

**Maryland Insurance Administration's  
2005 Annual Report on the  
Maryland Health Care Provider Rate  
Stabilization Fund**



**March 15, 2006**

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## **I. Introduction:**

Chapter 1, Laws of Maryland 2005 (Senate Bill 836) created the Maryland Health Care Provider Rate Stabilization Fund. The Fund consists primarily of premium tax revenue collected from health maintenance organizations and managed care organizations.

The purposes of the Fund are to: (1) retain health care providers in the State by allowing medical liability professional insurers to collect rates that are less than the rates approved under §11-201 of the Insurance Article; (2) increase fee-for-service rates paid by the Maryland Medical Assistance Program to health care providers identified under §19-807 of the Insurance Article; (3) pay managed care organization health care providers identified under §19-807 of the Insurance Article consistent with fee-for-service health care provider rates; and (4) increase capitation payments to managed care organizations participating in the Maryland Medical Assistance Program consistent with §15-103(b)(18) of the Health-General Article. The Fund's revenues are allocated to the Rate Stabilization Account and the Medical Assistance Program Account. In any period that an allocation is made to the Rate Stabilization Account, up to \$350,000 is allocated annually to the Administration to provide for the costs incurred to administer the Fund.

Monies allocated to the Rate Stabilization Account are to be used to accomplish purpose (1) above by paying authorized medical professional liability insurance premium subsidies ("State subsidies") to medical professional liability insurers who wish to participate in the Fund ("Participating Insurers") on behalf of policyholders who are eligible health care providers.

State subsidies are available only to licensed physicians and certified midwives. State subsidies are not available to corporate entities through which they practice or to other health care providers.

Monies allocated to the Medical Assistance Program Account are to be used to accomplish purposes (2), (3) and (4) above by: increasing fee-for-service rates paid by the Maryland Medical Assistance Program to certain health care providers; paying certain managed care organization health care providers consistent with fee-for-service health care provider rates; and increasing capitation payments to managed care organizations participating in the Maryland Medical Assistance Program.

The Fund replaced the Maryland Medical Professional Liability Insurance Rate Stabilization Fund that had been created by Chapter 5, Laws of Maryland 2004 (Special Session).

## II. Annual Reporting:

§19-808(c) of the Insurance Article provides that on or before March 15 of each year the Commissioner shall report to the Legislative Policy Committee, in accordance with §2-1246 of the State Government Article, the following:

- (1) For each year that an allocation is made to the Rate Stabilization Account:
  - (i) The amount of money applied for by medical professional liability insurers during the previous calendar year;
  - (ii) By classification and geographic territory, the amount of money disbursed to medical professional liability insurers on behalf of health care providers during the previous calendar year;
  - (iii) By classification and geographic territory, the number of health care providers electing not to receive a rate reduction, credit, or refund in the previous calendar year;
  - (iv) The costs incurred by the Commissioner in administering the Rate Stabilization Account during the previous calendar year, including a justification of the audit costs incurred under §19-805(i) of the Insurance Article; and
  - (v) The amount of money available in the Rate Stabilization Account on the last day of the previous calendar year;

- (2) The amount of money available in the Fund and the Medical Assistance Program Account on the last day of the previous calendar year;
- (3)
  - (i) The amount of money disbursed to the Maryland Medical Assistance Program under § 19-807 of the Insurance Article;
  - (ii) The amount of increase in fee-for-service health care provider rates; and
  - (iii) The amount of increase in capitation payments to managed care organizations; and
- (4) The Office of Legislative Audits report on the receipts and disbursements of the Fund.

### III. Rate Stabilization Account Uses and Fund Balance:

For fiscal year 2006, §19-803(b)(3) of the Insurance Article allocated \$52,000,000 to the Rate Stabilization Account to pay for health care provider rate reductions, credits or refunds (State subsidies) in calendar year 2005.

§19-805(b)(1) provided that for professional liability insurance policies subject to rates that were approved for an initial effective date on or after January 1, 2005, but prior to January 1, 2006, the subsidy shall be the amount of the increase greater than 5% of the approved rates in effect one year prior. This language proved to be problematic to implement, as all Participating Insurers do not have the same initial effective date for their rates, and while certain carriers renew policies on a common date, others renew their policies on a staggered basis. To ensure that eligible policyholders of carriers participating in the Fund received the appropriate amount of subsidy for the premium increase derived from rates with an initial effective date in calendar year 2005, the State subsidies are being distributed on a "Subsidy Year" basis. The term "Subsidy Year" is described in more detail in MIA Bulletin 05-7, *Procedures for Obtaining Reimbursements from the Maryland Health Care Provider Rate Stabilization Fund - Rate Stabilization Account*, which is attached as **Exhibit 1**. As discussed in more detail below, the differing effective dates of the carriers' 2005 rates creates certain timing differences regarding when Participating Insurers can apply for State subsidies on behalf of their eligible providers. However, it ensures that all eligible providers will receive subsidies for similar periods of time.

In this regard, based on a literal application of §19-805(b)(1) of the Insurance Article, certain eligible policyholders may not have received a State subsidy for calendar

year 2005. Specifically, §19-805(b)(1) provided that the 2005 State subsidy was available to eligible policyholders with respect to medical professional liability insurance policies that were subject to rates that were approved for an initial effective date on or after January 1, 2005, but prior to January 1, 2006. If a Participating Insurer sought and obtained a rate increase that became effective on January 1, 2005, all of its policies written and renewed during 2005 would have been eligible for a State subsidy. However, if a Participating Insurer sought and obtained a rate increase that became effective later in 2005, some of its policies written and renewed during 2005 may not have been eligible for a 2005 State subsidy.

To illustrate, if a Participating Insurer's rates became effective on April 1, 2005, policies written on or after April 1 would have been eligible for a 2005 State subsidy. However, policies written up to March 31, 2005 would have been written at the pre-existing rate, and would not have been eligible for a 2005 State subsidy. Under the Subsidy Year approach, those policyholders that would not have otherwise received a 2005 State subsidy will receive their Subsidy when their policies incept or renew in 2006 (i.e., when their policies incept or renew at the carrier's rate with an initial effective date from January 1, 2005 to December 31, 2005).

For a Participating Insurer that sought and obtained a rate increase on new and renewal business that became effective on January 1, 2005, Subsidy Year 2005 would run from January 1, 2005 through December 31, 2005. For a Participating Insurer that sought and obtained a rate increase on new and renewal business that became effective on April 1, 2005, Subsidy Year 2005 would run from April 1, 2005 through March 31, 2006.

Because State subsidies are being disbursed on a Subsidy Year basis, payments of State subsidies for Subsidy Year 2005 will continue well into calendar year 2006.

The following information is presented with respect to the uses of the calendar year (Subsidy Year) 2005 Rate Stabilization Account allocation, and the Rate Stabilization Account balance as of December 31, 2005.

- (i) *The amount of money applied for by medical professional liability insurers during Subsidy Year 2005.*

In Subsidy Year 2005 there were four medical professional liability insurers participating in the Rate Subsidy Account. Through December 31, 2005, these Participating Insurers had applied for State subsidy reimbursements totaling \$29,839,384, and had been paid \$29,551,535. The \$(287,849) difference between the amount requested and the amount paid as of December 31, 2005 was paid in January 2006.

The \$29,551,535 paid to Participating Insurers through December 31, 2005 represents approximately 83% of the total amount of State subsidy disbursements the Administration anticipates making for Subsidy Year 2005. Based upon information obtained from the insurers, we anticipate disbursing approximately \$6,100,000 additional to Participating Insurers related to the Subsidy Year 2005 allocation, bringing the total amount of State subsidy disbursements for Subsidy Year 2005 to approximately \$35,700,000.

Attached as **Exhibit 2** is a schedule depicting the State subsidies paid from the Rate Stabilization Account to Participating Insurers on behalf of health care providers for Subsidy Year 2005 through December 31, 2005. **Exhibit 2** also includes the total amount expected to be paid for all of Subsidy Year 2005.

(ii) *By classification and geographic territory, the amount of money disbursed to medical professional liability insurers on behalf of health care providers during Subsidy Year 2005.*

**Exhibit 3** summarizes by classification and geographical territory the State subsidies paid from the Rate Stabilization Account to Participating Insurers on behalf of health care providers for Subsidy Year 2005 through December 31, 2005. **Exhibit 3** also includes the total amount expected to be paid for all of Subsidy Year 2005. This information was compiled from data received from the four insurance carriers participating in the Rate Stabilization Account in 2005.

(iii) *By classification and geographic territory, the number of health care providers electing not to receive a rate reduction, credit, or refund during Subsidy Year 2005.*

**Exhibit 4** summarizes by classification and geographical territory the number of health care providers electing not to receive a rate reduction, credit, or refund during Subsidy Year 2005. This information was compiled from data received from the four insurance carriers participating in the Rate Stabilization Account in 2005.

(iv) *The costs incurred by the Commissioner in administering the Rate Stabilization Account during the calendar year 2005, including a justification of the audit costs incurred under §19-805(i) of the Insurance Article.*

**Exhibit 5** summarizes the costs incurred by the Administration in administering the Rate Stabilization Account during the calendar year 2005. All of these costs represent an allocation of the Administration's internal costs based on

the time expended by Administration employees on Rate Stabilization Account issues during 2005.

§19-805(i) of the Insurance Article requires the Commissioner or the Commissioner's designee to conduct an annual audit to verify the information submitted by each Participating Insurer applying for reimbursement from the Rate Stabilization Account. As a practical matter, these audits cannot be conducted until each Participating Insurer's Subsidy Year has ended and the Participating Insurer has essentially finished requesting subsidies from the Fund for the year to be audited. Accordingly, the Administration will audit each of the participating insurers during 2006, with the first audit scheduled to begin in July.

- (v) *The amount of money available in the Rate Stabilization Account on the last day of Calendar Year 2005.*

For fiscal year 2006 §19-803(b)(3)(ii) of the Insurance Article allocated \$52,000,000 from the Maryland Health Care Provider Rate Stabilization Fund to the Rate Stabilization Account to pay for State subsidies in Calendar Year (Subsidy Year) 2005. However, many health care providers were eligible for subsidies effective January 1, 2005. Based on a literal read of the law, the Administration would have had to wait until the beginning of fiscal year 2006 (i.e., July 1, 2005) to begin disbursing State subsidies, which would have delayed the receipt of subsidies to many health care providers.

