

**D80Z01**  
**Maryland Insurance Administration**

***Operating Budget Data***

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	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$17,604	\$17,681	\$19,928	\$2,324	\$21,032	\$1,104
Contractual Services	4,112	5,181	81,427	77,315	63,409	-18,018
Grants	422	361	549	127	489	-60
Contingent & Back of Bill Reductions	0	0	0	0	-113	-113
<b>Adjusted Grand Total</b>	<b>\$22,138</b>	<b>\$23,223</b>	<b>\$101,904</b>	<b>\$79,766</b>	<b>\$84,818</b>	<b>-\$17,086</b>
Special Funds	22,138	22,572	101,904	79,766	84,930	-16,974
Contingent & Back of Bill Reductions	0	0	0	0	-113	-113
<b>Adjusted Special Funds</b>	<b>\$22,138</b>	<b>\$22,572</b>	<b>\$101,904</b>	<b>\$79,766</b>	<b>\$84,818</b>	<b>-\$17,086</b>
Federal Funds	0	651	0	0	0	0
<b>Adjusted Grand Total</b>	<b>\$22,138</b>	<b>\$23,223</b>	<b>\$101,904</b>	<b>\$79,766</b>	<b>\$84,818</b>	<b>-\$17,086</b>
<b>Annual % Change</b>		<b>4.9%</b>	<b>338.8%</b>		<b>-16.8%</b>	

- The 2002 cost containment action contained a \$605,000 reduction in the Maryland Insurance Administration (MIA) special fund appropriation. This cut came against contractual services, travel, and equipment appropriations. Subsequent cost containment actions have not impacted MIA.
- The fiscal 2005 allowance decreases \$17.1 million from the fiscal 2004 adjusted working appropriation. The decrease is almost entirely devoted to a reduction in the Maryland Health Insurance Plan (MHIP) appropriation.

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

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## ***Personnel Data***

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	<b><u>FY 02</u></b>	<b><u>FY 03</u></b>	<b><u>FY 04</u></b>	<b><u>FY 02-04</u></b> <b><u>Change</u></b>	<b><u>FY 05</u></b>	<b><u>FY 04-05</u></b> <b><u>Change</u></b>
Regular Positions	273.0	280.0	294.0	21.0	294.0	0.0
Contractual FTEs	6.8	4.4	8.6	1.8	12.1	3.5
<b>Total Personnel</b>	<b>279.8</b>	<b>284.4</b>	<b>302.6</b>	<b>22.8</b>	<b>306.1</b>	<b>3.5</b>

### ***Vacancy Data: Regular Positions***

Turnover Expectancy	5.94	2.02%
Positions Vacant as of 12/31/03	15.00	5.10%

- Personnel numbers remain at 294 regular positions – while contractual positions increased by a net of 3.5. These new positions will be allocated in specific investigations which require specialized actuarial expertise on a contractual basis.

## ***Analysis in Brief***

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### **Issues**

***Maryland Health Insurance Plan Revenues Exceed Expenditures:*** MHIP, established in 2003 to provide health coverage for the State's medically uninsurable population, has expenditures of approximately \$38 million. Revenues collected from an assessment on hospitals will exceed \$55 million. **The Department of Legislative Services (DLS) recommends that MIA comment on the anticipated changes in enrollment and report back to the committees with statutory and regulatory changes that impact plan eligibility.**

***Mandel Commission Recommends Self-insurance Consolidation:*** In light of the bankruptcy of Bethlehem Steel, a self-insured company, the Commission on Structure and Efficiency in State Government recommended that the regulation of the self-insured companies as well as group self-insured entities be consolidated under one administrative umbrella. **DLS recommends that MIA and the Workers' Compensation Commission report back to the committees with a joint evaluation of the Mandel Commission recommendation. This report should provide a recommendation for or against the consolidation of the regulation of these entities.**

### **Recommended Actions**

	<b><u>Funds</u></b>
1. Reduce motor vehicle allowance.	\$ 11,150
2. Reduce travel expenditures.	44,500
3. Adopt committee narrative to request the Maryland Insurance Administration and the Workers' Compensation Commission to issue a joint recommendation on the consolidation of self-insurance.	
<b>Total Reductions</b>	<b>\$ 55,650</b>

### **Updates**

***Hurricane Isabel Response:*** In anticipation of, and in response to Hurricane Isabel, MIA took steps to prepare and advise homeowners regarding care for damaged property.

