

D70J00

Maryland Automobile Insurance Fund

Operating Budget Data

	(\$ in Thousands)					
	CY 12	CY 13	CY 13	CY 14	CY 13-14	CY 13-14
	<u>Actual</u>	<u>Budgeted</u>	<u>Actual*</u>	<u>Budgeted</u>	<u>\$ Change</u>	<u>% Change</u>
Insured Division	\$44,908	\$46,028	\$47,342	\$38,569	-\$8,773	-18.5%
Uninsured Division	2,271	2,265	2,267	2,090	-\$177	-7.8%
Nonbudgeted Expenditures	\$47,179	\$48,293	\$49,609	\$40,659	-\$8,950	-18.0%

* 2013 Actuals are actuals through August 31, 2013, but estimates from September 1 through December 31, 2013.

- The calendar 2014 budget for the Maryland Automobile Insurance Fund (MAIF) decreases by \$8.95 million, or 18%. This decrease is almost entirely in the Insured Division.
- The bulk of the decrease is due to the agency's voluntary separation program, which led to the reduction of MAIF's workforce from 352.5 full-time equivalent regular positions in calendar 2012 to 242.5 in the calendar 2014 budget. The decrease in personnel and one-time costs incurred in calendar 2013 for the voluntary separation plan led to a decrease of approximately \$9.2 million in personnel expenses from calendar 2013 to 2014.

Personnel Data

	CY 12	CY 13	CY 13	CY 14	CY 13-14
	<u>Actual</u>	<u>Budgeted</u>	<u>Actual*</u>	<u>Budgeted</u>	<u>Change</u>
Regular Positions**	352.50	259.50	241.50	242.50	1.00
Contractual FTEs**	1.50	2.77	4.60	1.47	-3.13
Total Personnel**	354.00	262.27	246.10	243.97	-2.13

* 2013 Actuals are actuals through August 31, 2013, but estimates from September 1 through December 31, 2013.

**As reported by the Maryland Automobile Insurance Fund.

- MAIF adjusts its total positions each year to match its anticipated needs. The calendar 2014 budget increases its regular positions by 1.0 compared to calendar 2013.
- The calendar 2014 budget decreases contractual positions by 3.13 positions.

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

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Analysis in Brief

Major Trends

Gross and Net Written Policies Decline: The number of gross written policies saw a significant decrease in calendar 2012 compared to 2011, from 100,836 to 67,102, a 33.6% decline. Net written policies saw a similar decline one year earlier. **MAIF should comment on the potential causes of the decline in policies in the Insured Division and how these factors might affect the long-term outlook for MAIF's services.**

Issues

Installment Plan Begins: A change in law allowed MAIF to begin offering installment plans on October 1, 2013. The plans allow for 20 or 25% down payments followed by regular payments, rather than a full payment for a full-year policy. Since the launch, MAIF has sold 217 policies with an installment plan, out of an estimated 13,300. **MAIF should comment on the status of the installment plan and its impact on MAIF operations.**

Uninsured Division Surplus on Road to Recovery: A transfer of \$4 million from MAIF to the general fund in 2012 led to a negative surplus in the Uninsured Division. The balance is slightly below \$0 at the end of calendar 2013 and is expected to be positive at the end of calendar 2014. **MAIF should comment on the impact of the negative balance on its operations and the long-term future of the Uninsured Division.**

Recommended Actions

1. Nonbudgeted.

D70J00
Maryland Automobile Insurance Fund

Operating Budget Analysis

Program Description

The Maryland Automobile Insurance Fund (MAIF) is an independent, nonbudgeted State agency. Similar to other insurance companies, MAIF operates on a calendar year basis. MAIF has two main responsibilities.

MAIF's Insured Division provides automobile insurance policies for the residents of Maryland whose applications have been declined by at least two private insurers. The Insured Division, like other automobile insurance carriers, handles claims for policyholders. The Insured Division is funded through premiums, investment income, and when necessary, a surcharge on premiums statewide.

MAIF's Uninsured Division administers and pays claims to residents of Maryland who are involved in accidents in Maryland with motorists who are uninsured, or for hit-and-run incidents where a responsible party cannot be found. The Uninsured Division may recover money paid out from the uninsured at-fault party through collections on notes and judgments. In addition, MAIF receives income from investments and uninsured motorist fines.

MAIF's three key goals are:

- to offer insurance to all eligible citizens of the State who are unable to obtain private insurance;
- to handle claims of the policyholders and claimants in a manner that is fair, expedient, and professional; and
- to provide services efficiently to minimize the subsidy from the State's insured motorists.

