

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE

House Bill 1117 (Delegate Donoghue)
Economic Matters

Motor Vehicle Liability Insurance - Mandatory Coverage - Medical and Hospital Benefits

This bill requires that each insurer that issues, sells, or delivers a motor vehicle liability insurance policy in the State provide coverage for specified medical and hospital benefits for specified individuals.

Fiscal Summary

State Effect: Significant increase in general fund revenues due to the imposition of a 2% premium tax on motor vehicle liability insurance policies with the mandatory additional coverage. No impact on general fund expenditures. Minimal special fund revenue increase for the Maryland Insurance Administration (MIA) from the \$125 rate and form filing fee in FY 2014. Review of filings can be handled with existing MIA budgeted resources.

Maryland Automobile Insurance Fund Effect (MAIF): Nonbudgeted revenues increase significantly due to increased premium revenue collected from MAIF policyholders. Nonbudgeted expenditures increase to account for any claims paid under the mandatory additional coverage.

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The minimum medical and hospital benefits provided by an insurer must include up to \$1,000 for payment of all reasonable and necessary expenses relating to necessary prosthetic devices and ambulance, dental, hospital, medical, professional nursing, surgical, and X-ray services. The expenses must arise from a motor vehicle accident and be incurred within three years after the accident.

The bill requires that an applicable insurer provide the aforementioned coverage for the following individuals:

- the first named insured and any family member of the first named insured who resides in the household of the first named insured, who is injured in a motor vehicle accident;
- any other individual who is injured in an accident while using the insured motor vehicle with the express or implied permission of the named insured; and
- an individual who is injured in a motor vehicle accident while occupying the insured motor vehicle as a guest of the passenger.

The bill authorizes an insurer to exclude from the coverage those benefits for an individual, otherwise issued under the policy, who (1) intentionally causes the accident that results in the injury; (2) is knowingly operating or riding in a stolen vehicle; or (3) is injured in a motor vehicle accident while committing a felony or fleeing or eluding the police. Additionally, an insurer may exclude coverage for an injury that occurs when the named insured or a family member of the named insured (who resides in the household of the named insured) is occupying an uninsured motor vehicle (owned by the named insured or an immediate family member of the named insured who resides in the household).

The bill applies the current law relating to personal injury protection (PIP) coverage, when those benefits are payable, the coordination of policies, the imposition of a surcharge, and the prohibition of an insurer's right of subrogation to the bill's required coverage for specified medical and hospital benefits.

Current Law: Maryland law requires an owner of a motor vehicle that is required to be registered in the State to maintain insurance for the vehicle during the registration period. The Motor Vehicle Administration (MVA) may not issue or transfer the registration of a motor vehicle unless the owner or prospective owner of the vehicle furnishes evidence satisfactory to MVA that the required insurance is in effect. Maryland drivers are not required to carry proof of insurance. The required insurance, specified under Title 17, HB 1117/ Page 2

Subtitle 1 of the Transportation Article and Title 19, Subtitle 5 of the Insurance Article, must provide for at least:

- the payment of claims for bodily injury or death arising from an accident of up to \$30,000 for any one person and up to \$60,000 for any two or more persons, in addition to interest and costs (liability coverage) (these limits were increased from \$20,000 and \$40,000, respectively under Chapter 441 of 2010 (HB 825), effective January 1, 2011);
- the payment of claims for property of others damaged or destroyed in an accident of up to \$15,000, in addition to interest and costs;
- unless waived, PIP coverage (minimum coverage for medical, hospital, and disability benefits up to \$2,500 for payment of expenses that arise from the accident, lost income, and reimbursement for essential services for care and maintenance of the family or family household); and
- uninsured motorist coverage (unless waived, the amount equals the amount of liability coverage provided under the policy; if waived, the amount equals the minimum required insurance for liability coverage).

PIP Coverage: Unless waived by the first named insured, an insurer that issues policies of motor vehicle insurance must include PIP coverage. PIP coverage is required to cover medical, hospital, and disability benefits for the individuals injured in a motor vehicle accident. The minimum medical, hospital, and disability benefit under PIP is \$2,500 for payment of all reasonable and necessary expenses that arise from a motor vehicle accident and are incurred within three years after the accident for specified services and lost income. PIP coverage is payable regardless of who is at fault in an accident. If an insured has both PIP coverage and a collateral source of medical, hospital, or wage continuation benefits, the insurers may elect to coordinate the policies to prevent duplication, subject to the first named insured's decision to either elect or reject coordination.

An insurer that issues a policy with PIP coverage may not impose a surcharge or retire a policy and must provide the insured with a specified notice of this prohibition and is not entitled to the right of subrogation. If specified requirements are met, a first named insured may waive PIP coverage for himself or herself. A waiver of PIP coverage by the first named insured is binding on each named insured, each listed driver, and each member of the first named insured's family age 16 or older who resides in the household.

An insurer must make all payments of PIP coverage as claims for benefits arise and within 30 days after the insurer receives satisfactory proof of claim. However, an insurer may place a specified statute of limitations clause in the policy. The insurer must notify the insured by mail of the latest date on which a claim may be filed.

State Fiscal Effect: General fund revenues increase significantly due to the imposition of a 2% premium tax on motor vehicle liability insurance policies with the mandatory additional coverage. The amount of increase is not able to be estimated as the amount of the premium increase that each insurer will impose on its policyholders is unclear. However, MAIF estimates the increased premium cost to MAIF policyholders is \$10.2 million. (Further discussion of this estimate is included below.) If this estimate is correct, general fund revenues increase by approximately \$204,000 due to the imposition of the 2% premium tax for MAIF policyholders. In recent years, MAIF has maintained a market share of between 2% and 4% of total premiums written in the State. Thus, any increase in general fund revenues due to the collection of premium tax is expected to be significant.

MIA special fund revenues increase minimally in fiscal 2014 from the \$125 rate and form filing fees. Review of filings can be handled with existing MIA budgeted resources.

MAIF Effect: Nonbudgeted revenues increase significantly due to increased premium revenue collected from MAIF policyholders. As noted above, MAIF estimates that the increased premium cost to MAIF policyholders is \$10.2 million. This estimate is based on 50,000 policies and an actuarial estimate of an average increase in premiums of \$204 for each policy. It should be noted that MAIF's estimate uses a higher number than the number of 40,931 private passenger policies currently in force.

Nonbudgeted expenditures increase to account for any claims paid under the mandatory additional coverage. Over the past three years, MAIF paid approximately \$22.2 million in PIP coverage losses. *For illustrative purposes only*, if MAIF pays 40% of this amount for the bill's mandatory coverage, nonbudgeted expenditures increase by almost \$3 million.

Small Business Effect: The bill may have a meaningful beneficial impact on health care providers, some of which are small businesses. Health care providers that provide necessary prosthetic devices and ambulance, dental, hospital, medical, professional nursing, surgical, and X-ray services may have an easier time collecting payment.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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