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## ***Operating Budget Analysis***

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### **Program Description**

The Maryland Insurance Administration (MIA) develops policies, procedures, and regulations as well as implements laws that affect Maryland's insurance industry. The agency performs actuarial valuations, rate and form reviews, financial audits, licensing examinations, market conduct examinations, and fraud investigations; resolves consumer complaints; and issues producer licenses (formerly agents and brokers) and company licenses. The Maryland insurance law, in conformity with national standards, no longer makes a distinction between agents and brokers, which are now known as producers. The MIA mission addresses the need for:

- ensuring that the terms and conditions of insurance contracts are reasonable and meet the requirements of Maryland law;
- adjudicating consumer complaints in accordance with insurance law and in a prompt and fair manner;
- protecting the public from unfair trade practices and other violations of the Insurance Code; and
- enforcing solvency standards to ensure that insurers have the financial ability to pay claims when due.

### **Performance Analysis: Managing for Results**

Performance measures used to evaluate MIA indicate that the department is doing a good job of turning over filings and complaints at an acceptable rate. **Exhibit 1** shows that insurance form filings continue to be reviewed within the statutorily-allowed period. Complaints involving both medically necessary and non-medically necessary procedures are resolved within the statutorily allowed timeframe. MIA also tracks the satisfaction rate of complainants – which remains again at 77%.

The property and casualty division insurance evaluates complaints levied against these insurers, and attempts to resolve 60% of complaints within 90 days. The number of complaints received has increased from 9,390 in 2001 to 14,490 in 2003. MIA has not experienced an increase in staffing to keep pace with the volume of complaints. Thus, the performance in this area has fallen from 75% in 2001 to 51% in 2003. MIA projects that it will return to 75% of complaints resolved in 2004. **MIA should comment on whether the projected improvement is justified, without any increased staffing.**

In order to protect the public from unfair trade practices, the administration instigates market conduct investigations. The administration measures its ability to close 75% of investigations relative to those initiated. The numbers show that these measures are being achieved.

**Exhibit 1  
Program Measurement Data  
Maryland Insurance Administration  
Fiscal 2001 – 2005**

	<u>Actual 2001</u>	<u>Actual 2002</u>	<u>Actual 2003</u>	<u>Est. 2004</u>	<u>Est. 2005</u>	<u>Ann. Chg. 01-03</u>	<u>Ann. Chg. 03-05</u>
% of life and health form filings processed within 60 days	96%	99%	99%	100%	100%	1.6%	0.5%
% of property and casualty form filings processed within 30 days	100%	100%	100%	100%	100%	0.0%	0.0%
Resolve medically-necessary complaints within statutory timeframe	97%	98%	97%	98%	98%	0.0%	0.5%
Resolve non-medically necessary complaints within 60 days	n/a	94%	95%	92%	92%	n/a	-1.6%
Resolve 60% of property and casualty complaints within 90 days	75%	70%	51%	75%	60%	-17.5%	8.5%
70% of complainants satisfied with MIA response	n/a	77%	77%	77%	77%	n/a	0.0%
Complete 75% of life and health market conduct examinations	n/a	95%	95%	n/a	n/a	n/a	n/a
Complete 75% of property and casualty market conduct examinations	n/a	71%	100%	75%	75%	n/a	-13.4%
Complete 90% of financial examinations within statutory timeframe	n/a	91%	95%	90%	94%	n/a	-0.5%
% of financial examinations requiring commissioner to apply for court-ordered liquidation	n/a	0%	0%	n/a	n/a	n/a	n/a

Source: Maryland Insurance Administration

Finally, MIA conducts financial examinations of insurance companies to ensure that the companies have the financial ability to pay claims. Of these exams, over 90% are completed within the statutory timeframe, and no exams have prompted the commissioner to seek a court-ordered liquidation of any company.

## Governor's Proposed Budget

As shown in **Exhibit 2**, the fiscal 2005 allowance reflects a decrease of \$17.1 million. Of this \$17.1 million, \$15.6 million was a reduction in the Maryland Health Insurance Program (MHIP). MHIP revenues are generated by insurance premiums, and an assessment levied on hospitals in the State. The Governor's allowance reflects the fact that the expenditures of MHIP did not meet the level of the assessment collected.