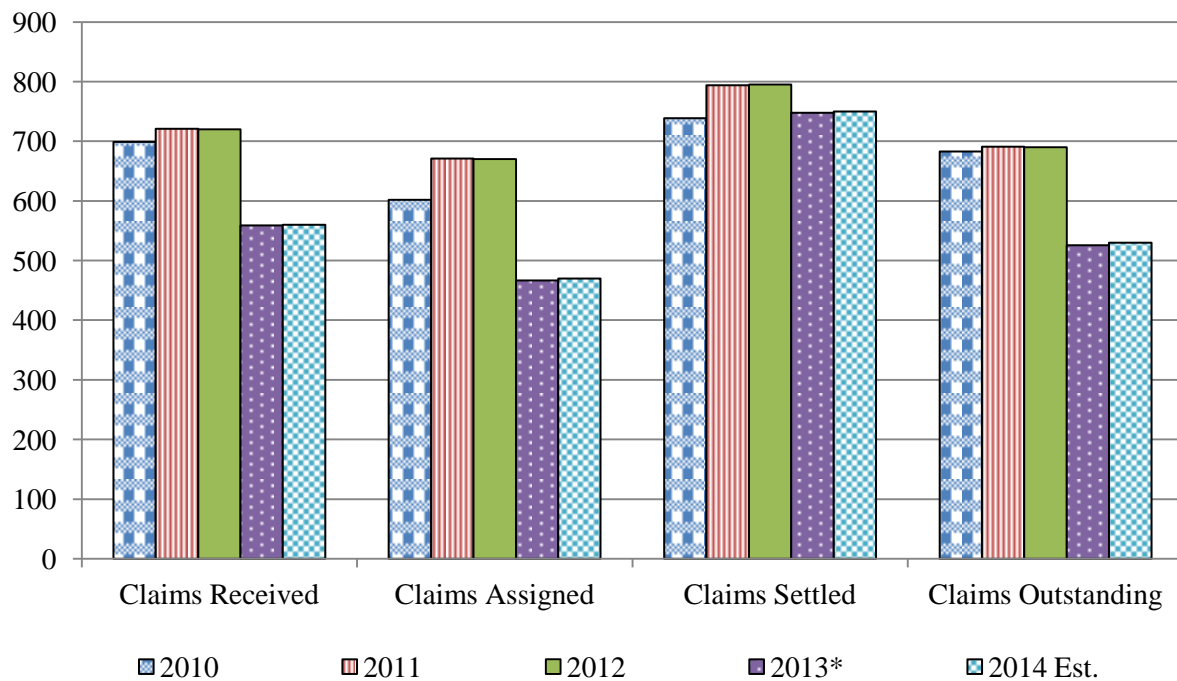
Performance Analysis: Managing for Results

1. Gross and Net Written Policies Decline

The number of gross written policies saw a significant decrease in calendar 2012 compared to 2011, from 100,836 to 67,102, a 33.6% decline. Net written policies saw a similar decline one year earlier. **MAIF should comment on the potential causes of the decline in policies in the Insured Division and how these factors might affect the long-term outlook for MAIF's services.**

MAIF does not control the number of claims received and assigned in the Uninsured Division. Claims assigned are a function of the eligible claims received. The number of claims received and assigned by the Uninsured Division decreased in calendar 2013 compared to the prior year, as shown in **Exhibit 1**. MAIF attributes this reduction to a change in driving habits caused by economic issues and higher gas prices.

Exhibit 1
Claims Activity
Uninsured Division
Calendar 2010-2014 (Est.)



