SB 472

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

Senate Bill 472 (Chairman, Finance Committee)
Finance Economic Matters

Maryland Insurance Administration - Program Evaluation

This bill alters the way that the Maryland Insurance Administration (MIA) is funded. The bill requires MIA's annual report to be completed by December 31 of each year and requires the next sunset review of MIA to be completed on or before July 1, 2012.

The bill is effective July 1, 2002.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately $333,400 annually beginning in FY 2003, offset by an equal increase in special fund revenues for MIA.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	($333,400)	($334,500)	($335,700)	($336,800)	($337,900)
SF Revenue	333,400	334,500	335,700	336,800	337,900
Expenditure	$0	$0	$0	$0	$0
Net Effect	$0	$0	$0	$0	$0

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill requires the Commissioner's annual report to include information on the operations and on the complaints and cases filed with the Insurance

Fraud Division in the previous fiscal year. The bill requires the annual report to be prepared by December 31 of each year.

The bill repeals the fees for appointments and terminations of insurance producers. The bill requires that the assessment on insurers equal 60% of MIA's budget appropriation. The bill changes: (1) the health insurer portion to 40% of the assessment; (2) the life insurer portion to 26% of the assessment; and (3) the property and casualty portion to 34% of the assessment. The bill requires that the annual assessment be paid by a date to be determined by the Commissioner. The bill authorizes MIA to establish a reserve equal to 5% of its budget. The bill authorizes an additional assessment if MIA's revenues are insufficient to cover MIA's expenditures because of an unforeseen emergency.

The bill requires MIA to deposit each quarter the amount necessary to administer the State's insurance premium tax laws in the previous quarter into an administrative account.

The bill requires MIA to report to the House Economic Matters Committee and the Senate Finance Committee by October 1, 2002 on the implementation of the recommendations from the evaluation report prepared by the Department of Legislative Services (DLS).

Current Law: MIA is special-funded through the Insurance Regulation Fund. MIA regulates the insurance industry in the State and collects the 2% insurance premium tax, which goes to the State's general fund. Although MIA is subject to review under the Program Evaluation Act, MIA does not have a sunset provision in its enabling statute.

At least 60% of MIA's funding must come from fee revenues, including licensing fees, the $125 rate and form filing fees, fraud prevention fees, the $15 appointment fee and the $5 termination fee for independent producers, and examination fees. The remainder of MIA's funding comes from an assessment on insurers, expressed as a percentage of written premium with a minimum $300 assessment per insurer. The total assessment fee amount is capped at 40% of MIA's budget appropriation. The assessment is apportioned by class of insurers as follows: (1) health insurers 45%; (2) life insurers 27.5%; and (3) property and casualty insurers 27.5%. The assessment fee is due by July 1 of each year. If the amount of the assessment exceeds MIA's actual appropriation, the excess amount is carried forward within the Insurance Regulation Fund for the purpose of reducing the assessment imposed for the following fiscal year. If the amount of the assessment fee revenue is insufficient to cover MIA's expenditures, an additional assessment may be made if: (1) the shortfall is because of an unforeseen emergency; and (2) expenditures are made under the State's budget amendment procedures. MIA does not retain any part of the insurance tax revenues it collects to cover the costs of collecting the revenues.

Background: During the 2001 interim, DLS conducted a full evaluation of MIA under the Program Evaluation Act. This bill embodies some of the statutory recommendations developed by DLS during the evaluation. In addition to its statutory recommendations, DLS made various nonstatutory recommendations, including maintaining a high-quality staff to perform MIA's functions, addressing the lack of an appropriate MIA administrative hearing room, and enhancing communication lines with licensees.

State Fiscal Effect: The bill authorizes MIA to retain its costs to collect the 2% insurance premium tax. MIA estimates that its annual costs to collect the tax are approximately $333,400, which represents MIA's personnel and administrative costs in collecting the tax. This would result in an annual decrease in general fund revenues from the premium tax and an equal increase in revenues to the Insurance Regulation Fund.

The Budget Reconciliation and Financing Act, SB 323, transfers $2 million from the Insurance Regulation Fund to the general fund. In an audit released in January 2002, the Office of Legislative Audits identified approximately $1 million of licensing fees from July 1999 that were inadvertently deposited into the Insurance Regulation Fund rather than the general fund. Those moneys would be part of the $2 million transferred to the general fund by the Budget Reconciliation and Financing Act. In addition, the audit identified $4.4 million in the fund attributable to MIA's assessment fees. Of that, approximately $1.7 million has been approved in a budget amendment for computer system enhancements and expenses related to the CareFirst conversion. This reduces the excess amount that would be credited to the fund to reduce future assessments to $2.7 million. The remaining $1 million of the $2 million transfer to the general fund under SB 323 would further reduce the excess to $1.7 million.

MIA advises that the bill would require one additional part-time position at a cost of $19,700 in fiscal 2003. DLS disagrees with this assessment. MIA is currently required to prepare the annual report, and the additional reporting requirements could be handled with current staff.

Additional Information

Prior Introductions: None.

Cross File: HB 486 (Chairman, Economic Matters Committee) – Economic Matters.

Information Source(s): Maryland Insurance Administration, Department of Legislative Services

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