On April 28, 2005, the Maryland Insurance Administration asked the Office of the Attorney General for advice on whether premium tax revenues could be

advanced to the Rate Stabilization Account in fiscal year 2005. On May 10, 2005, the Office responded that a budget amendment could be processed to *accelerate* the schedule of payments of money from the Fund to the Rate Stabilization Account, provided that the advance did not effect a reallocation of monies between the Rate Stabilization Account and the Medicaid Assistance Program Account. In other words, the anticipated unallocated balance of the Fund for fiscal year 2005 which resulted from premium tax revenues received in fiscal year 2005 could be advanced to the Rate Stabilization Account via an amendment to the fiscal year 2005 budget, *if* the amount so advanced was subtracted from the amount allocated by statute to the Rate Stabilization Account for fiscal year 2006.

In light of that response, a budget amendment was processed and approved, which appropriated \$27,500,000 to the Rate Stabilization Account in fiscal year 2005, leaving \$24,500,000 in the fiscal year 2006 appropriation. The budget amendment advanced money to the Rate Stabilization Account in fiscal year 2005 for the purpose of paying State subsidies to Participating Insurers as soon as practical after the subsidy reimbursement requests were received.

Through December 31, 2005 the Administration had disbursed \$29,551,535 from the Rate Stabilization Account (i.e., \$20,820,916 in fiscal year 2005 and \$8,730,619 in fiscal year 2006).

Through December 31, 2005 the Administration primarily recorded receipts and disbursements for this program through the Maryland Health Care Provider Rate Stabilization Fund. Funds were transferred to the Rate Stabilization Account only as needed to pay State subsidies to Participating Insurers. Therefore, the

balance of the Rate Stabilization Account was \$0 as of December 31, 2005. It is the Administration's intent to transfer additional funds into the Rate Stabilization Account by June 30, 2006 so that the entire \$52,000,000 allocated to the Account for fiscal years 2005 and 2006 will have been placed into the Account by that date.

As previously noted, through December 31, 2005 the Administration had processed State subsidy reimbursement payments totaling \$29,551,535. The Administration anticipates making additional disbursements totaling approximately \$6,100,000, bringing the total for Subsidy Year 2005 to approximately \$35,700,000. As a result, we project that the unexpended balance of the fiscal year 2006 allocation to the Rate Stabilization Account for Subsidy Year 2005 will be approximately \$16,300,000 (i.e., \$52,000,000 - \$35,700,000).

**IV. The amount of money available in the Maryland Health Care Provider Rate Stabilization Fund and the Medical Assistance Program Account on the last day of calendar year 2005:**

*Maryland Health Care Provider Rate Stabilization Fund*

**Exhibit 6** summarizes the activity of the Maryland Health Care Provider Rate Stabilization Fund for calendar year 2005. As of December 31, 2005, the Fund had a cash balance of \$29,518,560.

*Medical Assistance Program Account*

The Medical Assistance Program Account had a \$0 balance as of December 31, 2005. This is because all funds deposited into the Account were then transferred from the Account to the Department of Health and Mental Hygiene for use by the Medical Assistance Program.

Through December 31, 2005, the Administration had disbursed funds totaling \$11,789,945 from the Account to the Department of Health and Mental Hygiene. This amount included \$3,500,000 in premium tax revenue transferred in fiscal year 2005. In addition, this amount included premium tax exemption value payments from nonprofit health maintenance organizations in fiscal year 2006 totaling \$8,289,945. In this regard, §6-121 of the Insurance Article provides for each nonprofit health maintenance organization to transfer funds in an amount equal to its premium tax exemption value (i.e., the amount of premium taxes that the nonprofit health maintenance organization would have been required to pay if it were not exempt from premium taxation under §6-

101(b)(7) of the Insurance Article) to the Medical Assistance Program Account to be used to support the provision of health care to eligible individuals.

§6-121 also provides that the premium tax exemption value collected and deposited into the Medical Assistance Program Account shall be counted towards the \$30,000,000 allocation required to the Medical Assistance Program Account for fiscal year 2006. To the extent that the premium tax exemption value collected and deposited into the Account does not equal the \$30,000,000 allocation, the Administration intends to transfer premium tax revenue from the Fund to the Account so that the total deposited into the account for fiscal year 2006 equals the fiscal year 2006 allocation. At this time the Administration anticipates collecting sufficient premium tax revenue during fiscal year 2006 to permit this payment. All funds deposited into the Account will be immediately transferred from the Account to the Department of Health and Mental Hygiene. Please see **Section V** below for a more complete discussion of the activity of this Account.

**V. Medical Assistance Program Account:**

For fiscal year 2005, §19-803(b)(3)(i) of the Insurance Article allocated \$3,500,000 from the Fund to the Medical Assistance Program Account. In addition, for fiscal year 2006 §19-803(b)(3)(ii) of the Insurance Article allocated \$30,000,000 to the Medical Assistance Program Account.

The Administration transferred the \$3,500,000 fiscal year 2005 allocation to the Medical Assistance Program Account during fiscal year 2005. During fiscal year 2006 the Administration has transferred \$8,289,945 to the Account. These funds were then transferred from the Account to the Department of Health and Mental Hygiene for use by the Medical Assistance Program. The Administration intends to transfer the remaining \$21,710,055 of the fiscal year 2006 allocation (i.e., \$30,000,000 - \$8,289,945) to the Account, and then to the Department of Health and Mental Hygiene, by June 30, 2006.

We were advised by the Department of Health and Mental Hygiene that it used these funds as follows:

*Fiscal Year 2005 Allocation:*

In accordance with §19-807(b)(1) of the Insurance Article, we were advised by the Department that it used the \$3,500,000 allocation to increase capitation rates paid to managed care organizations. These funds were matched by \$3,500,000 of Federal Medicaid funds.

*Fiscal Year 2006 Allocation:*

§§19-807(b)(2) and (3) of the Insurance Article required the Department to use the \$30,000,000 allocation as follows:

- 1. \$15,000,000 was to be used to increase fee-for-service health care provider rates and to pay managed care organization health care providers consistent with fee-for-service health care provider rates for procedures commonly performed by four physician specialties (i.e., obstetricians, neurosurgeons, orthopedic surgeons and emergency medicine physicians). These funds were matched by \$15,000,000 of Federal Medicaid funds, for a total of \$30,000,000.*

We were advised by the Department that it used these funds to increase its fee-for-service health care provider rates for 1,600 physician service codes for the four physician specialties. These increases raised the fee-for-service rates, which were an average of 65% of the 2005 Medicare rates, up to an average of 99.6% of the 2005 Medicare rates.

We were further advised by the Department that it anticipates that increased rate payments totaling approximately \$10,600,000 will be disbursed to providers under Medicaid's fee-for-service program. The remaining \$19,400,000 is being paid to managed care organizations during fiscal year 2006 in the form of increased capitation payments. The increased capitation payments are designed to compensate the managed care organizations for increased fee-for-service claims they will receive from these four physician specialties. The Department allocated

these funds between its fee-for-service program and managed care organization capitation payments using fee-for-service claims data from prior years.

2. *\$15,000,000 was to be used to increase capitation payments to managed care organizations, increase fee-for-service health care provider rates, and pay managed care organization health care providers consistent with the fee-for-service health provider rates. These funds were matched by \$15,000,000 of Federal Medicaid funds, for a total of \$30,000,000.*

We were advised that the Department used this \$30,000,000 to increase the capitation payments being paid to managed care organizations during fiscal year 2006. This amount was intended to compensate the managed care organizations for non-medical costs impacted by this program, including taxes and an expected profit margin. Coupled with the increase in capitation rates attributed to increased fee-for-service rates described above, these funds increased the managed care organization capitation rates by an average of \$4.57 per member per month.

## **VI. Office of Legislative Audits Report of Receipts and Disbursements of the Fund**

This report with the Administration's response is attached as **Exhibit 7**.

ROBERT L. EHRLICH, JR.  
GOVERNOR

ALFRED W. REDMER, JR.  
COMMISSIONER

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MIA BULLETIN 05-7

TO: Property and Casualty Insurance Companies Holding Certificates of Authority to Write Medical Professional Liability Insurance Business in Maryland

SUBJECT: Procedures for Obtaining Reimbursements from the Maryland Health Care Provider Rate Stabilization Fund - Rate Stabilization Account

DATE: May 19, 2005

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Chapter 1, Laws of Maryland 2005 (Senate Bill 836) created the Maryland Health Care Provider Rate Stabilization Fund (the "Fund"),<sup>1</sup> which consists primarily of premium tax revenue collected from health maintenance organizations and managed care organizations.<sup>2</sup> The Fund is divided into three sub-funds: the Rate Stabilization Account (the "RS Account"); the Medical Assistance Program Account (the "Medicaid Account"); and "a third component consisting of funds that are not allocated to either the RS Account or the Medicaid Account."<sup>3</sup>

Monies allocated to the RS Account are to be used to pay authorized medical professional liability insurance premium subsidies ("State Subsidies") to medical professional liability insurers who wish to participate in the Fund ("Participating Insurers") on behalf of policyholders who are eligible health care providers.<sup>4</sup> The

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<sup>1</sup>The Fund replaced the Maryland Medical Professional Liability Insurance Rate Stabilization Fund that had been created by Chapter 5, Laws of Maryland 2004 (Special Session).

<sup>2</sup>Senate Bill 836 is codified at Annotated Code of Maryland, Insurance Article ("IN") §19-801 *et seq.*

<sup>3</sup>Letter of May 10, 2005 to the Honorable Alfred W. Redmer, Jr. from Robert N. McDonald, Chief Counsel, Advice and Opinions, Office of the Attorney General (hereinafter the "McDonald Letter") at 2.

<sup>4</sup>Subsidies are available only to licensed physicians and certified midwives. Subsidies are not available to corporate entities through which they practice or to other health care providers. IN § 19-801(c).

purpose of this Bulletin is to provide Participating Insurers with information and instructions as to: a) how State Subsidies are to be calculated; b) the Form to be used by Participating Insurers when applying to the RS Account for reimbursement; and c) what Participating Insurers must do to prepare for the statutorily mandated annual audit of its reimbursement requests.

