

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 144 (Delegate Leopold)
Economic Matters

Optional Limited Tort Motor Vehicle Coverage

This bill establishes a limited tort motor vehicle insurance system and provides that a motor vehicle owner can elect to participate in the limited tort system or remain in the current tort system. Insurers must adjust vehicle insurance premium rates to reflect any predicted or realized reductions in claims or other expenses resulting from this limited tort option.

In addition, the bill redefines an uninsured motor vehicle under the current tort system by including in that definition any vehicle whose owner has elected insurance coverage under the limited tort system. Any claim against an uninsured motor vehicle is secondary to benefits payable under the current tort system and an individual cannot collect noneconomic damages from an owner or operator of an uninsured motor vehicle.

Fiscal Summary

State Effect: Potential significant decrease in insurance premium tax revenues beginning in FY 1998. General fund revenues would increase by about \$10,400 in FY 1997 due to one-time fees collected by the Maryland Insurance Administration. Expenditures could decrease significantly, as discussed below.

Local Effect: Potential significant decrease in expenditures, as discussed below.

Fiscal Analysis

Bill Summary: Major provisions of the limited tort insurance system include:

- An insurer must provide a minimum of \$50,000 in first-party benefits for reasonable economic losses which include medical expenses, loss of earnings, and funeral services;

- Benefits payable are secondary to amounts recoverable through Social Security Disability, Workers' Compensation, and Medicare benefits;
- The bill prohibits the recovery of noneconomic losses unless the person suffers a serious injury; and
- Recovery for injuries which are not objectively verifiable are limited to no more than 110% of the applicable charge for comparable services under the Medicare Program.

State Revenues: The bill establishes a system of no-fault automobile insurance which includes provisions to prohibit noneconomic losses unless a person suffers a serious injury and to limit recovery for injuries which are not objectively verifiable. As a result, automobile insurance premiums would decline. However, the effect would probably not be felt until the second year after implementation.

Assuming that 25% of the public elects to participate in the no-fault system, it is estimated that automobile insurance premiums would decrease by 6% for insureds who elect to remain in the current tort system and 10% for insureds who elect to participate in the no-fault system. The overall impact on automobile insurance premiums written in the State would be a decrease of 7%.

The State collects a 2% premium tax on gross direct written premiums. In calendar 1994, the State collected \$46.7 million in premium taxes on automobile insurance premiums of \$2.3 billion. Based on the assumptions provided above, premium tax revenues would decrease \$3.2 million in fiscal 1998.

It is assumed that 50 private passenger motor vehicle insurers, the Maryland Automobile Insurance Fund (MAIF), and the Insurance Services Office would submit no-fault rate and rule filings with the Insurance Commissioner and pay the required \$200 fee (\$100 for each rate filing and \$100 for each rule filing). As a result, general fund revenue would increase by \$10,400 in fiscal 1997. This is a one-time increase and will not occur in future fiscal years.

State Expenditures: The State owns 12,376 vehicles and is self-insured against losses. Over the past three years, the State incurred \$8.3 million in losses or an average annual loss of \$2.8 million. A no-fault automobile insurance system could significantly reduce the State's risks and future claim payments. However, any reduction cannot be reliably estimated at this time.

The Administrative Office of the Courts advises that the bill would have no impact on its operations. However, a no-fault automobile insurance system could reduce the District

Court's case load to the extent that vehicle liability litigation is reduced. Any fiscal impact from this reduction cannot be reliably determined at this time.

The Motor Vehicle Administration would need to modify language in the Driver's Handbook relating to vehicle insurance. The cost of this one-time change would be minimal and could be absorbed within existing resources.

Local Expenditures: Local expenditures could decrease to the extent that a no-fault automobile insurance system would reduce the local unit's insurance premiums or claims. Any reduction is indeterminate at this time, but presumed to be significant.

Maryland Automobile Insurance Fund (MAIF): Assuming that 50% of MAIF's policyholders and 25% of all other insured drivers elect to participate in the no-fault system, MAIF estimates that in the second year following implementation, its bodily injury claim payments would decrease from \$63 to \$38 million. In addition, its bodily injury loss adjustment expenses would decrease from \$6 to \$3.6 million. On the other hand, MAIF's Personal Injury Protection claims would increase by about \$11 million.

Overall, MAIF estimates that its policyholders who elect to remain in the current tort system would experience a 5% to 8% reduction in premiums while its policyholders who elect to participate in the no-fault system would experience a 8% to 12% reduction in premiums.

Information Source(s): Maryland Insurance Administration, Maryland Automobile Insurance Fund, Judiciary (Administrative Office of the Courts), Department of Fiscal Services

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Analysis by: Tina Bjarekull
Reviewed by: John Rixey
(410) 841-3710
(301) 858-3710

Direct Inquiries to:
John Rixey, Coordinating Analyst