

**Department of Legislative Services**  
 Maryland General Assembly  
 2000 Session

**FISCAL NOTE**  
**Revised**

Senate Bill 881 (Senator Bromwell)

Finance

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**Injured Workers' Insurance Fund - Regulation**

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This bill requires the Injured Workers' Insurance Fund (IWIF) to become a member of the Property and Casualty Insurance Guarantee Corporation and requires the Insurance Commissioner to ensure that IWIF meets the solvency standards for a workers' compensation insurer before becoming a member of the corporation. The bill increases the number of IWIF board members to nine and the number of board members required to take action to five. The bill repeals provisions of law making the State Treasurer the custodian of the fund. IWIF would no longer be subject to unique provisions relating to audits by the Legislative Auditor, open meetings and public information, and policy form filing. Instead, IWIF would be subject to limited regulation in specified areas by the Maryland Insurance Administration (MIA), including rate setting, form filings, risk based capital standards, enforcement and auditing, and unfair trade practices. The bill restricts the enforcement actions that the Commissioner may take.

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**Fiscal Summary**

**State Effect:** Increase in special fund revenues (from assessments and filing fees) to equal special fund expenditures associated with regulatory oversight of IWIF by MIA.

| (in dollars)    | FY 2001  | FY 2002  | FY 2003  | FY 2004  | FY 2005  |
|-----------------|----------|----------|----------|----------|----------|
| 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      | \$0      | \$0      | \$0      | \$0      | \$0      |

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

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

**Small Business Effect:** Minimal.

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## 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. IWIF is directed by seven commissioners who serve five-year terms and are appointed by the Governor with the advice and consent of the Senate.

The expenses incurred by MIA in an examination of an insurer, including travel, a living expense allowance, and a per diem for examiners, actuaries, and typists, must be paid by the insurer.

**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.

During the 1999 interim, the Governor established a Task Force to Study IWIF. The task force issued interim recommendations, including oversight by MIA, on November 1, 1999. The task force's final report is due June 30, 2000.

**State Fiscal Effect:** The bill would require limited regulation and auditing by MIA, including reviewing and processing of periodic financial filings, licensing filings, and periodic full-scope financial and market conduct examinations every three to five years. MIA advises that a typical MIA market conduct examination costs approximately \$12,000 and that a typical financial examination costs approximately \$100,000. 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.

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.

IWIF would incur increased expenditures for rating and form filing fees, MIA's examination expenses, and an annual assessment of approximately \$22,168, in addition to 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 approximately \$160,000, plus an annual fraud prevention fee of \$1,000. In addition, IWIF advises that it would need to hire an additional accountant, to purchase special software for statutory compliance, and to incur the costs associated with the additional board members, at an estimated cost of \$110,000. These increases in IWIF's expenditures 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. 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.

**Small Business Effect:** The majority of IWIF's policyholders are small businesses. IWIF advises that premiums for these small businesses could increase by 1% as IWIF passes along the cost of administrative expenses to its customers.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 980 (Delegates Busch and Brown) - Economic Matters.

**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

**Fiscal Note History:** First Reader - March 13, 2000  
jir/jr Revised - Senate Third Reader - March 30, 2000  
Revised - Enrolled Bill - May 3, 2000

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