***Calculating the Amount of the State Subsidy for Eligible Policyholders on Policies Subject to 2005 Rate Increases***

The State Subsidy is available to eligible policyholders only with respect to medical professional liability insurance policies that are subject to rate increases that became effective after January 1, 2005. IN § 19-805(b)(1).<sup>5</sup> For Subsidy Year 2005<sup>6</sup>, according to the statutory formula, the State Subsidy available with respect to those policies is the amount of the 2005 premium increase that is greater than 5% of the approved rates in effect 1 year prior to the date on which the policy was issued. However, premium increases resulting from the imposition of a surcharge and/or the loss of a discount due to the policyholder's loss experience are not subsidized and are subtracted from the calculation of the premium increase before the State Subsidy is calculated.<sup>7</sup> **The statutory formula is different for policies that are subject to rate increases that become effective after January 1, 2006. In § 19-805(b)(2). The Administration will issue a separate bulletin prior to that date to address the method of calculating State Subsidies for those policies.**

Participating Insurers are required to calculate the amount of the State Subsidy they expect their eligible policyholders to receive and to notify those policyholders of that amount on an annual basis. IN § 19-805(e). Each notice must give eligible policyholder the opportunity to decline the State Subsidy.

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<sup>5</sup> Thus, for example, if a medical professional liability insurer sought and obtained a rate increase on renewal business that became effective on April 1, 2005, policies that renewed up to March 31, 2005 are not eligible for the State Subsidy. Only those policies that renew after the 2005 rate increase became effective (i.e., April 1, 2005) are eligible to receive the State Subsidy. Each policy that renewed from April 1, 2005 through March 31, 2006 would be eligible for the State Subsidy pursuant to IN § 19-805(b)(1).

<sup>6</sup> The term "Subsidy Year" is used to specify which policies issued by a Participating Insurer are eligible for specified State Subsidies. As an example, Subsidy Year 2005 refers to policies that, pursuant to IN § 19-805(b)(1), are subject to rates that were approved for an initial effective date on or after January 1, 2005, but prior to January 1, 2006. For a Participating Insurer that insurer sought and obtained a rate increase on new and renewal business that became effective on January 1, 2005, Subsidy Year 2005 would run from January 1, 2005 through December 31, 2005. For a Participating Insurer that insurer sought and obtained a rate increase on new and renewal business that became effective on April 1, 2005, Subsidy Year 2005 would run from April 1, 2005 through March 31, 2006.

<sup>7</sup> That amount is subject to reduction if the monies allocated to the Rate Stabilization Account are insufficient to provide all eligible policyholders of Participating Insurers with the authorized State-funded subsidy. IN § 19-804(d). Should the statutory allocation prove to be insufficient, the Administration will notify each Participating Insurer so that a proportionate reduction in each eligible policyholder's subsidy can be made.

In calculating the State Subsidy for Subsidy Year 2005 applicable to each eligible policyholder who does not decline the State Subsidy, the Administration recommends that Participating Insurers utilize the following methodology in order to conform to the requirements that the Administration has developed for evaluating and auditing requests for reimbursement from the Rate Stabilization Account:

- Determine the rating factors applicable to the policyholder at the time that the 2005 Subsidy Year policy was issued (e.g., medical specialty, applicability of discounts, etc., exclusive of those factors related to loss experience). These are the *2005 Subsidy Year Rating Factors*.
- Calculate the amount of premium that would have been charged to the policyholder in the current year (Subsidy Year 2005) by applying the policyholder's *2005 Subsidy Year Rating Factors* and claims made year to the approved rates in effect **one year before the date** that the policy was issued. This is the *2004 Rate Premium*.

Please note that the *2004 Rate Premium* may be different than the actual premium charged to the policyholder one year before the date that the policy was issued. This is because the *2004 Rate Premium* should be computed using the policyholder's *2005 Subsidy Year Rating Factors*, which may have changed since the time the previous policy was issued. For example, a policyholder may have changed from working part time to full time, or may have changed specialties.

- Multiply the *2004 Rate Premium* by 1.05. This is the *2005 Subsidy Year Subsidized, Pre-Loss History Premium*.
- Add to the *2005 Subsidy Year Subsidized, Pre-Loss History Premium* any premium surcharges, calculated at the 2005 Subsidy Year approved rates. This is the *2005 Subsidy Year Subsidized Premium*.
- Subtract the *2005 Subsidy Year Subsidized Premium* from the 2005 *Subsidy Year* premium previously charged to the policyholder. This is the *State Subsidy*.

### ***Applying for Reimbursement***

On at least an annual basis, a Participating Insurer seeking reimbursement from the RS Account on behalf of eligible policyholders must apply for reimbursement on a form and in the manner approved by the Commissioner. IN § 19-805(e). Attached to this Bulletin is the "Rate Stabilization Account Reimbursement Form" which has been adopted by the Commissioner. Each Participating Insurer is required to complete this form and to deliver it to the Administration in order to obtain reimbursement from the RS Account.

The Form and the supporting Schedules (the “quarterly report”) are to be completed and filed with the Administration as soon as practicable following the end of each calendar quarter. The quarterly report will show: a) the amount of the State Subsidy in aggregate for all policies written or renewed from January 1 to the end of the reporting quarter, calculated in the manner described above under “Determining the Amount of the State Subsidy”; b) the reimbursement amount previously requested on prior quarterly reports for the year; and the reimbursement amount requested with the current report. In this regard, the reports for year will be cumulative.

For carriers whose policyholders renew on a single, common date, four quarterly reports will need to be filed for each Subsidy Year . For carriers whose policyholder renewals are staggered throughout the Subsidy Year, eight quarterly reports will be required to address all policies for a Subsidy Year (i.e., reports will be required until the last policy written or renewed in a Subsidy Year has expired, which could be up to two years, or eight quarters, from the date the first policy for a Subsidy Year was written or renewed).

Recognizing that Senate Bill 836 became law on March 31, 2005, the first quarterly report submitted to the Administration for Subsidy Year 2005 can include activity up to the date the report is filed with the Administration.

The Commissioner has a 60-day period in which to review the reimbursement requests. Therefore, Participating Insurers are urged to submit their Rate Stabilization Account Reimbursement Forms to the Administration as soon as practical. An electronic version of the Rate Stabilization Account Reimbursement Form will be posted with this Bulletin on the Administration’s web site ([www.mdinsurance.state.md.us](http://www.mdinsurance.state.md.us)) under ‘Insurer Services’ – ‘Bulletins’ – ‘Examination & Auditing’ – ‘2005 Bulletins’.

The Rate Stabilization Account Reimbursement Form consists of 4 parts.<sup>8</sup> The Summary Information Page seeks aggregate information regarding the amount of the reimbursement requested. Specifically, Participating Insurers are required to provide:

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<sup>8</sup> Senate Bill 836 expressly requires the Commissioner to seek the following information from Participating Insurers on the Reimbursement Form:

- (1) By health care provider classification and geographic territory, the amount of the base premium rate charged by the insurer at the approved rate for the year the reimbursement is being requested;
- (2) By health care provider classification and geographic territory, the amount of the base premium rate charged by the insurer reduced by the amount of the subsidy for the year the reimbursement is being requested;
- (3) The number of health care providers in each classification and geographic territory reported in 1 and 2 above; and,
- (4) The total amount of reimbursement requested from the rate stabilization account; and
- (5) The name, classification, and geographic territory of each health care provider electing not to receive a rate reduction.

- The number of eligible policyholders on whose behalf reimbursements are being requested at the time that the Form is submitted;
- The aggregate premium charged by the insurer at the 2005 Subsidy Year approved rates, for those policyholders covered by this request with respect to which no reimbursement has previously been requested, exclusive of 2005 Subsidy Year premium surcharges or loss of a discount due to a policyholder's loss experience;
- The aggregate premium determined by the insurer by applying the 2005 Subsidy Year rating factors to rates in effect one year before the date that the policy was issued for those policyholders covered by this request, exclusive of premium surcharges or loss of a discount due to a policyholder's loss experience, multiplied by 1.05;
- The gross subsidy;
- The amount of any dividend to be declared by a Participating Insurer which is a mutual company; and,
- The net amount of the subsidy;
- The amount of subsidy previously requested on prior quarterly reports;
- The amount of subsidy requested with the current quarter report
- For the subsidy requested, a breakdown of the amount that policyholders paid in full and the amount still due.

Schedule A seeks similar information, broken down by geographic territory and provider classification.

Schedule B requires Participating Insurers to provide the Administration with several examples of how the insurer computed the State Subsidy for individual policyholders. While circumstances will vary from insurer to insurer, the Administration expects each insurer to provide a sufficient number of examples (e.g., 5 to 10 examples) to demonstrate that the insurer properly computed the State Subsidy under the various scenarios encountered. The examples should demonstrate that the State Subsidy for the policy in question represents the amount of the 2005 Subsidy Year premium increase that is greater than 5% of the approved rates in effect 1 year prior to the effective date of the policy. In addition, the examples should demonstrate that the State Subsidy does not include the amount by which any rate increase results from premium surcharges and/or the loss of discounts due to the health care providers' loss experience. The Schedule B format included in this Bulletin is an example only. Individual carriers may submit an

alternative format that reflects their rating scheme, provided that similar information is provided.

Finally, Schedule C requires Participating Insurers to report the names, classifications and geographical territories of all eligible policyholders who have elected not to receive a State Subsidy.

***Preparing for the Audit***

Senate Bill 836 requires the Commissioner or the Commissioner's designee to conduct an annual audit to verify the information submitted by each Participating Insurer applying for reimbursement from the Rate Stabilization Account. For each policyholder for whom the insurer requests reimbursement from the Rate Stabilization Account, the insurer will need to maintain and make available for audit purposes sufficient documentation to support the accuracy of the State Subsidies disbursed. This documentation shall include:

- (1) The 2005 Subsidy Year policy and rate computation, including details of all premium discounts and surcharges, including premium surcharges and discounts lost due to a health care provider's loss experience;
- (2) The policy and rate computation for the policy issued one year before the date that the 2005 Subsidy Year policy was issued, including details of all premium discounts and surcharges, including premium surcharges and discounts lost due to a health care provider's loss experience;
- (3) A computation of the amount of the State Subsidy for each eligible policyholder.

For audit purposes, Participating Insurers will need to maintain documentation of how the State Subsidy applicable to each individual policyholder was determined and totaled to support the aggregate Rate Stabilization Account reimbursement amount requested. The Administration may request additional information it deems necessary to verify the accuracy of the reimbursement amount requested by a particular insurer.

Questions concerning this bulletin may be directed to Lester C. Schott, Associate Commissioner, at 410-468-2119.