**Exhibit 2**  
**Governor's Proposed Budget**  
**Maryland Insurance Administration**  
(\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
Special Funds	\$22,572	\$101,904	\$84,930	-\$16,973	-16.7%
Contingent & Back of Bill Reductions	0	0	-113	-113	
<b>Adjusted Special Funds</b>	<b>\$22,572</b>	<b>\$101,904</b>	<b>\$84,818</b>	<b>-\$17,086</b>	<b>-16.8%</b>
Federal Funds	651	0	0	0	0.0%
<b>Adjusted Grand Total</b>	<b>\$23,223</b>	<b>\$101,904</b>	<b>\$84,818</b>	<b>-\$17,086</b>	<b>-16.8%</b>

### Where It Goes:

#### Personnel Expenses

Annualized salary, position reclassifications, and other salary increases .....	\$313
Increments and other compensation.....	251
Turnover and cost containment adjustment.....	162
Employee and retiree health insurance .....	64
Unemployment and workers' compensation assessments .....	41
Retirement .....	15
Other personnel costs .....	14

#### Other Changes

Management studies.....	202
Contractual positions for specialized investigations.....	180
Web software upgrade.....	75
New web servers .....	59
New information technology (IT) training .....	51

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**Where It Goes:**

Modular furniture upgrade complete .....	-23
Decrease in the Office of Administrative Hearings' usage .....	-41
Decrease in the Office of the Attorney General's invoice .....	-60
Rent increase in 2004 .....	-97
Fiscal 2004 software purchase.....	-152
Fiscal 2004 IT equipment purchase .....	-186
Completion of information technology improvements.....	-1,980
Decrease in MHIP expenditures .....	-16,142
Other operating changes.....	168
<b>Total</b>	<b>-\$17,086</b>

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

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Other changes in the MIA operating budget account for a decrease of \$1.5 million. These changes are attributed predominately to the completion of major information technology initiatives in fiscal 2004. A net 3.5 contractual positions were created for fiscal 2005, totaling an increase of \$180,000. These positions are to bring aboard specialized auditors and examiners for specific investigations. Adjusting for the decrease in MHIP expenditures and the completion of information technology improvements, the underlying growth in the fiscal 2005 budget is \$1.04 million, or 1.02%.

**Impact of Cost Containment**

The fiscal 2005 allowance reflects the elimination of \$112,896, the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation.

## ***Issues***

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### **1. Maryland Health Insurance Plan Revenues Exceed Expenditures**

The Maryland Health Insurance Plan (MHIP) was established to provide insurance coverage to Maryland's medically uninsurable population. Specifically, the plan is available to:

- ***Medically Uninsurable:***
  - for those with conditions so severe that a private insurance carrier will not sell coverage;
  - those offered limited or restricted coverage or exclusions for a specific condition;
  - those offered coverage with a premium that exceeds that of MHIP; and
  - those who have 1 of 41 specified conditions.
- ***Health Insurance Portability Affordability and Accountability Act<sup>1</sup> (HIPAA) Eligible;***
- ***Trade Adjustment Assistance Act Coverage:***
  - those ages 55 to 64 and currently receiving pension payments from the Pension Benefit Guaranty Corporation (Bethlehem Steel retirees).
- ***Transfers from Another State's High-Risk Pool.***

MHIP provides eligible individuals with the ability to purchase premiums at no more than 150% of current market prices (\$164 to \$563 per month currently). MHIP offers two types of plans (Preferred Provider Organization and Exclusive Provider Organization) and participants can change every May in an open enrollment period.

The plan is supported by an assessment on hospitals. This assessment is an equation determined by an underlying rate (established by the Health Services Cost Review Commission) multiplied by the total patient days utilized.

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<sup>1</sup> This requires those persons with 18 months of creditable coverage, of which the most recent was employer group coverage, to be offered health coverage under HIPAA. This provides for workers who have lost their jobs, or whose employers have dropped their group health coverage. HIPAA provides that this guaranteed issue of coverage is only open for 63 days. MHIP is the only HIPAA-eligible provider in Maryland, after the enactment of HB 1100 (Chapter 2, Acts of 2003).

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The revenue collected from the assessment is projected at \$55 million. At the same time, the plan will underspend this assessment by \$16.6 million. This is a result of a combination of factors. The plan was established to meet the needs of the former Substantial Available Affordable Coverage plan participants. The plan was amended in April 2003 to include those eligible for Trade Adjustment Assistance (including employees of Bethlehem Steel and Black & Decker) by the Health Insurance Coverage Availability Act of 2003, Chapter 2, Acts of 2003. MHIP had a statutory start date of July 1, 2003, which left little time to transition to the new program. As a result, marketing which promoted enrollment in the plan was limited. Additionally, of the approximately 5,000 former employees of Bethlehem Steel, some sought private coverage and, therefore, did not take advantage of the offer to join MHIP.

