C96J00
Uninsured Employers' Fund

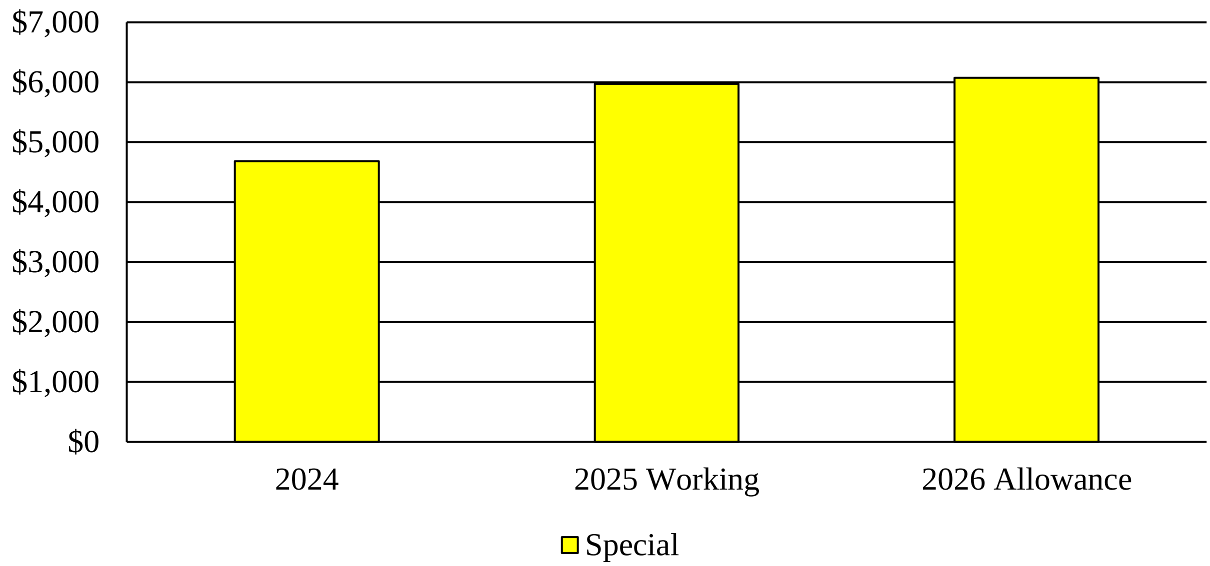
Program Description

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 special 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. UEF also collects penalties from sanctions on uninsured employers and recovers benefits paid out for uninsured claims.

Operating Budget Summary

Fiscal 2026 Budget Increases $98,745, or 1.7%, to $6.1 Million
($ in Thousands)



Note: The fiscal 2025 impacts of statewide salary adjustments are centrally budgeted in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency's budget. The fiscal 2026 impacts of the fiscal 2025 statewide salary adjustments appear in this agency's budget. The fiscal 2026 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency's budget.

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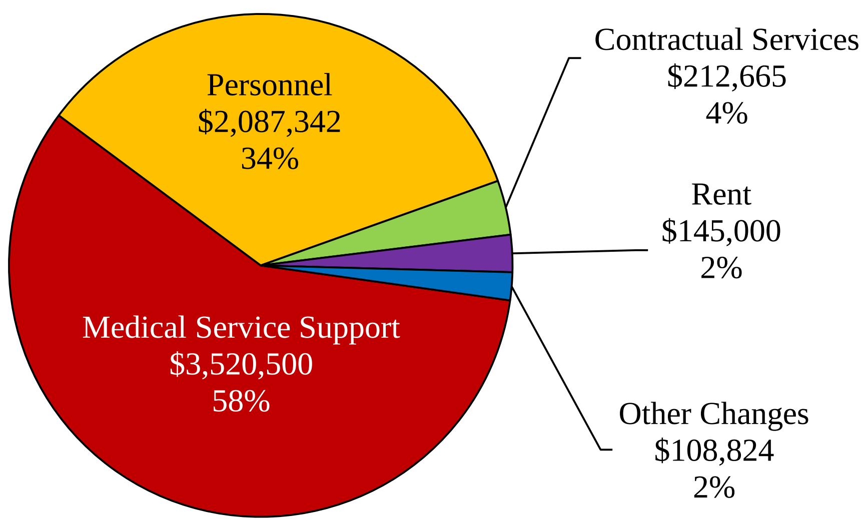
Implementation of Legislative Priorities