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Alfred W. Redmer, Jr.  
Insurance Commissioner

**MARYLAND INSURANCE ADMINISTRATION  
RATE STABILIZATION ACCOUNT REIMBURSEMENT FORM  
FOR CALENDAR YEAR 200\_\_**

**SUMMARY INFORMATION**

Page 1 of 2

- |     |   |          |
|-----|---|----------|
| (1) | Number of policyholders for whom subsidies are being requested  | _____    |
| (2) | Aggregate premium charged by the insurer at the 2005 approved rates, for those policyholders covered by this request, exclusive of 2005 surcharges or loss of a discount due to loss experience   | \$ _____ |
| (3) | Aggregate premium determined by the insurer by applying to the 2004 rates the 2005 rating factors for those policyholders covered by this request exclusive of 2005 surcharges or loss of a discount due to loss experience, multiplied by 1.05 | \$ _____ |
| (4) | Gross State Subsidy reimbursement amount  | \$ _____ |
| (5) | Amount of any dividend declared by a Participating Insurer that is a mutual insurer   |          |
| (6) | Net State Subsidy reimbursement amount [(4) – (5)]  | \$ _____ |
| (7) | Net State Subsidy reimbursement amount requested in prior quarterly reports   | \$ _____ |
| (8) | Net State Subsidy reimbursement amount requested with the current quarterly report [(6) – (7)]  | \$ _____ |

For the amount on line 8:

- |     |  |          |
|-----|--|----------|
| (1) | Net State Subsidy reimbursement amount requested with the current quarterly report for which the policyholder has paid in full as of the report date   | \$ _____ |
| (2) | Net State Subsidy reimbursement amount requested with the current quarterly report for which the policyholder still owes additional premium as of the report date (e.g., installment premiums due) | \$ _____ |

**MARYLAND INSURANCE ADMINISTRATION  
RATE STABILIZATION ACCOUNT REIMBURSEMENT FORM  
FOR CALENDAR YEAR 200\_\_**

**SUMMARY INFORMATION**

Page 2 of 2

**ATTACHED SCHEDULES**

Schedule A: Summary by Classification and Geographical Territory.

Schedule B: Providers Electing to Not Receive State Subsidies.

Schedule C: State Subsidy Computation Examples.

**CERTIFICATION**

Under penalty of perjury, the undersigned designated officer of \_\_\_\_\_ certifies that to the best of my knowledge and belief the information included in this Rate Stabilization Account Reimbursement Form is a true and correct statement for the period specified.

(SEAL)      Signed: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

MARYLAND INSURANCE ADMINISTRATION  
 RATE STABILIZATION ACCOUNT REIMBURSEMENT FORM  
 SCHEDULE A: SUMMARY BY CLASSIFICATION AND GEOGRAPHICAL TERRITORY

Geographical Territory	Provider Classification	Number of Policyholders for Whom Subsidies are Being Requested	Premium Charged at the 2005 Approved Rate Exclusive of 2005 Surcharges or Loss of Discounts Due to Loss Experience	Premium Applying to the 2004 Rate the 2005 Rating Factors Exclusive of 2005 Surcharges or Loss of Discounts Due to Loss Experience	State Subsidy Amount
Territory 1 (e.g., Baltimore County)	Classification (e.g., Anesthesiology)	#	X	Y	X - Y
<b>Total Territory 1</b>		$\sum \#$	$\sum X$	$\sum Y$	$\sum (X - Y)$
Territory 2 (e.g., Western Maryland)	Classification (e.g., Anesthesiology)	#	X	Y	X - Y
<b>Total Territory 2</b>		$\sum \#$	$\sum X$	$\sum Y$	$\sum (X - Y)$
<b>Grand Totals - All Territories Combined</b>		$\sum \#$ (NOTE 1)	$\sum X$ (NOTE 2)	$\sum Y$ (NOTE 3)	$\sum (X - Y)$ (NOTE 4)

NOTE 1 - Grand Total should equal the amount reported on line 1 of the Summary Information section of the Rate Stabilization Account Reimbursement Form Summary Information sheet  
 NOTE 2 - Grand Total should equal the amount reported on line 2 of the Summary Information section of the Rate Stabilization Account Reimbursement Form Summary Information sheet  
 NOTE 3 - Grand Total should equal the amount reported on line 3 of the Summary Information section of the Rate Stabilization Account Reimbursement Form Summary Information sheet  
 NOTE 4 - Grand Total should equal the amount reported on line 4 of the Summary Information section of the Rate Stabilization Account Reimbursement Form Summary Information sheet

**MARYLAND INSURANCE ADMINISTRATION  
RATE STABILIZATION ACCOUNT REIMBURSEMENT FORM  
SCHEDULE B: STATE SUBSIDY COMPUTATION EXAMPLES**

Components of Premium

Classification: \_\_\_\_\_  
 State Rating Territory: \_\_\_\_\_  
 Year of Policy: \_\_\_\_\_  
 Other (Specify) \_\_\_\_\_  
 Other (Specify) \_\_\_\_\_

	NOTE 1	NOTE 2	NOTE 3
	Actual 2004 Premium	2004 Rate Premium	Actual 2005 Subsidy Year Premium
I. Base Rate	10,000	10,000	20,000
II. Premium Discounts not due to Loss Experience			
Discount 1 - 2004 Rate	0.00% 0	█	█
Discount 1 - 2005 Rate	0.00% █	0	0
Discount 2 - 2004 Rate	0.00% 0	█	█
Discount 2 - 2005 Rate	0.00% █	0	0
III. Premium Surcharges not due to Loss Experience			
Surcharge 1 - 2004 Rate	0.00% 0	█	█
Surcharge 1 - 2005 Rate	0.00% █	0	0
Surcharge 2 - 2004 Rate	0.00% 0	█	█
Surcharge 2 - 2005 Rate	0.00% █	0	0
IV. Premium Surcharges and Discounts due to Loss Experience			
Surcharge - 2004 Rate	2.00% 200	█	█
Surcharge - 2005 Rate	3.00% █	(1)	600 (1)
Discount - 2004 Rate	4.00% (400)	█	█
Discount - 2005 Rate	4.00% █	(400) (2)	(800) (2)
Net Premium to Insured	9,800	9,600	19,800
Times 105%		X 1.05	
2005 Subsidy Year Subsidized Pre-Loss History Premium		10,080	
Add 2005 Subsidy Year Surcharges due to Loss Experience (NOTE 5)		600 (1)	
2005 Subsidy Year Subsidized Premium		10,680	
State Subsidy			9,120

NOTE 1 - This column represents the actual premium charged to the policyholder during 2004.

NOTE 2 - This column represents the premium that would have been charged to the policyholder for a policy issued at the approved rates in effect one year before the date that the 2005 Subsidy Year policy was issued, using the policyholder's 2005 Subsidy Year Rating Factors.

NOTE 3 - This column represents the actual premium charged to the policyholder in the 2005 Subsidy Year at the approved rate.

NOTE 4 - The insurer will need to adjust the formulas for computing discounts and surcharges based upon its own rating mechanism.

NOTE 5 - Senate Bill 836 provides that the State Subsidy may not include the amount of a rate increase resulting from a premium surcharge or the loss of a discount due to a health care provider's loss experience. In order to properly exclude these from the computation of the State Subsidy, the insurer should report these amounts as follows:

(1) Surcharges: In the 2004 Rate Premium column, surcharges are not included in the computation of the *Net Premium to Insured* so that the *2005 Subsidy Year Subsidized Pre-Loss History Premium* does not include any rate increase due to surcharges. The *2005 Subsidy Year Surcharges due to Loss Experience* are added to the *2005 Subsidy Year Subsidized Pre-Loss History Premium* to arrive at the *2005 Subsidy Year Subsidized Premium* used to compute the *State Subsidy*.

(2) Discounts Lost due to Loss Experience: If a policyholder qualified for a discount for the policy issued one year before the date that the 2005 Subsidy Year policy was issued, but was no longer eligible for that discount for the policy issued in the 2005 Subsidy Year, the insurer should exclude the discount on this line for purposes of calculating the *2005 Subsidy Year Subsidized Pre-Loss History Premium*.



**Maryland Insurance Administration**  
**Rate Stabilization Account**  
**2005 Subsidy Year State Subsidies By Insurer**

Insurer	Amount Requested Through December 31, 2005	Amount Disbursed Through December 31, 2005	Projected Future Subsidy Year 2005 Disbursements	Total Projected Subsidy Year 2005 Disbursements
Medical Mutual Liability Insurance Society of Maryland	27,114,753	27,114,753	204,788	27,319,541
NCRIC, Inc.	904,157	616,308	877,697	1,494,005
The Doctors Company, an Interinsurance Exchange	1,820,474	1,820,474	3,131,201	4,951,675
Medical Protective Company	0	0	1,928,068	1,928,068
<b>Totals</b>	<b>29,839,384</b>	<b>29,551,535</b>	<b>6,141,754</b>	<b>35,693,289</b>

**Maryland Insurance Administration**  
**Rate Stabilization Account**  
**Subsidy Year 2005 State Subsidies By Classification and Geographical Territory**