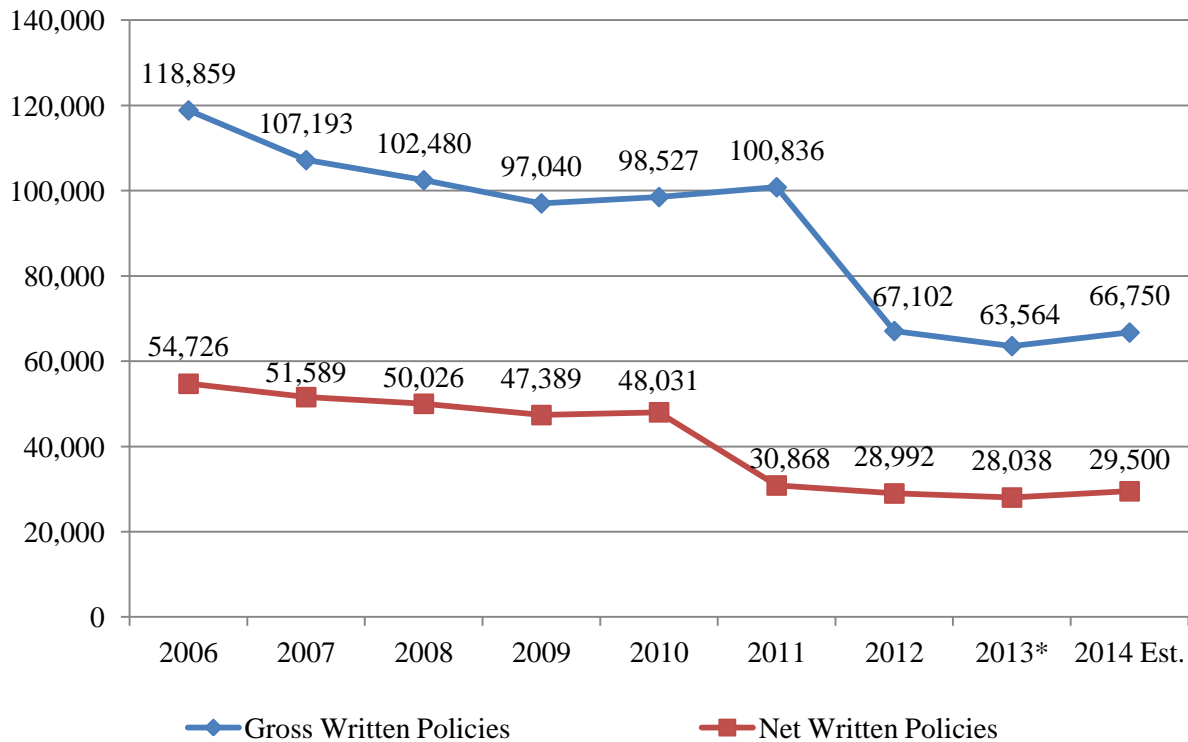
* Year-end adjustments may significantly alter the results. All calendar 2013 numbers are subject to change.

Source: Maryland Automobile Insurance Fund

The number of claims settled by the Uninsured Division rose slightly in calendar 2011 compared to 2010 but returned to the 2010 level in calendar 2013. The agency has reduced the number of outstanding claims in calendar 2013 by about 24% compared to calendar 2012. The reduction in claims received drives the drop in outstanding claims.

As shown in **Exhibit 2**, the number of gross written policies in the Insured Division saw a significant decrease in calendar 2012 compared to 2011, from 100,836 to 67,102, a 33.6% decline. Net written policies saw a similar decline one year earlier. MAIF indicates that potential causes for