Chapter 78 of 2024 amended § 9-407 of the Labor and Employment Article to increase the cap on penalties from $10,000 to $25,000 for employers who fail to comply with an order of Workers' Compensation Commission (WCC) regarding an employer's failure to secure required workers' compensation insurance. Implementing fines at the $25,000 level is up to the discretion of the WCC commissioner. According to WCC, as of January 2025, no penalties have been assessed to the $25,000 level. As a result, it is unknown at this time the impact that this will have on UEF revenue. The Department of Legislative Services (DLS) will continue to monitor implementation of this change and its impact on UEF revenue.

Fiscal 2026 Overview of Agency Spending

The fiscal 2026 allowance for UEF totals $6.1 million. As shown in **Exhibit 1**, the majority of the fiscal 2026 allowance ($3.5 million, or 58%) supports medical service support provided by UEF. Personnel comprise $2.1 million, or 34%, of the fiscal 2026 allowance for 13 regular positions.

Exhibit 1
Overview of Agency Spending
Fiscal 2026 Allowance



Note: The fiscal 2026 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency's budget.

Source: Governor's Fiscal 2025 Budget Books

Proposed Budget Change

As shown in **Exhibit 2**, UEF's fiscal 2026 allowance increases by a net of $98,745 compared to the fiscal 2025 appropriation. The largest spending increase of $124,108 is for salaries that occur mainly due to fiscal 2025 cost-of-living adjustments and increments not yet accounted for in the agency's fiscal 2025 budget.

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

How Much It Grows:	**Special Fund**	**Total**
Fiscal 2024 Actual	$4,682	$4,682
Fiscal 2025 Working Appropriation	5,976	5,976
Fiscal 2026 Allowance	6,074	6,074
Fiscal 2025-2026 Amount Change	$99	$99
Fiscal 2025-2026 Percent Change	1.7%	1.7%

Where It Goes:	**Change**
Personnel Expenses	
Salary increases and associated fringe benefits including fiscal 2025 cost-of-living adjustment and increments	$124
Employee and retiree health insurance	-31
Other Changes	
Cost allocation	3
Shared human resources	2
Total	**$99**

Note: Numbers may not sum to total due to rounding. The fiscal 2025 impacts of statewide salary adjustments are centrally budgeted in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency's budget. The fiscal 2026 impacts of the fiscal 2025 statewide salary adjustments appear in this agency's budget. The fiscal 2026 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency's budget.

Personnel Data

	FY 24 Actual	FY 25 Working	FY 26 Allowance	FY 25-26 Change
Regular Positions	13.00	13.00	13.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	**13.00**	**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 12/31/24	2.00	15.38%
Vacancies Above/Below Turnover	2.00	

