

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE
Revised

House Bill 418

(Delegates Wood and Minnick)

Economic Matters

Finance

**Injured Workers' Insurance Fund - Risk Based Capital - Exemption from
Excessive Premium Growth Charge**

This bill excludes excessive premium growth charges and other penalties associated with premium growth from the Injured Workers' Insurance Fund's (IWIF) risk-based capital (RBC) calculations from October 1, 2003 to December 31, 2004.

Fiscal Summary

State Effect: IWIF is the State's workers' compensation insurer. Enactment of this bill would prevent a potentially significant increase in IWIF premiums. If this bill is not enacted, potentially significant expenditure increases of up to \$6.6 million in total funds, \$3.8 million in general funds, are possible due to increased IWIF premiums.

Injured Workers' Insurance Fund: IWIF would not be required to include residual business in any RBC calculations. Potential significant reduction in excessive premium growth penalties.

Local Effect: None.

Small Business Effect: Small businesses that are covered by IWIF could face significant premium growth if IWIF is required to raise additional capital based on its RBC calculations.

Analysis

Current Law: Insurance firms are required by State law to maintain certain levels of capital to safeguard against insolvency. If a company's RBC falls below certain levels, the company and the Maryland Insurance Commissioner are required to take action. The company is required to draft and submit to the Commissioner a RBC action plan that includes specific corrective action that will be taken to increase RBC levels. The Commissioner is required to evaluate the plan and notify the company if the plan is acceptable.

IWIF may exclude premium growth associated with residual market business from its RBC calculation if the Commissioner approves the definition of "residual business" used by IWIF. The Commissioner may reduce or eliminate excessive premium growth penalties for IWIF under current law by approving an alternate definition of "residual business" for IWIF.

Background: The National Association of Insurance Administrators sets the RBC calculation utilized in Maryland. Excessive premium growth penalties in RBC calculations are based in part on the three-year average premium growth of the insurer.

The current definition of residual business excludes only those premiums IWIF writes that would be considered "bad business" in a market setting. IWIF indicates that some insurance carriers are making business decisions to drop coverage to clients who are below a certain premium level, or move out of certain types of businesses. IWIF is unable to make those business decisions. It must write a policy for any applicant.

IWIF only writes policies in Maryland. IWIF wrote \$82 million in policies in calendar 1999, equaling a 20% market share. IWIF is writing \$267 million in policies in 2003, representing approximately 35-40% of the workers' compensation insurance market in Maryland.

Injured Workers' Insurance Fund: IWIF is the exclusive residual workers' compensation insurer in the State. IWIF cannot decline businesses that seek coverage. In addition to having to raise rates to keep up with the markets, IWIF attracts more business that it is unable to refuse.

IWIF indicates that under current law it would be required to raise premiums by approximately 25% in fiscal 2004 to raise \$50 million in additional capital needed to meet RBC levels under current law. That premium growth rate would factor into IWIF's RBC calculation for the next three years. IWIF raised premiums by 11% on January 1, 2003. That premium growth rate would factor into IWIF's RBC calculation for the next

two years. Premium growth pressure from those rate increases would further increase the amount of RBC that IWIF would be required to raise, creating a spiraling premium growth rate as IWIF is unable to turn away new business.

State Fiscal Effect: The fiscal 2004 allowance for IWIF charges to State agencies is \$26.2 million in total funds and \$15.0 million in general funds. If the bill is not enacted, a 25% increase in premiums would approach \$6.6 million in total funds, \$3.8 million general funds.

Small Business Effect: Approximately 18,000 of IWIF's 28,000 policies are below \$5,000 in annual premiums.

Additional Information

Prior Introductions: None.

Cross File: SB 85 (Senator Astle) – Finance.

Information Source(s): Injured Workers' Insurance Fund, Maryland Insurance Administration, Department of Legislative Services

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