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MIA BULLETIN 07-10

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

SUBJECT: Maryland Health Care Provider Rate Stabilization Fund - Rate Stabilization Account – Procedures for Calculating State Subsidies and Obtaining Reimbursements from the Rate Stabilization Account Related to Chapter 175, Laws of Maryland, 2007

DATE: July 16, 2007

MIA Bulletin 05-7, *Procedures for Obtaining Reimbursements from the Maryland Health Care Provider Rate Stabilization Fund - Rate Stabilization Account*, described in detail how Chapter 1, Laws of Maryland 2005 (Senate Bill 836) created the Maryland Health Care Provider Rate Stabilization Fund (the “Fund”) (Title 19, Subtitle 8 of the Insurance Article).

Chapter 175, Laws of Maryland 2007, effective July 1, 2007, amended Title 19, Subtitle 8 of the Insurance Article for the purpose of providing additional State Subsidies to family practitioners who have staff privileges at Garrett County Memorial Hospital and who also provide obstetrical services at the Hospital (“Additional State Subsidies”). The Additional State Subsidies are to be in an amount equal to 75% of the difference between the policyholder’s premium for calendar years 2007, 2008, and 2009 and the premium that otherwise would be payable in those calendar years if the policyholder was not providing obstetrical services.

This Bulletin provides Participating Insurers with information and instructions to be used for Subsidy Years 2007¹, 2008 and 2009 regarding: a) how the Additional State Subsidies are to be calculated; b) the procedures and forms to be used by Participating Insurers when applying to the RS Account for reimbursement for the Additional State Subsidies; and c) what Participating

¹ 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 2007 refers to policies that, pursuant to §19-805(b)(2) of the Insurance Article, are subject to rates that were approved for an initial effective date on or after January 1, 2007, but prior to January 1, 2008. For a Participating Insurer that sought and obtained a rate increase on new and renewal business that became effective on January 1, 2007, Subsidy Year 2007 would run from January 1, 2007 through December 31, 2007. For a Participating Insurer that sought and obtained a rate increase on new and renewal business that became effective on April 1, 2007, Subsidy Year 2007 would run from April 1, 2007 through March 31, 2008.

Insurers must do to prepare for the statutorily mandated annual audits of their reimbursement requests.

Calculating the Additional State Subsidies

In calculating the Additional State Subsidies applicable to each eligible policyholder who does not decline State Subsidies, 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 RS Account:

1. Determine the rating factors applicable to the policyholder at the time the current Subsidy Year policy was issued (e.g., applicability of discounts, etc.) (the *Rating Factors*).
2. Determine the actual premium charged to the policyholder for the current Subsidy Year (the *Current Year Rate Premium*).
3. Using the Rating Factors, compute the premium the policyholder would have been charged for the current Subsidy Year if the policyholder was not providing obstetrical services (the *Current Year Non-Obstetrical-Services Rate Premium*).
4. Adjust the *Current Year Rate Premium* and the *Current Year Non-Obstetrical-Services Rate Premium* to exclude the amount of a rate increase resulting from a premium surcharge or the loss of a discount due to the provider's loss experience. These adjustments result in an *Adjusted Current Year Rate Premium* and an *Adjusted Current Year Non-Obstetrical-Services Rate Premium*, and are made as follows:
 - a. Premiums resulting from the imposition of a surcharge due to the policyholder's loss experience are not included in the *Adjusted Current Year Rate Premium* and the *Adjusted Current Year Non-Obstetrical-Services Rate Premium*, since these amounts are not subject to the State Subsidy.
 - b. Premium increases resulting from a decrease in or loss of any discount due to the policyholder's loss experience are eliminated from the *Adjusted Current Year Rate Premium* and the *Adjusted Current Year Non-Obstetrical-Services Rate Premium* by including the loss-related discounts using the discount factors in effect during the prior Subsidy Year, rather than those in effect during the current Subsidy Year.
5. Subtract the *Adjusted Current Year Non-Obstetrical-Services Rate Premium* from the *Adjusted Current Year Rate Premium*. This is the *Premium Related to Providing Obstetrical Services*.
6. Multiply the *Premium Related to Providing Obstetrical Services* by 75%. This is the amount of the Additional State Subsidy.

Please note that the computation of the Additional State Subsidies does not change the computation of State Subsidies under Section 19-805(b)(2) of the Insurance Article. Please also note that the State Subsidies under Section 19-805(b)(2) are computed based on the premium amount a health care provider would have paid at the approved rate during the prior calendar year. In contrast, the Additional State Subsidies are computed based on the health care provider's premium amount for the current calendar year.

