

WES MOORE
Governor

ARUNA MILLER
Lt. Governor



MARIE GRANT
Acting Commissioner

WILLIAM FAWCETT
Associate Commissioner
Property & Casualty

200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202
Direct Dial: 410-468-2471 Fax: 410-468-2020
1-800-492-6116 TTY: 1-800-735-2258
www.insurance.maryland.gov

October 1, 2024

Via Email: jcr.docs@mlis.state.md.us

The Honorable Guy Guzzone
Chair of the Senate Budget and Taxation
Committee
Miller Senate Office Building, 3 West
11 Bladen Street
Annapolis, MD 21401

The Honorable Ben Barnes
Chair of the House Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, MD 21401

RE: 2024 JCR_p.42-43_MIA and Maryland Auto Methods for Determining Auto Insurance Rate Affordability

Dear Chair Guzzone and Chair Barnes:

Enclosed please find the *Report on Methods for Determining Auto Insurance Rate Affordability* prepared by the Maryland Insurance Administration and Maryland Automobile Insurance Fund as mandated by the Joint Chairmen's Report on the Fiscal 2025 State Operating Budget (SB 360) and the State Capital Budget (SB 361) and Related Recommendations ("Joint Chairmen's Report"). See p. 42.

Five printed copies and an electronic copy of this report have been mailed to the DLS library for its records.

Should you have any questions regarding this Report, please do not hesitate to contact us.

Respectfully yours,

Marie Grant
Acting Insurance Commissioner

Al Redmer, Jr.
Executive Director,
Maryland Automobile Insurance Fund

cc: The Honorable Bill Ferguson, President of the Senate
The Honorable Adrienne A. Jones, Speaker of the House of Delegates
Sarah T. Albert, Department of Legislative Services (5 copies)



Joint Chairmen's Report

Methods for Determining Auto Insurance Rate Affordability

Marie Grant
Acting Insurance Commissioner

Al Redmer, Jr.
Executive Director, Maryland Automobile Insurance
Fund

October 1, 2024

For further information concerning this document contact:

Jamie Sexton
Associate Commissioner of External Affairs and Policy Initiatives
Maryland Insurance Administration
200 St. Paul Place, Suite 2700
Baltimore, Maryland 21202
410.468.2408

Sandra Dodson
Government Relations - Senior Manager
Maryland Automobile Insurance Fund
1215 E. Fort Ave, Suite 400
Baltimore, Maryland 21230
667.210.5182

This document is available in alternative format upon request
from a qualified individual with a disability.
TTY 1.800.735.2258

The Maryland Insurance Administration's website address: www.insurance.maryland.gov

The Maryland Automobile Insurance Fund's website address: <https://www.mymarylandauto.com>

Table of Contents

I.	INTRODUCTION	1
II.	DISCUSSION OF TOPICS SPECIFIED IN THE 2024 JCR	2
A.	Reference to and interpretation of the term “affordability” used in statute, as employed by MIA and Maryland Auto, respectively	2
B.	How Maryland Auto selected the affordability index currently in use	9
C.	The current method utilized, including how Maryland Auto selects ZIP Codes in which to apply the affordability index	11
D.	Auto insurance affordability measures and methodologies used in other states for residual market rate setting or for residual market eligibility criteria, including how they compare to the method used by Maryland Auto	16
E.	Advantages and disadvantages of including rate payers’ credit reports to measure affordability	23
F.	Affordability measures from elsewhere in insurance practice or otherwise that may fit the purpose of determining auto insurance affordability for the purpose of Maryland Auto rate setting	25
G.	Proposed recommendations for modifying the affordability index and methodology used for Maryland Auto rate setting	26
III.	APPENDICES	32

I. INTRODUCTION

The Joint Chairmen’s Report for the 2024 Session (the “2024 JCR”) included a request that the Maryland Insurance Administration (“MIA”) and the Maryland Automobile Insurance Fund (“Maryland Auto”) study and submit a joint report addressing seven topics that pertain to auto insurance affordability measures. Specifically, the 2024 JCR stated:

