

D80Z01
Maryland Insurance Administration

Operating Budget Data

(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$25,277	\$27,547	\$27,403	-\$144	-0.5%
Adjusted Special Fund	\$25,277	\$27,547	\$27,403	-\$144	-0.5%
Federal Fund	383	1,952	1,317	-635	-32.5%
Adjusted Federal Fund	\$383	\$1,952	\$1,317	-\$635	-32.5%
Adjusted Grand Total	\$25,660	\$29,499	\$28,720	-\$779	-2.6%

- The fiscal 2013 allowance is \$779,000 less than the current year working appropriation representing a decrease of 2.6%. The majority of the decrease (\$635,000) represents the end of a Cycle I federal grant to improve the health insurance premium rate review process.

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

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Personnel Data

	<u>FY 11 Actual</u>	<u>FY 12 Working</u>	<u>FY 13 Allowance</u>	<u>FY 12-13 Change</u>
Regular Positions	277.00	266.00	266.00	0.00
Contractual FTEs	<u>13.65</u>	<u>20.65</u>	<u>17.60</u>	<u>-3.05</u>
Total Personnel	290.65	286.65	283.60	-3.05

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	13.27	4.99%
Positions and Percentage Vacant as of 12/31/11	16.00	6.02%

- The number of regular positions is unchanged in the allowance. Contractual full-time equivalents decrease by 3.05.
- Turnover in the allowance is budgeted at 4.99% which will require the Maryland Insurance Administration (MIA) to maintain the equivalent of 13.3 positions vacant for the entire fiscal year. As of December 31, 2011, MIA had 16.0 vacant positions for a vacancy rate of 6.02%.

Analysis in Brief

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 and exceeded it in fiscal 2011.

Issues

MIA Developing Improved Health Insurance Rate Review Process: MIA has received two federal grants to improve review of proposed health insurance premium rate increases in the individual and small group markets as required under the federal Affordable Care Act.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Report Issued on Identifying Hospital Rate Adjustments and Assessments as Components of Health Insurance Premium Rate Review: Language added to the fiscal 2012 budget for MIA restricted funding until MIA submitted a report on developing a mechanism for identifying hospital rate adjustments and assessments as components to be considered in MIA's process for reviewing and approving premium rates for health insurance policies.

D80Z01 – Maryland Insurance Administration

D80Z01
Maryland Insurance Administration

Operating Budget Analysis

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.

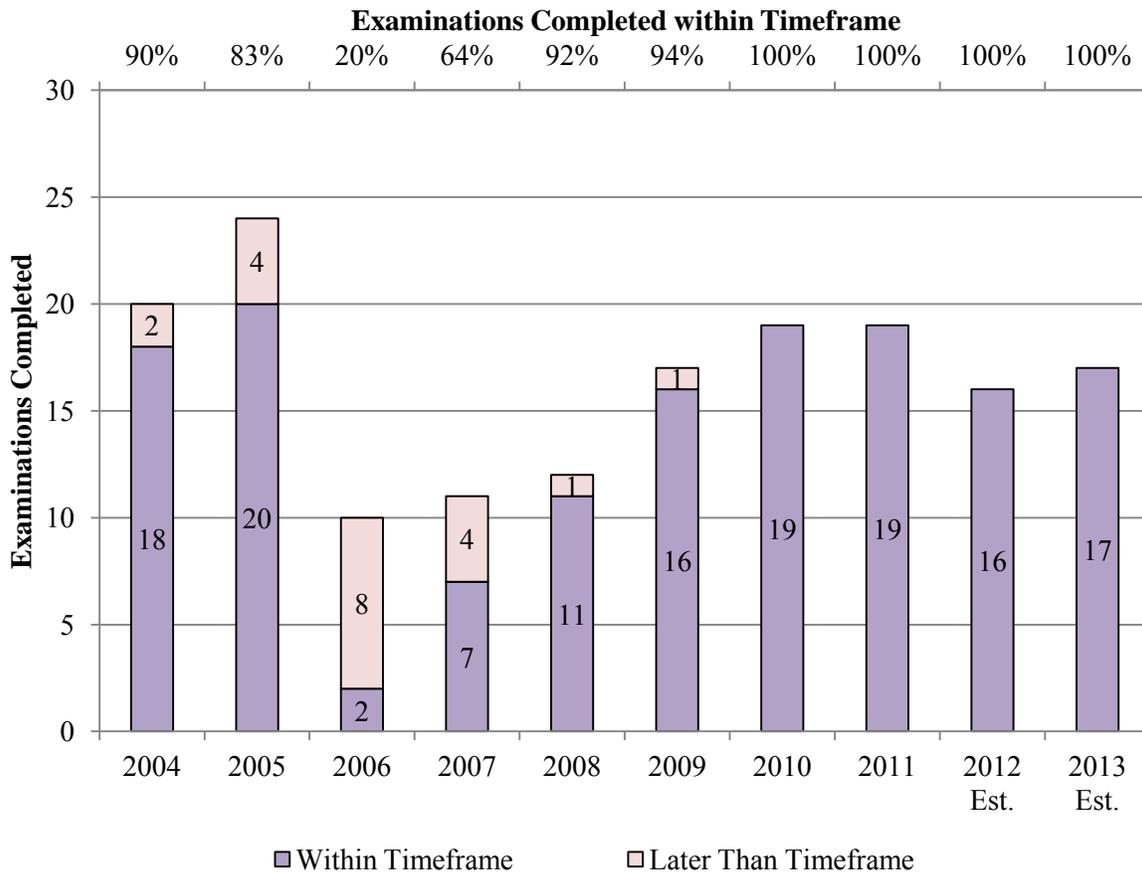
Performance Analysis: Managing for Results