MHIP has indicated that the Board of Directors has taken action within the last year to change some eligibility standards, as well as increased the marketing efforts. **DLS recommends that MIA comment on the anticipated changes in enrollment and any statutory and regulatory changes that impact plan eligibility. MIA should also comment on whether the HSCRC assessment, or premium rates, should be adjusted to reflect any revised enrollment figures and projections.**

## **2. Mandel Commission Recommends Self-insurance Consolidation**

The bankruptcy of Bethlehem Steel highlighted the fact that insufficient regulatory oversight of self-insured companies can lead to disastrous results. Bethlehem Steel was under the regulatory umbrella of the Workers' Compensation Commission's (WCC) self-insurance administration. The failure of Bethlehem Steel (albeit a unique product of negotiated agreements and insufficient securitization over claims) has forced the commission to add safeguards to the administration of self-insured companies. It is important to note that while group self-insured companies fall under MIA's watch, single self-insured companies are regulated by WCC.

The Mandel Commission has recommended that the self-insured regulation and group self-insurance regulation, be consolidated under a single umbrella. **DLS recommends that committee narrative be adopted which requires WCC and MIA to jointly issue a recommendation to evaluate the possible consolidation of the self-insured entities and group self-insured entities inside either WCC or MIA.**

## ***Recommended Actions***

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- |  | <b><u>Amount<br/>Reduction</u></b> |
|--|------------------------------------|
| 1. Reduce motor vehicle allowance. The existing vehicle should be repaired, rather than a new vehicle being purchased. | \$ 11,150 SF                       |
| 2. Reduce travel expenditures. The travel allowance should be level-funded with fiscal 2004 levels.                    | 44,500 SF                          |
| 3. Adopt the following narrative:  |                                    |

**Possible Consolidation of Self-insurance and Group Self-insurance:** The Mandel Commission recognized that the regulation of self-insured companies and group self-insured companies was a similar function. The committees are concerned that the separation of these two functions could result in not only inefficiencies but inconsistent levels of oversight. **The Workers' Compensation Commission and the Maryland Insurance Administration should provide a joint evaluation and recommendation to the Committees regarding the consolidation of the regulation of self-insured and group self-insured companies. This report should detail the advantages of consolidation, and if recommended, where the resulting function should be housed. This report should be submitted by December 1, 2004.**

<b>Information Request</b>	<b>Authors</b>	<b>Due Date</b>
Evaluation and recommendation for potential consolidation of self-insured and group self-insured company regulations	Workers' Compensation Commission and Maryland Insurance Administration	December 1, 2004
<b>Total Special Fund Reductions</b>		<b>\$ 55,650</b>

## ***Updates***

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### **1. Hurricane Isabel Response**

MIA has received considerable publicity in recent months, stemming from the aftermath of Hurricane Isabel. MIA had taken steps to inform citizens about how to prepare for the storm, as well as steps to take if storm damage was incurred. Starting September 16, 2003, the MIA website included a Hurricane Isabel page to prepare people for the storm. After the storm hit, the agency deployed more than 50 employees to the 15 Disaster Recovery Centers around the State.

Additionally, the agency attended training from the National Flood Insurance Program (NFIP) for aiding citizens in filing claims under their federal flood policies. The agency also attended Federal Emergency Management Agency (FEMA) briefings. The agency issued press releases and made phone calls to citizens to make people aware of filing deadlines under FEMA, the Small Business Administration, and NFIP. The press releases also explained the Maryland homeowner's insurance weather-related claims law.

Finally, MIA did incur unexpected expenses by placing employees at disaster recovery centers, as well as extra printing and supplies to fund the activities related to informing and assisting victims of the hurricane. Compensatory time was earned at the equivalent of \$77,147 in wages, in addition to the nearly \$35,000 in meals, travel, and supplies.