The Maryland Automobile Insurance Fund (Maryland Auto) has been using an affordability benchmark similar to one utilized by the Federal Insurance Office (FIO) within the U.S. Department of Treasury. The FIO method measures affordability of personal automobile insurance in a Zone Improvement Plan (ZIP) Code by using a benchmark of 2% of the median household income. Maryland Auto adopted a similar measure but with a higher benchmark, currently set at 2.9%, to better support rate adequacy for a high-risk population. This index applies to 94 of the 470 ZIP Codes in Maryland (or 20%), with most eligible ZIP Codes concentrated in Baltimore City and Baltimore, Carroll, and Prince George’s counties. The committees are concerned that a suitable measure of affordability should be more sensitive to differences in financial circumstances of rate payers within ZIP Codes. The committees are interested in a more detailed review of affordability measures that could be applied to Maryland Auto rates and request that the Maryland Insurance Administration (MIA), in coordination with Maryland Auto, review the affordability requirement. Specifically, the committees request that MIA and Maryland Auto jointly conduct a study of affordability measures and submit a report including discussion of the following:

- reference to and interpretation of the term “affordability” used in statute, as employed by MIA and Maryland Auto, respectively;
- how Maryland Auto selected the affordability index currently in use;
- the current method utilized, including how Maryland Auto selects ZIP Codes in which to apply the affordability index;
- auto insurance affordability measures and methodologies used in other states for residual market rate setting or for residual market eligibility criteria, including how they compare to the method used by Maryland Auto;¹
- advantages and disadvantages of including rate payers’ credit reports to measure affordability;

¹ A “residual market mechanism” is a program established by a state to make insurance (in this case motor vehicle insurance) available to consumers who are unable to purchase insurance in the private (i.e. voluntary) insurance market.

- affordability measures from elsewhere in insurance practice or otherwise that may fit the purpose of determining auto insurance affordability for the purpose of Maryland Auto rate setting; and
- proposed recommendations for modifying the affordability index and methodology used for Maryland Auto rate setting.

After meeting several times during the report drafting process, Maryland Auto and MIA agreed to take a bifurcated approach to responding to the inquiries raised in the 2024 JCR. While both agencies desire to make certain that Maryland consumers have access to a robust automobile insurance market, they have different views as to whether Maryland Auto is permitted to charge rates that are not actuarially justified based on the application of Maryland Auto’s affordability index. Section II of this report presents Maryland Auto’s response followed by MIA’s response to each of the seven topics set forth in the 2024 JCR. This format allows members of the Senate Budget and Taxation Committee and House Appropriations Committee the benefit of considering both agencies’ respective perspectives.

II. DISCUSSION OF TOPICS SPECIFIED IN THE 2024 JCR

A. Reference to and interpretation of the term “affordability” used in statute, as employed by MIA and Maryland Auto, respectively

1. Maryland Auto response

Considering affordability in ratemaking has been an integral part of Maryland Auto’s statute since 1985. When Maryland Auto was created in 1973, its rates were set according to the basic insurance rating laws, requiring the rates to be “not excessive, inadequate, or unfairly discriminatory.” Article 48A §243C (Chapter 73, 1973). But in 1985, the legislature added the language, which is in the current law, Insurance Article §20–507 that “In reviewing rates filed by the Fund, the Commissioner shall consider not only the rating principles under Title 11 [not excessive, inadequate, or unfairly discriminatory] . . .but also the statutory purpose of the Fund under § 20–301 of this title.” This language was added to ensure that Maryland Auto considered affordability in ratemaking. *See generally* Maryland Auto, Opinion of the General Counsel– Affordability, July 16, 2024.

In 2002 the General Assembly required the MIA to conduct a study on the impact of premium rates on policies issued by Maryland Auto. HB 521, Ch. 580, 2002. During this study the MIA acknowledged that “the Fund’s statutory purpose...has been interpreted as adding an affordability component to Maryland Auto’s premiums which results in below adequate premiums or a subsidy for Baltimore City insureds.” *The Maryland Automobile Insurance Fund and the Private Insurance Market*, Report of the MIA, January 2004.

In concluding its study, the MIA found that “Maryland Auto appears to be fulfilling the purpose for which it was created by the General Assembly; that is to offer automobile insurance, at affordable prices, to Maryland citizens that might otherwise not be able to obtain insurance and comply with Maryland’s compulsory insurance laws. To that end, Maryland Auto plays an essential role in supporting the State’s goal of minimizing the number of uninsured drivers operating vehicles on Maryland’s roads and highways.”

As noted by the MIA in the 1984 *Report of the Task Force on Maryland Automobile Insurance*:

By providing affordable rates to high-risk drivers, Maryland Auto functions as a safeguard against an increasing uninsured motorists population. This in turn lowers the rates of all private insurers because these insurers do not have to pass on to their policyholders losses caused by accidents involving uninsured motorists and their own policyholders.