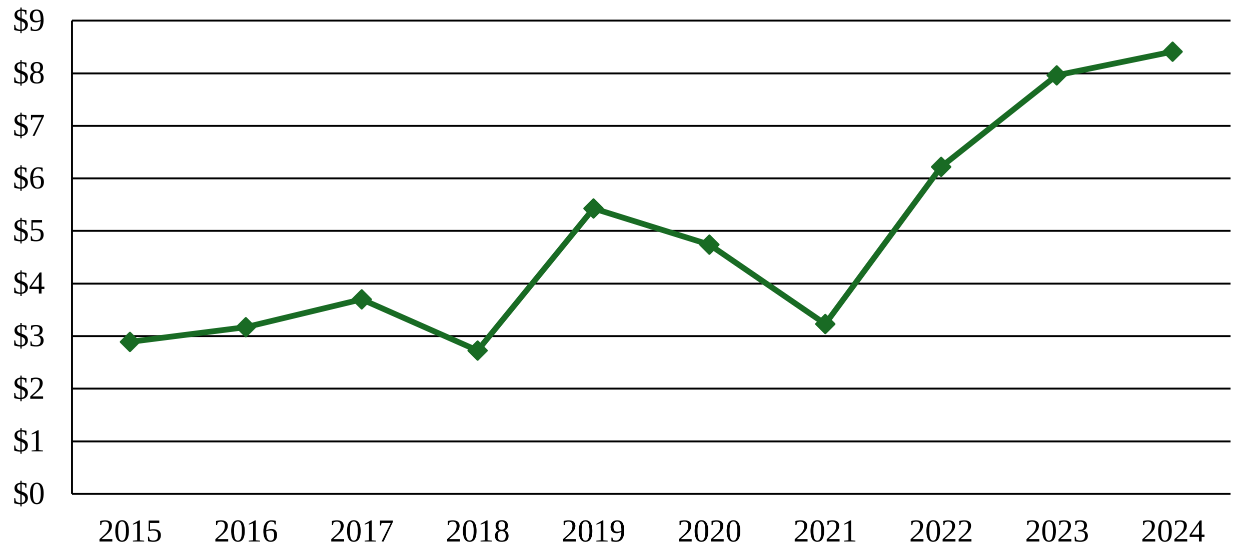
- As of December 2024, 2 positions have been vacant for more than 12 months.

Key Observations

1. Cost per Claim Continues to Increase

The operating cost per claim (case) can help to determine UEF's administrative productivity. Different cases merit different costs in terms of investigative costs and legal fees. **Exhibit 3** shows the average cost per resolved claim from fiscal 2015 to 2024.

Exhibit 3
Cost Per Resolved Claim
Fiscal 2015-2024
($ in Thousands)



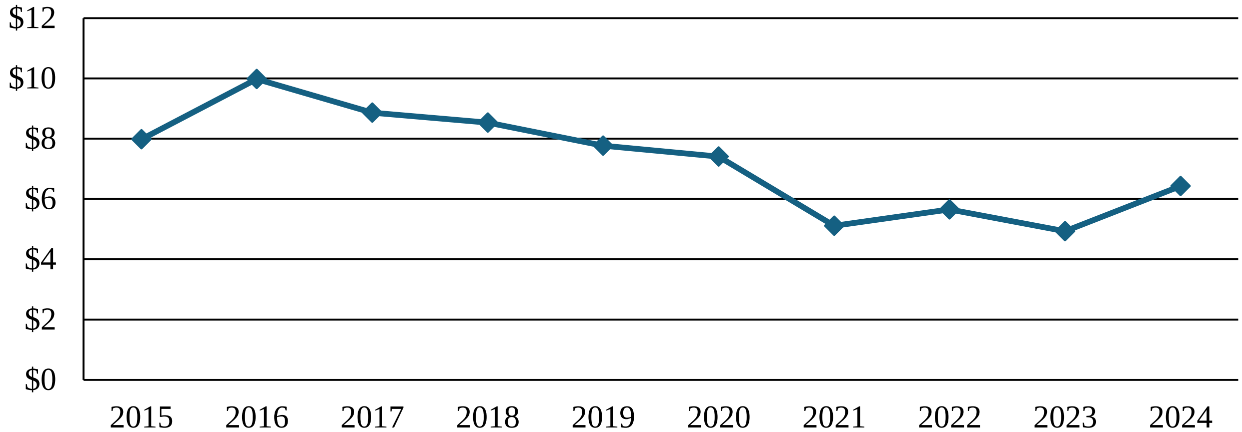
Source: Department of Budget and Management

The cost per claim is on an upward trend since fiscal 2021 increasing by a significant $5,177, or 160%, from fiscal 2021 to 2024 due to UEF's third-party administrator (TPA) contract.

