

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 930
Finance

(Senator Kittleman)

Workers' Compensation Insurance - Adjustments to Experience Rating Plans

This bill provides that a prospective premium adjustment to a workers' compensation rating plan may not be based on a claim paid for injuries caused by the negligence of a third party for which there is a recovery from the third party or the third party's insurer.

Fiscal Summary

State Effect: No impact on State expenditures, as the State is self-insured for workers' compensation.

Local Effect: Variable impact on workers' compensation expenditures for local governments that purchase workers' compensation insurance.

Small Business Effect: Variable impact on workers' compensation expenditures for employers, including small businesses, that purchase workers' compensation insurance.

Analysis

Current Law: Each workers' compensation insurer is required to adhere to a uniform experience rating plan established by the insurer's rating organization. The rating plan – based on reasonable eligibility standards, adequate incentives for loss prevention, and sufficient premium differentials to encourage safety – is used to determine prospective premium adjustments. An insurer is authorized to file a rating plan that provides for prospective premium adjustments up to 25% based on characteristics not reflected in the uniform experience rating plan.

Background: This bill would affect only the voluntary market for workers' compensation insurance. Organizations that self-insure, including the State through the Injured Workers' Insurance Fund, would not be affected.

The National Council on Compensation Insurance has established an experience rating plan that is mandatory for insurers in the voluntary market. According to this plan, recoveries from a third party or the third party's insurer are used to offset the amount of loss. If a loss is fully recovered from a third party, this claim is excluded from experience rating. If a loss is partially recovered from a third party, the difference between the amount of loss and the amount recovered is used to determine the experience rating adjustment. This bill would prohibit consideration of a loss caused by a third party in determining an experience rating adjustment, provided that there is a recovery from the third party or the third party's insurer.

Small Business Effect: The National Council on Compensation Insurance advises that the proposed changes would result in a reduction in experience rating modification factors, which would cause a corresponding increase in loss costs. The overall amount is uncertain, but would affect the distribution of costs among insured parties.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): National Council on Compensation Insurance, Subsequent Injury Fund, Maryland Insurance Administration, Department of Legislative Services

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bfl/jr

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