In general, it is appropriate to view the “excessive, inadequate or unfairly discriminatory” test as the basic statutory rating principle. *Insurance Commissioner v. Engleman*, 345 Md. 402 (1997). Under this standard the Affordability Index or other credits or subsidies may be viewed as “unfairly discriminatory.” But in connection with Maryland Auto, the legislature added an additional rating component to also consider affordability. In the January 2004 MIA report, it was accepted that a 15% subsidy in Baltimore City was consistent with the statute, even though it could not meet the “excessive, inadequate or unfairly discriminatory” test. The 15% subsidy accepted in 2004 is substantively no different than the Affordability Index applied today.

The General Assembly has never mandated how the consideration of affordability is to be applied. Instead, as discussed below, Maryland Auto’s management has exercised reasonable discretion over the years in its affordability consideration, as it pertains to basic liability coverage, and providing automobile insurance to Maryland citizens that cannot obtain it in the standard market.

The MIA agrees that, under the statute, affordability is an appropriate consideration and has been a part of Maryland Auto’s rate making charge since at least 1985. But the MIA suggests that solvency or the avoidance of an assessment takes priority. According to the MIA, affordability can only be considered when Maryland Auto has adequate rates, and an assessment is not needed. In other words, the MIA’s position is that in any year an assessment could be triggered, Maryland Auto must charge fully adequate rates. The statute does not make this distinction but provides for the assessment whenever required by the financial condition of Maryland Auto.

In all other states, the standard market contributes annually towards the cost of losses experienced in the residual market, either through direct assignments of

non-standard policies or through assessments. Maryland has not had annual assessments, unlike most other states where annual assessments are common.

The effect of abandoning affordability considerations in Maryland Auto rate making, would be significant. First, and most importantly, liability rates in Baltimore City, and a handful of other zip codes, would be raised drastically, in some cases by over 40%. Secondly, abandoning affordability would lead to inconsistency and uncertainty for those Maryland citizens unable to secure auto insurance in the standard market and may also lead to an increase in the uninsured population in Maryland. This could also increase uninsured motorist premiums for all policies in Maryland.

Maryland Auto fully appreciates the complexity of balancing adequate rates against affordability. Charging as-close-to-adequate rates as possible while maintaining affordable auto insurance rates, for those who cannot secure coverage otherwise, is a difficult task. This task, though, cannot be abandoned simply because the standard market will be assessed to support the losses of the residual market.

Maryland Auto agrees that application of the affordability index now in use has expanded slightly beyond the boundaries of Baltimore City but in the pending filing, 78% of the 6,602 policies affected are in the Baltimore Metro region. This slight expansion is in no way reflective of an effort to charge competitive rates but instead demonstrates the ever-changing socioeconomic profile of the state in combination with high base rates for minimal limit, liability only auto policies in areas outside of Baltimore City. We could argue that affordability should be expanded even further, to provide even more support to low-income communities, especially in Baltimore City.

As the insurer of last resort, fulfilling a critical mission of protecting Maryland citizens and creating safer communities, affordability is an important tool to reduce the uninsured motorist population in the State.

The MIA noted during the last session of the General Assembly that the current statute may not allow the Commissioner to fully review Maryland Auto rates for adequacy under the “file and use” statute. This is said to be the case since §11-306 of the Insurance Article limits the Commissioner’s authority to conclude that rates are inadequate only if the rates are “unreasonably low...and continued use of the rate by the insurer would endanger the solvency of the insurer.” This standard applies generally to insurers but is not appropriate to Maryland Auto since the assessment statute prevents Maryland Auto from insolvency. The MIA proposed removing Maryland Auto from the “file and use” statute and returning Maryland Auto to “prior approval” ratemaking. Maryland Auto believes that returning to prior approval would be detrimental. Moreover, it is unnecessary as the “file and use” statute (Insurance Article §11-306) could easily be amended to provide:

(3) EXCEPT FOR A RATE FILED BY THE MARYLAND AUTOMOBILE INSURANCE FUND, a rate may not be held to be inadequate unless...the rate is unreasonably low...and continued use of the rate would endanger the solvency of the insurer.

This amendment would allow Maryland Auto to continue to file rates under the “file and use” process but would ensure that the Commissioner could determine whether the rates were “excessive, inadequate or unfairly discriminatory under Insurance Article §20-507, while continuing to require the Commissioner to consider “the statutory purposes of the Fund.” File and Use allows Maryland Auto to implement rate changes in a timely manner to improve rate adequacy versus the longer cycle times of MIA prior approval.