As shown in **Exhibit 4**, UEF experienced a modest but steady decline in benefit payments between fiscal 2018 and 2020. Benefit payments declined more substantially between fiscal 2020 and 2021 by $2.3 million, or 31%, due to impacts of the COVID-19 pandemic on the workforce and on the number of cases heard by WCC. With the resumption of more consistent WCC hearings, benefit payments increased by $0.5 million (or 11%) in fiscal 2022 compared to fiscal 2021. Benefit payments declined to $4.9 million in fiscal 2023 before increasing in fiscal 2024 to its highest level since fiscal 2020. A portion of the recent lower benefit payments can be attributed to

TPA increasing the share of claims in which the agency has found non-UEF coverage. When the labor market increased in fiscal 2023, the number of WCC hearings increased, and the unprocessed claims filed before calendar 2020 were processed in fiscal 2024, which is the reason why the benefit payments increased by $1.5 million, or 31%, in fiscal 2024 compared to fiscal 2023.

Exhibit 4
Annual Benefits Payments
Fiscal 2015-2024
($ in Millions)



Source: Department of Budget and Management

2. UEF Report: Long-term Solvency of the Uninsured Employers' Fund

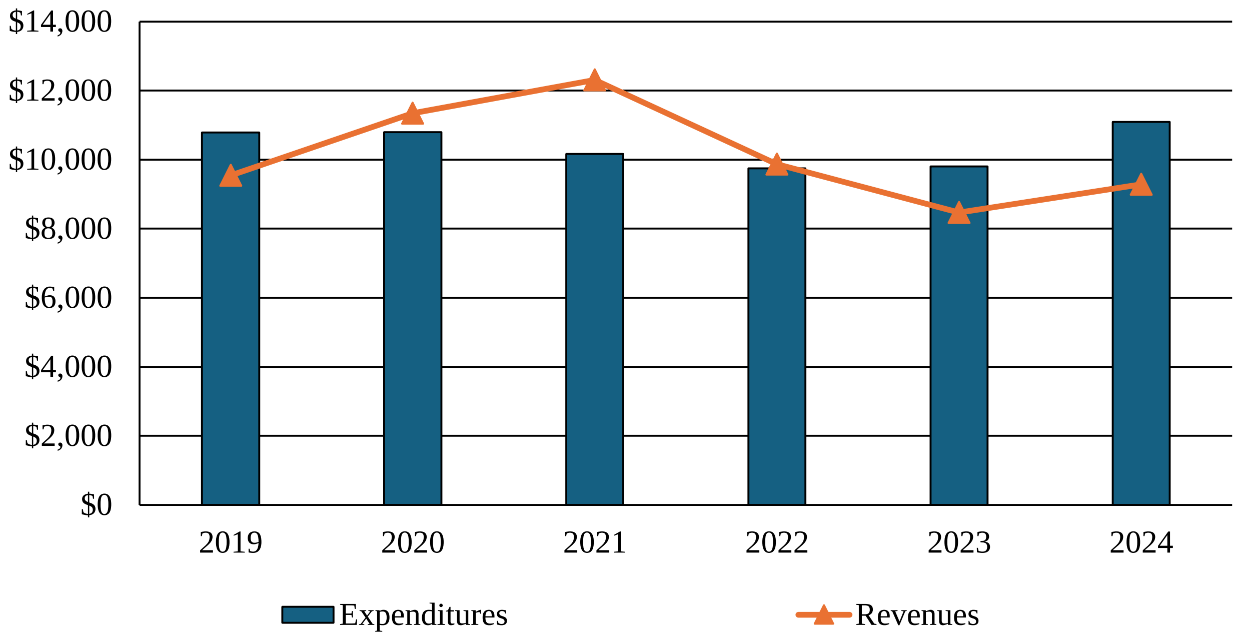
Committee narrative in the 2024 *Joint Chairmen's Report* (JCR) requested that UEF and WCC establish a workgroup to study and report on potential changes to UEF's funding structure and operations. The workgroup was created in April 2024 and had four meetings starting on August 5, 2024; September 5, 2024; October 1, 2024; and ending on November 14, 2024. UEF and WCC submitted separate responses.

WCC submitted its report with recommendations on December 2, 2024. WCC expressed that UEF did not provide all the requested operational documents, including UEF's personnel, revenues, expenses, claims, account receivables, and TPA contract in a timely manner to the workgroup for a thorough evaluation. UEF submitted its report with recommendations on November 30, 2024.

