

**Department of Fiscal Services**  
Maryland General Assembly

**FISCAL NOTE**

Senate Bill 769 (Senator Bromwell)  
Finance

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**Injured Workers' Insurance Fund - Chesapeake Mutual Insurance Company -  
Property and Casualty Insurance**

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This bill establishes the Chesapeake Mutual Insurance Company (CMIC) as an independent, nonprofit public corporation and the successor to the Injured Workers' Insurance Fund (IWIF). As such, the company succeeds to all property, assets, and liabilities of IWIF. CMIC is to be organized as a mutual corporation and has the authority to establish subsidiaries for the purpose of providing property and casualty insurance to certain employers. The company would retain certain business provided by statute and would remain the workers' compensation insurer of last resort.

The effective date of the bill is July 1, 1996.

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**Fiscal Summary**

**State Effect:** Indeterminate effect on revenues and expenditures. Based on IWIF's December 31, 1995 balance sheet, State assets of \$812.6 million and State liabilities of \$645.0 million would transfer to a nonprofit public corporation.

**Local Effect:** Revenues could decline as discussed below. Expenditures would not be affected.

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**Fiscal Analysis**

**Bill Summary:** Major provisions of the bill include:

- CMIC and its subsidiaries are not departments, units, agencies, or instrumentalities of the State for any purpose. The company's funds are not part of the general funds of the State and the State may not budget for or provide general fund appropriations to the company or its subsidiaries. Any debts, claims, obligations, and liabilities are not debts of the State.

- The company is not subject to any law, regulation, or executive order that affects a governmental unit including: (1) open meeting laws; (2) immunity and liability laws; (3) public ethics laws; or (4) whistleblowers laws. In addition, the company is not subject to: (1) any laws regulating insurance corporations or mutual insurers, except as specifically provided in the bill; or (2) any rate making laws for property, casualty, surety, and marine insurance companies, except as specifically provided in the bill.
- The bill establishes an 11-member CMIC Board. The president of the company will serve as an ex-officio member of the board. The seven persons currently serving as members of the IWIF Board will serve as members of the CMIC Board for the remainder of their five-year terms. The Governor must appoint three additional board members, one for a three-year term, one for a four-year term, and one for a five-year term.
- The company is not required to submit its budget to the Senate Budget and Taxation Committee or the House Appropriations Committee and is not subject to legislative audits. However, the CMIC Board must provide for certain financial audits of the company by an independent accounting firm and must send copies of the audits to the Governor, the Insurance Commissioner, and the Director of the Department of Fiscal Services.
- The employees of the company are not State personnel, but are entitled to participate in the State Employee and Retiree Health and Welfare Benefit Programs. CMIC must pay the employer's portion of the cost for each participating employee. The bill provides for continuing membership for employees of the company or its subsidiaries in the Maryland State Retirement and Pension Systems, including certain health benefits on retirement. Service with IWIF or CMIC are to be considered "State service" in calculating benefits. CMIC must pay the employer's share of the contribution.
- The income of the company or its subsidiaries is not subject to State income tax and the company's workers' compensation line is not subject to insurance premium tax. Additionally, property owned by the company and used exclusively for the purpose of providing workers' compensation insurance is not subject to property tax.

**State Revenues:** Today, IWIF is an active competitor in the workers' compensation industry and controls about 22% of the State's total market. According to a study conducted in 1993, IWIF's premium rates were, on average, 21.3% less than the premium rates charged by the top writers of workers' compensation insurance in the State. IWIF calculates premium rates in a similar manner as private insurers. However, unlike private companies which must pass along profits to stockholders, IWIF uses investment income to defray premium costs. In addition, IWIF is not subject to the same tax standards as the private insurers.

The Injured Workers' Insurance Fund advises that this bill would enable the company to become more competitive. As a result, it is assumed that the company would capture a larger share of the workers' compensation market. Private insurers must pay premium taxes to the State. CMIC's workers' compensation line would not be subject to the premium tax. Therefore, to the extent that CMIC captures workers' compensation business from private insurers, premium tax revenues for the State would decline.

**State Expenditures:** On its December 31, 1995 balance sheet statement, IWIF lists assets of \$812.6 million, liabilities of \$645.0 million, and equity of \$167.6 million. Under this bill, all property, assets, and liabilities of the Injured Workers' Insurance Fund would succeed to the Chesapeake Mutual Insurance Company. Since CMIC would not be an entity of the State, total State resources would decline accordingly.

The Injured Workers' Insurance Fund is a self-supporting, off-budget agency. Therefore, eliminating this fund and establishing the Chesapeake Mutual Insurance Company would not have an immediate effect on State expenditures. However, the State, by statute, must secure workers' compensation coverage through IWIF and subsequently CMIC. It is estimated that the State will contribute over \$36.5 million to IWIF in fiscal 1996. Any adverse or favorable experience by CMIC could affect the State's contribution rate and future State expenditures.

**Local Revenues:** Property of the Chesapeake Mutual Insurance Company used exclusively to provide workers' compensation insurance would not be subject to property taxes. To the extent that the company purchases privately owned property, local revenues would decline by an amount equal to the private party's property tax assessment.

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**Information Source(s):** Workers' Compensation Commission, Injured Workers' Insurance Fund, Department of Fiscal Services

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