

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE

House Bill 1295  
Economic Matters

(Delegate Barnes, *et al.*)

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Vehicle Laws - Required Security - Minimum Amounts

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This bill increases the minimum security required for a motor vehicle liability insurance policy for bodily injury or death of • a single individual from \$20,000 to \$30,000; and • more than one individual from \$40,000 to \$60,000.

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Fiscal Summary

**State Effect:** General fund revenues would increase from increased premium taxes, including taxes from the Maryland Automobile Insurance Fund. Special fund revenues could increase by \$31,300 in FY 2009 only from rate and form filing fees. Potential additional increase in special fund, general fund, and Transportation Trust Fund revenues from lapsed required security penalties.

**Maryland Automobile Insurance Fund Effect:** MAIF nonbudgeted revenues would increase due to increased premiums by approximately \$7.7 million in FY 2009 and \$10.3 million annually thereafter. MAIF nonbudgeted expenditures would increase to pay additional premium taxes annually and for one-time only computer reprogramming costs.

**Local Effect:** Minimal increase in motor vehicle liability insurance costs for local governments that purchase liability insurance at the minimum level.

**Small Business Effect:** Potential minimal.

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## Analysis

**Current Law:** The minimum security required for a motor vehicle liability insurance policy for the bodily injury or death of a single individual is \$20,000. The minimum security required increases to \$40,000 for the bodily injury or death of more than one individual. The minimum security required for property damage is \$15,000, in addition to interest and costs.

**Background:** While limited data are available concerning the private insurance industry, MAIF advises that 95% of all claims are currently settled within the existing policy limits of \$20,000 for bodily injury or death of a single individual and \$40,000 for the bodily injury or death of more than one individual. According to MAIF, 99.2% of its policyholders have selected this minimum liability coverage. MAIF offers increased limits coverage to those policyholders who desire it at \$25,000/\$50,000; \$50,000/\$100,000; and \$100,000/\$300,000. However, MAIF's experience does not accurately reflect the choices of the policyholders in the private insurance market because MAIF policyholders are, by definition, those who are unable to afford insurance from the private market.

**State Revenues:** General fund revenues would increase from the 2% insurance premium tax. However, neither the Maryland Insurance Administration nor MAIF was able to estimate how large the increase in premium tax revenues would be. As noted above, information as to what percentage of private passenger auto insurance holders carry only the minimum liability insurance is not available. Thus, although this increase in insurance premium taxes collected would produce the greatest share of this bill's fiscal impact, a reliable estimate cannot be made at this time. However, the insurance premium tax MAIF would pay is discussed below.

Special fund revenues for MIA would increase by \$31,250 in fiscal 2009 from insurers paying the \$125 rate filing fee to comply with the increased bodily injury rates minimum coverage. MIA advises that the proposed limits are not commonly sold by insurers; thus, approximately 250 motor vehicle insurers would likely have to file.

Higher insurance costs could encourage some people to no longer maintain auto insurance. Therefore, penalty revenues for failure to maintain the required minimum security (liability insurance) could increase; however, the magnitude of any such increase cannot be reliably estimated. Nevertheless, the penalty revenues would be distributed among the Vehicle Theft Prevention Fund, the Motor Vehicle Registration Enforcement Fund, the School Bus Safety Enforcement Fund, the TTF, and the general fund.

**State Expenditures:** The Motor Vehicle Administration advises that it would incur some costs to revise forms. Legislative Services advises that MVA must revise its forms annually; therefore, this requirement could be handled with MVA's existing resources.

**MAIF Effect:** MAIF estimates that the bill would affect approximately 99.2% of its insureds. MAIF further estimates that an increase in the mandatory bodily injury liability limit would result in increased premium revenues of approximately \$7,725,000 in fiscal 2009 and \$10.3 million annually thereafter. MAIF would pay increased premium taxes of \$155,250 in fiscal 2009 and \$207,000 annually thereafter. Additionally, MAIF advises that computer reprogramming would cost \$88,000 in fiscal 2009 to revise its electronic/rating system. **Exhibit 1** shows the impact of the increased limits territory in the State.

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**Exhibit 1**

<u><b>Territories</b></u>	<u><b>20/40</b></u>	<u><b>30/60</b></u>	<u><b>Percent Change</b></u>
Baltimore City	1,775	1,933	8.9%
Baltimore Inner	1,321	1,436	8.7%
Montgomery County Outer	873	936	7.2%
Prince George's County Outer	908	978	7.7%
Baltimore Outer	1,198	1,300	8.5%
Montgomery County Inner	1,100	1,189	8.1%
Prince George's County Inner	1,036	1,122	8.3%
Lower Eastern Shore	573	614	7.2%
Remainder	811	870	7.3%

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**Additional Information**

**Prior Introductions:** An identical bill, HB 398 of 2007, received an unfavorable report from the House Economic Matters Committee.

**Cross File:** None.

**Information Source(s):** Maryland Automobile Insurance Fund, Maryland Insurance Administration, Maryland Department of Transportation, Department of Legislative Services

**Fiscal Note History:** First Reader - February 24, 2008  
ncs/ljm

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Analysis by: Evan M. Isaacson

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510