**Exhibit 2
Policies
Insured Division
Calendar 2006-2014 (Est.)**



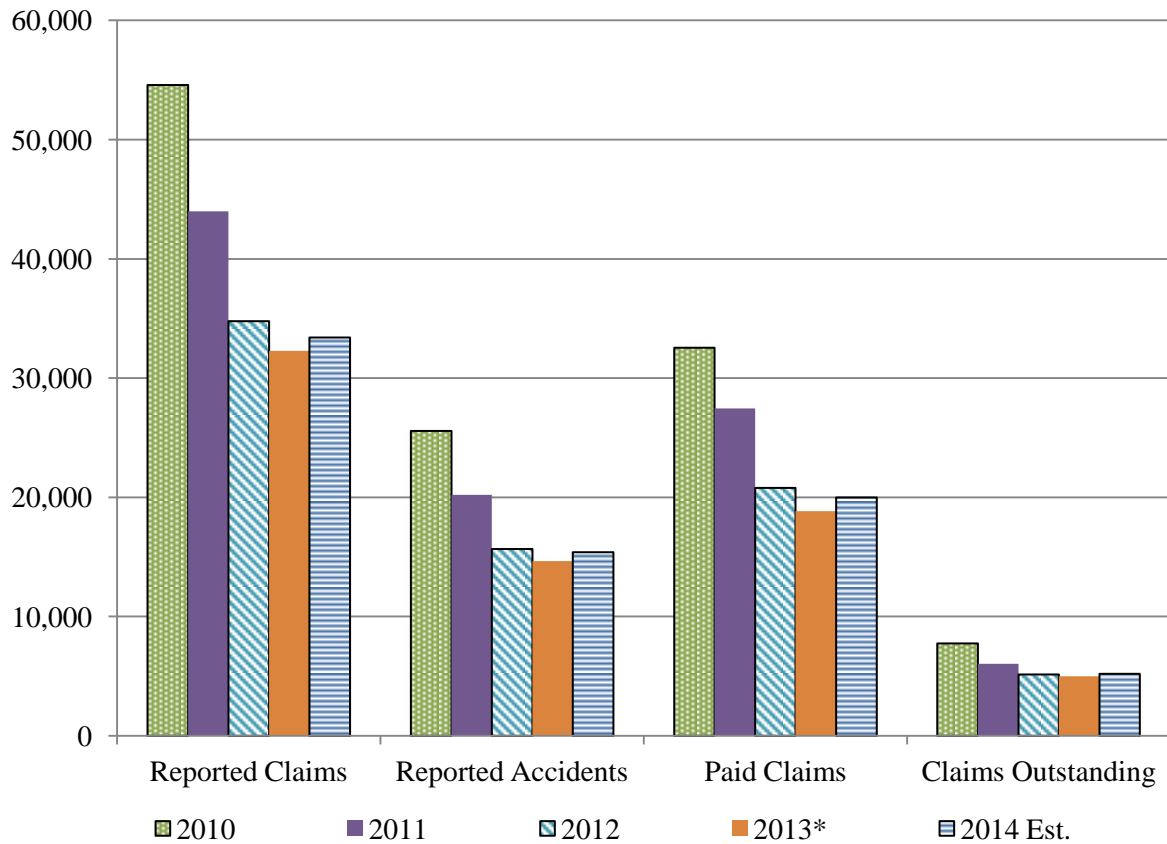
* Year-end adjustments may significantly alter the results. All calendar 2013 numbers are subject to change.

Source: Maryland Automobile Insurance Fund

this decrease include current economic conditions and increasing sophistication in underwriting among private insurers. Lending weight to the likelihood of the latter cause, MAIF's share of the passenger automobile insurance market has steadily declined since calendar 2006, from 3.67% of the market at that time to 1.77% of the market in 2012, according to a Maryland Insurance Administration report. **MAIF should comment on the potential causes of the decline in policies in the Insured Division and how these factors might affect the long-term outlook for MAIF's services.**

The number of claims reported in the Insured Division has been on a steady decline since calendar 2010, as shown in **Exhibit 3**. That trend also holds across reported accidents, paid claims, and claims outstanding. Although claims and accident reporting is based on external factors, both are ultimately impacted by the substantial decrease in the number of MAIF policies in recent years.

**Exhibit 3
Claims Activity
Insured Division
Calendar 2010-2014 (Est.)**



* Year-end adjustments may significantly alter the results. All calendar 2013 numbers are subject to change.

Source: Maryland Automobile Insurance Fund

Calendar 2014 Budget

The calendar 2014 budget for MAIF decreases by \$8.95 million, or 18%, compared to 2013, as shown in **Exhibit 4**. The primary cause of the decrease is a \$9.2 million drop in personnel costs.

Exhibit 4
Proposed Budget
Maryland Automobile Insurance Fund
(\$ in Thousands)

How Much It Grows:	Nonbudgeted Fund	Total
2013 Actual	\$49,609	\$49,609
2014 Proposed Budget	40,659	40,659
Amount Change	-\$8,950	-\$8,950
Percent Change	-18.0%	-18.0%
 Where It Goes:		
Personnel Expenses		
Reduction in salary and related items related to voluntary separation program.....		-\$5,271
Calendar 2013 unemployment expense		-291
Calendar 2013 voluntary separation program.....		-3,500
Overtime		-30
Incentive compensation		-132
Other compensation changes		2
Other Changes		
Marketing initiative to promote awareness of MAIF products		1,069
Outsourcing of unit receiving initial claim calls		364
Software for Policy Administration System (PAS).....		145
Travel restored to historic levels		83
Charitable contributions		-23
Investment service charges reduced due to lower fund balance.....		-51
Renegotiated contract for statistical services		-82
Legal consulting for voluntary separation program and claims investigations		-82
Use of consulting services (not including PAS).....		-111
PAS consulting services		-1,261
Other.....		221
Total		-\$8,950

Note: 2013 actuals are actuals through August 31, 2013, but estimates from September 1 through December 31, 2013. The Maryland Automobile Insurance Fund operates on a calendar-year basis.

Voluntary Separation Program

In 2013, 100 MAIF employees participated in the agency's voluntary separation program. In an effort to reduce its number of employees to more appropriately match its needs, the agency offered employees lump-sum payments of \$25,000 plus \$500 per year of MAIF service as an incentive to end their employment.