GEOGRAPHIC TERRITORY	PROVIDER CLASSIFICATION	STATE SUBSIDIES PAID THROUGH DECEMBER 31, 2005	PROJECTED STATE SUBSIDY PAYMENTS FOR ALL OF SUBSIDY YEAR 2005
BALTIMORE CITY AND BALTIMORE COUNTY	ALLERGY	26,993	28,748
	ANESTHESIA-PAIN ONLY	4,062	4,062
	ANESTHESIOLOGY	95,154	127,499
	ANESTHESIOLOGY-INCL OB	340	340
	CARDIOLOGY	53,649	56,110
	CARDIOVASCULAR DISEASE-MINOR SURGERY	178,345	178,345
	CARDIOVASCULAR DISEASE-NO SURGERY	48,702	48,370
	CLINIC GROUPS	28,566	28,566
	DERMATOLOGY	3,127	7,035
	DERMATOLOGY-MINOR SURGERY	27,631	30,693
	DERMATOLOGY-NO SURGERY	53,116	53,529
	EMERGENCY ROOM	248,737	248,737
	ENDOCRINOLOGY-NO SURGERY	6,987	32,270
	FAMILY OR GENR'L PRACTICE-MINOR SURGERY	14,689	39,872
	FAMILY PRACTICE-NO SURGERY	242,689	289,490
	FORENSIC/LEGAL MEDICINE-EX PSYCHIATRY	3,002	2,982
	GASTROENTEROLOGY	7,217	37,113
	GASTROENTEROLOGY - MINOR SURGERY	403,150	403,150
	GASTROENTEROLOGY - NO SURGERY	2,685	2,685
	GENERAL MEDICINE	5,933	21,110
	GENERAL PREVENTIVE MEDICINE-NO SURGERY	2,379	2,379
	GENERAL SURGERY	1,705	78,725
	GERIATRICS-NO SURGERY	6,436	6,436
	GYNECOLOGY	57,887	133,875
	GYNECOLOGY-MAJOR SURGERY	3,091	17,117
	GYNECOLOGY-NO SURGERY	3,228	3,228
	HEMATOLOGY	15,552	15,552
	HEMATOLOGY-NO SURGERY	12,176	12,176
	HEMATOLOGY-ONCOLOGY-NO SURGERY	0	2,344
	INFECTIOUS DISEASES - NO SURGERY	16,065	16,065
	INTENSIVE CARE MEDICINE	14,182	14,182
	INTERNAL MEDICINE	74,468	107,309
	INTERNAL MEDICINE-CARDIOLOGY-MAJOR SURGERY	0	2,787
	INTERNAL MEDICINE-CARDIOLOGY-MINOR SURGERY	0	8,830
	INTERNAL MEDICINE-MINOR SURGERY	84,476	81,508
	INTERNAL MEDICINE-NO SURGERY	1,072,464	1,107,328
	NEOPLASTIC DISEASES-NO SURGERY	16,375	16,375
	NEPHROLOGY	0	16,689
	NEPHROLOGY-MINOR SURGERY	5,529	25,042
	NEPHROLOGY-NO SURGERY	46,844	45,859
	NEUROLOGY	5,816	12,069
	NEUROLOGY INCL CHILD-MINOR SURGERY	8,849	8,849
	NUCLEAR MEDICINE	13,881	13,912
NURSE MIDWIVES	4,266	4,266	
NUTRITION	2,645	2,645	
OB/GYN	36,709	185,538	
OB-GYN-MAJOR SURGERY	0	184,351	
OCCUPATIONAL MEDICINE	14,874	18,025	
ONCOLOGY	9,613	19,048	
OPHTHALMOLOGY	7,958	47,399	
OPHTHALMOLOGY - MINOR SURGERY	5,798	5,798	
OPHTHALMOLOGY - NO SURGERY	15,147	14,539	
OPHTHALMOLOGY-MAJOR SURGERY	0	13,686	
ORTHOPEDIC SURGERY	1,705	10,171	
ORTHOPEDIC-EXCL BACK-SURGERY	0	221,841	

**Maryland Insurance Administration  
Rate Stabilization Account  
Subsidy Year 2005 State Subsidies By Classification and Geographical Territory**

GEOGRAPHIC TERRITORY	PROVIDER CLASSIFICATION	STATE SUBSIDIES PAID THROUGH DECEMBER 31, 2005	PROJECTED STATE SUBSIDY PAYMENTS FOR ALL OF SUBSIDY YEAR 2005
	ORTHOPEDIC-INCL BACK-SURGERY	0	110,013
	ORTHOPEDICS	4,699	60,694
	OTORHINOLARYNGOLOGY-MAJOR SURGERY	399	399
	OTORHINOLARYNGOLOGY-MINOR SURGERY	3,761	3,761
	OTORHINOLARYNGOLOGY-NO SURGERY	12,353	12,353
	PATHOLOGY	53,833	53,833
	PATHOLOGY-NO SURGERY	97,972	92,795
	PEDIATRICS	56,328	100,889
	PEDIATRICS-MINOR SURGERY	4,360	4,360
	PEDIATRICS-NO SURGERY	313,585	335,453
	PHYSIATRY/PHYS MED & REHAB./NO ACUPUNCT	42,559	45,011
	PHYSIATRY/PHYS MED & REHAB/ACUPUNCTURE	10,275	10,275
	PHYSIATRY-NO SURGERY	0	1,285
	PHYSICAL MEDICINE & REHAB	18,528	30,225
	PHYSICIANS-NOC	0	12,884
	PHYSICIANS-NOC-MINOR SURGERY	61,421	61,543
	PHYSICIANS-NOC-NO SURGERY	65,884	89,997
	PLASTIC SURGERY	129	19,372
	PSYCHIATRY-INCL CHILD	87,324	87,525
	PSYCHOANALYSIS	1,796	1,796
	PUBLIC HEALTH	2,537	2,537
	PULMONARY DISEASES-MINOR SURGERY	80,832	80,832
	PULMONARY DISEASES-NO SURGERY	2,713	2,713
	PULMONARY MEDICINE	0	218,991
	RADIOLOGY	251,452	302,056
	RADIOLOGY (INCLUDING IVP)	1,680	5,036
	RADIOLOGY-DIAGNOSTIC-MINOR SURGERY	108,697	109,290
	RADIOLOGY-DIAGNOSTIC-NO SURGERY	43,394	43,082
	RHEUMATOLOGY	10,540	14,165
	RHEUMATOLOGY-NO SURGERY	24,625	24,693
	SURGEON - EMERGENCY MEDICINE	13,679	13,679
	SURGEON - HAND	9,341	80,261
	SURGEON-ABDOMINAL	13,750	13,750
	SURGEON-CARDIAC	63,752	63,752
	SURGEON-CARDIOVASCULAR DISEASE	12,670	12,670
	SURGEON-GENERAL-NOC	384,055	408,269
	SURGEON-GYNECOLOGY-FERTILITY/NO OB	156,643	156,643
	SURGEON-NEUROLOGY-INCL CHILD	297,537	297,537
	SURGEON-OBSTETRICS & GYNECOLOGY	829,946	829,946
	SURGEON-ORTHOPEDIC	458,887	434,179
	SURGEON-OTORHINOLARYNGOLOGY	3,297	3,297
	SURGEON-OTORHINOLARYNGOLOGY-PLASTIC	52,347	52,347
	SURGEON-PLASTIC	227,059	227,059
	SURGEON-THORACIC	101,774	117,646
	SURGEON-VASCULAR	270,145	276,305
	SURGICAL SPECIALTY	0	8,229
	SUSPENSION- (1B)	3,581	3,581
	SUSPENSION-50% OF 1B	3,186	10,153
	THERAPEUTIC RADIOLOGY	3,188	9,756
	UROLOGY	135,020	228,995
	VICARIOUS CHARGE UNDER INDIVIDUAL DOCTOR	655	225
<b>BALTIMORE CITY AND BALTIMORE COUNTY</b>	<b>TOTALS</b>	<b>7,417,081</b>	<b>9,302,787</b>

**Maryland Insurance Administration  
Rate Stabilization Account  
Subsidy Year 2005 State Subsidies By Classification and Geographical Territory**

GEOGRAPHIC TERRITORY	PROVIDER CLASSIFICATION	STATE SUBSIDIES PAID THROUGH DECEMBER 31, 2005	PROJECTED STATE SUBSIDY PAYMENTS FOR ALL OF SUBSIDY YEAR 2005
MONTGOMERY, PRINCE GEORGES, HOWARD, AND ANNE ARUNDEL COUNTIES	ALLERGY	52,181	52,123
	ALLERGY/IMMUNOLOGY	5,051	11,036
	ANESTHESIOLOGY	710	45,571
	ANESTHESIOLOGY-INCL OB	48	48
	CARDIOLOGY	92,925	92,925
	CARDIOLOGY-INCL SWAN-GANZ NO SURGERY	0	2,959
	CARDIOVASCULAR DISEASE-MINOR SURGERY	597,030	601,591
	CARDIOVASCULAR DISEASE-NO SURGERY	83,482	83,884
	CARDIO-VASCULAR SURGERY	14,265	14,265
	CLINIC GROUPS	136,463	136,463
	DERMATOLOGY	0	2,836
	DERMATOLOGY-MINOR SURGERY	85,749	91,810
	DERMATOLOGY-NO MAJOR SURGERY	5,065	7,250
	DERMATOLOGY-NO SURGERY	84,277	89,903
	DIAGNOSTIC RADIOLOGY	23,995	34,814
	EMERGENCY MEDICINE (NO MAJOR SURGERY)	786	1,110
	EMERGENCY ROOM	572,480	572,480
	ENDOCRINOLOGY-NO SURGERY	42,997	44,515
	FAMILY OR GENR'L PRACTICE-MINOR SURGERY	57,885	75,968
	FAMILY PRACTICE-NO SURGERY	689,809	751,654
	FORENSIC/LEGAL MEDICINE-EX PSYCHIATRY	1,743	1,743
	GASTROENTEROLOGY	20,672	52,771
	GASTROENTEROLOGY - MINOR SURGERY	482,959	504,541
	GASTROENTEROLOGY - NO SURGERY	9,466	1,851
	GENERAL MEDICINE	0	3,822
	GENERAL PRACTICE-NO SURGERY	860	3,950
	GENERAL PREVENTIVE MEDICINE-NO SURGERY	2,281	2,281
	GENERAL SURGERY	4,621	126,147
	GENERAL SURGERY-MINOR	1,934	1,934
	GENERAL-NOC-SURGERY	0	68,150
	GERIATRICS-NO SURGERY	1,653	2,094
	GYNECOLOGY	0	41,867
	GYNECOLOGY-MAJOR SURGERY	21,063	8,091
	GYNECOLOGY-MINOR SURGERY	13,148	34,680
	GYNECOLOGY-NO MAJOR SURGERY	2,717	2,717
	GYNECOLOGY-NO SURGERY	27,631	34,422
	HEMATOLOGY-NO SURGERY	44,629	44,629
	HEMATOLOGY-ONCOLOGY-NO SURGERY	0	4,098
	INFECTIOUS DISEASES - NO SURGERY	14,856	18,002
	INTENSIVE CARE MEDICINE	88,782	103,060
	INTENSIVE CARE-MINOR SURGERY	0	37,341
	INTERNAL MEDICINE-ALLERGY-NO SURGERY	907	907
	INTERNAL MEDICINE-CARDIOLOGY-MINOR SURGERY	2,238	2,238
	INTERNAL MEDICINE-CARDIOLOGY-NO SURGERY	2,463	6,072
	INTERNAL MEDICINE-ENDOCRINE-NO SURGERY	2,973	5,164
	INTERNAL MEDICINE-MINOR SURGERY	322,228	322,455
	INTERNAL MEDICINE-NEPHROLOGY-NO SURGERY	0	9,147
	INTERNAL MEDICINE-NO SURGERY	1,580,673	1,716,505
	INTERNAL MEDICINE-ONCOLOGY-NO SURGERY	3,349	6,325
	INTERNAL MEDICINE-PULMONARY-MINOR SURGERY	0	6,833
	INTERNAL MEDICINE-PULMONARY-NO SURGERY	0	6,069
	INTERNAL MEDICINE-RHEUMATOLOGY-NO SURGERY	2,592	9,878
	NEOPLASTIC DISEASES-MINOR SURGERY	10,351	10,351
	NEOPLASTIC DISEASES-NO SURGERY	12,679	12,679