Whether or not the statute is amended, Maryland Auto will continue to work with the MIA on each rate filing. As we have in the past, we will provide advance notice of upcoming rate filings, meet with MIA staff to discuss and explain the filing and provide any needed information well before a planned effective date. We will also, as we have done with the most recent filing, agree to delay the filing at the Commissioner’s request if the Commissioner needs additional time to review the filing.

2. MIA response

Maryland Auto is the independent state agency that serves as Maryland’s motor vehicle insurer of last resort. Maryland Auto was established by legislation enacted in 1972 for the express purpose of ensuring that all residents of the State would be able to comply with the State’s newly enacted compulsory motor vehicle liability insurance laws. *See* 1972 Md. Laws Ch. 73. Maryland Auto’s sole mandate is to provide the financial security required by §17-103 of the Transportation Article to those eligible persons unable to obtain coverage from an insurer in the private market. Md. Code Ann. Ins. Art. § 20-301.²

The term “affordability” does not appear in the codified statutes relating to the creation and operation of Maryland Auto. *See* Md. Code Ann. Ins. Art. Title 20. When Maryland Auto was formed, affordability was not identified as a consideration. Maryland Auto’s rates were expected to be, and were, significantly higher than rates from voluntary insurers, because Maryland Auto was intended to

² “Maryland is the only state that has established a state fund (Maryland Auto) to provide automobile insurance to eligible applicants. Unlike the mechanisms used in other states, private insurers do not directly participate with the Fund, but are required to subsidize Maryland Auto’s surplus when certain triggers are met and to surcharge their policyholders to recover those costs.” (*MIA 2023 Joint Chairmen’s Report*, at 27.) The *MIA 2023 Joint Chairmen’s Report* includes an extensive discussion of the residual market mechanisms utilized in other states; it can be accessed at <https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Joint-Chairmens-Report-Maryland-Automobile-Insurance-Fund-and-the-Private-Insurance-Market.pdf>.

write only those high-risk drivers that the industry was not willing to write at any price.

When Maryland Auto was established, it was necessary for Maryland Auto to have funds sufficient to cover its operational costs (including salaries, overhead, agent commissions) and claims before it began writing any business. This initial funding was secured through an assessment on the voluntary market, which was passed on to policyholders through a line-item charge added to the premium invoice. For the first decade of its operations, Maryland Auto made an annual assessment to assure that all operational expenses and claims were paid, and to build up surplus. The last year in which an assessment was made was 1989.

In 1985, new statutory language was adopted in what is now § 20-507(d) that provides:

In reviewing rates filed by the Fund, the Commissioner shall consider not only the rating principles under [as of 2017, Title 11, Subtitle 3 of the Insurance Article] but also the statutory purpose of the Fund under[existing § 20-301].

This legislation also included an uncodified preamble, which said in part:

WHEREAS, The Maryland Automobile Insurance Fund was mandated to insure only the worst of the high risk drivers, and though its rates have risen to and beyond the point of affordability, they do not accurately reflect the degree of risk involved;

WHEREAS, The Maryland Automobile Insurance Fund normally experiences losses caused by its insured motorists, the Fund's problems are exacerbated by the addition of annual losses caused by insured motorists which have, in turn, required the imposition of a surcharge on all private policies from an average of \$3 to over and average of \$13 per year; and

WHEREAS, The Fund has a current deficit in excess of \$38 million, and

WHEREAS, The Maryland Automobile Insurance Fund and the Insurance Commissioner have been constrained in their efforts to address the financial pressure of a changing residual automobile insurance market; and

WHEREAS, Rates charged by the Maryland Automobile Insurance Fund must adequately reflect the degree of risk involved but must also remain affordable to that segment of the population, which is dependent on the Fund for automobile insurance.

1985 Laws Ch. 610.

Under §20-507, Maryland Auto's premium rates are determined by its Executive Director in accordance with the rating principles in Title 11, Subtitle 3 of the Insurance Article, with due consideration for the purpose of the Fund articulated in § 20-301 "to provide financial security required under 17-103 of the Transportation Article to those eligible persons that are unable to obtain it from an Association member" As stated in the Insurance Administration's 2004 annual report:

By law, in the Commissioner's review of Maryland Auto's rates, consideration may not only be given to rate making principles applicable to all insurance companies, "but also to the Fund's statutory purpose." This has been interpreted as adding an affordability component to Maryland Auto's premiums which results in below adequate premiums or a subsidy for Baltimore City insureds. Historically, that subsidy has amounted to a 15% reduction in the actuarially justified rates for Baltimore City insureds.