Applying for Reimbursement

Attached to this Bulletin is an "Additional State Subsidy Reimbursement Form" which has been adopted by the Commissioner. Each Participating Insurer that has a policyholder who is eligible for and elects to receive an Additional State Subsidy is required to complete this form for each eligible policyholder and deliver it to the Administration in order to obtain reimbursement from the RS Account for the Additional State Subsidy.

The Additional State Subsidy Reimbursement Forms for Subsidy Years 2007, 2008 and 2009 should be included with one of the Participating Insurer's Rate Stabilization Account Reimbursement Forms for the applicable Subsidy Year. As noted above, the procedures for completing the Rate Stabilization Account Reimbursement Forms are explained in bulletins issued each year by the Administration. Information about the Additional State Subsidy reimbursements being requested should be included in the Summary Information section of the Rate Stabilization Account Reimbursement Forms, as well as on Schedules A and C attached to those Forms.

Preparing for the Audits

With regard to Additional State Subsidies, each Participating Insurer should follow the guidance on preparing for the audits that is included in the Administration's annual bulletins explaining the procedures to be followed by a Participating Insurer seeking reimbursement for State Subsidies from the RS Account.

Administration Contact

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

Peggy J. Watson
INTERIM COMMISSIONER

By: Signature on file with original document
Lester C. Schott
Associate Commissioner
Exam and Auditing Section

**MARYLAND INSURANCE ADMINISTRATION
RATE STABILIZATION ACCOUNT
ADDITIONAL STATE SUBSIDY REIMBURSEMENT FORM**

Components of Premium

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

	Current Year Rate Premium		Current Year Non-Obstetrical-Services Rate Premium	
	Actual NOTE 1	Adjusted NOTE 2	Calculated NOTE 3	Adjusted NOTE 4
I. Base Rate	10,000	10,000	8,000	8,000
II. Premium Discounts not due to Loss Experience				
Discount 1 - Current Year Rate 5.00%	(500)	(500)	(400)	(400)
Discount 2 - Current Year Rate 0.00%	0	0	0	0
Discount 3 - Current Year Rate 0.00%	0	0	0	0
Discount 4 - Current Year Rate 0.00%	0	0	0	0
III. Premium Surcharges not due to Loss Experience				
Surcharge 1 - Current Year Rate 10.00%	1,000	1,000	800	800
Surcharge 2 - Current Year Rate 0.00%	0	0	0	0
Surcharge 3 - Current Year Rate 0.00%	0	0	0	0
Surcharge 4 - Current Year Rate 0.00%	0	0	0	0
IV. Premium Surcharges and Discounts due to Loss Experience				
Surcharge 1 - Current Year Rate 3.00%	300	(1)	240	(1)
Surcharge 2 - Current Year Rate 0.00%	0	(1)	0	(1)
Discount 1 - Greater of Current Year Rate (2%) or Prior Year Rate (4%) 4.00%	(200)	(400) (2)	(160)	(320) (2)
Discount 2 - Greater of Current Year Rate (___%) or Prior Year Rate (___%) 0.00%	0	0 (2)	0	0 (2)
Net Premium to Insured	10,600	10,100	8,480	8,080

Additional State Subsidy Computation:

Adjusted Current Year Rate Premium	10,100
Adjusted Current Year Non-Obstetrical-Services Rate Premium	8,080
Premium Related to Providing Obstetrical Services	2,020
Times Subsidy Rate	x 75%
Additional State Subsidy	<u>1,515</u>

NOTE 1 - This column represents the actual premium charged to the policyholder during 2007, before a subsidy (the Current Year Rate Premium).

NOTE 2 - This column represents the actual premium charged to the policyholder during 2007, before a subsidy, adjusted to exclude premium increases from the imposition of surcharges and loss of discounts due to provider loss experience (the Adjusted Current Year Rate Premium).

NOTE 3 - This column represents the premium that would have been charged to the policyholder during 2007, before a subsidy, had the policyholder not provided obstetrical services (the Current Year Non-Obstetrical-Services Rate Premium).

NOTE 4 - This column represents the premium that would have been charged to the policyholder during 2007, before a subsidy, had the policyholder not provided obstetrical services, adjusted to exclude premium increases from the imposition of surcharges and loss of discounts due to provider loss experience (the Adjusted Current Year Non-Obstetrical-Services Rate Premium).

NOTE 5 - Section 19-805(c) of the Insurance Article 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: The current Subsidy Year Surcharges due to Loss Experience are not included in the 'Adjusted' columns.

(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 current Subsidy Year policy was issued, but was no longer eligible for or has had a reduction in that discount for the policy issued in the current Subsidy Year, the insurer should include the discount on this line in the 'Adjusted' columns at the same discount rate in effect for the policyholder during the prior Subsidy Year. This will ensure that the additional premium the policyholder is paying because of the loss of or reduction in the discount is not included when the Additional State Subsidy is calculated.