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 completed with no more than the 15% variance of budgeted time. 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 and 2011, all examinations were completed within the target timeframe.

Exhibit 1
Financial Examinations on Domestic Companies
Relative to the Target Timeframe
Fiscal 2004-2013



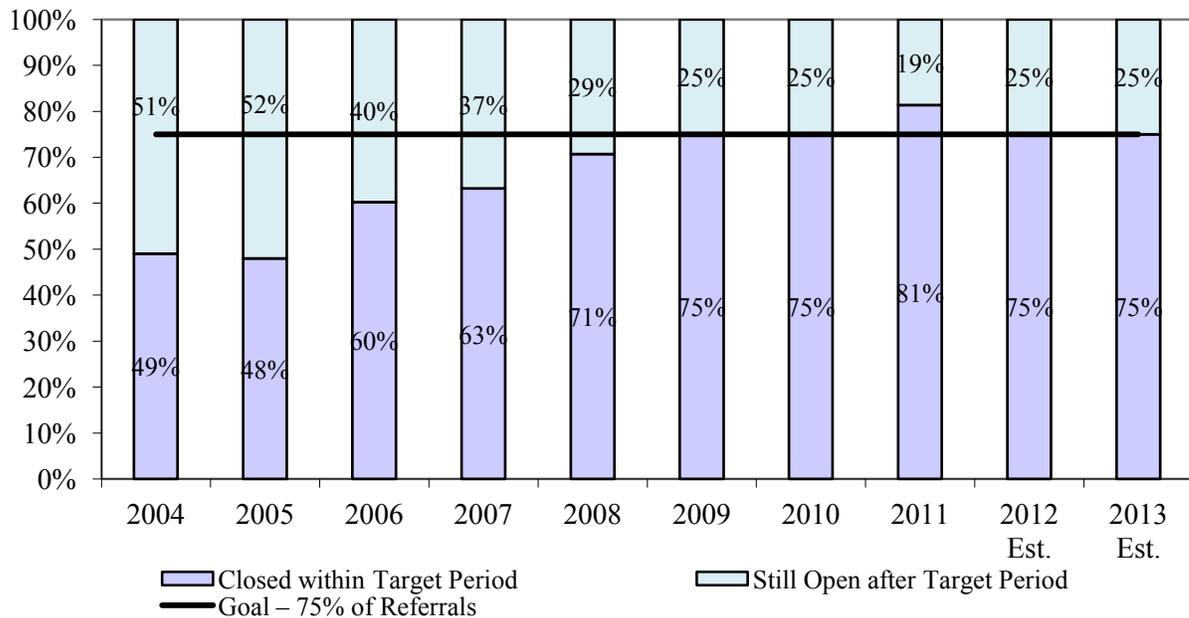
Source: Maryland Insurance Administration

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 and 2011.

