Department of Legislative Services

Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 705 (Senators Derr and Astle)
Finance

Maryland Insurance Administration - Funding

This bill establishes the Insurance Regulation Fund. Most of the fees collected by the Maryland Insurance Administration that are currently considered general funds will be deposited into this new special fund. All premium taxes, retaliatory taxes, and penalties will continue to accrue to the general fund.

This bill also repeals the valuation fees currently collected by the Maryland Insurance Administration (MIA) and instead, establishes an annual assessment fee on insurers. The bill specifies that the fee is to be apportioned in relation to the percentage of total premiums written by an insurer during the prior year, with 45% of the total assessment paid by health insurers, 27.5% paid by life insurers, and 27.5% paid by property and casualty insurers. The fee is to be deposited into the new Insurance Regulation Fund and is due on or before July 1 of each year. The total assessment equals the annual budget appropriation for MIA less specified fees collected. The assessment may not exceed 40% of the budget appropriation. The Insurance Commissioner may assess penalties and interest on any carrier that does not pay its assessment fee on time. The bill requires each insurer to file by March 1 of each year a report of new and renewal gross direct written premiums.

The creation of the Insurance Regulation Fund and the new method for determining the insurance assessment fee are effective April 1, 1999. The change in the agent and broker fees and rate and form filing fees are effective on July 1, 1999. Before July 1, 1999, the current methodology for funding the MIA, as established in Chapter 685 of 1997, remains in effect.

Fiscal Summary

State Effect: Beginning in FY 2000, general fund revenues would decrease by an estimated $12.4 million with an offsetting increase in special fund revenues of $13.2 million.

Local Effect: None.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Bill Summary: The bill also reduces agent and broker filing fees and increases form filing fees from $100 to $125. Under the bill, HMOs will also pay form filing fees. MIA continues to collect current fees for certificates of authority, agent/broker licencing, financial examinations, and market conduct examinations. The amount currently collected from the insurance fraud fee will accrue to the Insurance Regulation Fund. The bill includes a provision that gives domestic insurers a credit against any retaliatory taxes that the insurer may pay to another state as a result of the insurer having to pay the assessment fee. The bill also allows HMOs and nonprofit health services plans to "file and use" certain insurance product forms that are effective on the date of filing with the commissioner. The commissioner is required to study the feasibility of allowing property and casualty insurers to "file and use" their forms.

The bill also establishes a fixed four-year term of office for the commissioner and authorizes removal by the Governor only for malfeasance, incompetence, or failure to carry out the duties of the office. For the commissioner serving on June 1, 1998, the initial term of office is five years.

Background: During the 1997 Session, MIA supported departmental legislation which would have replaced most of the fees currently charged by the agency with one annual fee, apportioned in relation to the percentage of total premiums written by an insurer during a year. The total amount collected would have been equal to MIA's total budget, as determined by the annual budget process. As enacted, Chapter 685 of 1997 only repealed the valuation fees and instead imposed a fee on all insurers based on the amount of valuation fees collected in fiscal 1997 and set a sunset date of June 30, 1998. This allocated $1.4 million (based on the fiscal 1997 valuation fees collected) to all insurers in proportion to premiums written, instead of applying only to domestic life insurers. The statute also established an advisory committee of industry, General Assembly, and MIA representatives to study funding mechanisms for MIA. The committee was charged with developing a proposal which:

- apportions the cost of regulation fairly and equitably among the regulated entities;

- takes into account the economic impact of the mechanism;
- reduces the current cost of imposing and collecting fees; and
- takes into account possible retaliatory actions by other states.

State Effect: Based on MIA's estimated fiscal 1999 revenue collections and the fiscal 1999 $15.2 million budget appropriation, beginning in FY 2000, general fund revenues would decrease by an estimated $12.4 million with an offsetting increase in special fund revenues of $13.2 million. This reflects:

- changing an estimated $11 million in fees from the general fund to the new special fund;
- an estimated $2 million decrease in revenue from the lowering of agent and broker fees;
- an estimated $750,000 increase in revenue from the increasing and expansion of form filing fees;
- the repeal of the valuation fee, an estimated $1.4 million in revenue; and
- the new assessment on insurance companies, estimated to be about $3.5 million.

It is noted that the actual assessment depends on whether any retaliatory tax credits are granted.

The extension of the sunset on Chapter 685 of 1997, which repeals the valuation fees and imposes a fee on all insurers based on the total valuation fees collected by MIA for fiscal 1997 to June 30, 1999, would not substantively affect State finances. MIA would continue to collect the estimated $1.4 million.

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.

Information Source(s): Maryland Insurance Administration, Maryland Automobile Insurance Fund, Department of Health and Mental Hygiene, Department of Legislative Services

Fiscal Note History:	First Reader - March 2, 1998
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Analysis by:	Sarah Dickerson	Direct Inquiries to:
Reviewed by:	John Rixey	John Rixey, Coordinating Analyst
		(410) 841-3710
		(301) 858-3710