

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 423

(Delegate Sossi)

Health and Government Operations

Finance

Life and Health Insurance Guaranty Corporation - Maximum Liability

This bill increases the Life and Health Insurance Guaranty Corporation's maximum liability in the event of an insolvency of an insurer. For one life, the maximum liability for the present value of annuity benefit limit is increased from \$100,000 to \$250,000.

Fiscal Summary

State Effect: The bill does not directly affect State finances or operations.

Local Effect: The bill does not directly affect local finances or operations.

Small Business Effect: Potential minimal.

Analysis

Current Law: The maximum liability of the corporation is limited by the express terms of the covered policy or contract, in the event an insurer becomes impaired or insolvent. However, the corporation's liability cannot exceed, with respect to any one life, \$300,000 in life insurance death benefits, but no more than \$100,000 in net cash surrender/withdrawal values; \$300,000 in health insurance benefits, including net cash surrender/withdrawal values; and \$100,000 in present value of annuity benefits, including net cash surrender/withdrawal values.

Background: The bill affords greater protection to an insured in the event an insurer becomes insolvent. The bill's increased annuity benefit limit is identical to the recently amended limit set forth in the National Association of Insurance Commissioners' model regulation for Life and Health Guaranty Associations. The Maryland Insurance Administration (MIA) advises that, if one insurer becomes insolvent, the remaining

insurers would be assessed to pay the claims up to the higher limits proposed under the bill. However, MIA believes that the risk would be limited, as the corporation generally sells blocks of business in order to minimize the impact of insolvency.

The corporation is a statutory entity created by the Life and Health Insurance Guaranty Corporation Act of 1970. The corporation comprises all insurers licensed to sell life insurance, accident insurance, health insurance, and individual annuities in the State. Under the Act, the corporation provides limited protection to State residents holding insurance policies or annuities issued by the corporation's member insurers in the event an insurer becomes insolvent. The corporation is governed by a board of directors and operates under the supervision of the Maryland Insurance Commissioner. All 50 states, the District of Columbia, and Puerto Rico have life and health insurance guaranty associations.

Additional Information

Prior Introductions: HB 1390 of 2009 was assigned to the House Rules and Executive Nominations Committee, where no further action was taken.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Maryland Life and Health Insurance Guaranty Corporation, Department of Legislative Services

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Analysis by: Jason F. Weintraub

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