The incentive portion of the program cost the agency \$3.5 million in calendar 2013. The agency also spent \$291,000 for unemployment expenses related to the program's participation. In addition to the removal of those one-time costs from the calendar 2014 budget, the program also resulted in a \$5.3 million reduction in salary and benefit costs. The voluntary separation program has contributed to a \$9.2 million, or 25%, overall reduction in salary and benefit costs in the calendar 2014 budget compared to 2013. The agency does not anticipate additional position reductions.

Marketing

Due to the decline in premiums written, MAIF is launching a marketing program focused on promoting its services, at a cost of just under \$1.1 million. The campaign will include direct mail, mass media, digital media, and other strategies. The campaign is expected to launch sometime this year.

Policy Administration System

The MAIF budget for calendar 2014 decreases by a net \$1.1 million in expenses related to a new Policy Administration System. This includes a decrease of about \$1.3 million in consulting on the project that was incurred in calendar 2013, and an increase of \$145,000 for the purchase of software for the new system.

The system is used by MAIF for its insurance policy data, tracking all policy data and transactions from beginning to end, and handling billing and reporting functions.

MAIF Assessment Threshold

MAIF is required to assess a surcharge on the Maryland automobile insurance industry, which may be passed on to the policyholders of those companies, after the following two triggers occur: (1) the surplus of the Insured Division falls below 25% of the three-year average of net direct written premiums; and (2) MAIF experiences an operating loss. The last assessment occurred in 1989.

The assessment threshold has steadily declined since 2004, when it was \$57.6 million. The expected 2014 assessment level is \$18.9 million. Despite rate increases in January 2011 (4.25%) to account for the increase in mandatory minimum coverage and in February 2011 (13.7%), the ongoing decreases in policies written by MAIF has led to reductions in the direct written premiums every year since calendar 2010, as shown in **Exhibit 5**. As a result, the three-year average of direct written premiums and the assessment threshold are expected to continue to decline through calendar 2014.

Exhibit 5
Maryland Automobile Insurance Fund
Assessment Threshold
Calendar 2010-2014 (Est.)

<u>Year</u>	<u>Direct Written Premium</u>	<u>Three-year Average</u>	<u>Assessment Threshold</u>
2010	111,904,499	112,569,783	28,142,446
2011	87,304,866	102,792,622	25,698,155
2012	78,068,455	92,425,940	23,106,485
2013	74,165,000	79,846,107	19,961,527
2014 Est.	74,165,000	75,466,152	18,866,538

Note: The Maryland Automobile Insurance Fund operates on a calendar year basis for its financial statements in accordance with State regulations for insurance companies.

Source: Maryland Automobile Insurance Fund

MAIF Insured Division Financial Statement

Exhibit 6 presents the financial statement for the Insured Division of MAIF. In calendar 2013, the Insured Division's income fell to \$84.4 million, a decrease of \$8.7 million compared to 2012. Calendar 2014 income is expected to decrease by an additional \$6.7 million.

The vast majority of income in the Insured Division is the result of earned premium. The decline in written policies continues to impact income from earned premiums, which totaled \$70.1 million in calendar 2013, a \$12.7 million decline from 2012.

Total expenditures decreased by \$3.4 million in calendar 2013 compared to 2012, but expenditures are expected to increase about \$4.0 million in 2014. Despite a net loss in the Insured Division in calendar 2013, MAIF's surplus increases from \$108.4 million in calendar 2012 to \$113.4 million in 2013. This is made possible by approximately \$20.0 million increase compared to calendar 2012 in non-admitted assets as a result of a new investment vehicle MAIF began using that year.

MAIF expects the calendar 2014 ending surplus to be \$87.7 million, which is 4.35 times the estimated assessment threshold of \$18.9 million. **MAIF should comment on the health of the Insured Division and the likelihood of imposing an assessment in the future.**

Exhibit 6
Maryland Automobile Insurance Fund
Insured Division
Calendar 2012-2014 (Est.)

