

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

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 10</u> <u>Actual</u>	<u>FY 11</u> <u>Working</u>	<u>FY 12</u> <u>Allowance</u>	<u>FY 11-12</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$26,425	\$27,372	\$28,073	\$701	2.6%
Contingent & Back of Bill Reductions	0	0	-214	-214	
<b>Adjusted Special Fund</b>	<b>\$26,425</b>	<b>\$27,372</b>	<b>\$27,859</b>	<b>\$487</b>	<b>1.8%</b>
Federal Fund	0	1,000	0	-1,000	-100.0%
<b>Adjusted Federal Fund</b>	<b>\$0</b>	<b>\$1,000</b>	<b>\$0</b>	<b>-\$1,000</b>	<b>-100.0%</b>
<b>Adjusted Grand Total</b>	<b>\$26,425</b>	<b>\$28,372</b>	<b>\$27,859</b>	<b>-\$513</b>	<b>-1.8%</b>

- The fiscal 2012 allowance for the Maryland Insurance Administration (MIA) decreases by \$513,000. A \$1 million federal grant that does not carry into fiscal 2012 is the largest single decrease.

***Personnel Data***

	<u>FY 10</u> <u>Actual</u>	<u>FY 11</u> <u>Working</u>	<u>FY 12</u> <u>Allowance</u>	<u>FY 11-12</u> <u>Change</u>
Regular Positions	282.00	277.00	277.00	0.00
Contractual FTEs	<u>13.80</u>	<u>15.00</u>	<u>14.65</u>	<u>-0.35</u>
<b>Total Personnel</b>	<b>295.80</b>	<b>292.00</b>	<b>291.65</b>	<b>-0.35</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	12.44	4.49%
Positions and Percentage Vacant as of 12/31/10	26.00	9.39%

- MIA had 5.0 positions abolished in fiscal 2011 as part of the effort to eliminate 500.0 positions statewide as required by Section 44 of the fiscal 2011 budget bill.
- Contractual positions decline by 0.35 in the fiscal 2012 allowance.

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

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## ***Analysis in Brief***

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### **Major Trends**

***Financial Examinations Completed Timely:*** MIA is responsible for ensuring the financial solvency of insurance companies by conducting routine financial examinations. MIA has improved on this measure since fiscal 2006 and 2007 when staffing shortages severely hampered efforts.

***Fraud Division Maintains Target Level of Case Closures:*** In fiscal 2009, MIA achieved its goal of closing 75% of fraud referrals within the target timeframe. MIA maintained this level in fiscal 2010.

### **Recommended Actions**

1. Concur with Governor's allowance.

### **Updates**

***Preliminary Sunset Evaluation Recommendation Is to Waive Full Evaluation:*** MIA underwent a preliminary sunset evaluation during the 2010 interim. The evaluation found that MIA was meeting its statutory mandate to ensure the financial viability of insurers and was adequately performing the functions of handling consumer complaints and combating fraud. Consequently, waiving the full sunset evaluation was recommended.

***Role of MIA in Federal Health Care Reform:*** Following the passage of major federal health care reform legislation in March 2010, attention has shifted to the states in terms of implementation. As the State's insurance regulator, MIA is responsible for overseeing and enforcing many of the insurance requirements under the Patient Protection and Affordable Care Act.

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**Maryland Insurance Administration**

***Operating Budget Analysis***

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**Program Description**

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

MIA's key goals are:

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

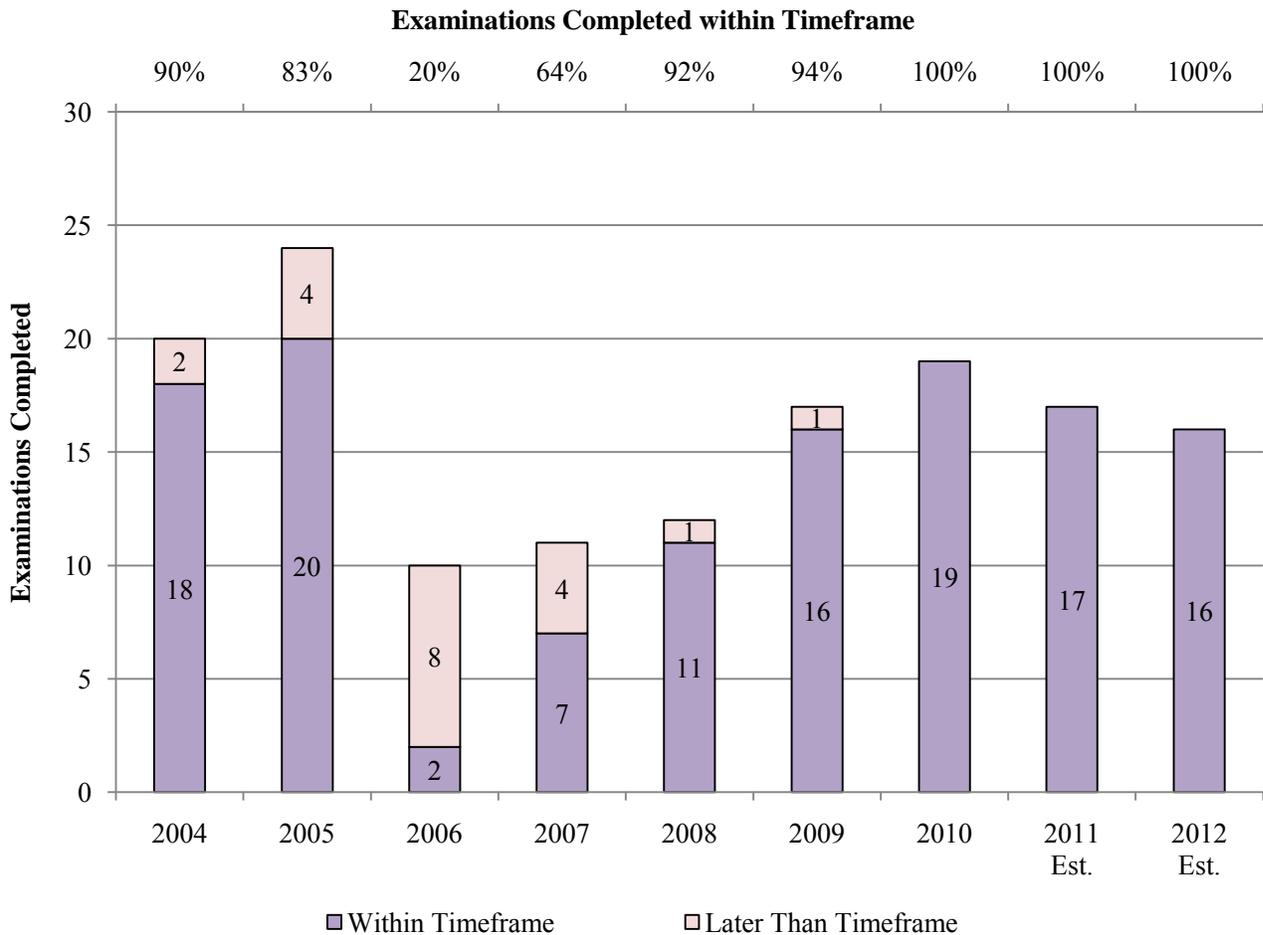
**Performance Analysis: Managing for Results**

**Financial Examinations Completed Timely**

MIA conducts financial examinations of domestic insurance companies, those formed under Maryland law. There are approximately 75 domestic companies in the State that MIA is required to examine every five years.

The administration has a goal of completing 90% of the financial examinations with no more than a 15% variance of budgeted time because timely completion of the examinations results in earlier detection of insurers exhibiting financial distress. **Exhibit 1** shows the number of financial examinations conducted each year and the number of examinations that were conducted within the statutory timeframe. The number of financial examinations conducted in fiscal 2006 through 2008 was low due to a shortage of supervisory staff, which was partially remedied by the use of outside contractors. The staff shortage also created a backlog that caused the number of financial examinations in fiscal 2010 to be higher. In fiscal 2010, all examinations were completed within the target timeframe.

