

C96J00 Uninsured Employers' Fund

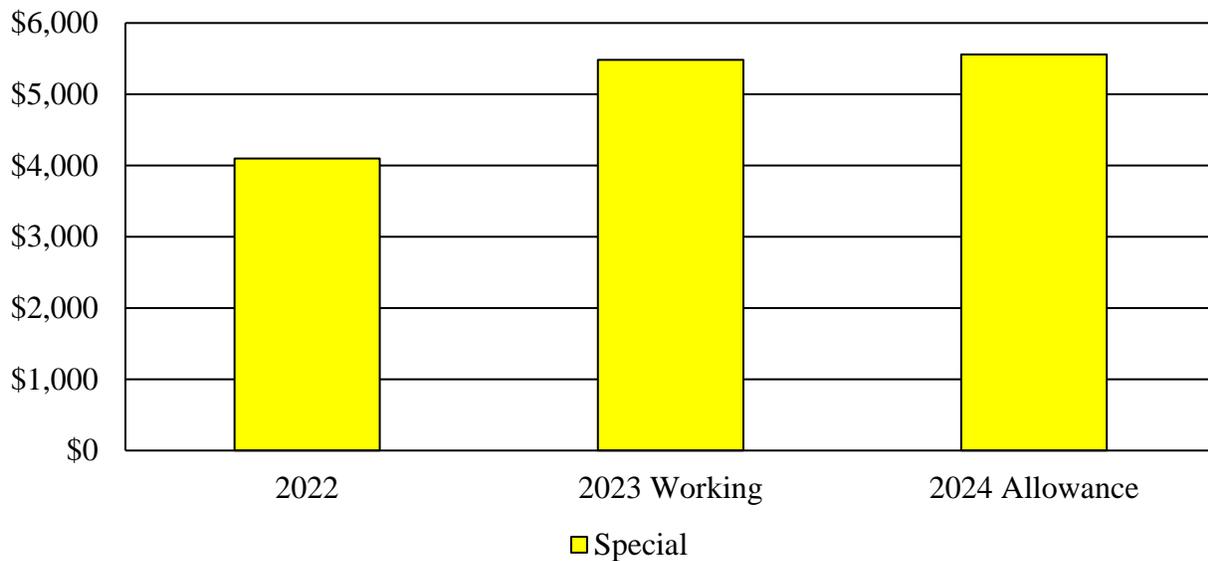
Program Description

The Uninsured Employers' Fund (UEF) protects workers whose employers are not insured under the Maryland Workers' Compensation Law. UEF reviews and investigates claims filed by employees or, in the case of death, by their dependents. If the employer does not properly compensate a claimant, the fund will directly pay the claimant's compensation benefits and medical expenses. UEF then holds the uninsured employer liable for the total benefits that the fund paid to the claimant and for certain penalties and assessments.

The cost to administer the fund and provide benefits to claimants is wholly specially funded. The special funds are derived from an assessment on (1) awards against employers or insurers for permanent disability or death and (2) amounts payable by employers or insurers under settlement agreements. Chapter 495 of 2020 increased the assessment from 2% to 3% for fiscal 2021 only to assist with the UEF declining fund balance. UEF also collects penalties from sanctions on uninsured employers and recovers benefits paid out for uninsured claims.

Operating Budget Summary

Fiscal 2024 Budget Increases \$75,283, or 1.4%, to \$5.6 Million
(\$ in Thousands `)