Exhibit 2
Percent of Insurance Fraud Referrals
Closed within 180 Days
Fiscal 2004-2013



Note: Prior to fiscal 2011 the goal was to close 75% of referrals within 120 days.

Source: Maryland Insurance Administration

Fiscal 2012 Actions

Cost Containment

Section 47 of the fiscal 2012 budget bill required the Governor to abolish 450 positions as of January 1, 2012. This agency's share of the reduction was 2 positions. The annualized salary savings due to the abolition of these positions is expected to be \$77,501 in special funds.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2013 allowance for MIA is \$779,000 lower than the current year working appropriation. The majority of the decrease results from the end of a Cycle I federal grant to improve the health insurance premium rate review process (see Issue 1). Personnel expenses decrease by \$164,000 driven primarily by the removal of funding for the one-time employee bonuses and reduced funding for position reclassifications. Statewide cost allocations add \$213,000 while general operations, excluding the reduction due to the federal grant, decrease by \$199,000.

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

How Much It Grows:	Special Fund	Federal Fund	Total
2012 Working Appropriation	\$27,547	\$1,952	\$29,499
2013 Allowance	<u>27,403</u>	<u>1,317</u>	<u>28,720</u>
Amount Change	-\$144	-\$635	-\$779
Percent Change	-0.5%	-32.5%	-2.6%
Contingent Reductions	\$0	\$0	\$0
Adjusted Change	-\$144	-\$635	-\$779
Adjusted Percent Change	-0.5%	-32.5%	-2.6%

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Where It Goes:

Personnel Expenses

Retirement contributions.....	\$166
Accrued leave payout.....	63
Employee and retiree health insurance	57
Workers’ compensation premium assessment	-17
Turnover adjustments.....	-91
Reclassifications	-158
Remove one-time employee bonuses.....	-199
Other fringe benefit adjustments.....	15

Operations

Contractual assistance with fraud investigations	160
Out-of-state on-site examinations – company reimbursed	49
Garage rent.....	20
Postage.....	16
In-state travel – consumer education	-16
Telecommunications lines and modems align with actual expenditures	-19
Outside programming services	-24
Office and data processing supplies.....	-27
Management consultants.....	-29
Office of the Attorney General grant for consumer education and advocacy.....	-33
Software licenses	-41
Advertising, legal publication, and printing/reproduction costs align with actuals	-55
Telephone usage	-96
Office of Administrative Hearings.....	-104
Premium rate review – federal grant	-635

Cost Allocations

Statewide personnel system allocation	128
DoIT services allocation	38
Retirement administrative fee.....	34
Office of the Attorney General administrative fee.....	23
DBM paid telecommunications	-10

Other 6

Total **-\$779**

DBM: Department of Budget and Management

DoIT: Department of Information Technology

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

Issues

1. MIA Developing Improved Health Insurance Rate Review Process

As of September 1, 2011, the federal Affordable Care Act requires health insurers seeking to increase their individual or small group market rates by 10% or more to submit the rate increase for review to determine whether the increase is justified. Reviews are to be conducted by the U.S. Department of Health and Human Services (HHS) unless HHS has determined that a state has an effective rate review program in place. HHS has determined that Maryland has an effective rate review system and will consequently adopt MIA's decisions regarding the reasonableness of rate increases in the individual and small group market rather than conducting its own review.

MIA has been awarded two federal grants for the purpose of improving its rate review process, including improving information available to the public on health insurance premium rates and rate increases. The first grant (Cycle I) of \$1 million was received in August 2010, and a portion of the funds was used for consultant services to identify ways MIA's rate review process could be enhanced and how the process of providing information to consumers could be improved. The second federal grant (Cycle II) of nearly \$4 million was awarded in September 2011, with funding to be provided over three years. These funds will be used to expand rate filing requirements and the scope of rate review, hire new staff, and enhance MIA's website to include disclosure of filing information and allow for the collection of public comments on proposed rate increases.

