SB 697

Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 697 (Senator Beidle)
Finance

Maryland Automobile Insurance Fund - Premium Discounts - Methodology

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This bill requires that any reduction in a premium provided by the Maryland Automobile Insurance Fund (MAIF) to an insured be based on the income of the insured and actuarially justified.

Fiscal Summary

State Effect: Minimal increase in special fund revenues for the Maryland Insurance Administration (MIA) in FY 2026 only from rate and form filing fees. Review of the filings can be handled using existing budgeted resources. General fund revenues from the premium tax are not anticipated to be materially affected.

Maryland Automobile Insurance Fund (MAIF) Effect: MAIF operations and finances are likely significantly affected beginning in FY 2026, as discussed below.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law:

Maryland Insurance Administration – Generally

MIA and the Insurance Commissioner’s statutory and regulatory duties include, among other things, certifying insurers to operate in the State, reviewing and approving the rates and forms used by insurers, and licensing and certifying insurance professionals. MIA and the Commissioner have broad authority to enforce the requirements and prohibitions that apply to insurers and insurance professionals. For example, depending on the type of violation and following the administrative processes required by Insurance Law and regulations, the Commissioner is authorized to issue orders directing insurers or insurance professionals to take certain actions, impose administrative penalties, and suspend or revoke certifications and/or licenses.

Maryland Automobile Insurance Fund

Created by the General Assembly in 1972, MAIF is an independent nonbudgeted State agency. Through its Insured Division, MAIF provides automobile liability insurance to residents of the State who are unable to obtain policies in the private insurance market. As the insurer of last resort, MAIF is not in direct competition with the private insurance industry because a customer must generally have been turned down by other insurers (and meet other requirements) in order to obtain a policy with MAIF. In 2022, MAIF represented 1.12% of the market share of motor vehicle insurance providers in the State.

Like other insurers, MAIF is primarily funded through premiums on the insurance policies it issues; however, MAIF is authorized to issue an assessment paid by other motor vehicle insurers in the State if it experiences a significant operating loss (as defined by State law) and meets other specified conditions. This is to ensure MAIF’s continued viability as the insurer of last resort. The assessment is grouped and paid separately by private passenger auto insurers and commercial auto insurers. Once an insurer pays the assessment, they are authorized to recoup the cost from their policyholders.

MAIF currently uses an affordability index to determine a premium discount for its insureds based on the median household income of the zip code in which the insured is located. However, on December 18, 2024, MIA issued an order requiring MAIF to raise its rates to an “adequate” level and eliminate the affordability index within two years. The affordability index is 3.3% of the median household income in a zip code and effectively operates to alleviate the impacts of high base rates on insureds from low-income areas. The average median household income for the zip codes where the affordability index applies is $64,724, while the statewide median is $91,373.

MAIF Fiscal Effect: The bill is anticipated to significantly affect MAIF’s operations and finances. MAIF advises, and the Department of Legislative Services concurs, that balancing the bill’s two requirements, that premium discounts be both actuarily justified *and* based on the income of the insured, may be challenging as the two factors are contradictory. Variations in the rate charged to an insured that are not related to risk, including income, would not be considered actuarily justified.

Moreover, MAIF advises that if its rates were fully actuarily justified, approximately 20% of its customers would not be able to afford their current insurance policies. With fully adequate, actuarily justified rates, MAIF estimates that it would increase premiums on some of its lowest income customers by approximately 20% to 40%. As a result, MAIF could lose 20% or more of its customer base due to rates becoming unaffordable for these low-income individuals.

Ultimately, the impact on MAIF's operations and finances cannot be reliably ascertained at this time. As noted above, MAIF is currently in the process of eliminating its current affordability index discount program, and the bill's impact depends on what discount program, if any, MAIF would implement in the absence of the bill to replace the affordability index. Nevertheless, the bill could:

- increase premium revenues for MAIF to the extent that it raises premiums to actuarially justified levels;
- decrease premium revenues for MAIF to the extent that the higher premiums result in customers dropping their MAIF insurance policies; and
- decrease MAIF expenditures to the extent that the bill results in fewer insurance claims being paid.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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