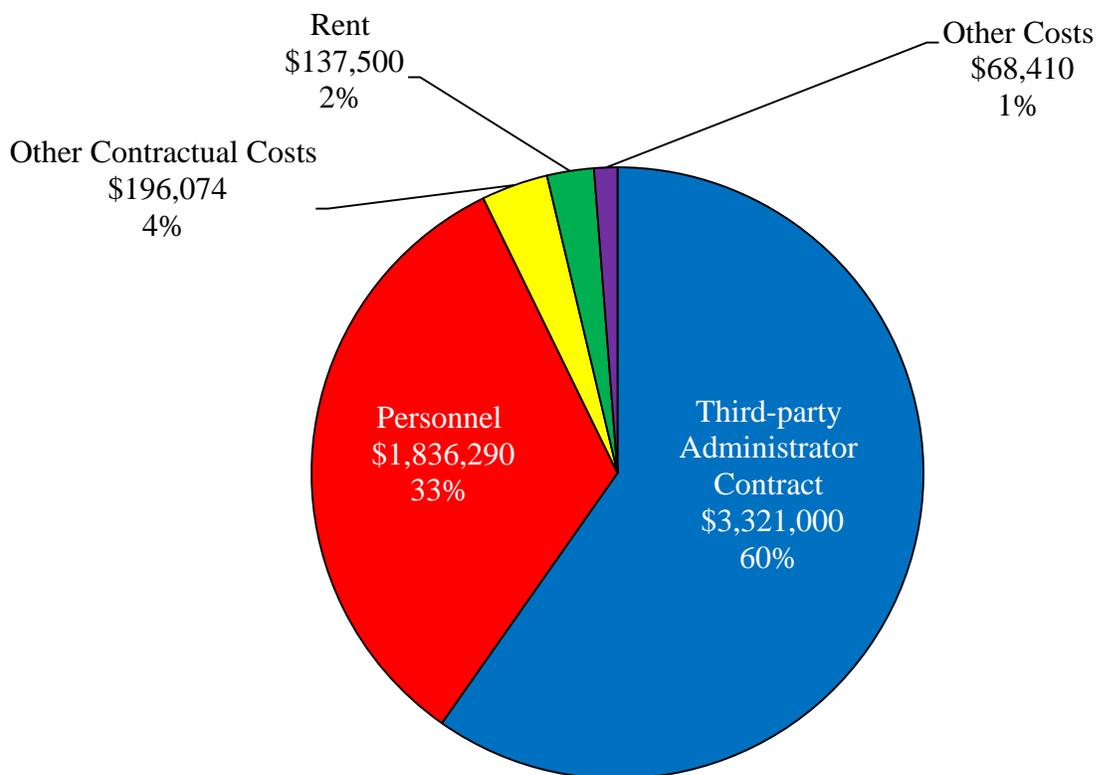


Note: The fiscal 2023 working appropriation includes deficiency appropriations including this agency's share of a deficiency appropriation budgeted in the Statewide Account within the Department of Budget and Management (DBM). Fiscal 2024 salary enhancements are budgeted in the Statewide Account within DBM.

Fiscal 2024 Overview of Agency Spending

The fiscal 2024 allowance totals \$5.6 million, as shown in **Exhibit 1**. A contract with a third-party administrator (TPA) to perform many core functions of the agency comprises \$3.3 million, or 60%, of the allowance, while personnel costs total \$1.8 million, or 33%, of the allowance.

Exhibit 1
Overview of Agency Spending
Fiscal 2024 Allowance



Source: Governor’s Fiscal 2024 Budget Books

Proposed Budget Change

The fiscal 2024 allowance grows by \$75,283, or 1.4%, compared to the fiscal 2023 working appropriation, as shown in **Exhibit 2**. Nearly all the increase is in personnel.

Exhibit 2
Proposed Budget
Uninsured Employers’ Fund
(\$ in Thousands)

| How Much It Grows: | <u>Special</u> <u>Fund</u> | <u>Total</u> |
|-----------------------------------|---------------------------------------|---------------------|
| Fiscal 2022 Actual | \$4,099 | \$4,099 |
| Fiscal 2023 Working Appropriation | 5,484 | 5,484 |
| Fiscal 2024 Allowance | <u>5,559</u> | <u>5,559</u> |
| Fiscal 2023-2024 Amount Change | \$75 | \$75 |
| Fiscal 2023-2024 Percent Change | 1.4% | 1.4% |

| Where It Goes: | <u>Change</u> |
|--|----------------------|
| Personnel Expenses | |
| Regular earnings | \$26 |
| Annualization of November 2022 4.5% cost-of-living adjustment..... | 19 |
| Employee and retiree health insurance | 16 |
| Retirement contributions | 10 |
| Other fringe benefit adjustments | 2 |
| Other Changes | |
| Other changes | 2 |
| Total | \$75 |

Note: Numbers may not sum to total due to rounding.