**Exhibit 1  
Financial Examinations on Domestic Companies  
Relative to the Statutory Timeframe  
Fiscal 2004-2012**



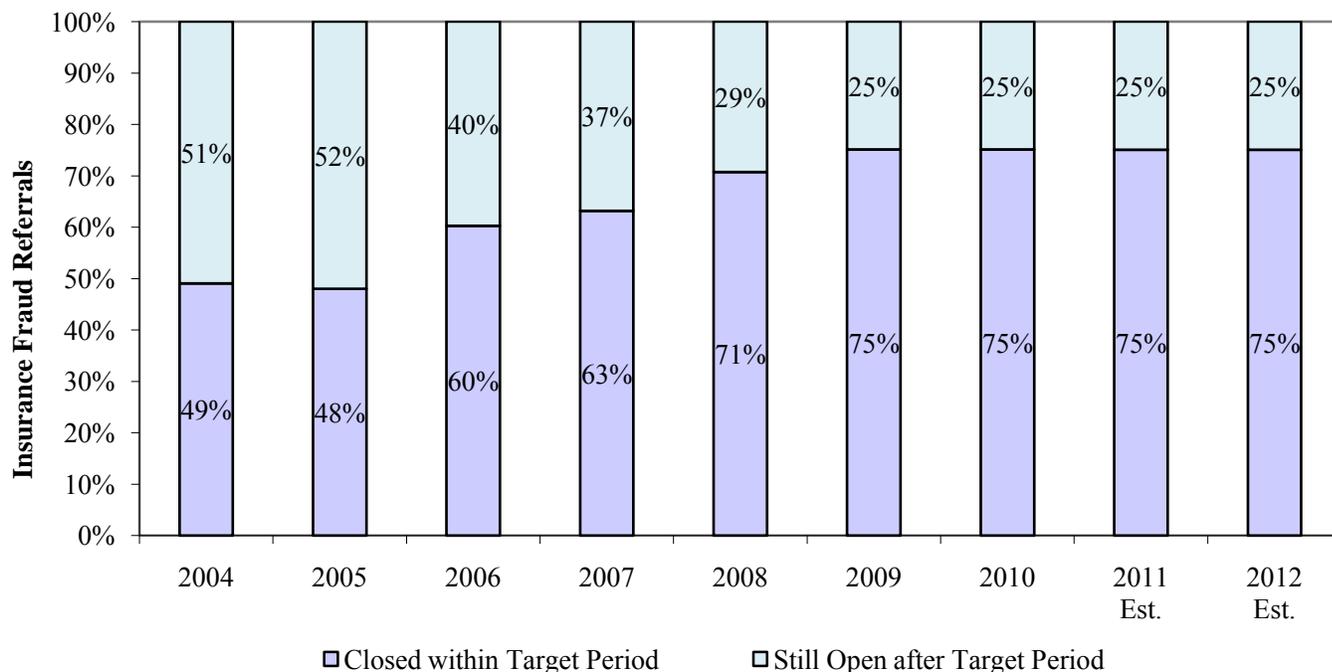
Source: Maryland Insurance Administration

## Fraud Division Maintains Target Level of Case Closures

Nearly all the Fraud Division’s workload involves “referrals” from insurance companies pursuant to their statutory obligation to report when they have a “good faith” belief that instances of insurance fraud have occurred. The administration has set a goal of closing 75% of referrals opened for investigation within 180 days. Prior to the fiscal 2011 Managing for Results submission, the target period was 120 days. The target period was increased to 180 days to reflect both a significant increase in the number of referrals that resulted from implementation of an electronic referral system, and the decision to include within that time period the time necessary to persuade a prosecutor to actually file criminal charges. Previously, the case was coded as closed when the investigator – who is not a law enforcement officer and does not have charging authority – decided it merited charging, regardless of the ultimate decision of the prosecutor. An investigation is considered closed when (1) the investigator, in consultation with his or her supervisor, determines that it would not yield a successful prosecution; (2) the matter is presented to a local State’s Attorney for prosecution; or (3) an application for a statement of charges has been prepared by the investigator.