Over the last 10 years, Maryland Auto's approach to rate subsidization has expanded beyond Baltimore City to other geographic regions of the State based on zip code. Currently, Maryland Auto applies an "affordability index," which is a cap on rates, at different levels within 55 zip codes.

Maryland Auto views affordability as a requirement that should take precedence over the requirements of Title 11 that rates not be excessive, inadequate or unfairly discriminatory. But, the preamble of the 1985 amendments to the Maryland Auto statute makes clear that rates "must adequately reflect the degree of risk involved" and normal statutory construction rules tells us that statutes should be read together.

The MIA believes that the proper way to consider affordability is within the confines of Title 11, in that affordability should be considered in the context of rates that are neither excessive, inadequate nor unfairly discriminatory. Affordability is a shifting relative term depending on the characteristics of the policyholder. The need for prudent financial oversight and solvency, and the statutory requirements of Title 11 of the Insurance Article, must take priority over the goal of "affordability," which the General Assembly expressed generally, but did not codify in statute.

In 2017, the legislature moved Maryland Auto from the prior approval requirements of Title 11, subtitle 2 to the competitive rating requirements of Title 11, subtitle 3. 2017 Laws Ch. 509. Pursuant to § 11-306, a rate may not be held to be inadequate unless:

(i) The rate is unreasonably low for the insurance provided and continued use of the rate would endanger the solvency of the insurer;
or

(ii) The rate is unreasonably low for the insurance provided and the use of the rate by the insurer has had, or if continued will have, the effect of destroying competition or creating a monopoly.

As a result, the MIA has very little authority to declare rates inadequate so long as Maryland Auto’s surplus is in a position not to impact the solvency of the Fund. As addressed in the MIA’s Joint Chairmen’s Report on the Maryland Automobile Insurance Fund and the Private Insurance Market dated December 1, 2023 (the “MIA 2023 Joint Chairmen’s Report”), starting in 1989, Maryland Auto began to accrue a surplus and no assessments have been required. In 2007, Maryland Auto’s surplus reached an historical peak of \$184 million. However, the surplus has steadily declined since 2007 to the point that an assessment will be triggered in 2025. Over the last ten years, Maryland Auto has consistently selected rates that fall well below its indicated rates, that is, the rate level that actuaries have projected necessary to achieve a balance between the expected premium income and the expected losses and expenses. *See* MIA 2023 Joint Chairmen’s Report at 15-17. The chart below shows the indicated rates and the actual rates from Maryland Auto’s rate filings over the past ten years:

SERFF#	Submitted	Effective Date	Indicated	Proposed	Policy Holders
Maryland Auto-134139540	6/10/2024	withdrawn	18.1%	11.2%	35,461
Maryland Auto-133886082	11/10/2023	2/1/2024	26.2%	6.3%	32,210
Maryland Auto-133636341	4/13/2023	7/30/2023	31.9%	11.1%	21,954
Maryland Auto-132939142	8/6/2021	11/16/2021	15.9%	-1.4%	24,409
Maryland Auto-132472721	7/27/2020	11/1/2020	18.5%	-0.3%	32,442
Maryland Auto-131882349	3/28/2019	6/15/2019	26.0%	6.8%	35,700
Maryland Auto-131434778	4/11/2018	6/15/2018	31.6%	8.6%	34,669
Maryland Auto-130941896	2/28/2017	6/1/2017	33.1%	7.9%	34,882

Maryland Auto-130536740	4/20/2016	6/20/2016	36.6%	6.7%	41,862
Maryland Auto-130297524	10/22/2015	12/7/2015	43.7%	6.0%	40,210
Maryland Auto-129800017	11/7/2014	1/5/2015	45.3%	-2.8%	36,922
Maryland Auto-129441977	3/4/2014	4/21/2014	29.0%	-4.4%	32,665

The MIA employed outside actuaries to review the rates filings filed by Maryland Auto this year and in 2023. With regard to the filing submitted on November 10, 2023, Lewis & Ellis, LLC issued an Actuarial Review Memorandum in which it reviewed Maryland Auto’s historical and current financial information, historical rate filing information for both personal and commercial auto, and the filing in question. Lewis & Ellis concluded that the filing would result in a surplus deficit of \$17.5 million in 2024 and that “the surplus of Maryland Auto is unreasonably low and effectively endangers the solvency of Maryland Auto.” *See* Lewis & Ellis Actuarial Review Memorandum. The 6.3% overall rate increase submitted by Maryland Auto, Lewis & Ellis concluded, was a change in direction of rate adequacy, but it did not achieve rate adequacy.

