, an avenue of settlement against uninsured motorists, as well as hit and run incidents where no responsible party can be found. This fund is secondary to any other available insurance recovery. MAIF operates on a calendar year basis. MAIF is required to assess a surcharge on the auto insurance industry whenever the MAIF surplus falls below the assessment threshold level. The threshold is defined as 25% of the average written premiums for the previous three years.

Governor's Proposed Budget

MAIF is a nonbudgeted agency whose estimated revenues and expenditures are presented to the General Assembly as a matter of information. Since MAIF operates on a calendar year basis, actual figures labeled "2000" are preliminary and subject to close-out adjustments. The budget for calendar 2001 is the projected budget adopted by MAIF.

The overall budget increases \$1,543,580, or 5.2%, for calendar 2001 as indicated in **Exhibit 1**. The budget reflects an incremental increase in vehicles and policy holders insured over calendar 2000. In recent years the number of policy holders had been declining, resulting in a corresponding reduction in the MAIF budget. Much of the increase in operating expenses is already reflected in actual expenditures for calendar 2000 over the original calendar 2000 projections. At this time last year, the projected budget for calendar 2000 was \$27.4 million with 315 employees, while MAIF ended calendar 2000 with expenditures of \$29.9 million and 348 employees. It should also be noted that the budget reflects 27 payroll payment periods vs. the normal 26 payment payroll periods in calendar 2000. MAIF does not accrue salary expenses, but operates on a cash basis.

Compensation Package

MAIF included a 4% general salary increase effective November 15, 2000, consistent with that authorized last year for other State employees. The Governor's proposed 4% general salary increase, effective January 1, 2002, would impact the MAIF calendar 2002 budget. MAIF also included just under 1% for merit increases and 2.16% for increments and promotions. Under contractual expenses, MAIF has included \$580,000 for employee incentive awards compared to \$709,913 actually awarded in calendar 2000. Bonuses are one-time and are not added to the employee salary base.

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Exhibit 1

**Governor's Proposed Budget
Maryland Automobile Insurance Fund
(\$ in Thousands)**

How Much It Grows:	Nonbudgeted <u>Fund</u>	<u>Total</u>
2000 Actual	\$29,869	\$29,869
2001 Estimate	<u>31,412</u>	<u>31,412</u>
Amount Change	\$1,543	\$1,543
Percent Change	5.2%	5.2%
Where It Goes:		
Personnel Expenses		
New positions, CY 2000		\$165
New positions, CY 2001		346
Abolished positions, CY 2000		(404)
Abolished positions, CY 2001		(38)
General salary increase 4% effective November 15, 2000		530
Merit increases 0.97% of CY 2000 salary base		316
Increments, promotions, and reclassifications 2.19% of CY 2000 salary base		140
27th payroll		607
Additional assistance, CY 2000		(244)
Health and retirement rate changes		(36)
Sick leave incentive program		72
Workers' compensation assessment		(150)
Other payroll items		(36)
Employee incentive awards CY 2000 spent \$709,913; budget \$580,000 CY 2001 ..		(130)
Total Personnel Expenses		\$1,268
Other Expenses		
Insurance premium tax CY 2000, \$1,733,419; CY 2001, \$1,828,000		95
Replacement vehicles		148
Computer software and hardware maintenance contracts		(75)
Postage and telecommunication charges		166
Other operating expenses		71
Total		\$1,543

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

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Abolished/Additional Positions

Under the "abolished positions" there were approximately 10 or 11 positions that were vacated by employees and not refilled (mostly through the first half of 2000). Some of the employees retired, some went to other agencies, and some went into the private market. MAIF did not refill these positions as the people left, since policy counts had only begun to increase in the first half of the year. The position listed to be abolished in CY 2001 was an anticipated retirement. In October 2000, MAIF hired five claims adjusters. In 2001 MAIF has budgeted to create 12 positions: 7 are claims adjusters, 3 are underwriters, and 2 are attorneys.