	<u>Actual</u> 2012	<u>Actual</u> 2013	<u>Estimated</u> 2014
Earned Premium	\$82,797,411	\$70,134,586	\$74,155,000
Investment Income	10,269,823	14,200,985	3,527,000
Other Income	36,074	55,774	0
Income	\$93,103,308	\$84,391,345	\$77,682,000
Claims Incurred	\$45,135,536	\$47,446,711	\$52,353,000
Claim Expenses Incurred	31,315,763	25,619,536	22,423,000
Other Expenses	26,234,363	26,366,948	28,628,000
Expenditures	\$102,685,662	\$99,433,195	\$103,404,000
Net Gain (Loss)	-\$9,582,354	-\$15,041,850	-\$25,722,000
Beginning Surplus	\$118,967,097	\$108,452,654	\$113,406,965
Net Income	-9,582,353	-15,041,850	-25,722,000
Change to Non-admitted Assets	-972,090	19,996,161	0
Release of Over-recoupment	0	0	0
Ending Surplus	\$108,412,654	\$113,406,965	\$87,684,965
Assessment Threshold	\$23,725,780	\$20,139,443	\$18,866,538
Ratio of Surplus to Assessment Threshold	4.57	5.63	4.65

Note: The Maryland Automobile Insurance Fund operates on a calendar year basis for its financial statements in accordance with State regulations for insurance companies.

Source: Maryland Automobile Insurance Fund

MAIF Active Vehicle Analysis

Exhibit 7 provides information on the distribution of vehicles insured by MAIF by territory. This distribution may impact the number and value of expected claims. Prince George's County has the highest share of the vehicles insured by MAIF – 41.8% in calendar 2013, consistent with each of the prior three years.

Exhibit 7
Active Vehicle Analysis
Insured Division
Calendar 2010-2013

<u>Territory</u>	<u>2010</u>	<u>Dist %</u>	<u>2011</u>	<u>Dist %</u>	<u>2012</u>	<u>Dist %</u>	<u>2013</u>	<u>Dist %</u>
Baltimore Metropolitan Area	8,782	12.5%	5,135	10.4%	4,419	10.3%	4,092	10.1%
Northeastern Maryland	5,141	7.3%	3,812	7.7%	3,319	7.8%	3,055	7.5%
Eastern Shore	5,152	7.3%	4,179	8.5%	3,899	9.1%	4,023	9.9%
Southern Maryland and Anne Arundel County	7,406	10.5%	5,473	11.1%	4,580	10.7%	4,407	10.9%
Western Maryland	1,193	1.7%	756	1.5%	624	1.5%	660	1.6%
Montgomery and Howard Counties	13,945	19.8%	9,348	19.0%	7,990	18.7%	7,336	18.1%
Prince George's County	28,764	40.8%	20,480	41.6%	17,981	42.0%	16,913	41.8%
Rest of State	31	0.0%	19	0.0%	11	0.0%	14	0.0%
Total Vehicles	70,414		49,202		42,823		40,500	

Source: Maryland Automobile Insurance Fund

The Baltimore metropolitan area's share of vehicles insured by MAIF has slightly decreased over the last three years to 10.1% in calendar 2013. While the Baltimore area's share of vehicles has generally declined in recent years, the Eastern Shore's share has increased, and is 9.9% of MAIF's insured in calendar 2013.

Issues

1. Installment Plan Begins

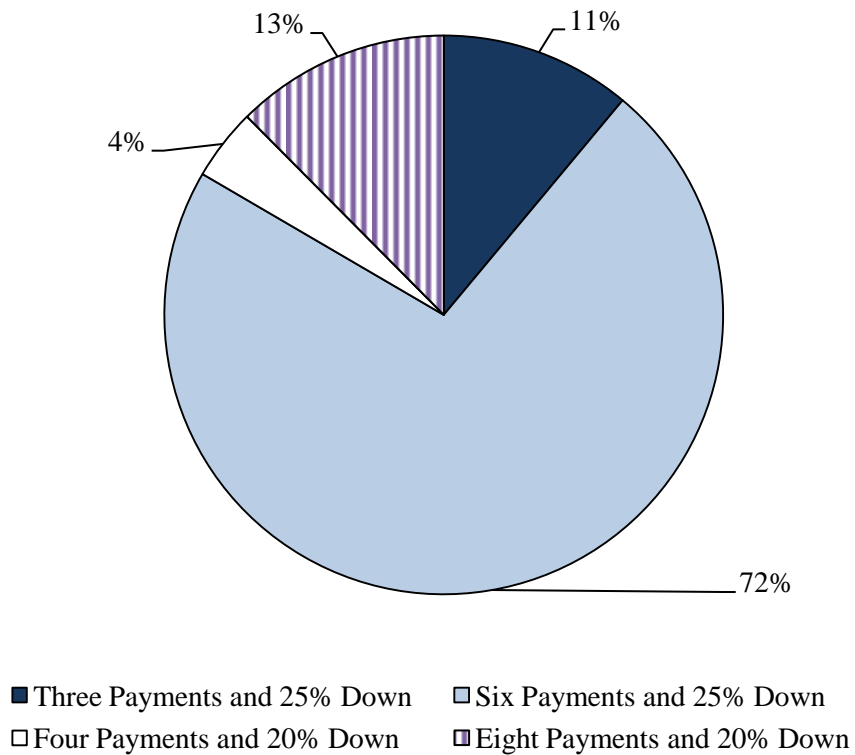
MAIF was authorized to begin accepting installment payment plans on October 1, 2013, after the enactment of Chapter 334 of 2013. Previously, MAIF required either payment of a full year's premium or the acceptance of a loan agreement via a premium finance company, which added significant origination fees and interest costs to the consumer's total payment. MAIF estimates the installment plan saves policyholders an average of \$250 annually compared to a premium finance agreement plan.

