



## TEST IMONY IN SUPPORT OF House Bill 457

**Date:** January 26, 2021

**Position:** Favorable with Amendments

**Bill Number:** House Bill 457

**Bill Title:** Insurance-Application of the Premium Tax-Continued Exclusion of Maryland Automobile Insurance Fund

### House Bill 457 Analysis

House Bill 457 repeals the Maryland Automobile Insurance Fund's (MAIF) premium tax exemption Sunset provision of Chapter 509 (2017) and thereby continues the General Assembly's grant of an exemption. The permanent exemption will continue to aid MAIF in avoiding a statewide assessment on Maryland drivers and MAIF urges a favorable report with amendments.

### The Assessment

MAIF is the residual insurer in Maryland and can only insure drivers who have been rejected or cancelled by the private market. To ensure MAIF's solvency, the General Assembly has provided an assessment mechanism whereby private insurers, including MAIF would be assessed if MAIF's surplus falls below the assessment trigger. *Insurance Article §20-404*. Insurers then surcharge their policyholders for the assessment. The statute requires the premium bill to separately list the surcharge and state "Recoupment of MAIF assessment." *Insurance Article §20-408*.

Since the assessment would ultimately be paid by approximately 4 million Maryland drivers, MAIF and the General Assembly have consistently tried to avoid an assessment. This effort has been successful and since 1989, for almost 30 years, Maryland Auto has been entirely self-sufficient. During this period, MAIF has insured hundreds of thousands of Maryland families, has paid all claims and expenses from premiums and investment income and there has been no need for an assessment. There has been no cost to the insurance industry or Maryland drivers.

Over the past decade, the auto insurance market has evolved and private insurers through "big data," and sophisticated algorithms have developed underwriting tools that allow them to insure a greater number of marginal risks. As a result, MAIF's market share has steadily declined and is now less than 1.5%.

Due to declining premiums, high cancellation rates, increased claims and lower investment returns, MAIF's financial results have deteriorated. As a result, MAIF's surplus has dropped substantially since 2007 making an assessment much more likely in the coming years. The premium tax exemption has helped avoid this result. While MAIF does not project an assessment in 2021 or 2022, MAIF does project a surplus uncomfortably close to the trigger in 2023 and an assessment in 2024.

### **The Premium Tax Exemption**

In 2017, due to concerns that an assessment would be required in the next few years, the General Assembly enacted SB 910/Chapter 509 (2017), exempting MAIF from the 2% premium tax. This exemption, however, is subject to a June 30, 2022 Sunset. The purpose of the Sunset was to ensure the exemption was not used to subsidize or decrease rates but instead aid surplus. The Maryland Insurance Administration is required to review and report on MAIF's premium tax exemption to the House Economic Matters Committee and Senate Finance Committee annually to ensure the exemption was meeting the legislative intent to aid surplus.

The premium tax exemption is achieving its purpose. The MIA's December 1, 2019 report concluded that the exemption did not materially subsidize rates, and that without the 2018 exemption, MAIF's surplus would have been \$1.8 million closer to the assessment trigger. The MIA reached similar conclusions in December 2020.

MAIF paid the 2% premium tax each year for 45 years - from 1973, when MAIF was created, until 2018 when Chapter 509 (2017) went into effect. The exemption has allowed MAIF to add an average of \$1.6 million annually to its surplus. A permanent exemption from the premium tax would assist MAIF in maintaining self-sufficiency, continue to fulfill its mission and make an assessment less likely.

It is worth noting that a premium tax exemption is not without precedent.

- Although IWIF/Chesapeake is now subject to the premium tax, IWIF was exempt from taxation for nearly 100 years, from 1914 to 2011.
- Nonprofit HMOs are exempt from premium taxes provided an equal amount is transferred to a certain fund to support health care for eligible individuals. *Insurance Article §6-121.*
- CareFirst is exempt from premium taxes provided an equal amount is devoted to certain funds that increase access to, or affordability of, health care services. *Insurance Article §14-106.*

In fiscal year 2019, the Maryland Insurance Administration collected \$538,738,594 in premium tax from insurers. MAIF's exemption is less than 0.5% of the total collected.

### **Amendment**

Clarifies the bill by adding MAIF to the list of exempt entities in Insurance Article §6-101(b).

### **Conclusion**

Accordingly, MAIF urges the House Economic Matters Committee to issue a favorable report on House Bill 457, as amended.

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