Starting July 1, 2012, MIA intends to begin subjecting any proposed change in rates (not just increases of 10% or more) in the individual market to its enhanced rate review process and will do the same for the small group market beginning January 1, 2013. As part of the enhanced rate review process, insurers filing for rate increases will be required to provide detailed justifications for the requested rate increase. As of the writing of this analysis, no rate increases in the individual or small group markets have been proposed.

To provide consumers with advance notice of premium rate changes, MIA intends to pursue regulatory changes requiring proposed rate increases to be submitted for review at least 45 days prior to the rate increase taking effect. MIA now has a link on its website to the HHS website listing rate filings requesting a rate increase of 10% or more.

MIA should brief the committee on the status of its efforts to enhance its health insurance rate review process and improve public access to information on health insurance rate increases.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Report Issued on Identifying Hospital Rate Adjustments and Assessments as Components of Health Insurance Premium Rate Review

Language added to the fiscal 2012 budget for MIA restricted \$100,000 pending a report on efforts, in conjunction with the Health Services Cost Review Commission (HSCRC) and the Maryland Health Care Commission (MHCC), to develop a mechanism for identifying hospital rate adjustments and assessments as components to be considered in MIA's process for reviewing and approving premium rates for health insurance policies.

MIA submitted the required report indicating it had worked with HSCRC and MHCC to identify data each organization collects and maintains that would be germane to MIA's rate review process. MIA indicated it was entering into a memorandum of understanding with each agency in order to receive data on a regular basis while meeting and maintaining each agency's confidentiality requirements. MIA indicates that it will continue to explore, with each agency, the feasibility and desirability of using the data from these agencies to develop benchmark trends.

The report was deemed responsive to the budgetary language, and the restricted funding has been released.

Current and Prior Year Budgets

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>
Fiscal 2011					
Legislative Appropriation	\$0	\$27,372	\$0	\$0	\$27,372
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	1,000	0	1,000
Reversions and Cancellations	0	-2,095	-617	0	-2,712
Actual Expenditures	\$0	\$25,277	\$383	\$0	\$25,660
Fiscal 2012					
Legislative Appropriation	\$0	\$27,347	\$0	\$0	\$27,347
Budget Amendments	0	199	1,952	0	2,152
Working Appropriation	\$0	\$27,547	\$1,952	\$0	\$29,499

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

Fiscal 2011

The fiscal 2011 budget for MIA closed out \$1.7 million lower than the legislative appropriation. Special funds decreased by \$2,094,553 through a year-end cancellation. Of this amount, \$1.3 million was from salaries and wages and resulted from position reductions through the Voluntary Separation Program and positions remaining vacant due to difficulty in recruiting information technology positions. The remaining cancellation represents general administrative savings including lower than budgeted utilization of contractual services (\$192,831), reductions in purchases of office and computer supplies (\$133,264), and unspent funds for a disaster recovery site (\$267,622). A budget amendment added \$1.0 million in federal funds from a grant to help develop a rate review process for health insurance rates. Of this amount, \$617,292 which was neither encumbered nor expended was cancelled at the end of the year.

Fiscal 2012

The fiscal 2012 working appropriation for MIA has increased by \$2,151,519 over the legislative appropriation. Special funds of \$199,330 were added by budget amendment for one-time \$750 employee bonuses. Two federal fund budget amendments added a total of \$1,952,189. The first amendment added the \$617,292 cancelled at the end of fiscal 2011. The second amendment added a Cycle II grant totaling \$1,334,897 also intended to fund development of the rate review process for health insurance rates.