Insured Division

This time last year, MAIF projected an operating net gain of \$20.5 million in 1999. MAIF ended 1999 with a gain of \$19.1 million. Both earned income and expenses were more than projected for 1999. MAIF currently expects to close 2000 with a net gain of \$5.2 million, which is below the \$9.7 million estimate this time last year. A gain of \$3.5 million is projected for 2001 as indicated in **Exhibit 2**. The assessment threshold, defined as 25% of the average direct written premiums for the previous three years, was \$31.0 million in 1999, a projected \$25.6 million in 2000, and a projected \$22.3 million in 2001. The surplus continues to be well above the assessment threshold. It should be noted that the "Change to Non-Admitted" noted in Exhibit 2 increases the surplus in 1999 and decreases the surplus in 2000 for a net reduction in the surplus of \$4.7 million. This entry is an insurance industry adjustment to mark up or mark down, but not sold, stock investments held in MAIF's investment portfolio to reflect market conditions. In calendar 1999 there were substantial unrealized capital gains, and in calendar 2000 there were substantial paper losses in MAIF's investment portfolio. The overall financial picture of MAIF insured operations remains sound notwithstanding that claims expenses are expected to increase significantly to reflect increases in vehicles and persons insured.

Exhibit 2

**Statement of Operations
Maryland Automobile Insurance Fund
Insured Division
Calendar Years**

	Actual 1999	Actual as of 11/30/2000*	Estimated 2001**
Earned Premium	\$103,499,843	\$80,416,273	\$88,000,000
Invest. Income	18,147,668	17,609,434	19,500,000
Income	\$121,647,511	\$98,025,707	\$107,500,000
Claim Incurred	\$64,031,531	\$58,473,872	\$67,500,000
Claim Expenses Incurred	17,560,432	14,992,617	18,000,000
Other Expenses	20,921,943	19,331,128	18,500,000
Expenditures	\$102,513,906	\$92,797,617	\$104,000,000
Net Gain (Loss)	\$19,133,605	\$5,228,090	\$3,500,000
Beginning Surplus	\$129,978,744	\$157,792,870	\$149,627,176
Net Income	19,133,605	5,228,090	3,500,000
Change to Non-Admitted	8,680,521	(13,393,784)	0
Ending Surplus	\$157,792,870	\$149,627,176	\$153,127,176
Assessment Threshold	\$31,056,571	\$25,624,586	\$22,300,000

*MAIF is on a calendar year basis for its financial statements in accordance with State regulations for Insurance Companies. December results are not yet available, so 2000 financial results are shown as of November 30, 2000. Year-end adjustments and Reserve changes may significantly change the results. All 2000 numbers are subject to adjustment.

**Estimated 2001 Statutory Results as shown above include \$6.0 million anticipated capital gains resulting from the sale of invested assets.

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

Source: Maryland Automobile Insurance Fund

Uninsured Division

This time last year MAIF projected an operating net gain of \$3.7 million in 1999 for the uninsured motorist division, but the actual gain was \$3.1 million. In 2000 the projected gain was \$2.6 million but the anticipated gain is now projected to be \$3.1 million while the projected gain is \$2 million in 2001 as indicated in **Exhibit 3**. The operating budget for the Uninsured Division includes expenses that were formerly reported under the Insured Division. This accounts for much of the \$1 million increase in administrative expenses noted in Exhibit 3 for 2001.

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Exhibit 3

Statement of Operations
Maryland Automobile Insurance Fund
Uninsured Division
Calendar Years

	Actual 1999	Actual as of 11/30/2000*	Estimated 2001**
Motor Vehicle Administration Fines	\$3,398,429	\$3,212,000	\$3,500,000
Collections	1,324,336	1,137,918	1,300,000
Investment Income	1,541,523	1,583,658	2,000,000
Income	\$6,264,288	\$5,933,576	\$6,800,000
Claims Incurred	\$1,474,215	\$1,243,391	\$2,000,000
Claims Expenses Incurred	443,402	580,981	700,000
Collection Expenses	387,862	313,824	400,000
Administrative Expenses	893,074	734,436	1,700,000
Expenditures	\$3,198,553	\$2,872,632	\$4,800,000
Net Gain	\$3,065,735	\$3,060,944	\$2,000,000
Beginning Surplus	\$18,973,054	\$21,251,177	\$24,615,291
Net Income	3,065,735	3,060,944	2,000,000
Unrealized Gain (Losses)	(787,612)	303,170	0
Ending Surplus	\$21,251,177	\$24,615,291	\$26,615,291