**Maryland Insurance Administration**  
**Rate Stabilization Account**  
**Subsidy Year 2005 State Subsidies By Classification and Geographical Territory**

GEOGRAPHIC TERRITORY	PROVIDER CLASSIFICATION	STATE SUBSIDIES PAID THROUGH DECEMBER 31, 2005	PROJECTED STATE SUBSIDY PAYMENTS FOR ALL OF SUBSIDY YEAR 2005
	NEPHROLOGY-NO SURGERY	52,959	55,494
	NEUROLOGICAL SURGERY	26,172	37,967
	NEUROLOGY	14,608	23,301
	NEUROLOGY INCL CHILD-MINOR SURGERY	8,470	8,470
	NEUROSURGERY	105,198	144,662
	NUCLEAR MEDICINE	9,468	9,468
	NURSE MIDWIVES	2,992	2,992
	NUTRITION	175	175
	OB/GYN	0	604,984
	OB/GYN-SURGERY	269,442	1,089,023
	OB-GYN-MAJOR SURGERY	14,716	118,343
	OCCUPATIONAL MEDICINE	16,553	20,474
	ONCOLOGY	0	3,932
	OPHTHALMOLOGY - MINOR SURGERY	18,579	18,579
	OPHTHALMOLOGY - NO SURGERY	18,355	17,681
	OPHTHALMOLOGY-MAJOR SURGERY	15,885	55,558
	ORTHOPEDIC SURGERY	0	43,120
	ORTHOPEDIC-EXCL BACK-SURGERY	0	59,398
	ORTHOPEDIC-INCL BACK-SURGERY	0	5,422
	OTOLARYNGOLOGY	3,078	3,078
	OTORHINOLARYNGOLOGY-MINOR SURGERY	6,015	7,779
	OTORHINOLARYNGOLOGY-NO SURGERY	3,310	3,310
	PAIN MANAGEMENT	0	8,008
	PATHOLOGY	54,699	62,848
	PATHOLOGY-NO SURGERY	100,325	101,308
	PEDIATRICS	26,790	29,716
	PEDIATRICS-MINOR SURGERY	45,093	44,549
	PEDIATRICS-NO SURGERY	812,846	881,400
	PHARMACOLOGY - CLINICAL	5,402	5,402
	PHYSIATRY/PHYS MED & REHAB/NO ACUPUNCT	39,002	38,742
	PHYSIATRY/PHYS MED & REHAB/ACUPUNCTURE	23,613	23,613
	PHYSICAL MEDICINE & REHAB	14,234	22,435
	PHYSICIANS-NOC-MINOR SURGERY	129,413	130,001
	PHYSICIANS-NOC-NO SURGERY	35,049	36,118
	PLASTIC SURGERY	41,632	80,823
	PSYCHIATRY	11,429	25,352
	PSYCHIATRY-INCL CHILD	80,925	80,925
	PSYCHIATRY-INCL CHILD NO SURGERY	0	2,277
	PSYCHOSOMATIC MEDICINE	477	477
	PSYCHOTHERAPY	0	2,164
	PULMONARY DISEASES-MINOR SURGERY	96,611	96,611
	PULMONARY DISEASES-NO SURGERY	12,308	12,308
	PULMONARY MEDICINE	61,533	90,894
	RADIOLOGY	13,237	156,454
	RADIOLOGY (INCLUDING IVP)	1,383	42,952
	RADIOLOGY-DIAGNOSTIC-MINOR SURGERY	458,468	455,820
	RADIOLOGY-DIAGNOSTIC-NO SURGERY	327,570	326,687
	RHEUMATOLOGY	12,380	16,754
	RHEUMATOLOGY-NO SURGERY	59,301	58,929
	SURGEON - FAMILY OR GENERAL PRACTICE	2,742	2,742
	SURGEON - HAND	7,395	7,395
	SURGEON - TRAUMATIC-NOT EMERGENCY ROOM	46,112	46,112
	SURGEON-ABDOMINAL	9,340	9,340
	SURGEON-CARDIAC	38,217	38,217
	SURGEON-CARDIOVASCULAR DISEASE	57,821	57,821
	SURGEON-GENERAL-NOC	424,206	424,206
	SURGEON-GYNECOLOGY-FERTILITY/NO OB	245,957	240,214

**Maryland Insurance Administration  
Rate Stabilization Account  
Subsidy Year 2005 State Subsidies By Classification and Geographical Territory**

GEOGRAPHIC TERRITORY	PROVIDER CLASSIFICATION	STATE SUBSIDIES PAID THROUGH DECEMBER 31, 2005	PROJECTED STATE SUBSIDY PAYMENTS FOR ALL OF SUBSIDY YEAR 2005
	SURGEON-NEUROLOGY-INCL CHILD	213,076	213,076
	SURGEON-OBSTETRICS & GYNECOLOGY	1,827,885	1,813,696
	SURGEON-OPHTHALMOLOGY	5,955	5,955
	SURGEON-ORTHOPEDIC	1,385,732	1,417,762
	SURGEON-OTORHINOLARYNGOLOGY-PLASTIC	61,010	64,325
	SURGEON-PLASTIC	238,438	238,438
	SURGEON-THORACIC	61,131	61,131
	SURGEON-UROLOGICAL	0	48,591
	SURGEON-VASCULAR	295,903	298,698
	SURGICAL SPECIALTY	7,449	11,389
	SUSPENSION- (1B)	9,285	9,285
	SUSPENSION-50% OF 1B	3,307	3,307
	THORACIC CONSULT	0	862
	TRAUMATIC-SURGERY	0	30,343
	URGENT CARE MEDICINE	20,101	20,101
	UROLOGY	4,426	23,672
	UROLOGY W/PENILE IMPLANT	5,578	5,578
	VICARIOUS CHARGE UNDER INDIVIDUAL DOCTOR	3,188	3,221
<b>MONTGOMERY, PRINCE GEORGES, HOWARD, AND ANNE ARUNDEL COUNTIES</b>	<b>TOTALS</b>	<b>13,248,615</b>	<b>16,188,272</b>

**REMAINDER OF STATE (Other  
than Baltimore City, Anne Arundel,  
Baltimore, Howard, Montgomery,  
and Prince Georges Counties)**

ALLERGY	16,353	17,870
ANESTHESIOLOGY	3,022	11,828
ANESTHESIOLOGY-INCL OB	42,791	42,803
ANESTHESIOLOGY-OTHER OB	3,659	3,681
CARDIOLOGY	4,182	9,448
CARDIOVASCULAR DISEASE-MINOR SURGERY	432,501	433,004
CARDIOVASCULAR DISEASE-NO SURGERY	57,282	57,282
CLINIC GROUPS	56,504	56,505
DENTIST-ANESTHESIA	0	597
DERMATOLOGY-MINOR SURGERY	31,967	34,334
DERMATOLOGY-NO SURGERY	45,303	45,349
EMERGENCY MEDICINE (NO MAJOR SURGERY)	228,004	317,816
EMERGENCY ROOM	611,511	611,511
ENDOCRINOLOGY	2,377	2,377
ENDOCRINOLOGY-NO SURGERY	15,331	20,611
FAMILY OR GENR'L PRACTICE-MINOR SURGERY	56,953	75,553
FAMILY PRACTICE-NO SURGERY	750,563	794,216
GASTROENTEROLOGY	3,207	7,044
GASTROENTEROLOGY - MINOR SURGERY	286,656	294,750
GASTROENTEROLOGY - NO SURGERY	2,957	2,957

**Maryland Insurance Administration**  
**Rate Stabilization Account**  
**Subsidy Year 2005 State Subsidies By Classification and Geographical Territory**

GEOGRAPHIC TERRITORY	PROVIDER CLASSIFICATION	STATE SUBSIDIES PAID THROUGH DECEMBER 31, 2005	PROJECTED STATE SUBSIDY PAYMENTS FOR ALL OF SUBSIDY YEAR 2005
	GENERAL MEDICINE	0	2,261
	GENERAL PRACTICE-NO SURGERY	0	1,252
	GENERAL SURGERY	33,155	197,275
	GENERAL-NOC-SURGERY	0	33,041
	GYNECOLOGY	0	6,534
	GYNECOLOGY-MAJOR SURGERY	0	4,438
	GYNECOLOGY-MINOR SURGERY	6,609	6,609
	GYNECOLOGY-NO SURGERY	7,606	7,606
	HEMATOLOGY-NO SURGERY	31,814	30,607
	HOSPITALIST/HOUSE STAFF	2,157	2,176
	INFECTIOUS DISEASES - NO SURGERY	6,817	6,819
	INTENSIVE CARE MEDICINE	26,410	28,712
	INTERNAL MEDICINE	50,946	81,361
	INTERNAL MEDICINE-INFECTIOUS DISEASE-NO SURGERY	2,976	5,004
	INTERNAL MEDICINE-MINOR SURGERY	274,564	270,018
	INTERNAL MEDICINE-NO SURGERY	712,987	751,231
	NEOPLASTIC DISEASES-MINOR SURGERY	9,041	9,041
	NEOPLASTIC DISEASES-NO SURGERY	15,434	15,434
	NEPHROLOGY-MINOR SURGERY	7,614	7,614
	NEPHROLOGY-NO SURGERY	35,306	35,243
	NEUROLOGY INCL CHILD-NO SURGERY	20,739	20,663
	NEUROLOGY-NO SURGERY	0	4,045
	NUCLEAR MEDICINE	1,441	1,441
	NURSE MIDWIVES	38,670	38,670
	OB/GYN	0	103,061
	OB/GYN-SURGERY	0	366,672
	OCCUPATIONAL MEDICINE	2,889	4,898
	ONCOLOGY	6,752	6,752
	OPHTHALMOLOGY - NO SURGERY	5,131	5,131
	OPHTHALMOLOGY-MAJOR SURGERY	0	32,821
	ORTHOPEDIC SURGERY	17,997	192,208
	ORTHOPEDIC-EXCL BACK-SURGERY	0	54,715
	ORTHOPEDIC-INCL BACK-SURGERY	0	7,544
	OTOLARYNGOLOGY	9,686	10,720
	OTORHINOLARYNGOLOGY-NO SURGERY	1,384	1,384
	PATHOLOGY	14,624	27,536
	PATHOLOGY-NO SURGERY	63,890	63,502
	PEDIATRICS	6,367	28,521
	PEDIATRICS-NO SURGERY	499,910	515,689
	PHYSIATRY/PHYS MED & REHAB./NO ACUPUNCT	21,790	19,649
	PHYSIATRY/PHYS MED & REHAB/ACUPUNCTURE	3,512	3,512
	PHYSIATRY-NO SURGERY	0	852
	PHYSICAL MEDICINE & REHAB	5,128	10,103
	PHYSICIANS-NOC-MINOR SURGERY	48,084	48,085
	PHYSICIANS-NOC-NO SURGERY	5,744	5,808
	PLASTIC SURGERY	30,249	31,269
	PSYCHIATRIST-EXTENDED	2,049	2,049
	PSYCHIATRY-INCL CHILD	48,331	50,039
	PUBLIC HEALTH	6,755	6,755
	PULMONARY DISEASES-MINOR SURGERY	86,074	76,037
	PULMONARY DISEASES-NO SURGERY	12,543	20,607
	PULMONARY MEDICINE	19,073	19,073
	RADIOLOGY-DIAGNOSTIC-MINOR SURGERY	491,685	492,101
	RADIOLOGY-DIAGNOSTIC-NO SURGERY	89,297	91,480
	RHEUMATOLOGY-MINOR SURGERY	10,636	10,636
	RHEUMATOLOGY-NO SURGERY	21,978	23,460
	SURGEON - HAND	0	10,921

