HB 486

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 486 (Chairman, Economic Matters Committee)
Economic Matters

Maryland Insurance Administration - Program Evaluation

This bill transfers the Insurance Fraud Division from the Maryland Insurance Administration (MIA) to the Department of State Police and alters the amount of the fraud prevention fee. The bill also alters the way that MIA is funded. In addition, the bill requires MIA's annual report to be completed by December 31 of each year and would require 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. Special fund expenditures for MIA could increase by approximately $71,800 in FY 2003 reflecting a 90-day start-up delay after the bill's July 1, 2002 effective date. Out-years reflect annualization and inflation.

(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
SF Expenditure	71,800	84,700	88,800	93,200	98,000
Net Effect	($71,800)	($84,700)	($88,800)	($93,200)	($98,000)

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 transfers the Insurance Fraud Division from MIA to the Department of State Police, including the division's records, equipment, assets, and liabilities. The division must report to the Governor and the General Assembly by January 1 of each year on its operations and on the complaints and cases filed with the division in the previous fiscal year.

The bill establishes an Insurance Fraud Division Fund as a non-lapsing special fund to pay the Insurance Fraud Division's costs and expenses. The bill repeals the statutory fraud prevention fees and requires the Insurance Commissioner to establish, by regulation, tiered fraud prevention fees in an amount sufficient to fund the Insurance Fraud Division. The bill requires fraud prevention fee moneys collected by MIA be deposited in the Insurance Fraud Division Fund rather than in the Insurance Regulation Fund.

The bill requires the annual report by the Insurance Commissioner to be prepared by December 31 of each year. The bill repeals: (1) the $125 rate and form filing fee; and (2) the examination fee MIA charges insurers to cover the costs of examinations. The bill eliminates the statutory requirement that the amount from the annual assessment fee MIA charges insurers equal no more than 40% of MIA's budget appropriation. The bill requires that the annual assessment be collected in quarterly payments, unless an insurer elects to pay its entire annual assessment on or before July 1 of a given year. The bill authorizes MIA to establish a reserve equal to 10% 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, 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 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.

The Insurance Fraud Division is housed within MIA and funded through MIA's budget from the Insurance Regulation Fund. Insurers and insurance producers are assessed a fraud prevention fee to offset the division's costs. The current fee for insurance carriers is $1,000 annually, and the fee for producers and other insurance professionals is $15 every two years.

Each insurer must institute and maintain an insurance antifraud plan. The plan must be filed with the Commissioner for review of its compliance with statutory requirements. If the Commissioner disapproves of the plan, the insurer must submit a new plan within 60 days of the disapproval. During an insurer examination, MIA must determine whether the insurer is following its antifraud plan.

Background: During the 2001 interim, DLS conducted a full evaluation of MIA under the Program Evaluation Act. This bill embodies 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: Special fund expenditures could increase by an estimated $71,800 in fiscal 2003, which accounts for a 90-day start-up delay after the bill's July 1, 2002 effective date. This estimate reflects the cost of hiring one MIA officer and one MIA associate to conduct insurance executive profile investigations and to review, analyze, and process antifraud plans and reports submitted by insurers. These functions are currently performed by the Insurance Fraud Division. MIA would continue to perform these functions after the Insurance Fraud Division's transfer to the Department of State Police. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$62,300
Operating Expenses	9,500
Total FY 2003 State Expenditures	**$71,800**

Future year expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

The bill eliminates examination expense fees and filing fees charged by MIA. In fiscal 2001, the latest year for which complete data are available, MIA collected approximately $1.8 million in examination expense fees and approximately $2.8 million in filing fees. The loss of these revenues would be offset by an additional $4.6 million in assessment fees charged to insurers.

In addition, 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 and an equal increase in revenues to the Insurance Regulation Fund.

The Budget Reconciliation Act, SB 323 and HB 424, 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 in 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 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 and HB 424 would further reduce the excess to $1.7 million. Under this bill, the amount of the $1.7 million surplus that does not exceed 10% of MIA's budget could be retained by MIA.

MIA advises that the bill would require an additional three full-time and one part-time staff at a cost of $120,600 in fiscal 2003. DLS disagrees with this assessment. MIA staff who currently process filing fees could be reassigned to the duties of processing assessment fees and preparing the annual report.

It is assumed that the moving costs for the Insurance Fraud Division and the administration of the Insurance Fraud Division Fund could be handled with existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: SB 472 (Chairman, Finance Committee) – Finance.

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

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