

Department of Legislative Services  
 Maryland General Assembly  
 1999 Session

FISCAL NOTE

House Bill 843 (Delegate Barve. *et al.*)

Economic Matters

---

**Injured Workers' Insurance Fund - Regulation by Insurance Commissioner Under Insurance Article**

---

This bill requires that the Injured Workers' Insurance Fund (IWIF) be deemed an insurer subject to regulation by the Insurance Commissioner and requires IWIF to pay the premium tax on insurers. The bill requires IWIF to become a member of the Property and Casualty Insurance Guarantee Corporation and repeals exceptions for IWIF regarding prior approval rate setting and competitive rating. IWIF would no longer be subject to unique provisions relating to audits, rate setting, and policy form filing; instead it would be subject to the same provisions that govern other workers' compensation insurers.

---

**Fiscal Summary**

**State Effect:** Increase in premium tax revenues (general funds) of \$1.4 million in FY 2000, increasing 3% per year thereafter. Increase in special fund revenues (from assessments and filing fees) to equal special fund expenditures associated with regulatory oversight of IWIF by Maryland Insurance Administration.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	\$1,400,000	\$1,442,000	\$1,485,300	\$1,529,800	\$1,575,700
SF Revenues	22,300	29,900	31,000	32,200	33,400
GF Expenditures	0	0	0	0	0
SF Expenditures	22,300	29,900	31,000	32,200	33,400
Net Effect	\$1,400,000	\$1,442,000	\$1,485,300	\$1,529,800	\$1,575,700

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

**Local Effect:** Potential significant increase in workers' compensation premiums for local governments that purchase insurance from IWIF, if IWIF passes on additional costs of regulation.

**Small Business Effect:** Meaningful. Potential significant increase in workers'

compensation premiums for small businesses that purchase insurance from IWIF, if IWIF passes on additional costs of regulation.

---

## Fiscal Analysis

**Background:** IWIF is an off-budget State agency that administers workers' compensation for the State and also provides workers' compensation insurance to firms unable to procure insurance in the private market.

**State Revenues:** Making IWIF subject to the 2% insurance premium tax would increase general fund revenues from the premium tax by \$1.4 million in fiscal 2000. This estimate is based on IWIF's forecasted net premiums earned of \$70.0 million in calendar 1999. (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.) It is assumed that the full tax would be collected, despite the October 1 effective date. Premium revenues, and the associated premium tax, are assumed to grow by 3% annually in the out-years.

The Maryland Insurance Administration (MIA) advises that beginning in fiscal 2000, it will impose an assessment on all insurers to cover the expenses of regulation. MIA was unable to estimate the assessment to which IWIF would be subject. It is therefore assumed that the assessment, and resulting special fund revenue, would simply cover the costs of the additional expenditures discussed below, or \$22,293 in fiscal 2000. In addition, State special fund revenues to MIA would increase \$125 annually due to IWIF's rate filing fee.

**State Expenditures:** The insurance administration advises that it will require an additional one-half position for an insurance investigator (MIA Specialist I) to investigate consumer complaints regarding IWIF. Special fund expenditures could increase by an estimated \$22,293 in fiscal 2000, which accounts for the bill's October 1, 1999 effective date. The estimate includes salaries, fringe benefits, and operating expenses. Future year expenditures reflect full-year salaries with 3.5% annual increases and 3% employee turnover and 1% annual increases in ongoing operating expenses.

From IWIF's perspective, in addition to increased expenditures for the premium tax, rating filing fee, and assessment, IWIF would incur other operating costs to comply with the bill's requirements. IWIF advises that it estimates its annual assessment to the Property and Casualty Insurance Guarantee Corporation would be \$160,000, plus an annual fraud prevention fee of \$1,000. IWIF would be required to join an insurance rating organization such as the National Council on Compensation Insurance (NCCI). NCCI estimates such dues at between \$160,000 and \$192,000 per year. In addition, IWIF advises that it would need to hire an additional accountant and purchase special software for statutory compliance, at an

estimated cost of \$70,000.

These additional costs, however, would be offset somewhat by approximately \$80,000 in savings from reduced in-house rate-making costs (which would now be performed by NCCI or another organization.) The total direct impact on IWIF is illustrated below:

<b>HB 843 - Additional IWIF Costs and Savings</b>		
	<b>Amount</b>	<b>Paid to</b>
Premium Tax	\$1,400,000	State GF
Filing Fee	\$125	State SF
Assessment	\$22,168	State SF
Membership Assessment	\$160,000	PCIGC
Fraud Prevention Fee	\$1,000	PCIGC
NCCI Dues	\$160,000 to \$192,000	NCCI
Additional Admin. Costs	\$70,000	Internal
Reduced Rate-Setting Costs	(\$80,000)	Internal
<b>Total</b>	<b>\$1,733,293 to \$1,765,293</b>	

These increases in IWIF's expenditures, including the premium tax, would be reflected subsequently in higher rates to its insureds. IWIF advises that the resulting rate increases would cause it to lose certain favorable business to private carriers, resulting in lost revenue of approximately \$500,000 per year. Legislative Services has no way of verifying this conclusion.

As an employer, the State provides workers' compensation coverage on a reimbursement basis, rather than on an insurance basis. The reimbursements by the State to IWIF therefore would not be subject to the premium tax. IWIF's increased administrative costs should not be applied to its administration of the State program because the bill applies solely to IWIF's role as an insurer.

**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. The majority of IWIF's 24,000 policyholders are small businesses. IWIF advises that premiums for these small businesses could increase by 12% on average.

---

**Information Source(s):** Injured Workers' Insurance Fund; Maryland Insurance Administration; National Council on Compensation Insurance, Inc.; Department of Legislative Services

**Fiscal Note History:** First Reader - March 10, 1999

ncs/jr

---

Analysis by: Matthew D. Riven

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 946-5510

(301) 970-5510