**Maryland Insurance Administration**  
**Rate Stabilization Account**  
**Subsidy Year 2005 State Subsidies By Classification and Geographical Territory**

GEOGRAPHIC TERRITORY	PROVIDER CLASSIFICATION	STATE SUBSIDIES PAID THROUGH DECEMBER 31, 2005	PROJECTED STATE SUBSIDY PAYMENTS FOR ALL OF SUBSIDY YEAR 2005
	SURGEON-ABDOMINAL	26,295	26,295
	SURGEON-COLON AND RECTAL	208	208
	SURGEON-GASTROENTEROLOGY	513	513
	SURGEON-GENERAL-NOC	488,929	482,089
	SURGEON-GYNECOLOGY-FERTILITY/NO OB	144,541	144,541
	SURGEON-NEUROLOGY-INCL CHILD	330,724	329,497
	SURGEON-OBSTETRICS & GYNECOLOGY	1,128,285	1,134,421
	SURGEON-OPHTHALMOLOGY	31,622	31,622
	SURGEON-ORTHOPEdic	595,821	583,739
	SURGEON-OTORHINOLARYNGOLOGY	39,505	39,581
	SURGEON-OTORHINOLARYNGOLOGY-PLASTIC	5,031	5,251
	SURGEON-PLASTIC	111,473	111,473
	SURGEON-THORACIC	130,945	130,945
	SURGEON-UROLOGICAL	44,395	59,452
	SURGEON-VASCULAR	260,415	270,390
	SURGICAL SPECIALTY	0	4,464
	SUSPENSION- (1B)	0	11,322
	SUSPENSION-50% OF 1B	12,767	15,152
	URGENT CARE MEDICINE	28,700	33,292
	UROLOGY	34,028	32,593
	VICARIOUS CHARGE UNDER INDIVIDUAL DOCTOR	4,677	5,170
<hr/>			
REMAINDER OF STATE (Other than Baltimore City, Anne Arundel, Baltimore, Howard, Montgomery, and Prince Georges Counties)	TOTALS	8,885,840	10,202,230
<hr/>			
ENTIRE STATE	TOTALS	29,551,536	35,693,289
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NOTE - For certain healthcare provider classifications the State subsidy amount as of December 31, 2005 is greater than the projected total for all of Subsidy Year 2005. We were advised by the Participating Insurers that furnished this data that the lower amount projected for all of Subsidy Year 2005 was due to policyholders canceling their policies after December 31, 2005, resulting a returned State subsidies.

**Maryland Insurance Administration  
Rate Stabilization Account  
Healthcare Providers Electing To Not Receive State Subsidies**

<b>GEOGRAPHICAL TERRITORY</b>	<b>CLASSIFICATION</b>	<b>NUMBER OF HEALTH CARE PROVIDERS</b>
BALTIMORE CITY AND BALTIMORE COUNTY	DERMATOLOGY-MINOR SURGERY	1
BALTIMORE CITY AND BALTIMORE COUNTY	INTERNAL MEDICINE-NO SURGERY	1
TOTAL HEALTHCARE PROVIDERS		<hr/> <hr/> <b>2</b>

**Maryland Insurance Administration  
Rate Stabilization Fund  
Costs Incurred by the Administration - Calendar Year 2005**

General and Administrative	\$ 106,189
Review of Funding Requests	12,920
Legal	22,800
Fiscal	5,040
Total Cost for Calendar Year 2005	<u><u>\$ 146,949</u></u>

**Maryland Insurance Administration**  
**Maryland Health Care Provider Rate Stabilization Fund**  
**Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance**  
**for the period April 1, 2005 through December 31, 2005**

***Receipts:***

Premium taxes	\$ 62,550,539
Premium tax exemption value	8,289,945
Interest income	<u>19,556</u>
<b>Total revenue</b>	<b>\$ 70,860,040</b>

***Disbursements:***

Rate subsidies	29,551,535
Medical Assistance account to DHMH	<u>11,789,945</u>
<b>Total disbursements</b>	<b>\$ 41,341,480</b>

***Excess of receipts over disbursements*** **\$ 29,518,560**

***Fund balance, April 1*** -

***Fund balance, December 31*** \$ 29,518,560

Audit Report

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**Maryland Health Care Provider Rate Stabilization Fund**

April 1, 2005 to December 31, 2005

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OFFICE OF LEGISLATIVE AUDITS  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
  - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
  - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
  - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410- 946-5400 or 301- 970-5400.
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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

March 6, 2006

Bruce A. Myers, CPA  
Legislative Auditor

Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Delegate Charles E. Barkley, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

As required by the Insurance Article, Section 19-808 of the Annotated Code of Maryland, we have audited the receipts and disbursements of the Maryland Health Care Provider Rate Stabilization Fund for the period beginning April 1, 2005 and ending December 31, 2005. The Fund is administered by the Commissioner of the Maryland Insurance Administration (MIA). Our audit did not include procedures designed to verify the propriety of the subsidy payments made to medical professional liability insurers since State law requires MIA to conduct annual audits of each insurer. During our next annual audit of the Fund, we will review the results of the audits, which according to MIA, should begin in July 2006.

While MIA had certain existing general procedures, and was in the process of developing others at the time of our audit, we believe that MIA should develop formal policies and procedures to specifically and comprehensively address certain critical functions relating to its annual audits of the medical professional liability insurers. For example, MIA should address the timing of audits, the potential follow-up action to be taken as a result of the audits, and the verification of premium data received from insurers. The data are used by MIA to calculate the annual subsidy factor, which is used by insurers to determine the amount of their subsidy requests.

Finally, we determined that Fund revenue was not recorded in a manner that would facilitate accountability and reporting of Fund transactions and balances as specifically required by the law.

A schedule of the Fund's financial activity for the 2005 calendar year is included in this report. As disclosed in that schedule, the Fund's cash balance was approximately \$29.5 million as of December 31, 2005.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Establishment and Purpose of the Fund**

Chapter 1, Laws of Maryland 2005, established the Maryland Health Care Provider Rate Stabilization Fund effective April 1, 2005. The law provides that the Fund will serve several purposes, including retention of certain health care providers in the State by subsidizing their malpractice insurance premiums for a specified number of years, and by increasing fee-for-service rates paid to providers by the Maryland Medical Assistance program (Medicaid) and payments to managed care organizations that serve that program. The Fund is administered by the Commissioner of the Maryland Insurance Administration (MIA).

The Fund consists primarily of revenues generated by an annual premium tax imposed on health maintenance organizations and managed care organizations. All revenues are to be initially deposited into the Fund, and then allocated, in accordance with a schedule established in the law, to two accounts: the Rate Stabilization Account and the Medical Assistance Program Account. Amounts allocated to the Rate Stabilization Account are to be paid, in accordance with established criteria, to medical professional liability insurers who apply to MIA for rate subsidies on behalf of insured health care providers. Amounts allocated to the Medical Assistance Program Account are to be paid by MIA to the State's Department of Health and Mental Hygiene to increase payments to Medicaid providers and managed care organizations. The law provides that revenue allocations to the two accounts will continue through fiscal year 2009. Beginning in fiscal year 2010, all Fund revenues are to be allocated to the Medical Assistance Program Account.

The law requires the Commissioner (or designee) to conduct an annual audit to verify the application information submitted by each medical professional liability insurer that applied for a subsidy payment from the Fund. We were advised by MIA that the first audit is tentatively scheduled to start in July 2006.

The aforementioned legislation also requires that we audit the receipts and disbursements of the Fund annually. This is our first audit of the Fund. Subsequent audits will be performed on a calendar year basis.

## Financial Information

Presented below is a summary of the receipts and disbursements for the Maryland Health Care Provider Rate Stabilization Fund for the period beginning April 1, 2005 and ending December 31, 2005, based on the State's accounting records. This summary is not intended to and does not provide the financial position and results of operations in accordance with generally accepted accounting principles. Specifically, certain financial statements and disclosures (for example, balance sheet, summary of significant accounting policies) have not been provided as would be required had this summary been prepared in accordance with generally accepted accounting principles.