The UEF fund balance covers all operating costs and payments to workers injured on the job. Most revenues (about 86%) come from a 2% assessment on workers' compensation awards. Chapter 495 of 2020 increased the assessment, from 2% to 3%, for fiscal 2021 only to assist with UEF's declining fund balance due to expenditures exceeding revenues. As of September 30, 2024, UEF's fund balance was $7.4 million, a $2 million increase from the fiscal 2024 closing fund balance of $5.4 million.

A December 2020 actuarial report determined that UEF would face insolvency by fiscal 2030 hindering the fund's ability to financially sustain injured workers. **Exhibit 5** shows expenditures including administrative costs and claims (compensation and medical payments) exceeded revenues in fiscal 2023 and 2024. **Exhibit 6** shows that growth in administrative costs beginning with fiscal 2022 is the primary cause of spending exceeding revenues. Claim payments for compensation and medical expenses declined as share of total spending in fiscal 2022 and 2023 and remain below 70% of spending in fiscal 2024.

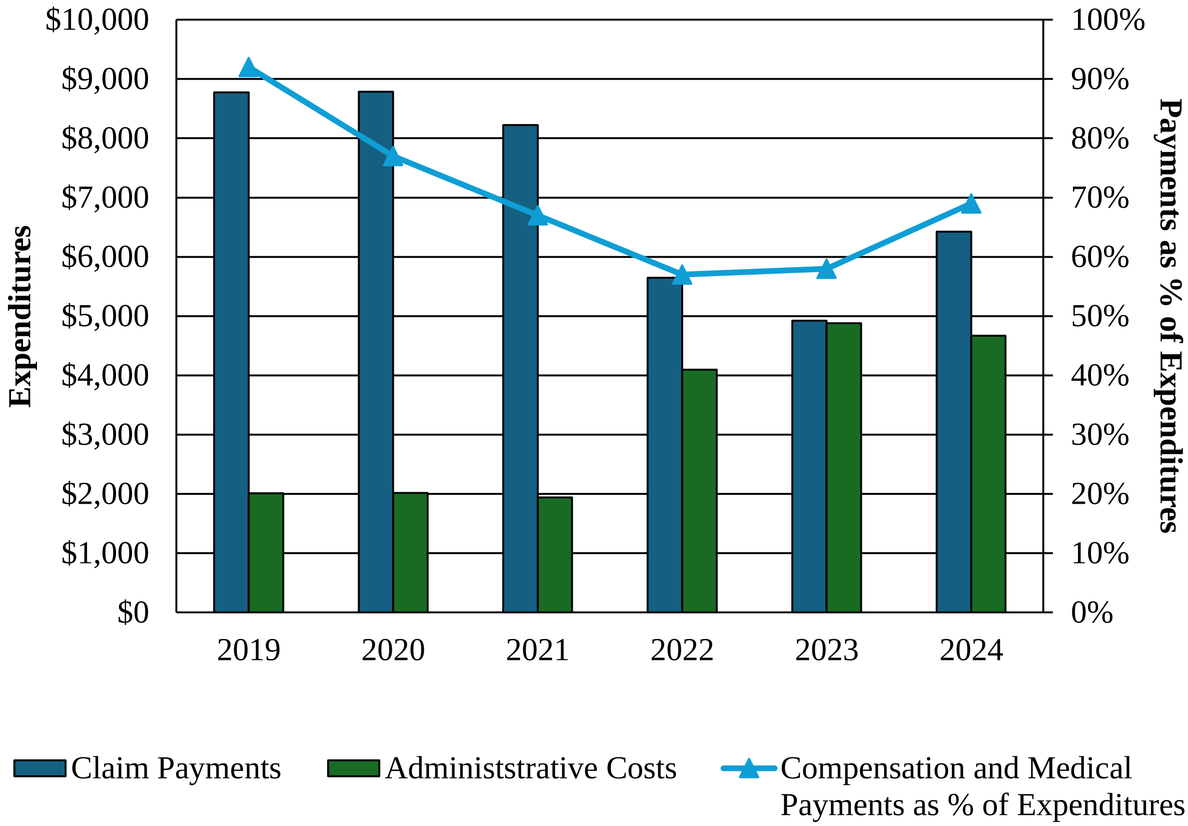
Exhibit 5
UEF Expenditures Exceed Revenues in Fiscal 2023 and 2024
Fiscal 2019-2024
($ in Thousands)