The new law allows for four different payment plan options, as shown in **Exhibit 8**:

- 25% down and either three or six subsequent payments if the total annual premium is less than \$3,000; or
- 20% down and either four or eight subsequent payments if the total annual premium is \$3,000 or more

Since the launch of the plan on October 1 through December 31, 2013, MAIF has sold 217 policies with an installment plan, out of an estimated 13,300. The offering is new, which may explain some of the reason for the low take-up of the installment plan, but MAIF also believes the high down payment required by statute – either 20% or 25% – discourages usage. The typical plan offered by premium financing companies in the State requires a down payment of between 10% and 12%. **MAIF should comment on the status of the installment plan and its impact on MAIF operations.**

Exhibit 8
Installment Plan
October 1 through December 31, 2013



<u>Plan</u>	<u>Count</u>	<u>Total Premium</u>	<u>Average Premium</u>
Three Payments and 25% Down	24	\$31,499	\$1,312
Six Payments and 25% Down	157	228,276	1,454
Four Payments and 20% Down	9	41,236	4,582
Eight Payments and 20% Down	27	115,548	4,280
Total	217	\$416,559	

Source: Maryland Automobile Insurance Fund

2. Uninsured Division Surplus on Road to Recovery

Section 22 of the Budget Reconciliation and Financing Act of 2011 authorized the transfer of \$4 million from MAIF to the general fund on or before June 30, 2012, contingent on the enactment of SB Bill 993 of 2011. SB 993, which became Chapter 312 of 2011, altered the requirements of employee compensation for MAIF. The interpretation of the final language, as enacted, required those funds to be transferred from the Uninsured Division of MAIF rather than be treated as an operating expense which would be shared between the two divisions. Absent the transfer during the 2011 session, MAIF had anticipated an Uninsured Division surplus in calendar 2011 of nearly \$3 million.

Exhibit 9 presents the financial statement for the Uninsured Division of MAIF. MAIF's total income in calendar 2013 (\$4.3 million) is approximately \$1.0 million higher than expenses, almost bringing MAIF's Uninsured Division surplus above \$0. Income increased by \$290,536 in calendar 2013 compared to calendar 2012. The Uninsured Division's largest income source is revenue received from the Motor Vehicle Administration uninsured motorist fine, which is indexed each year based on the Consumer Price Index – All Urban Consumers – Medical Care. MAIF's share was \$3.4 million in calendar 2013. The increase of nearly \$500,000 in fines collected was offset partially by a large decrease in investment income due to the fund's low balance.

Expenses dropped by more than \$800,000, largely due to drops in costs associated with claims incurred and claims expenses incurred. MAIF's net income in calendar 2011 was partially offset by a slight unrealized loss. As a result, with a beginning balance of -\$1,021,102, MAIF's end of calendar 2013 balance is expected to be -\$55,116. MAIF anticipates an ending surplus of \$767,884 in calendar 2014, which would be the first year since the transfer MAIF would end with a positive balance. **MAIF should comment on the impact of the negative balance on its operations and the long-term future of the division.**

Exhibit 9
Maryland Automobile Insurance Fund
Uninsured Division
Calendar 2012-2014 (Est.)

