SB 412

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 412 (Chairman, Finance Committee)
(Departmental - Maryland Insurance Administration)
Finance Referred to Economic Matters

Maryland Insurance Administration - Funding Mechanism

This amended departmental bill establishes an alternative funding mechanism for the Maryland Insurance Administration (MIA). Most fees currently collected are replaced with one annual fee, which is apportioned in relation to the percentage of total premiums written by an insurer during a year. The total amount collected is equal to MIA's total budget, as determined by the annual budget process. The annual insurance regulation fee will be phased in over a three-year period.

The bill takes effect June 1, 1997.

Fiscal Summary

State Effect: Assuming that one-third of the current fees collected by MIA would be eliminated in each year of a three-year phase-in of the new insurance regulation fee, general and/or special fund revenues would decrease approximately $4.83 million (one-third of the proposed FY 1998 budget) in FY 1998, with a commensurate increase in revenues from the new annual fee. General fund revenues could increase up to $1 million in FY 1998 only, as discussed below. Future year revenues depend on the phase-in method and MIA's total budget, as determined by the annual budget process. There would be administrative savings to MIA from the reduction in the number of checks to be processed as discussed below.

Local Effect: None.

Maryland Automobile Insurance Fund (MAIF): Increase in expenditures of about $25,600 due to increased amount of fees paid to MIA as discussed below.

Small Business Effect: MIA has determined that this bill has minimal or no impact on small businesses. Fiscal Services concurs with the attached assessment, but notes there is a potential meaningful impact on a limited number of small businesses as discussed below. (The attached assessment does not reflect amendments to the bill.)

Fiscal Analysis

Bill Summary: The bill establishes an Insurance Regulation Fund as a special fund within the State budget, with a segregated account for the fraud division. The bill establishes an insurance regulation fee, due on or before July 31 of each year, to be imposed instead of all other fees by MIA, except for the fees for certificates of qualification for insurance professionals, services of legal process, and copies of documents on file in the Commissioner's Office. The insurance regulation fee is in addition to any penalties or premium tax imposed. Fines and penalties continue to be general fund revenues. The total fee to be collected (1) equals the total MIA budget as determined by the annual budget process minus other revenue projected to be collected and any fund balance carried forward from the previous fiscal year; and (2) is apportioned in relation to the percentage of gross direct premiums written by an insurer in a year. The bill specifies that the total assessment may not exceed .15% of the total amount of adjusted new and renewal gross direct premiums written in the State by all insurers. The bill also establishes a formula for a ceiling on MAIF's fee. The minimum fee is $2,500, except for fraternal benefit societies and workers' compensation self-insurance groups for whom the minimum is $500 and $1,500, respectively. Excess fees collected above the total budget will be carried over to reduce the fee imposed for the following year. The State Treasurer is the custodian of the fund. The bill also makes the fees for certificates of qualification for all insurance professionals uniform. The bill establishes an 11-member Advisory Committee on Regulatory Costs and Efficiency to monitor costs incurred by MIA to regulate the insurance business.

The bill also specifies that the insurance regulation fee will be phased in over a three-year period according to a method adopted by MIA and requires MIA to report to the Senate Finance and House Economic Matters Committees by June 1, 1997 on the phase-in method.

Background: In response to a request in the 1996 Joint Chairmen's Report, Fiscal Services evaluated the current funding mechanism for MIA. It was determined that the use of an assessment mechanism, where the agency's total budget is allocated across insurance companies based on volume of activity, would address the issues of (1) the cumbersome nature of the agency's budget with its combination of special and general funds; and (2) the question of whether fees paid by the insurance industry match the costs of regulation. Fiscal Services determined that MIA's fee revenues have closely matched MIA's budget in recent years, with the notable exception of fiscal 1996. In fiscal 1996, the merger of two large insurance companies resulted in an unexpected windfall of about $2 million in fees. The

correlation between fees paid by the insurance industry and MIA's budget in recent years has been achieved without a mechanism forcing parity. This parity could be lost if changes in the insurance industry change the magnitude of fees collected or if the agency's budget increases or decreases significantly.