UEF: Uninsured Employers' Fund

Source: Uninsured Employers' Fund

Exhibit 6
Uninsured Employers' Fund Spending Trends
Fiscal 2019-2024
($ in Thousands)



Source: Uninsured Employers' Fund

The three main areas of UEF's expenses are medical bills and lost wages paid to injured workers; operating expenses (salaries and related benefits and rent); and the fees related to CorVel. From fiscal 2022 to 2024, the amounts paid to injured workers averaged $5.7 million, and the average operating expenses have been $2 million. UEF noted that it paid CorVel $11.5 million ($2.3 million per year for five years). CorVel in the last five years has secured payments totaling $25 million. A new contract was approved by the Board of Public Works on October 30, 2024, for CorVel to remain as TPA, through October 31, 2029. CorVel would receive $8.4 million by the end of the term. UEF noted that they expect for CorVel's costs under the contract to decrease by approximately 20%. WCC noted concerns regarding whether the reduction is adequate and if the costs are in line with industry standards. **UEF should comment on the need to retain CorVel and why the TPA's costs are expected to decrease.**

WCC's report also discusses the possibility of some type of overseer that could monitor UEF's monthly bank balances and CorVel's monthly administrative fees, establish standards for reserves, and assess the agency's staffing needs among other activities. WCC also suggests an overseer could work with the Department of Budget and Management and the Office of Legislative Audits (OLA) to separate TPA expenses from benefit payments to injured workers. **UEF should comment on the suggestion for an overseer.**

WCC also described several potential changes, including ones that do not require legislative actions, as well as ones that do, which included conflicting positions.

Recommendations not requiring legislative action include:

- ***Consideration of the Feasibility of Transferring Claims Management In-house Either in Whole or in Part:*** WCC noted that UEF suggested an independent feasibility study should be conducted. WCC noted that before undertaking this type of study, if an overseer is created, that entity could identify activities that could be transferred in house.

- ***Retaining a Private Commission-based Collections Agency to Pursue Debts Owed to UEF:*** WCC indicated that workgroup members supported this recommendation. UEF supports but prefers to also have the Central Collections Unit continue to collect debt.

- ***UEF Should Seek to Reduce Fines, Penalties, and Assessments to Judgments and Bring Civil Collection Actions*:** WCC noted that this was discussed and not objected to by the workgroup, but an overseer could determine if UEF has sufficient staff needed for certain enforcement actions or that a collections agency could perform this function.

Recommendations requiring legislative action include:

- ***Increase the Allowable Assessments Percentage on Awards and Settlements:*** WCC noted disagreement on the level of increase with UEF suggesting a 1 percentage point increase (approximately $4 million in annual revenue), while WCC supported a 0.5 percentage point increase (approximately $2 million in annual revenue). **SB 219 introduced at the request of UEF provides for a 1 percentage point increase to the assessment.**

- ***Make Reserve Setting Mandatory Rather Than Discretionary:*** WCC stated disagreement, while noting that the agency supports this, but UEF does not.

- ***Repeal the Suspension of Assessments Once the UEF Fund Balance Reaches $5 Million:*** Both agencies support repealing the suspension to allow UEF to address long-term needs of the agency. However, WCC suggests that this should be done in conjunction with other oversight and mandatory reserve setting.

- ***Redirect Civil Penalties from Workplace Fraud from the General Fund to UEF:*** The workgroup members had no objections, but WCC noted that the Maryland Department of Labor may express concerns. UEF supports this but is unsure of how much revenue this provision currently generates.

- ***Transfer \$10 Million from the Subsequent Injury Fund (SIF) to UEF and Readjust the Assessment Ratios:*** UEF supports this idea, while WCC and SIF do not.

