

**Senate Bill 890 – Insurance – Premium Receipts Tax – Exemption for Captive Insurance  
Procured by Nonprofit Hospitals and Health Care Systems**

**POSITION: Favorable with Amendments**

February 25, 2026

Senate Finance Committee

The University of Maryland Medical System (“UMMS”) supports Senate Bill 890 – Insurance – Premium Receipts Tax – Exemption for Captive Insurance Procured by Nonprofit Hospitals and Health Care Systems with the amendments proposed by the bill sponsor. Senate Bill 890 (“SB 890”), as amended by the sponsor would (1) levy a tax of 3 percent of the gross premium charged by a reinsurer to cover liability on a captive insurer owned by a nonprofit hospital or health system and (2) clarify that premiums on captive insurance procured by nonprofit hospitals and health systems in the State are not subject to the State’s insurance premium receipts tax imposed on unauthorized insurers.

*What is captive insurance?*

Captive insurance is a form of self-insurance and financial risk management where a company – the captive insurer – is wholly owned and controlled by the entity that it insures. A captive insurer provides insurance exclusively for its owners, which put their own capital at risk in forming the captive insurer. Captives do not sell "insurance" because they do not ultimately transfer risk away from the insured; instead, they provide a reliable and less costly means to structure risk management and preserve financial stability.

*Why establish a captive insurer?*

As a non-profit health system with a charitable and academic mission, UMMS must carefully manage its liability risk in Maryland, which has one of the most challenging litigation environments in the nation. This environment causes commercial insurance to be unaffordable and renders self-insurance as the only practical alternative for risk management. UMMS established its captive vehicle to set aside a funding reserve that could be used to provide self-insurance and purchase reinsurance, which it does under the direction of an UMMS-appointed Board.

Importantly, captives are not “insurance” in the traditional sense contemplated by federal and state law because they do not transfer risk from the insured to a third-party insurer. Rather, captives facilitate self-insurance and the purchase of reinsurance for the health system’s self-insurance risk, but the underlying risk remains with and is managed by UMMS. Numerous jurisdictions recognize this distinction. The Internal Revenue Service has consistently concluded that captive arrangements do not constitute “insurance” for federal tax purposes, and several

states explicitly delineate how and when their insurance laws apply to captive entities and transactions.

In Maryland, for several decades, nonprofit hospitals and health systems in the State have operated captive insurers as a cost-effective means of providing self-insurance. Over this period, the State's premium receipts tax (3 percent of gross premiums charged for the insurance) has not applied to captive insurance policies held by nonprofit hospitals and health systems because these vehicles are not regulated by the State, the captive insurers are not selling commercial insurance, and hospitals and health systems are not deducting the funding payments made to the captive on its federal or state income tax returns.

SB 890 is clarifying in nature. The bill, as amended, clarifies that Maryland's premium receipts tax on insurance policies procured from unauthorized insurers does not apply to captive insurers owned by nonprofit health systems and hospitals that exclusively operate to finance and administer the risks of the hospital or health system. The bill, as amended, is also consistent with the longstanding practice by the Maryland Insurance Administration (MIA) and nonprofit hospitals and health systems in the State. The MIA, which recently conducted preliminary inquiries into whether certain hospitals may be subject to the tax, worked collaboratively with the Maryland Hospital Association and hospitals and health systems in the State to craft the language of this bill to more clearly reflect the reality that these captive arrangements are not the type of commercial insurance transactions that the statute was designed to tax.

SB 890 provides needed statutory clarity and avoids unintended financial consequences for nonprofit health systems that rely on captives as prudent risk-financing tools. By reaffirming the proper scope of the premium receipts tax, this bill protects hospital resources that are better directed toward patient care.

For these reasons, the University of Maryland Medical System supports SB 890 with the sponsor amendments, and respectfully requests a *favorable* report on the bill.

For more information, please contact:

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