

Department of Legislative Services  
Maryland General Assembly  
2017 Session

**FISCAL AND POLICY NOTE**  
**Third Reader - Revised**

Senate Bill 72

(Senator Klausmeier, *et al.*)

Finance

Economic Matters

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**Workers' Compensation - Tiered Rating Plans and Merit Rating Plans**

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This bill expressly authorizes a workers' compensation insurer to develop a tiered rating plan containing risk tiers that are applied to the uniform classification system that must be used for rate making. A tiered rating plan must (1) establish discrete tiers based on defined risk attributes that are reasonably related to the insurer's business and economic purposes and are not arbitrary, capricious, or unfairly discriminatory; (2) require each insured to be placed in the highest quality tier for which it qualifies; and (3) be filed with the Insurance Commissioner at least 30 days before it may be used. The Commissioner must disapprove a tiered rating plan if the data produced under the plan cannot be reported in a manner consistent with the uniform classification system and statistical plan. The bill also expressly authorizes an insurer to file a merit rating plan with the Commissioner for insureds who do not qualify for a uniform experience rating plan.

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**Fiscal Summary**

**State Effect:** None. The bill codifies an existing practice used by workers' compensation insurers in the State.

**Chesapeake Employers' Insurance Company (Chesapeake) Effect:** None. The bill codifies an existing practice and Chesapeake already uses tiered rating plans in the manner specified by the bill.

**Local Effect:** None.

**Small Business Effect:** None.

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## Analysis

**Current Law/Background:** All employers in Maryland are required to provide workers' compensation coverage for their employees. The cost to the employer varies by industry, and there are approximately 600 industrial classifications. After determination of a base, or "average," rate by industry classification, with the base rate set (to cover claim losses) by an industry-wide rate-making organization (National Council of Compensation Insurers) and approved by the Maryland Insurance Administration (MIA), a qualifying employer's premium may be modified based on the firm's loss experience record when compared to the loss experience of similar firms in Maryland. The insurer also includes, as a portion of the premium, the insurer's overhead, other expenses, and a profit factor.

Chesapeake and MIA advise that the bill codifies an existing practice, as many workers' compensation insurers (including Chesapeake) use rating tiers in the manner codified by the bill. Additionally, some insurers have different affiliates in order to rate similar risks differently based on the unique characteristics of the risk. A risk that does not meet the eligibility requirements of one affiliate may qualify for another affiliate at a different rate.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** HB 1315 (Delegate Valderrama, *et al.*) – Economic Matters.

**Information Source(s):** Maryland Insurance Administration; Chesapeake Employers' Insurance Company; Department of Legislative Services

**Fiscal Note History:** First Reader - February 17, 2017  
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