## *Current and Prior Year Budgets*

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
<b>Fiscal 2003</b>					
Legislative Appropriation	\$0	\$21,262	\$0	\$0	\$21,262
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	1,680	690	0	2,370
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	-369	-39	0	-408
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$22,573</b>	<b>\$651</b>	<b>\$0</b>	<b>\$23,224</b>
<b>Fiscal 2004</b>					
Legislative Appropriation	\$0	\$22,483	\$0	\$0	\$22,483
Cost Containment	0	0	0	0	0
Budget Amendments	0	79,421	0	0	79,421
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$101,904</b>	<b>\$0</b>	<b>\$0</b>	<b>\$101,904</b>

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

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## **Fiscal 2003**

Budget amendments for MIA amounted to \$1.68 million in special funds and \$689,655 in federal funds. Of the special fund amendments, \$804,337 is an amendment for the Case Tracking System – Premium Tax Audit Application. This application allows MIA to track orders issued by the commissioner to be levied against insurance carriers that fall under the MIA regulatory umbrella. \$471,728 is accounted for by a shift of funds from the Maryland Health Care Trust Fund to MHIP, per House Bill 1228 (Chapter 153, Acts of 2002). \$403,588 is provided to complete the on-line licensing renewal system for State insurance producers. Federal fund amendment funds are all contained in a single \$689,000 amendment to contractually fund an actuarial analysis and start-up expenses of MHIP.

## **Fiscal 2004**

Budget amendments for MIA amounted to \$79.5 million in a single amendment. All but \$1.1 million is to fund MHIP. This goes toward payments to providers for the high-risk pool and the Senior Prescription Drug Program. The remaining \$1.1 million of the amendment provides additional funds for ongoing IT initiatives at MIA.

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

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	280.00	294.00	294.00	0	0%
02 Contractual	4.40	8.60	12.10	3.50	40.7%
<b>Total Positions</b>	<b>284.40</b>	<b>302.60</b>	<b>306.10</b>	<b>3.50</b>	<b>1.2%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 15,705,106	\$ 16,923,236	\$ 17,895,754	\$ 972,518	5.7%
02 Technical & Spec Fees	320,767	564,362	752,796	188,434	33.4%
03 Communication	280,372	296,944	299,805	2,861	1.0%
04 Travel	363,426	474,100	526,100	52,000	11.0%
07 Motor Vehicles	64,064	60,377	71,828	11,451	19.0%
08 Contractual Services	5,180,821	81,426,903	63,409,360	-18,017,543	-22.1%
09 Supplies & Materials	154,427	160,250	255,211	94,961	59.3%
10 Equip - Replacement	11,102	469,525	260,561	-208,964	-44.5%
11 Equip - Additional	40,097	0	80,516	80,516	N/A
12 Grants, Subsidies, Contracts	361,227	549,360	489,360	-60,000	-10.9%
13 Fixed Charges	741,168	978,870	889,143	-89,727	-9.2%
<b>Total Objects</b>	<b>\$ 23,222,577</b>	<b>\$ 101,903,927</b>	<b>\$ 84,930,434</b>	<b>-\$ 16,973,493</b>	<b>-16.7%</b>
<b>Funds</b>					
03 Special Fund	\$ 22,572,058	\$ 101,903,927	\$ 84,930,434	-\$ 16,973,493	-16.7%
05 Federal Fund	650,519	0	0	0	0.0%
<b>Total Funds</b>	<b>\$ 23,222,577</b>	<b>\$ 101,903,927</b>	<b>\$ 84,930,434</b>	<b>-\$ 16,973,493</b>	<b>-16.7%</b>

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary  
Maryland Insurance Administration**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
01 Administration and Operations	\$ 19,246,761	\$ 21,102,404	\$ 22,362,564	16.2%	\$ 22,026,495	-1.5%
02 Examination and Auditing	3,150,964	1,131,601	1,000,000	-68.3%	0	-100.0%
01 Maryland Health Insurance Program	824,852	248,997	78,541,363	9421.9%	62,903,939	-19.9%
<b>Total Expenditures</b>	<b>\$ 23,222,577</b>	<b>\$ 22,483,002</b>	<b>\$ 101,903,927</b>	<b>338.8%</b>	<b>\$ 84,930,434</b>	<b>-16.7%</b>
Special Fund	\$ 22,572,058	\$ 22,483,002	\$ 101,903,927	351.5%	\$ 84,930,434	-16.7%
Federal Fund	650,519	0	0	-100.0%	0	0.0%
<b>Total Appropriations</b>	<b>\$ 23,222,577</b>	<b>\$ 22,483,002</b>	<b>\$ 101,903,927</b>	<b>338.8%</b>	<b>\$ 84,930,434</b>	<b>-16.7%</b>

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.