The fiscal 1998 budget allowance for MIA is $14.5 million, with $11.8 million from general funds and $2.7 million from special funds.

State Revenues: Assuming that one-third of the current fees collected by MIA would be eliminated in each year of a three-year phase-in of the new insurance regulation fee, general and/or special fund revenues would decrease approximately $4.83 million (one-third of the proposed fiscal 1998 budget) in FY 1998. (Whether general or special funds are affected depends on which fees are eliminated first.) Assuming that the phase-in method would be revenue-neutral, there would be a commensurate increase special fund revenues. It is assumed that another third of current fees would be eliminated in the second year, with a commensurate increase in revenues from the new insurance regulation fee. Then, in the third year all current fees for insurance companies would be eliminated, and the revenue would be replaced with the new insurance regulation fee. Future year revenues would depend on (1) MIA's total budget, as determined by the annual budget process; and (2) the total amount of premiums written in the State. Based on current premiums of about $11.2 billion, the maximum total assessment allowed under the bill (.15% of total premiums) would be about $16.8 million.

It is noted that there could be a one-time increase in general fund revenues due to the timing of the privatization of licensing activities set to begin in May 1997 and the effective date of the bill. MIA estimates that approximately $1 million in agent licensing fees will be collected in fiscal 1997, rather than fiscal 1998, under the privatized system for licensing insurance professionals. Whereas under the current fee system MIA's fiscal 1998 budget would be subsidized by the general fund, under the assessment mechanism the funds needed would be assessed to the insurance companies. Based on this, general fund revenues could increase up to $1 million in fiscal 1998 only.

State Expenditures: There would be administrative savings from the reduction in the number of checks to be processed from about 317,000 per year to 2,000 in even years and 58,000 in odd years (the fees for insurance professionals' certificates of qualification are due every other year). The full savings would not be realized until the third year, when the fee is fully phased in. Since MIA abolished the position of its only Revenue Accountant as a result of the retirement of the employee under Senate Bill 1 of 1996, MIA advises that the reduction in the number of checks will allow the agency to once again manage the workload in compliance with the Comptroller's deposit procedures.

Advisory committee members would be reimbursed for expenses under the State travel regulations. Any such expenditures would depend upon the time, location, and frequency of the committee's meetings. Expenses are assumed to be minimal and absorbable within existing agency resources.

In general, expenditures for MIA would not be affected by the bill. The fiscal 1998 allowance is a combination of general and special funds. Under this bill, after the new fee is fully phased in, the total budget of MIA would instead come entirely from the new Insurance Regulation Fund. State expenditures for MIA would continue to be determined by the annual budget process.

Maryland Automobile Insurance Fund (MAIF): Based on MAIF's estimated premiums for 1997 and the formula for a ceiling on MAIF's fee included in the bill, it is estimated that MAIF's annual fee would average about $67,585, after the new fee is fully phased in. In part due to the fact that there are several MIA services that MAIF does not use due to its unique position in the market, MAIF currently pays only about $42,000 per year in fees to MIA. Thus, MAIF's expenditures for regulatory fees to MIA would increase about $25,585 per year. The amount MAIF would pay during the phase-in period would depend on which fees are eliminated first.

Small Business Effect: To the extent that the few insurers that are small businesses face increased fees, there could be a meaningful impact on those small businesses. It is known that at least one title insurer as well as two nonprofit vision plans and a few nonprofit dental plans are small businesses. It is noted that any change in fees for small businesses could be mitigated, at least initially, by a three-year phase-in of the insurance regulation fee. The actual effect would depend on which fees are eliminated first.

Information Source(s): Maryland Automobile Insurance Fund, Maryland Insurance Administration, Department of Fiscal Services

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