**Exhibit 2** shows that in fiscal 2009, MIA achieved the stated goal of closing 75% of the referrals within the target timeframe and maintained that performance in fiscal 2010.

**Exhibit 2**  
**Percent of Insurance Fraud Referrals**  
**Closed within 180 Days**  
**Fiscal 2004-2012**



Source: Maryland Insurance Administration

## **Fiscal 2011 Actions**

### **Impact of Cost Containment**

Section 44 of the fiscal 2011 budget bill required the Governor to abolish 500 positions in the Executive Branch as of June 30, 2011. The positions and the funds associated with them have been removed from the fiscal 2011 working appropriation. MIA's share of the reduction was 5 full-time equivalent positions and \$123,895 in fiscal 2011, which represents an ongoing annualized savings of \$297,347 for employee salary and fringe benefit expenditures. The impact of the loss of these positions is expected to be minimal as MIA has internally reallocated resources to adjust for the reduction.

### **Proposed Budget**

As shown in **Exhibit 3**, MIA's budget decreases by \$513,000 from the current year working appropriation. Personnel expenses increase by \$556,000, driven mainly by furlough restorations and employee retirement expenses. This increase is more than offset by a net decrease of \$1.1 million, most of which results from a \$1.0 million federal grant for development of a more detailed rate review system not being carried into fiscal 2012.

### **Impact of Cost Containment**

The fiscal 2012 budget reflects several across-the-board actions. In fiscal 2012, MIA's share of the reduction is \$80,622 in special funds for changes in employee health insurance and a reduction contingent upon statutory changes of \$133,444 in special funds for retiree prescription drug benefits. MIA will have 9 positions abolished under the Voluntary Separation Program for a total savings of \$579,100.

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

<b>How Much It Grows:</b>	<b><u>Special</u> <u>Fund</u></b>	<b><u>Federal</u> <u>Fund</u></b>	<b><u>Total</u></b>
2011 Working Appropriation	\$27,372	\$1,000	\$28,372
2012 Allowance	<u>28,073</u>	<u>0</u>	<u>28,073</u>
Amount Change	\$701	-\$1,000	-\$299
Percent Change	2.6%	-100.0%	-1.1%
 Contingent Reductions	 -\$214	 \$0	 -\$214
Adjusted Change	\$487	-\$1,000	-\$513
Adjusted Percent Change	1.8%	-100.0%	-1.8%

**Where It Goes:**

**Personnel Expenses**

Restoration of furloughs .....	\$214
Employee retirement .....	201
Turnover adjustments .....	103
Employee and retiree health insurance (net of contingent and across-the-board reductions) ....	60
Accrued leave payout .....	8
Workers' compensation premium assessment.....	-31
Other fringe benefit adjustments .....	1

**Operations**

Administrative hearings.....	231
Legal services .....	42
Telephones/cell phones .....	35
Printing services (two- and three-year averages) .....	32
Postage (three-year average) .....	23
Recruitment advertising.....	20
Statewide Personnel System allocation .....	17
Office equipment.....	-11
Travel.....	-16
Management studies/consultants .....	-19

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**Where It Goes:**

Telecommunications contractual services .....	-22
Office supplies.....	-32
Contractual staff .....	-49
Computer replacements .....	-95
Rent .....	-212
Federal grant to develop rate review process and to develop a system for monitoring changes in the individual and group markets over time .....	-1,000
Other.....	-13
<b>Total</b>	<b>-\$513</b>

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

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## ***Recommended Actions***

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1. Concur with Governor's allowance.

## ***Updates***

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### **1. Preliminary Sunset Evaluation Recommendation Is to Waive Full Evaluation**

MIA is 1 of approximately 70 regulatory entities and activities currently subject to periodic evaluation under the Maryland Program Evaluation Act. The Act establishes a process better known as “sunset review” as most entities evaluated are also subject to termination. MIA, however, does not have a termination date in statute.

The sunset review process begins with a preliminary evaluation conducted by the Department of Legislative Services (DLS) on behalf of the Legislative Policy Committee (LPC). LPC decides whether to waive an entity from further (or full) evaluation. If waived, legislation to reauthorize the entity typically is enacted. Otherwise, a full evaluation usually is undertaken the following year.

