HB 1106

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 1106 (Delegates Busch and Gordon)
Economic Matters

Maryland Insurance Administration - Funding

This bill repeals the valuation fees and rate and form filing fees currently collected by the Maryland Insurance Administration (MIA). Instead, the bill establishes an annual assessment fee on insurers to be collected by MIA. 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 44.33% of the total assessment paid by health insurers, 22.33% paid by life insurers, and 33.33% paid by property and casualty insurers. The fee is to be deposited into the new Insurance Regulation Fund and is due on or before August 31 of each year. The total assessment equals the annual budget appropriation for MIA less certain fees collected and may not exceed 30% of the budget appropriation. These provisions of the bill are effective July 1, 1999.

The bill also extends the sunset date on the repeal of the valuation fees and on the imposition of a fee on all insurers operating in the State based on the total valuation fees collected by MIA for fiscal 1997 to June 30, 1999. The bill also extends the sunset date on the advisory committee established by Chapter 635 of 1997 to May 31, 1999. These provisions are effective June 1, 1998.

Fiscal Summary

State Effect: General fund revenues would decrease by an estimated $3.4 million from the elimination of the valuation fees and rate and form filing fees and special fund revenues would increase about $4.6 million annually beginning in FY 2000 from the new assessment fee, depending on MIA's budget appropriation and revenues from other fees. MIA could realize some administrative savings.

Maryland Automobile Insurance Fund (MAIF): Increase in expenditures of about $44,000 annually beginning in FY 2000 due to the new assessment fee.

Local Effect: None.

Small Business Effect: Potential meaningful.

Fiscal Analysis

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 As enacted, Chapter 685 of 1997 only repealed the valuation fees and instead imposed a fee on all insurers based on the amount of valuation fees collected in fiscal 1997 and set a sunset date of June 30,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: According to MIA, based on fiscal 1997 actual figures, repealing the valuation fees and rate and form filing fees would result in a decrease of $3.2 million annually beginning in fiscal 2000. Legislative Services advises that based on MIA's estimated fiscal 1999 revenue collections, repealing the valuation fees and rate and form filing fees would result in a decrease of $3.4 million annually beginning in fiscal 2000.

MIA advises that the new assessment fee would result in an offsetting increase in special fund revenues of $3.2 million based again on fiscal 1997 actual figures. However, Legislative Services advises that as drafted, the bill specifies that the new assessment fee equals the budget appropriation less fees collected under Section 2-112 of the Insurance Article. Using estimated revenues for fiscal 1999, company licensing fees, agent broker licensing fees, and miscellaneous fees under that section would generate about $6.2 million against the agency's proposed fiscal 1999 budget of $15.4 million. (The fraud prevention fees and financial/market conduct examination fees are not collected under Section 2-112.) Using these estimates, the budget appropriation less the fees collected would exceed 30% of the budget appropriation. Thus, due to the bill's 30% cap, special fund revenues would increase by $4.6 (30% of $15.4 million) million annually beginning in fiscal 2000. The actual amount would depend on the fiscal 2000 budget appropriation and fee collections.

MIA could realize some administrative savings from the decreased number of checks to be processed each year.

The extension of the sunset on the repeal of the valuation fees and on the imposition of 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 $1.4 million.

The extension of the sunset date on the advisory committee is not expected to affect MIA's finances. Committee members would be reimbursed for expenses under the standard State travel regulations. Any such expenditures would depend upon the time, location, and frequency of the committee's meeting. Expenses are assumed to be minimal and absorbable within existing agency resources.

Maryland Automobile Insurance Fund (MAIF): MAIF, a non-budgeted agency that functions as the auto insurer of last resort, expects that MAIF would owe MIA an additional $44,000 annually beginning in fiscal 2000.

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.

Additional Comments: According to MIA, the percentages to be paid by the different types of companies (44.33% by health insurers, 22.33% by life insurers, and 33.33% by property and casualty insurers) reflect the amount of time and resources that MIA spends regulating the different types of companies and are intended to distribute the costs of regulation in a more equitable manner. MIA expects life insurers that currently pay the valuation fees to see a reduction in the amount they pay. Health insurance companies will likely bear the burden of that reduction. The amount paid by property and casualty companies is expected to remain about the same.

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

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