Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 21 (Delegate Kittleman)
Economic Matters

Injured Workers' Insurance Fund - Regulation by Maryland Insurance Administration and Payment of Premium Taxes

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 Exceptions for IWIF regarding prior approval rate setting and competitive rating are repealed.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

Fiscal Summary

State Effect: Increase in premium tax revenues (general funds) of $1.6 million in FY 2001, 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 the Maryland Insurance Administration.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	$1,600,000	$1,648,000	$1,697,400	$1,748,400	$1,800,800
SF Revenues	$43,000	$52,400	$55,900	$57,500	$60,200
SF Expenditures	$43,000	$52,400	$55,900	$57,500	$60,200
Net Effect	$1,600,000	$1,648,000	$1,697,400	$1,748,400	$1,800,800

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.

Analysis

Current Law: IWIF is an off-budget State agency. IWIF is subject to a fiscal audit of its accounts and transactions every year, a compliance audit every two years, and a statutory audit at least every three years by the Legislative Auditor. IWIF's board is required to provide the Governor with an annual report containing: (1) the fund's conditions and expenses; (2) the fund's growth; (3) changes in the fund's earned premiums; (4) changes in the number of policyholders; (5) the degree of the fund's personnel flexibility; (6) trends in the overall market share; and (7) trends in the premium to expense ratio.

Background: IWIF administers workers' compensation for the State and provides workers' compensation insurance to firms unable to procure insurance in the private market. IWIF was established as the State Accident Fund, part of the State Industrial Accident Commission. In 1941, it became a separate agency and took its current name in 1990.

State Revenues: Making IWIF subject to the 2% insurance premium tax would increase general fund revenues from the premium tax by $1.6 million in fiscal 2001. This estimate is based on IWIF's forecasted net premiums earned of $80.0 million in calendar 2000. 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, 2000, 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) is a special fund agency. It receives its revenues from filing fees and an annual assessment on insurers. Costs associated with this bill not accounted for by filing fees would be passed on to property and casualty insurers, including IWIF, through an increase in MIA's annual assessment. MIA estimates that IWIF will have one or two filings annually that would be subject to the $125 rate and form filing fee.

State Expenditures: The bill would require regulation and auditing by MIA, including reviewing and processing of periodic financial filings, licensing filings, periodic full-scope financial examinations every three to five years, and limited scope examinations as deemed necessary. MIA would also expect to handle additional complaints because of the bill. Special fund expenditures could increase by an estimated $43,000 in fiscal 2001, which accounts for the bill's October 1, 2000, effective date. This estimate reflects the cost of hiring one analyst to handle complaints about IWIF. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

For IWIF, in addition to increased expenditures for the premium tax, rate and form filing fees, and assessment, it would incur other operating costs to comply with the bill's requirements. IWIF 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 approximately $550,805 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:

HB 21 - Additional IWIF Costs and Savings		
	Amount	**Paid to**
Premium Tax	$1,600,000	State GF
Filing Fee	$250	State SF
Assessment	$22,168	State SF
Membership Assessment	$160,000	PCIGC
Fraud Prevention Fee	$1,000	PCIGC
NCCI Dues	$550,805	NCCI
Additional Admin. Costs	$70,000	Internal
Reduced Rate-Setting Costs	($80,000)	Internal
Total	**$2,324,223**	

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 10% on average.

Additional Information

Prior Introductions: A substantially similar bill was introduced in the 1999 session as HB 843 and received an unfavorable report from the House Economic Matters Committee.

Cross File: None.

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

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