Audit Findings

Audit Period for Last Audit:	January 1, 2008 – September 28, 2010
Issue Date:	June 2011
Number of Findings:	7
Number of Repeat Findings:	3
% of Repeat Findings:	43%
Rating: (if applicable)	

- Finding 1:*** **MIA lacked adequate controls to ensure the propriety of producer licenses issued.** MIA concurred with the recommendation and indicates procedures will be in place by the end of the first quarter of fiscal 2012.
- Finding 2:*** **MIA did not properly reconcile its records of premium tax revenues with the corresponding State accounting records.** MIA concurred with the recommendation and will transfer the Premium Tax function to its Fiscal Unit.
- Finding 3:*** MIA lacked adequate controls over its mail receipts. MIA concurred with the recommendation and implemented changes effective June 14, 2011.
- Finding 4:*** MIA did not investigate numerous title insurance companies referred to it by the Department of Housing and Community Development. MIA is committed to improving the speed with which cases are handled. The caseload growth continues to outpace staff capacity. A multi-faceted plan is under development to address issue.
- Finding 5:*** MIA’s contracts with two vendors did not include provisions obligating the vendors to address certain significant information technology (IT) security and operational risks. MIA concurred with the recommendation and is developing addendums to existing contracts to address this issue.
- Finding 6:*** **Access controls over a critical server and controls over database and server monitoring were not adequate.** MIA concurred with the recommendation and has removed administrative rights for all but two Management Information System staff members.
- Finding 7:*** A contractor had excessive access to the MIA network and sensitive personal information stored on the network. MIA concurred with the recommendation and account access for the contractor has been terminated. Future IT contractors will receive print-outs rather than log-in access.

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

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

<u>Object/Fund</u>	<u>FY 11 Actual</u>	<u>FY 12 Working Appropriation</u>	<u>FY 13 Allowance</u>	<u>FY 12 - FY 13 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	277.00	266.00	266.00	0.00	0%
02 Contractual	13.65	20.65	17.60	-3.05	-14.8%
Total Positions	290.65	286.65	283.60	-3.05	-1.1%
Objects					
01 Salaries and Wages	\$ 19,612,198	\$ 21,637,208	\$ 21,472,782	-\$ 164,426	-0.8%
02 Technical and Spec. Fees	895,206	1,158,487	959,948	-198,539	-17.1%
03 Communication	290,597	424,887	335,602	-89,285	-21.0%
04 Travel	319,195	374,500	406,500	32,000	8.5%
07 Motor Vehicles	182,595	178,420	201,022	22,602	12.7%
08 Contractual Services	2,074,263	3,300,342	2,981,107	-319,235	-9.7%
09 Supplies and Materials	209,626	302,610	271,500	-31,110	-10.3%
10 Equipment – Replacement	99,580	1,200	1,200	0	0%
11 Equipment – Additional	11,677	1,600	0	-1,600	-100.0%
12 Grants, Subsidies, and Contributions	465,144	517,446	484,720	-32,726	-6.3%
13 Fixed Charges	1,499,651	1,602,028	1,605,732	3,704	0.2%
Total Objects	\$ 25,659,732	\$ 29,498,728	\$ 28,720,113	-\$ 778,615	-2.6%
Funds					
03 Special Fund	\$ 25,277,024	\$ 27,546,539	\$ 27,402,683	-\$ 143,856	-0.5%
05 Federal Fund	382,708	1,952,189	1,317,430	-634,759	-32.5%
Total Funds	\$ 25,659,732	\$ 29,498,728	\$ 28,720,113	-\$ 778,615	-2.6%

Note: The fiscal 2012 appropriation does not include deficiencies.

**Fiscal Summary
Maryland Insurance Administration**

<u>Program/Unit</u>	<u>FY 11 Actual</u>	<u>FY 12 Wrk Approp</u>	<u>FY 13 Allowance</u>	<u>Change</u>	<u>FY 12 - FY 13 % Change</u>
01 Administration and Operations	\$ 25,467,096	\$ 29,298,728	\$ 28,520,113	-\$ 778,615	-2.7%
05 Rate Stabilization Fund	192,636	200,000	200,000	0	0%
Total Expenditures	\$ 25,659,732	\$ 29,498,728	\$ 28,720,113	-\$ 778,615	-2.6%
Special Fund	\$ 25,277,024	\$ 27,546,539	\$ 27,402,683	-\$ 143,856	-0.5%
Federal Fund	382,708	1,952,189	1,317,430	-634,759	-32.5%
Total Appropriations	\$ 25,659,732	\$ 29,498,728	\$ 28,720,113	-\$ 778,615	-2.6%

Note: The fiscal 2012 appropriation does not include deficiencies.