On June 10, 2024, Maryland Auto submitted a filing (SERFF tracking No. Maryland Auto-134139540) that proposed an overall rate increase of 11.2% when a rate increase of 18.1% was indicated. The MIA retained the property and casualty actuarial firm Taylor & Mulder to review the June 2024 filing. In a report summarizing its analysis, Taylor & Mulder commented that “Maryland Auto will have to increase premiums substantially closer to the indicated rate change to ensure that they do not issue an assessment,” and noted that the projected assessment is \$14,875,733.

The MIA has discussed its concerns about the adequacy of Maryland Auto’s rates with Maryland Auto. Maryland Auto has withdrawn the June 2024 filing, and relayed its intent to submit a new filing with a planned effective date of January 1, 2025.

B. How Maryland Auto selected the affordability index currently in use

1. Maryland Auto response

As discussed above, in 1985, the Legislature injected affordability into Maryland Auto ratemaking. Then as now, affordability issues were most prominent in Baltimore City. For a number of years, affordability was addressed by providing a discount in Baltimore City – “historically, that subsidy has amounted to a 15% reduction in the actuarially justified rates for Baltimore City insureds.” *MIA Report* January 2004. Over time, management began to reconsider this approach to affordability and instead shifted the focus to comparing the cost of insurance to the income levels around the State, which more precisely calibrates less-than-adequate

rates to areas where the cost of insurance is exceptionally high. This evolved over time as follows:

8/15/2019

For this filing, Liability base rate changes are focused on territories with total liability base rates below the 85th percentile (approx. \$1,760; \$1,900 incl. Exp Fee). For these territories, the selected base rate change is the indicated change for the territory offset by the impact of other factor changes, and subject to percentage and dollar caps.

11/1/2020

The targeted change by coverage (offset by the impact of other factor changes) is then allocated to territories based on their indicated changes and subject to percentage caps. In addition to percentage caps, there are no Liability base rate increases for territories where the average liability premium is above 2.5% of the average median household income for the territory.

11/16/2021

The targeted change by coverage is then allocated to territories based on their indicated changes and subject to percentage caps of +/-4% for Bodily Injury and Property Damage and -8%/+20% for Uninsured Motorist and Economic Loss. Due to current economic uncertainty and affordability concerns the targeted change was 0% for Bodily Injury and Property Damage. In addition to percentage caps, there are no Liability base rate increases for GRA's where the average liability premium is above 2.5% of the average median household income for the GRA.

8/25/2023

The selected base rate change by coverage and territory is based on the indicated change subject to percentage caps of +11% to +12% for Bodily Injury, Property Damage and Economic Loss. In addition to percentage caps, there are no Liability base rate increases for GRA's where the average liability premium is estimated to be above 2.9% of the average median household income for the GRA.

8/25/2024

The selected base rate changes by coverage and GRA are based on the indicated changes subject to percentage caps of +/-25%. The resulting GRA base rates are used for all ZIP Codes assigned to a particular GRA except for 55 ZIP Codes where the average liability premium using the GRA base rates

are estimated to be above the affordability threshold set by the Company. For these ZIP Codes:

- The Liability base rates are limited to the greater of the Current base rates adjusted for the expense fee change, or the Affordability Threshold base rates.
- For this filing, the Affordability Index is 3.3%, an increase from 2.9%, of the median household income for the ZIP Code.

The Affordability Index is set by management, is periodically reviewed and is based on government and auto insurance market resources. The Affordability Index, as applied in the June 2024 rate filing, is 3.3% of the Median Household Income (MHI).. This is higher than the 2% Affordability Index used by the US Dept. of Treasury, Federal Insurance Office and more than twice the average auto insurance expenditures in Maryland which were 1.51% of household income during the 2000s. *Schmid, Journal of Insurance Regulation, NAIC, Auto Insurance Affordability, 2014.*

The 3.3% Affordability Index results in rates being affected in 55 ZIP Codes. In the other 422 ZIP Codes (88% of the State's 477 ZIP Codes) the Affordability Index has no effect as the proposed territory (GRA) rates do not exceed 3.3% of median household income.