  In its report, UEF proposed one additional action:

- ***Shift Cost of UEF Employee Salaries and Benefits (Excluding Assistant Attorney Generals) to the General Fund:*** UEF supports because they project it will save \$1.5 million in expenditures per year.

UEF should comment on the options considered in the two reports and the suggestion of an overseer.

3. Proposed Legislation

As discussed prior, SB 219 (introduced at the request of UEF) would increase the total UEF assessment to 3% of WCC awards and settlements if the reserves on the fund balance are inadequate to meet anticipated losses. UEF believes that this proposal will increase annual revenue by \$3.5 million to \$4.5 million per year resolving solvency concerns.

SB 227, also introduced at the request of UEF, would require WCC to make the fund a party to a claim filed against an uninsured employer, which will enable the employee or the dependents of an employee to apply for payment from the fund, which will alter how UEF will pay an award. The bill will also alter requirements for the reimbursement of awards, payments of awards, and notice of claims. **UEF should comment on the impact SB 227 will have on the fund.**

Operating Budget Recommended Actions

1. Adopt the following narrative:

   Report on Operational Needs: The budget committees are concerned about the significant increase in operating expenditures due to the procurement of a contract with a third-party administrator (TPA) to perform many core functions of the agency. The committees direct that, in conjunction with the Department of Budget and Management (DBM), the Uninsured Employers' Fund (UEF) produce a report documenting whether a TPA is needed for the entire current five-year contract. The report should also provide an analysis of the agency's current and future staffing needs and consider the possible shift of claim management functions in house.

Information Request	Author	Due Date
UEF operational needs	UEF DBM	December 1, 2025

Updates

- OLA will publish UEF's audit report in calendar 2025. OLA noted that it still has several steps to perform before the report is ready to be submitted.

Appendix 1
2024 *Joint Chairmen's Report* Responses from Agency

The 2024 JCR requested that UEF prepare one report and OLA prepare one report. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Workgroup Report on UEF's Long-term Solvency:*** Committee narrative requested the establishment of a workgroup to study and report on potential changes to UEF's funding structure, operations, or other factors that the workgroup deems relevant. WCC submitted their requested response separately. UEF's response is detailed in Key Observation 2 of this analysis.

- ***Status of Corrective Actions Related to Audit:*** Language in the fiscal 2025 Budget Bill restricted $150,000 pending the adoption of corrective action by UEF and a determination by OLA that each finding was corrected due to repeat audit findings regarding a lack of oversight of UEF's TPA. OLA noted they still have several steps to perform before the report is ready to be submitted. The report is due 45 days prior to the release of funds.

Appendix 2
Object/Fund Difference Report
Uninsured Employers' Fund

Object/Fund	FY 24 Actual	FY 25 Working Appropriation	FY 26 Allowance	FY 25 - FY 26 Amount Change	Percent Change
Positions					
01 Regular	13.00	13.00	13.00	0.00	0%
Total Positions	**13.00**	**13.00**	**13.00**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 1,873,303	$ 1,990,570	$ 2,083,842	$ 93,272	4.7%
02 Technical and Special Fees	2,197,487	3,524,000	3,524,000	0	0%
03 Communication	16,980	29,015	29,015	0	0%
04 Travel	8,946	18,700	18,700	0	0%
08 Contractual Services	424,262	207,195	212,665	5,470	2.6%
09 Supplies and Materials	15,046	27,000	27,000	0	0%
10 Equipment – Replacement	0	30,000	30,000	0	0%
13 Fixed Charges	145,743	149,106	149,109	3	0%
Total Objects	**$ 4,681,767**	**$ 5,975,586**	**$ 6,074,331**	**$ 98,745**	**1.7%**
Funds					
03 Special Fund	$ 4,681,767	$ 5,975,586	$ 6,074,331	$ 98,745	1.7%
Total Funds	**$ 4,681,767**	**$ 5,975,586**	**$ 6,074,331**	**$ 98,745**	**1.7%**

Note: The fiscal 2025 appropriation does not include deficiencies, planned reversions, or contingent reductions. The fiscal 2026 allowance does not include contingent reductions or statewide salary adjustments budgeted within the Department of Budget and Management.