MIA last underwent a full evaluation as part of a sunset review in 2001. Chapter 317 of 2002 extended the administration’s evaluation date under the Maryland Program Evaluation Act by 10 years to July 1, 2012, and required MIA to report to committees of the General Assembly regarding implementation of the recommendations contained in the evaluation report. MIA satisfied these reporting requirements and implemented many of DLS’ recommendations.

A preliminary sunset evaluation conducted by DLS in 2010 found the following:

- MIA is meeting its statutory mandate to ensure the financial viability of insurers.
- In regards to complaint handling, MIA achieves or is close to achieving its stated goals.
- MIA continues to combat insurance fraud, with well over 100 cases referred for prosecution each year for the past decade.
- MIA was accredited by the National Association of Insurance Commissioners in 1994 and has maintained accreditation since. Accreditation indicates that MIA has the policies and procedures in place, along with the resources, to ensure that Maryland’s oversight of the insurance industry is robust.

Consequently, DLS recommended in its preliminary evaluation that LPC waive MIA from full evaluation. Due to the changes expected in the insurance industry, as a result of federal health care reform, DLS recommended that the next preliminary sunset evaluation occur in 2016 – a 6-year period rather than the customary 10-year timeframe. This would result in a review 2 years after the health benefits exchange required by the federal Patient Protection and Affordable Care Act (ACA) begins operations. Legislation to extend the evaluation date has been introduced (SB 88/HB 124 of 2011).

## **2. Role of MIA in Federal Health Care Reform**

Following the passage of major federal health care reform legislation in March 2010, attention has shifted to the states in terms of implementation. The ACA is intended to expand health care coverage, control health care costs, and improve the health care delivery system. The new law has far-reaching implications for the states, as well as individuals. Major features of the law include:

- a mandate for individuals to have qualifying health coverage;
- an employer mandate to provide affordable health insurance;
- an expansion of Medicaid;
- a requirement for states to create health insurance exchanges;
- premium and cost-sharing subsidies for low-income individuals and families;
- small business tax credits;
- changes to private insurance to make it easier to obtain and to protect patients;
- a temporary high-risk pool;
- patient protections including coverage for children up to 26 years of age and a ban on lifetime limits and on pre-existing condition limitations; and
- beginning January 1, 2014, insurers must issue and renew all of their individual and small employer plans to anyone who wants them, regardless of pre-existing conditions.

While health care reform will impact the entire health care delivery system, the most immediate responsibilities for the State fall into the following areas: Medicaid, an insurance exchange, insurance regulation, federal high-risk pool, and the State Employee and Retiree Health and Welfare Benefits Program.

As the State's insurance regulator, MIA is responsible for overseeing and enforcing many of the insurance requirements under the ACA. While the individual and employer mandates will be enforced primarily by the federal government, MIA will ensure that insurers adhere to the new consumer protections in the federal law.

Chapter 17 of 2010 gave the MIA Commissioner broad authority to enforce the provisions of the federal reform law; however, the authority was only extended until July 1, 2011. Although provisions of the ACA apply under federal law regardless of whether MIA has the authority to enforce the provisions, legislation (SB 183/HB 170 of 2011) has been introduced to permanently allow the MIA Commissioner, rather than the federal government, to enforce the provisions.

## *Current and Prior Year Budgets*

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2010</b>					
Legislative Appropriation	\$0	\$27,448	\$0	\$0	27,448
Deficiency Appropriation	0	295	0	0	295
Budget Amendments	0	0	0	0	0
Cost Containment	0	-547	0	0	-547
Reversions and Cancellations	0	-771	0	0	-771
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$26,425</b>	<b>\$0</b>	<b>\$0</b>	<b>\$26,425</b>
<b>Fiscal 2011</b>					
Legislative Appropriation	\$0	\$27,372	\$0	\$0	\$27,372
Budget Amendments	0	0	1,000	0	1,000
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$27,372</b>	<b>\$1,000</b>	<b>\$0</b>	<b>\$28,372</b>

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

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## **Fiscal 2010**

The fiscal 2010 budget for MIA closed out \$1,023,501 lower than the legislative appropriation. A deficiency appropriation of \$294,596 to hire contractual positions to assist in title insurance fraud investigations was more than offset by cost containment reductions to recognize savings from employee furloughs (\$546,847) and cancellations totaling \$771,250. Just over half the cancellations result from delays in renting space for and setting up a disaster recovery site for the agency. The remaining cancellations result from general budgetary savings.