Personnel Data

| | <u>FY 22</u> <u>Actual</u> | <u>FY 23</u> <u>Working</u> | <u>FY 24</u> <u>Allowance</u> | <u>FY 23-24</u> <u>Change</u> |
|------------------------|---------------------------------------|--|--|--|
| Regular Positions | 13.00 | 13.00 | 13.00 | 0.00 |
| Contractual FTEs | <u>1.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Total Personnel | 14.00 | 13.00 | 13.00 | 0.00 |

Vacancy Data: Regular Positions

| | | |
|--|------|--------|
| Turnover and Necessary Vacancies, Excluding New Positions | 0.00 | 0.00% |
| Positions and Percentage Vacant as of 12/31/22 | 3.00 | 23.08% |
| Vacancies Above Turnover | 3.00 | |

Key Observations

1. Fund Balance Decline Slows

As shown in **Exhibit 3**, the fiscal 2022 closing fund balance was \$8.6 million, up slightly from the year prior. The most recent actual report, completed by Pinnacle Actuarial Resources (Pinnacle) in December 2020, found that UEF had unpaid liabilities of approximately \$115.8 million at the close of fiscal 2020.

Exhibit 3
UEF Fund Balance
Fiscal 2018-2024 Est.
(\$ in Thousands)

| <u>Fiscal Year</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|--------------------|--------------------|
| | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Est.</u> | <u>Est.</u> |
| Beginning Balance | \$7,037 | \$7,011 | \$5,782 | \$6,326 | \$8,470 | \$8,593 | \$8,301 |
| Revenue | | | | | | | |
| Assessments Collected | \$9,586 | \$8,501 | \$9,928 | \$10,949 | \$9,036 | \$9,600 | \$9,600 |
| Investment Income | 121 | 123 | 96 | 20 | 36 | 79 | 79 |
| Recovery of Benefit Payments Owed by Uninsured Employers | 1,492 | 918 | 1,319 | 1,341 | 800 | 1,174 | 1,300 |
| Total Revenue | \$11,200 | \$9,542 | \$11,343 | \$12,310 | \$9,871 | \$10,853 | \$10,979 |
| Expenditures | | | | | | | |
| Benefits Payments | \$8,531 | \$7,766 | \$7,402 | \$5,110 | \$5,649 | \$5,700 | \$5,800 |
| Third-party Administrator Contract | 918 | 1,007 | 1,382 | 3,115 | 2,121 | 3,321 | 3,321 |
| Other Agency Operating Expenses | 1,788 | 2,011 | 2,015 | 1,940 | 1,978 | \$2,125 | 2,239 |
| Total Expenditures | \$11,237 | \$10,784 | \$10,799 | \$10,165 | \$9,748 | \$11,145 | \$11,359 |
| Adjustment | \$11 | \$12 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Surplus/Deficit | -\$37 | -\$1,241 | \$544 | \$2,144 | \$123 | -\$292 | -\$380 |
| Estimated Ending Balance | \$7,011 | \$5,782 | \$6,326 | \$8,470 | \$8,593 | \$8,301 | \$7,921 |

