MARYLAND
AUTO INSURANCE

Testimony of Maryland Auto Insurance Fund

Date: March 3, 2025 **Position:** **Favorable with Amendments**

Bill Number: Senate Bill 697

Bill Title: Maryland Automobile Insurance Fund – Premium Discounts - Methodology

The Maryland Automobile Insurance Fund

The Maryland Automobile Insurance Fund (MAIF) was created in 1973 to provide automobile insurance to Maryland residents that have been turned down by two insurance companies or canceled or non-renewed by one. *Insurance Article §20-301*. Originally, the statute did not make any provision for ensuring that MAIF rates were affordable. MAIF rates were set according to the basic insurance rating laws, requiring the rates to be "not excessive, inadequate, or unfairly discriminatory." Article 48A §243C (Chapter 73, 1973). But in 1985, the legislature added the language, which is in the current law, *Insurance Article §20–507* that "In reviewing rates filed by the Fund, the Commissioner shall consider not only the rating principles under Title 11 [not excessive, inadequate, or unfairly discriminatory] . . .but also the statutory purpose of the Fund under § 20–301 of this title." This language was added to ensure that Maryland Auto's rates "remain affordable to that segment of the population which is dependent on the Fund for automobile insurance." (Preamble, Ch. 610, 1985).

Since 1985, Maryland Auto has attempted to mitigate the effects of exceptionally high rates of insurance in the lowest income areas of the State. Maryland Auto has applied an approach referred to as its Affordability Index. The Affordability Index applies at a zip code level and results in less than adequate rates primarily in and around Baltimore City. Although the Affordability Index mitigates the harshest effect of Maryland Auto rates in certain zip codes, it does not achieve true affordability. Even with the Index, Maryland Auto rates in these zip codes are the highest in the State

In December 2024, the MIA issued an Order requiring Maryland Auto to phase out the affordability index by December 31, 2026. If Maryland Auto were required to charge fully adequate, "actuarily justified" rates, a 20%-40% increase in premiums would be required in some of the most impoverished zip codes in Baltimore City. Requiring fully adequate rates would result in hardship in low-income communities and more uninsured drivers.

In the wake of this MIA Order, it is highly uncertain whether Maryland Auto may, under any circumstances, consider affordability in its ratemaking. At a minimum, the Order makes it clear that the MIA will not accept the Affordability index, as it is not based on individual income determinations.

Senate Bill 697

SB 697 provides that a premium reduction provided by the Fund shall be based on the income of the applicant and be actuarily justified. These provisions are seemingly contradictory in that actuarily justified rates are a sound estimate of the expected value of all future costs associated with an individual risk transfer. Variations in rates based on other factors, not related to risk, e.g. income, would not be considered actuarially justified.

The intent of the bill appears to require rates to be initially actuarily justified but to allow rate reductions based on income. This would allow MAIF to continue to consider affordability, provided it is based on the income of the insured. Maryland Auto supports this concept.

Maryland Auto supports the bill with an amendment. The amendment makes it clear that Maryland Auto, as the residual insurer, has a statutory mission to provide insurance to those who would otherwise not be able to obtain insurance. This involves mitigating the effects of extremely high insurance rates in low-income communities. The amendment to §20-507 makes this role clear and is a necessary amendment after the MIA Order.

The second aspect of SB 697, requires that affordability be based on the income of the insured. To provide discounts based on income, MAIF would have to determine each applicant's income and compare that income to the MAIF rates in the applicant's zip code to determine any potential reduction. As to the income determination, there are various approaches that could be pursued but creating a system to consider individual income could not be done immediately.

A better approach would be to create a pilot program to consider aspects of eligibility, methods of determining income, application and audit processes and the scope of appropriate discounts or subsidies. Pilot programs, much like the Young Adult Health Insurance Subsidy program passed by this Committee, allow the agency to invest the time and effort necessary to establish the best means for a program of this nature to be successful. A pilot program will be a significant undertaking but would help to eliminate the necessity of substantial investment in programming an approach that may not be sustainable in the long term.

The amendment adds a new §20-507.1 to create a 3-year pilot program, in consultation with the Insurance Commissioner, and periodic reports to the Legislature.

Please let us know if we can answer any questions.

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