*MAIF is on a calendar year basis for its financial statements in accordance with State regulations for Insurance Companies. December results are not yet available, so 2000 financial results are shown as of November 30, 2000. Year-end adjustments and Reserve changes may significantly change the results. All 2000 numbers are subject to adjustment.

**Estimated 2001 Statutory Results as shown above do not include any anticipated capital gains resulting from the sale of invested assets.

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

Source: Maryland Automobile Insurance Fund

Performance Analysis: Managing for Results

Much of MAIF operations are market driven and beyond MAIF's direct control. In good times MAIF's insured policy holder base declines as insurance companies offer coverage to the better risks in MAIF's traditional pool of high insurance risks. In bad times, when investment income declines, standard

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auto insurance companies are more likely to drop higher risk motorists. Still MAIF has been successful in limiting losses in the residual market it serves. As one measure of performance, no subsidy has been required for MAIF insured operations in ten years. As noted in the Governor's Proposed Budget section, MAIF has seen a reversal in the declining policy holder base. As noted in **Exhibit 4**, there was a substantial increase in policies in calendar 2000 over prior years, together with a decrease in claims and reported accidents. Notwithstanding the recent overall increase in MAIF policy holders, motorists who have traditionally had the highest premiums (Baltimore City and Baltimore County inside the beltway), continue to show a decline in the MAIF policy pool both in real numbers and as a percentage of the MAIF pool as indicated in **Exhibit 5**. This is evidence that more motorists are able to obtain standard insurance coverage in the higher risk areas of the State.

Exhibit 4

**Program Measurement Data
Maryland Automobile Insurance Fund
Calendar Years**

	<u>Actual 1998</u>	<u>Actual 1999</u>	<u>Est. 2000</u>	<u>Actual 2000</u>	<u>Est. 2001</u>	<u>Ann. Chg. 98-00</u>	<u>Ann. Chg. 00-01</u>
Gross Written Policies	122,698	88,617	87,800	97,260	100,995	-11.0%	3.7%
Net Written Policies	58,102	43,216	43,900	46,178	50,500	-10.9%	8.6%
Reported Claims	72,471	53,753	46,544	52,002	59,895	-15.3%	13.2%
Reported Accidents	36,894	27,327	24,500	27,024	29,600	-14.4%	8.7%
Paid Claims	48,499	39,128	34,800	32,571	40,000	-18.1%	18.6%
Claims Outstanding	11,832	8,556	7,000	8,597	9,750	-14.8%	11.8%

Source: Maryland Automobile Insurance Fund

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Exhibit 5

**Active Policies -- Active Vehicle Analysis
Maryland Automobile Insurance Fund**

Calendar Years

<u>Territory</u>	<u>1997</u>	<u>Dist %</u>	<u>1998</u>	<u>Dist %</u>	<u>1999</u>	<u>Dist %</u>	<u>2000</u>	<u>Dist%</u>
Baltimore City	11,511	11.2%	8,775	11.1%	6,428	11.1%	6,617	10.8%
Inner Baltimore County	8,375	8.1%	5,734	7.3%	3,221	5.6%	2,960	4.8%
Outer Montgomery	4,088	4.0%	3,118	4.0%	2,395	4.1%	2,540	4.2%
Outer Prince George's County	8,414	8.2%	6,430	8.2%	4,535	7.8%	4,356	7.1%
Outer Baltimore County	2,462	2.4%	1,721	2.2%	1,099	1.9%	1,672	2.7%
Inner Montgomery County	6,292	6.1%	4,305	5.5%	2,993	5.2%	2,851	4.7%
Inner Prince George's County	21,651	21.0%	16,712	21.2%	13,373	23.1%	14,240	23.3%
Eastern Shore	3,681	3.6%	3,086	3.9%	2,449	4.2%	2,642	4.3%
Rest of State	36,485	35.4%	28,951	36.7%	21,473	37.0%	23,221	38.0%
Total Policies	102,959	100.0%	78,832	100.0%	57,966	100.0%	61,099	100.0%