### SUMMARY OF FINANCIAL ACTIVITY <sup>(1)</sup>

**April 1, 2005 to  
December 31, 2005**

#### RECEIPTS:

Premium taxes	\$	62,550,539
Premium tax exemption value <sup>(2)</sup>		8,289,945
Interest income		19,556

<b>Total receipts</b>		<u>70,860,040</u>
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#### DISBURSEMENTS:

Payments to medical professional liability insurers		29,551,535
Payments to Department of Health and Mental Hygiene		<u>11,789,945</u>

<b>Total disbursements</b>		<u>41,341,480</u>
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<b>EXCESS OF RECEIPTS OVER DISBURSEMENTS</b>		29,518,560
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<b>FUND BALANCE (cash basis), April 1, 2005</b>		<u>-</u>
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<b>FUND BALANCE (cash basis), December 31, 2005</b>	\$	<u><u>29,518,560</u></u>
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(1) At the time of our audit, detail by specific fund accounts was not readily available; see Finding 2.

(2) Premium tax exemption value represents amounts paid by non-profit health maintenance organizations in lieu of premium taxes.

## Findings and Recommendations

### Audits of Medical Professional Liability Insurers

#### **Finding 1 (Policy Issue)**

**MIA should develop formal policies and procedures addressing certain critical functions relating to the required annual audits and the verification of data that is used for calculating subsidy payments.**

#### **Analysis**

At the time of our review, MIA had not completed formal policies and procedures to address certain critical functions related to the administration of the Maryland Health Care Provider Rate Stabilization Fund. Existing policies and procedures included in the MIA Financial Examiner's Handbook and the National Association of Insurance Commissioner's Financial Condition Examiners Handbook include general audit procedures, which could be applied to requests from the Fund. Nevertheless, certain critical functions should be specifically and more comprehensively addressed. We were advised that MIA is in the process of developing certain specific steps for conducting the required audits. At a minimum, we believe the following critical functions should be specifically addressed:

- While MIA had prepared a draft schedule for conducting the initial audits of each medical professional liability insurer, we believe that a formal policy should be developed that addresses (1) when the audits are to be started, (2) timeframes for issuing the related results, and (3) procedures for senior management's review and analysis of the results. In addition, a formal policy should address the circumstances in which corrective action plans from insurers would be required, follow-up actions to be taken, and the effect of significant audit findings on subsequent requests from insurers for subsidy payments. A formal policy would clarify how MIA specifically intends to meet the annual audit requirement and would help ensure that the audits are performed and the results are provided and adequately evaluated within a consistent and useful timeframe.
- MIA should address procedures for verifying the reasonableness of premium data obtained from insurers for purposes of calculating the annual subsidy factor. The law defines the subsidy factor and requires MIA to calculate a new subsidy factor each year to help determine the subsidy payment amounts insurers may request. To prepare the annual calculation, MIA requests certain

premium data from the medical liability insurers. Since the data must be requested prior to the end of the year to which it applies, estimates and projections are necessarily part of the data provided by the insurers. In this regard, the premium data used to calculate the subsidy factor for calendar year 2006 was requested in September 2005. The premium data could be verified as part of the aforementioned audit process.

Considering that MIA is charged with administering the Fund and approving payments (over \$29 million in calendar 2005) to insurers, we believe that specific policies and procedures to address such critical functions is necessary.

#### **Recommendation 1**

**We recommend that MIA develop policies and procedures to address certain critical functions relating to the audits of insurers' subsidy applications. At a minimum, MIA should specifically address the timing for starting the audits, the timeframe for issuing the related results, the evaluation of audit results, and possible follow-up actions. We also recommend that procedures be developed for verifying premium data used in calculating the annual subsidy factor. Such procedures could be incorporated in the aforementioned specific procedures that MIA is in the process of developing.**

#### **Finding 2**

**Fund revenue was not recorded in a manner which would facilitate accountability and reporting of Fund transactions and balances.**

#### **Analysis**

MIA did not allocate Fund revenue as received to the accounts specified by law in order to facilitate accountability and reporting of Fund transactions and balances. Although MIA had established two accounts to record insurer and Department of Health and Mental Hygiene (DHMH) payments, revenue was deposited into the Fund but was not allocated to the accounts as received. We noted that revenue was transferred only as needed to cover recorded disbursements.

As previously mentioned, the law specifies that the Fund is to consist of one account to be used to make payments to medical professional liability insurers for rate subsidies, and a second account to be used to make required payments to DHMH. The law also specifies an amount to be allocated to the two accounts for each fiscal year.

Although the law does not prescribe a schedule for transfers throughout the year, we believe that the methodology used restricted MIA's ability to readily account for and report Fund transactions and balances at any point in time. This is important because the law stipulates separate dispositions for any remaining account balances. In addition, the law requires MIA to report certain data relating to the Fund, including any remaining balances, to the General Assembly as of the end of the calendar year.

## **Recommendation 2**

**We recommend that MIA allocate Fund revenue as received in order to facilitate accountability for and reporting of Fund transactions and balances.**

## **Audit Scope, Objectives, and Methodology**

As required by the Insurance Article, Section 19-808 of the Annotated Code of Maryland, we have audited the receipts and disbursements of the Maryland Health Care Provider Rate Stabilization Fund for the period beginning April 1, 2005 and ending December 31, 2005. The Fund is administered by the Commissioner of the Maryland Insurance Administration (MIA). The audit was conducted in accordance with generally accepted government auditing standards.

The objectives of this audit were to examine the Fund's receipts and disbursements, related records and internal control, and to evaluate compliance with applicable State laws, rules, and regulations. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Fund's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives.

MIA is required by law to annually audit each medical professional liability insurer that applied for a subsidy payment from the Fund; accordingly, our audit did not include procedures designed to verify the propriety of the amounts requested by medical professional liability insurers and the disposition of such payments. The results of MIA's audits of the insurers will be reviewed during subsequent audits of the Fund. In addition, we will conduct a separate audit of the Medical Mutual Liability Insurance Society of Maryland as required by State law.

Our audit did not include certain support services provided to the Fund by MIA. These support services (such as maintenance of accounting records and related fiscal functions) are included within the scope of our audit of MIA.

Our audit scope was limited with respect to the Fund's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all Fund cash transactions were accounted for and properly recorded on the related State accounting records as well as the banks' records.

MIA's management is responsible for establishing and maintaining effective internal control over the Fund. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes a finding that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect MIA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations as they apply to the Fund. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules or regulations. Other less significant findings were communicated to MIA that did not warrant inclusion in this report.

MIA's response to our findings and recommendations, on behalf of the Fund, is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MIA regarding the results of our review of its response.

APPENDIX

ROBERT L. EHRLICH, JR.  
Governor

MICHAEL S. STEELE  
Lt. Governor



INSURANCE  
ADMINISTRATION

R. STEVEN ORR  
Commissioner

JAMES V. MCMAHAN, III  
Deputy Commissioner

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[www.mdinsurance.state.md.us](http://www.mdinsurance.state.md.us)

March 2, 2006

Bruce A. Myers, CPA, Legislative Auditor  
State of Maryland  
Office of Legislative Audits  
State Office Building, Room 1202  
301 West Preston Street  
Baltimore, Maryland 21201

Dear Mr. Myers:

Please find enclosed the Maryland Insurance Administration (MIA) response to the draft audit report on the Maryland Health Care Provider Rate Stabilization Fund April 1, 2005 to December 31, 2005.

In addition to the enclosed hard copy of the response, an electronic version was sent to [response@ola.state.md.us](mailto:response@ola.state.md.us).

If you have any questions or need additional information, please contact James McMahan, III, Deputy Commissioner. His direct telephone number is (410) 468-2002.

Sincerely,

R. Steven Orr  
Commissioner

RSO/jvm

Enclosure



# MIA Response to Findings and Recommendations

## Audits of Medical Professional Liability Insurers

### **Finding 1 (Policy Issue)**

**MIA should develop formal policies and procedures addressing certain critical functions relating to the required annual audits and the verification of data that is used for calculating subsidy payments.**

### **Recommendation 1**

**We recommend that MIA develop policies and procedures to address certain critical functions relating to the audits of insurers' subsidy applications. At a minimum, MIA should specifically address the timing for starting the audits, the timeframe for issuing the related results, the evaluation of audit results, and possible follow-up actions. We also recommend that procedures be developed for verifying premium data used in calculating the annual subsidy factor. Such procedures could be incorporated in the aforementioned specific procedures that MIA is in the process of developing.**

### MIA Response to Recommendation #1:

As the auditor noted, existing policies and procedures included in our Examination Handbooks include audit procedures that can be applied to the audits of insurers' subsidy requests. As explained to the auditors during the course of their audit, it is our intent to conduct the audits of insurers participating in the Fund in accordance with existing procedures, and supplement existing procedures with more specific audit steps relating to the subsidy requests. In this regard, a draft audit program for the audit of insurers participating in the Fund was provided to the auditor. The audit program will be finalized prior to the first insurer audit, which is scheduled to commence in July 2006, and as we advised the auditor, the program will include procedures for verifying premium data used in calculating the annual subsidy factor. Additionally, the timeframe for issuing the related audits, evaluating the audit results, and follow-up of corrective actions will follow our existing documented procedures. To satisfy the auditor's comment, we will prepare a policy statement indicating that the audits of insurers participating in the Fund will be conducted in accordance with the policies and procedures contained in our Examination Handbooks supplemented by the specific audit procedures relating to the subsidy requests, that the audits will commence as soon as practicable after the close of the respective subsidy year, and that the evaluation of the audit results, the issuance of the related audit reports, and follow-up of corrective actions will follow our existing documented procedures.

**Finding 2**

**Fund revenue was not recorded in a manner which would facilitate accountability and reporting of Fund transactions and balances.**

**Recommendation 2**

**We recommend that MIA allocate Fund revenue as received in order to facilitate accountability for and reporting of Fund transactions and balances.**

MIA Response to Recommendation #2:

The Administration does not agree with the Finding, but does agree to comply with the Recommendation. As the Auditor agrees, the law addresses the amount and the priority of disbursements from the Fund to the Accounts on a fiscal year basis and does not require that disbursements be made as monies are received. As previously discussed, the initial provider payment transactions in the Fund's accounts occurred in fiscal year 2005 (not provided for in the law but approved by both the Department of Budget and Management and the Department of Legislative Services, and confirmed by the Office of the Attorney General), resulting in a timing difference that will resolve itself at the end of the current fiscal year (FY 06). The MIA does not believe that this timing issue results in any inaccuracies and does not believe that it has impaired the ability of the MIA to account for or report on Fund and Account revenues and distributions. Nonetheless, the MIA will accept and implement the Auditor's recommendations.

AUDIT TEAM

**Paul R. Denz, CPA**  
Audit Manager

**Robert W. Lembach, CPA**  
Senior Auditor