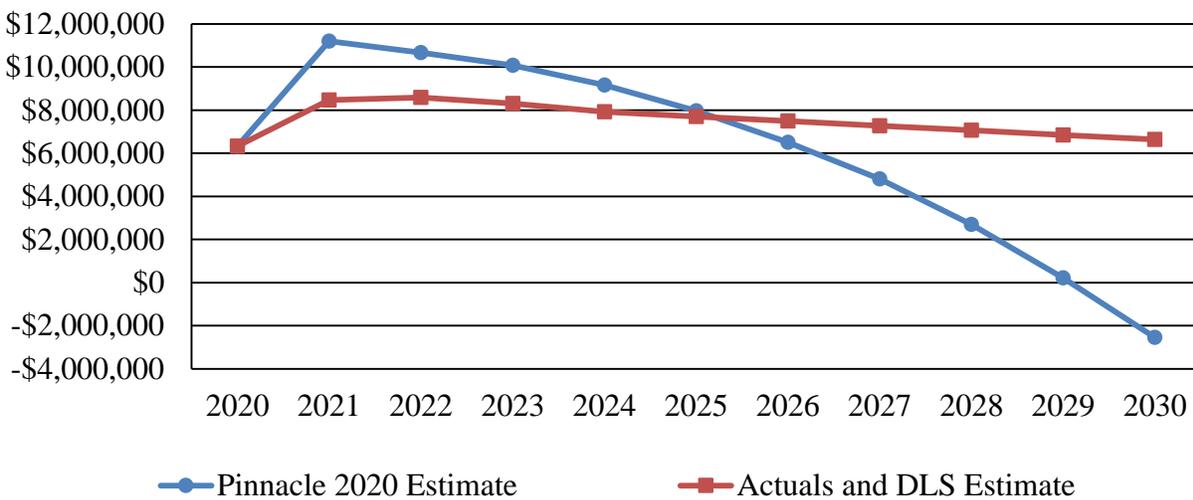
UEF: Uninsured Employers’ Fund

Source: Governor’s Fiscal 2024 Budget Books, Uninsured Employers’ Fund

C96J00 – Uninsured Employers’ Fund

Exhibit 4 shows a comparison of estimates made by Pinnacle in 2020, actual results through fiscal 2022, and estimated fund balances through fiscal 2030. Pinnacle estimated much higher revenues in fiscal 2021 from a temporary increase in the agency’s assessment rate and estimated much larger annual deficits than actual results have shown. While current trends are not as dire as the actuary’s estimates, UEF’s fund balance continues to be on a downward trend. **UEF should comment on its plans to stabilize the fund balance and avoid insolvency.**

Exhibit 4
UEF Fund Balance Estimates
Fiscal 2020-2030 Est.



DLS: Department of Legislative Services
UEF: Uninsured Employers’ Fund

Note: For “Actuals and DLS estimate,” amounts are actuals for fiscal 2020-2022 and estimates for fiscal 2023-2030

Source: Pinnacle Actuarial Resources; Governor’s Fiscal 2024 Budget Books; Department of Legislative Services

2. Audit Findings Not Yet Resolved

An audit by the Office of Legislative Audits (OLA) published in September 2021 found that UEF did not ensure that payments to its TPA were supported and consistent with contract terms and did not review recurring payments processed by TPA to ensure that claimants were still eligible. It also found that UEF did not adequately pursue collection on delinquent accounts. The budget committees added language to the budget in 2022 restricting funds pending an OLA report certifying the resolution of audit findings. While UEF has provided information to OLA, at the time of writing, OLA has not been able to review UEF’s plans. **UEF should comment on its plans to resolve its audit findings.**

Operating Budget Recommended Actions

1. Concur with Governor’s allowance.

Appendix 1
2022 Joint Chairmen’s Report Responses from Agency

The 2022 *Joint Chairmen’s Report* (JCR) requested that OLA prepare one report. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Status of Corrective Actions Related to the Most Recent Fiscal Compliance Audit:*** Due to audit findings, funds were restricted pending a determination from OLA that audit findings were corrected. This report has not yet been submitted. This issue is discussed in Key Observation 2.

**Appendix 2
Object/Fund Difference Report
Uninsured Employers' Fund**

| <u>Object/Fund</u> | <u>FY 22 Actual</u> | <u>FY 23 Working Appropriation</u> | <u>FY 24 Allowance</u> | <u>FY 23 - FY 24 Amount Change</u> | <u>Percent Change</u> |
|-------------------------------|-------------------------|--|----------------------------|--|---------------------------|
| Positions | | | | | |
| 01 Regular | 13.00 | 13.00 | 13.00 | 0.00 | 0% |
| 02 Contractual | 1.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| Total Positions | 14.00 | 13.00 | 13.00 | 0.00 | 0% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 1,369,022 | \$ 1,723,392 | \$ 1,836,290 | \$ 112,898 | 6.6% |
| 02 Technical and Special Fees | 2,147,925 | 3,321,000 | 3,321,000 | 0 | 0% |
| 03 Communication | 17,191 | 21,508 | 21,508 | 0 | 0% |
| 04 Travel | 5,248 | 15,825 | 15,825 | 0 | 0% |
| 08 Contractual Services | 401,024 | 195,555 | 196,074 | 519 | 0.3% |
| 09 Supplies and Materials | 13,717 | 17,000 | 17,000 | 0 | 0% |
| 10 Equipment – Replacement | 0 | 10,000 | 10,000 | 0 | 0% |
| 13 Fixed Charges | 144,677 | 141,074 | 141,577 | 503 | 0.4% |
| Total Objects | \$ 4,098,804 | \$ 5,445,354 | \$ 5,559,274 | \$ 113,920 | 2.1% |
| Funds | | | | | |
| 03 Special Fund | \$ 4,098,804 | \$ 5,445,354 | \$ 5,559,274 | \$ 113,920 | 2.1% |
| Total Funds | \$ 4,098,804 | \$ 5,445,354 | \$ 5,559,274 | \$ 113,920 | 2.1% |

Note: The fiscal 2023 appropriation does not include deficiencies. The fiscal 2024 allowance does not include contingent reductions or cost-of-living adjustments.