The Affordability Index was raised from 2.9% and the increase in the percentage is expected to reduce the policy count that benefits from the index from 10,830 (31%) to 6,602 (19%). The Affordability Index will still apply to the most unaffordable ZIP Codes, but 4,228 additional policyholders will be subject to fully adequate rates.

2. MIA response

The MIA does not have any additional comments to add to those offered by Maryland Auto, as the question and response relate to Maryland Auto's decision-making in constructing the affordability index.

C. The current method utilized, including how Maryland Auto selects ZIP Codes in which to apply the affordability index

1. Maryland Auto response

In general, the Affordability Index is applied in selected ZIP Codes to cap rate increases on the PPA liability base rates. The basic concept of the Affordability Index is to consider not only the median household income but also the cost of insurance in that area. Maryland Auto's annual liability base rates vary widely around the State (from \$866 in Somerset County to \$2,831 in Baltimore City). As

a result, an individual buying a minimal limit, liability only policy in Baltimore City pays \$2,000 more before driving records and other considerations like loss history are applied. So, for zip codes with similar median household income the insurance is more affordable in Somerset County than in Baltimore City.

The base rates are developed from Maryland Auto's loss experience in each territory. A territory that has high losses due to accidents, theft, vandalism, fraud, etc. has high base rates and everyone in that territory starts with the same high base rates before driving records and individual loss experience are considered. An individual with a good driving record but characteristics that led to rejection by the private market (credit, new driver etc.) would have the same base rate as a high-risk driver. A high base rate coupled with a low to average median household income results in the application of the affordability index.

The liability base rates are the starting point for rating all policyholders in the territory. Premiums for individuals are determined by factoring in an individual's driving, age, gender, marital status, the type and age of the vehicle and other underwriting characteristics. The total policy premium is also determined by the other coverages that are purchased (collision, comprehensive etc.). The Affordability Index applies only to the liability base rates and therefore does not affect the cost of other coverages and does not affect the factors or % surcharges that apply based on the policyholder's driving record or other underwriting criteria.

In addition, the Affordability Index does not lower current rates but instead caps or limits liability base rate increases in certain zip codes. Policyholders in other zip codes may be charged adequate rates and do not pay more, or subsidize the rates capped in zip codes affected by the affordability index. The assessment mechanism acts to subsidize the affordability in the affected zip codes.

Maryland Auto has never suggested that the Affordability Index is an actuarial concept, and it admittedly does not include all low-income individuals. But it is designed to cap liability only rate increases in areas where the base rate coupled with median household income makes Maryland Auto insurance unaffordable. Income alone is not a true test of affordability. The cost of insurance in the zip code should also be considered. The Affordability Index implements the legislative directive to consider affordability which is an exception to the general requirement that rates be adequate and nondiscriminatory.

Under the current filing, the Affordability Index applies to 6,602 policies which are located principally in Baltimore City (2,505 38%); the Outer Baltimore region (2,666 40%); Baltimore/Carroll Counties (270 4%); Harford and Cecil Counties (264 4%); Western Maryland (170 3%); Howard County (233 4%) and Prince George's County (468 7%).

Average median household income for the ZIP Codes where the Affordability Index applies is \$64,632. vs the state-wide median of \$108,200 (\$91,373 based on Maryland Auto policy distribution). For the 18 ZIP Codes in

Baltimore City where the index applies, the average median household income is approximately \$54,000.

Steps in applying the Affordability Index are as follows:

1. PPA liability base rates are developed for each Geographic Rating Area (GRA) based on the loss experience of Maryland Auto policyholders by GRA/territory. Physical Damage base rates are not impacted. *See* Appendix A, Section I, which shows the Proposed Liability base rates for the GRA.
2. As explained above, PPA liability base rates are developed for each GRA/territory; the Affordability Index is applied only to ZIP Codes within the GRA/territory where the proposed GRA rates lead to average liability premium greater than the Affordability Index.
3. The strategy for the 2024 filing was to increase GRA liability rates (including fixed fees) in accordance with the indications, subject to a +/- 25% cap by coverage. The assigned GRA base rates would then be used for all ZIP Codes except (a) no increase to Liability base rates for any ZIP Code with average liability premium already above the maximum average premium associated with the Affordability Index and (b) rate increases to all other ZIP Codes liability base rates limited so average premium does not exceed the maximum average premium associated with the Affordability Index.