## **Fiscal 2011**

The fiscal 2011 working appropriation increased by \$1 million over the legislative appropriation, reflecting a federal grant added to MIA's budget via budget amendment. The purpose of the grant is to develop a more detailed rate review process for health insurance plans and to develop a system to monitor changes in the individual and group markets over time. These items are part of the implementation of the U.S. Health Affordability Act of 2010.

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

<u>Object/Fund</u>	<u>FY 10 Actual</u>	<u>FY 11 Working Appropriation</u>	<u>FY 12 Allowance</u>	<u>FY 11 - FY 12 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	282.00	277.00	277.00	0.00	0%
02 Contractual	13.80	15.00	14.65	-0.35	-2.3%
<b>Total Positions</b>	<b>295.80</b>	<b>292.00</b>	<b>291.65</b>	<b>-0.35</b>	<b>-0.1%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 20,272,470	\$ 20,955,012	\$ 21,724,706	\$ 769,694	3.7%
02 Technical and Spec. Fees	915,758	851,430	802,177	-49,253	-5.8%
03 Communication	380,579	366,445	424,887	58,442	15.9%
04 Travel	396,217	390,500	374,500	-16,000	-4.1%
07 Motor Vehicles	204,544	227,576	178,420	-49,156	-21.6%
08 Contractual Services	1,403,424	2,884,062	2,143,164	-740,898	-25.7%
09 Supplies and Materials	238,533	342,890	302,610	-40,280	-11.7%
10 Equipment – Replacement	64,998	94,958	1,200	-93,758	-98.7%
11 Equipment – Additional	490,468	6,586	1,600	-4,986	-75.7%
12 Grants, Subsidies, and Contributions	504,296	484,846	517,446	32,600	6.7%
13 Fixed Charges	1,553,556	1,767,272	1,602,028	-165,244	-9.4%
<b>Total Objects</b>	<b>\$ 26,424,843</b>	<b>\$ 28,371,577</b>	<b>\$ 28,072,738</b>	<b>-\$ 298,839</b>	<b>-1.1%</b>
<b>Funds</b>					
03 Special Fund	\$ 26,424,843	\$ 27,371,577	\$ 28,072,738	\$ 701,161	2.6%
05 Federal Fund	0	1,000,000	0	-1,000,000	-100.0%
<b>Total Funds</b>	<b>\$ 26,424,843</b>	<b>\$ 28,371,577</b>	<b>\$ 28,072,738</b>	<b>-\$ 298,839</b>	<b>-1.1%</b>

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.

**Fiscal Summary  
Maryland Insurance Administration**

<u>Program/Unit</u>	<u>FY 10 Actual</u>	<u>FY 11 Wrk Approp</u>	<u>FY 12 Allowance</u>	<u>Change</u>	<u>FY 11 - FY 12 % Change</u>
01 Administration and Operations	\$ 26,237,515	\$ 28,171,577	\$ 27,872,738	-\$ 298,839	-1.1%
05 Rate Stabilization Fund	187,328	200,000	200,000	0	0%
<b>Total Expenditures</b>	<b>\$ 26,424,843</b>	<b>\$ 28,371,577</b>	<b>\$ 28,072,738</b>	<b>-\$ 298,839</b>	<b>-1.1%</b>
Special Fund	\$ 26,424,843	\$ 27,371,577	\$ 28,072,738	\$ 701,161	2.6%
Federal Fund	0	1,000,000	0	-1,000,000	-100.0%
<b>Total Appropriations</b>	<b>\$ 26,424,843</b>	<b>\$ 28,371,577</b>	<b>\$ 28,072,738</b>	<b>-\$ 298,839</b>	<b>-1.1%</b>

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.