Source: Maryland Automobile Insurance Fund

MAIF has two goals that are performance oriented and measurable in its Managing for Results (MFR) submission. One goal is to reduce MAIF's internal costs with the use of technology. One aspect of the technology plan is to expand the use of Internet to electronically conduct business with MAIF's business partners and provide information to the insurance buying public. Individuals unable to obtain coverage can obtain a list of insurance agents that write MAIF insurance policies in their area by zip code. MAIF producers (agents) can now submit electronically all the documents necessary to write coverage, process claims, and obtain the driver records of chargeable accidents using the MAIF Maryland Insurance Producer System (MIPS). MAIF producers can also submit the FR19 insurance certification form to the Motor Vehicle Administration electronically using MIPS. There were 428 producers using MIPS on December 31, 1999. One year later that number increased to 930.

MAIF also has an incentive program and productivity goal for three categories of employees as indicated in **Exhibit 6**. The "underwriting" and "other" employee goals are stated in numbers of policies processed. The "claims" employee goal is in numbers of claims processed.

Exhibit 6

MAIF Employee Performance Goals

<u>Employee Group</u>	<u>Employee Goal</u>	<u>CY 1999 Actual</u>	<u>12/31/00 Status</u>
Claims	398	364	382
Underwriting	1,649	1,506	2,133
Other	847	577	661

Source: Maryland Automobile Insurance Fund

Recommended Actions

1. Nonbudgeted.

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

Positions	Object/Fund	CY 2000	CY 2001	CY00 - CY01	Percent
		Actual	Budget	Amount Change	Change
01	Regular	348.00	359.00	11.00	3.16%
02	Contractual	2.50	2.00	(0.50)	(0.20)
	Total Positions	350.50	361.00	10.50	3.00%
	Objects				
01	Salaries and Wages	\$ 19,843,586	\$ 21,111,132	1,267,546	6.39%
02	Technical & Spec Fees	5,312,964	5,479,195	166,231	3.13%
03	Communication	914,813	966,870	52,057	5.69%
04	Travel	85,116	109,886	24,770	29.10%
06	Fuel & Utilities	244,457	308,639	64,182	26.25%
07	Motor Vehicles	101,336	269,646	168,310	166.09%
08	Contractual Services	1,881,096	1,778,762	(102,334)	-5.44%
09	Supplies & Materials	484,781	553,583	68,802	14.19%
10	Equip - Replacement	119,795	110,483	(9,312)	-7.77%
11	Equip - Additional	446,626	328,875	(117,751)	-26.36%
13	Fixed Charges	434,326	395,405	(38,921)	-8.96%
	Total Objects	\$29,868,896	\$31,412,476	\$1,543,580	5.17%
	Funds				
07	Non-budgeted Fund	\$ 29,868,896	\$ 31,412,476	1,543,580	5.17%
	Total Funds	\$29,868,896	\$31,412,476	\$1,543,580	5.17%

Note: Full-time and contractual positions and salaries are reflected for operating budget programs only.

Fiscal Summary
Maryland Automobile Insurance Fund

<u>Unit/Program</u>	CY2000 <u>Actual</u>	CY2001 <u>Budget</u>	CY00 - CY01 <u>% Change</u>
42 Insured Division	\$ 28,506,573	\$ 29,519,042	3.6%
47 Uninsured Division	1,362,323	1,893,434	39.0%
Total Expenditures	\$ 29,868,896	\$ 31,412,476	5.2%
Non-budgeted Fund	\$ 29,868,896	\$ 31,412,476	5.2%
Total Appropriations	\$ 29,868,896	\$ 31,412,476	5.2%