HB 1424

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1424 (Delegate La Vay)
Economic Matters

Applicability of Insurance Article to Injured Workers' Insurance Fund

This bill provides that the Injured Workers' Insurance Fund is considered an insurer and is subject to regulations by the Insurance Commissioner under the Insurance Article.

Fiscal Summary

State Effect: General fund revenues would increase at least $2.31 million in FY 1998; future year increases reflect growth. General fund expenditures would increase $44,700 in FY 1998; future year increases reflect annualization and inflation. Off-budget expenditures (not reflected in the chart below) by the Injured Workers' Insurance Fund (IWIF) would increase about $2.44 million in FY 1998. Minimal increase in State workers' compensation expenditures, as discussed below.

(In dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$2,312,900	$2,382,200	$2,453,700	$2,527,300	$2,603,100
GF Expenditures	44,700	56,400	58,000	59,800	61,600
Net Effect	$2,268,200	$2,325,800	$2,395,700	$2,467,500	$2,541,500

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Potential indeterminate increase in workers' compensation costs for local governments that provide coverage through IWIF, as discussed below.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

State Revenues: Assuming IWIF would be subject to the 2% insurance premium tax, general fund revenues would increase $2.3 million in fiscal 1998. This estimate is based on IWIF's net premiums earned of $109 million in 1996 and assumes 3% growth in premiums. It is noted that IWIF's net premiums earned do not include reimbursements paid by the State. Reimbursements paid by the State to IWIF as a third party administrator would not be considered premiums for purposes of the premium tax. State revenues would also increase $100 annually due to the rate filing fee that would be paid by IWIF and by an indeterminate amount for other fees.

State Expenditures: General fund expenditures could increase by an estimated $34,694 in fiscal 1998, which accounts for the bill's October 1, 1997 effective date. This estimate reflects the cost of MIA hiring one half-time financial analyst (MIA Specialist I) and one half-time field examiner (MIA Specialist II) to perform examinations for solvency and compliance. The estimate includes salaries, fringe benefits, and operating expenses. In addition, MIA often uses the services of outside actuarial consultants to review major rate filings. MIA estimates the cost to review IWIF's rate filing would be $10,000 annually.

Salaries and Fringe Benefits	$34,619
Outside Actuarial Consultants	10,000
Operating Expenses	75
Total FY 1998 MIA Expenditures	**$44,694**

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; (2) 2% annual increases in ongoing operating expenses; and (3) ongoing actuarial costs.

In addition, MIA advises that an increase in complaints would necessitate hiring at least one additional insurance investigator (MIA Specialist I) at a cost of about $44,000 per year, including salary, fringe benefits, and operating expenses. However, Fiscal Services advises that any need for additional investigators depends on any increase in the number of complaints, which cannot be reliably estimated at this time. Last year 11 investigators handled an average of 1,316 complaints each for MIA.

IWIF, an off-budget State agency that administers workers' compensation for the State and provides such insurance to firms unable to procure insurance from private sector insurers, reports that in addition to increased expenditures for the premium tax, an additional $133,000 in operating expenses would be required to comply with MIA requirements. According to IWIF, $33,000 represents one-third of the cost of a triennial audit by MIA, $50,000 would be required to maintain a separate accounting system on a statutory basis, and another $50,000 would be required to prepare an annual statement required by MIA. These increases in IWIF's expenditures, including the premium tax, would be reflected subsequently in higher rates to its insureds.

As an employer, the State provides workers' compensation coverage on a reimbursement basis, rather than on an insurance basis. Since the reimbursements by the State to IWIF would not be subject to the premium tax, any additional costs to the State would only be based on IWIF's increased administrative costs. Any such increase is assumed to be minimal.

Local Expenditures: The bill could result in increased premiums for local governments that purchase workers' compensation insurance from IWIF. While most counties are self-insured, counties that are insured through IWIF could face increased premiums as IWIF passes along the cost of the premium tax and administrative expenses to its customers.

Small Business Effect: IWIF policyholders, which are predominately small businesses, could face increased premiums as IWIF passes along the cost of the premium tax and administrative expenses to its customers.

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

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