	<u>Actual</u> <u>2012</u>	<u>Actual</u> <u>2013</u>	<u>Estimated</u> <u>2014</u>
MVA Fines	\$2,924,595	\$3,400,000	\$3,400,000
Collections on Notes and Judgments	890,825	864,504	870,000
Investment Income	207,332	48,604	57,000
Income	\$4,022,752	\$4,313,108	\$4,327,000
Claims Incurred	\$1,307,648	\$880,146	\$960,000
Claims Expenses Incurred	1,278,270	1,061,712	1,114,000
Collection Expenses	534,454	509,125	555,000
Administrative Expenses	982,544	847,879	875,000
Expenditures	\$4,102,916	\$3,298,862	\$3,504,000
Net Gain	-\$80,164	\$1,014,246	\$823,000
Beginning Surplus	-\$915,551	-\$1,021,102	-\$55,116
Net Income	-80,162	1,014,246	823,000
Unrealized Gain (Losses)	-25,389	-48,260	0
Ending Surplus	-\$1,021,102	-\$55,116	\$767,884

MVA: Motor Vehicle Administration

Note: The Maryland Automobile Insurance Fund operates on a calendar year basis for its financial statements in accordance with State regulations for insurance companies.

Note: 2013 is actual through November 30, 2013, and estimated through December 31, 2013.

Source: Maryland Automobile Insurance Fund

Recommended Actions

1. Nonbudgeted.

Audit Findings

Audit Period for Last Audit:	March 4, 2009 – February 29, 2012
Issue Date:	September 2012
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: MAIF did not verify that invoice billing rates for certain contractual services agreed to contract terms.

Finding 2: There was no documented verification that all recorded collections were subsequently deposited.

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

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

		CY13-CY14				
	<u>Object/Fund</u>	<u>CY 2012 Actual</u>	<u>CY 2013 Projected</u>	<u>CY 2014 Estimated</u>	<u>Amount Change</u>	<u>Percent Change</u>
Positions						
01	Regular	352.50	241.5	242.5	1	0.4%
02	Contractual	1.50	4.6	1.47	-3.13	-68.0%
	Total Positions	354.00	246.1	243.97	-2.13	-0.9%
Object						
01	Salaries, Wages, and Fringe Benefits	\$34,216,719	\$36,893,582	\$27,672,841	-\$9,220,741	-25.0%
02	Tech and Special Fees	\$7,369,153	\$4,681,191	\$5,956,884	\$1,275,693	27.3%
03	Communications	\$1,155,996	\$1,065,225	\$1,101,651	\$36,426	3.4%
04	Travel	\$121,001	\$209,524	\$292,978	\$83,454	39.8%
06	Fuel and Utilities	\$345,966	\$253,780	\$308,832	\$55,052	21.7%
07	Motor Vehicle Operations & Main	\$361,161	\$310,276	\$305,676	-\$4,600	-1.5%
08	Contractual Services	\$2,316,461	\$5,177,743	\$3,864,129	-\$1,313,614	-25.4%
09	Supplies & Materials	\$256,111	\$184,393	\$176,523	-\$7,870	-4.3%
10	Equipment Replacement	\$0	\$0	\$0	\$0	n/a
11	Equipment Additional	\$632,955	\$473,520	\$647,095	\$173,575	36.7%
13	Fixed Charges	\$356,906	\$302,985	\$260,759	-\$42,226	-13.9%
14	Land & Structures	\$46,658	\$57,184	\$72,000	\$14,816	25.9%
	Total Objects	47,179,087	49,609,403	40,659,368	-8,950,035	-18.0%
Funds						
07	Nonbudgeted Fund	\$45,469,016	\$45,546,654	\$48,877,109	\$3,330,455	7.3%
	Total Funds	\$45,469,016	\$45,546,654	\$48,877,109	\$3,330,455	7.3%

Note: 2013 actuals are actuals through August 31, 2013, but estimates from September 1 through December 31, 2013.

**Fiscal Summary
Maryland Automobile Insurance Fund**

<u>Program/Unit</u>	<u>CY12 Actual</u>	<u>CY13 Projected</u>	<u>CY14 Estimated</u>	<u>CY13-CY14 Change</u>	<u>%Change</u>
42 Insured Division	\$44,908,294	\$47,342,300	\$38,568,879	-\$8,773,421	-18.5%
47 Uninsured Division	\$2,270,794	\$2,267,103	\$2,090,489	-\$176,614	-7.8%
Total Expenditures	\$47,179,087	\$49,609,403	\$40,659,368	-\$8,950,035	-18.0%
Nonbudgeted Fund	\$47,179,087	\$49,609,403	\$40,659,368	-\$8,950,035	-18.0%
Total Appropriations	\$47,179,087	\$49,609,403	\$40,659,368	-\$8,950,035	-18.0%

Note: 2013 actuals are actuals through August 31, 2013, but estimates from September 1 through December 31, 2013.