Steps to get to the PPA base rates corresponding to the Affordability Index are as follows:

1. Use the Affordability Index to establish the Maximum Average Base Rate Premium for each ZIP Code. The Maximum Average Premium for the ZIP Code is the Affordability Index (3.3%) x the average median household income (MHI) for the ZIP Code.
2. The MHI for each ZIP Code is taken from the US Census Bureau American Community Survey's (ACS) 2022 estimates.
3. The Affordability Index is periodically reviewed and set by management based on governmental and auto insurance market survey resources and is currently 3.3 % of MHI.
4. Estimate the implied maximum Liability base rates for the ZIP Code by dividing out the average class factor. *See* Appendix A, Section II, Affordability Threshold Maximum Rate.
 - a. The statewide average class factor is estimated for basic limits New Business risks with no more than 1 Maryland Auto Point. The average class factor (Liability premium divided by the Liability base rate) is calculated for each ZIP Code, then the 70th to 80th percentile for policies subject to the Affordability Index is selected. For the latest filing, the average class factor used was 1.18.
 - b. Divide the maximum average premium for each ZIP Code by the statewide average class factor, then subtract the fixed expense fees to get to the total Liability base rate.

- c. Estimate the maximum base rate for each coverage by apportioning the total Liability base rate for the ZIP Code to each coverage (BI, PD, UM, EL). This is done using the relationship of the current coverage base rate to the total current Liability base rate.
5. Compare the Proposed GRA base rates (Section I) to the Affordability Threshold Maximum base rates (Section II). If the Proposed GRA base rate is less than the Affordability Threshold Maximum, use the GRA base rate. If not, then if the Current Rate (Section III) is greater than the Affordability Threshold Maximum Rate (Section II), use the current base rates (no rate increase); otherwise use the Affordability Threshold Maximum base rates. The result of this is to take the GRA proposed base rate increases for the 422 of 477 ZIP Codes, target 0% rate increases for 28 ZIP Codes where the current average premium is above the Affordability Index and target base rate increases between 0% and the GRA proposed base rate increases for the remaining 27 ZIP Codes.

The Affordability Index impacts the rates by approximately -4%. Even though application of the Index has a significant impact, it is not the full indication which was closer to 18% before the current filed rate increase of +11%. After the August 2024 rate change the estimate now ranges at +6%. *See* Appendix B for Impact of the Affordability Index by ZIP Code.

2. MIA response

The affordability index currently applied by Maryland Auto is not an actuarially based rating factor but is a cap placed on rates in certain zip codes. As Maryland Auto has stated, under their most recent filing, the base rate changes “based on the indicated changes subject to percentage caps of +/-25%.” As a result, the base rate, and the “Affordability Threshold Max Rate” varies from zip code to zip code, even among those zip codes to which Maryland Auto applies the affordability threshold limit.

Under its most recent filing, Maryland Auto indicated that approximately 19% of its policyholders (6,602) will have the affordability index applied to their rates. The rates in the zip codes to which the affordability index is used apply to any applicant from those zip codes, regardless of the applicant’s financial status. Similarly, the affordability index does not apply to any applicant who resides outside of those zip codes, regardless of their financial status.

In addition to requiring that rates not be excessive or inadequate, § 11-306(b) also requires that rates not be “unfairly discriminatory.” This requirement is not limited to Maryland Auto but applies to the rates of all types of insurance that are submitted for review to the MIA, including title insurers, health benefit plans, and other types of property and casualty insurance. *See e.g.* IN §§ 11-205(d), 11-403(c), 11-603(c)(2). The Maryland Supreme Court has said that, “[u]nfair discrimination, as the term is employed by the Insurance Code, means

discrimination among insureds of the same class based upon something other than actuarial risk.” *Insurance Commissioner v. Engleman*, 345 Md. 402, 413 (1997). Consistent with the requirement that rates need to be based on actuarial risk, differences in rating by an area (what is known as “territorial rating”) is permitted only if the differences in the territories are actuarially justified. *See* § 11-319. Given that the index is used regardless of the actuarial risk of any particular insured, the MIA has expressed concerns about its use to Maryland Auto.

Taylor & Mulder discussed the affordability index in its report on Maryland Auto’s June 2024 rate filing, and commented that the selection of 3.3% of median household income as the threshold for affordability does not have any support in the filing and that “there is no actuarial justification for limiting premium at this level.” Taylor & Mulder found that, not only does the affordability index appear not to be based on underlying risk differences, but that it “is apparently designed to specifically *prevent* the recognition” of differences “in risk across different geographic regions.” Further, Taylor & Mulder concluded that by setting a maximum limit on the premium that can be charged in certain zip codes, Maryland Auto may be creating the potential for adverse selection within those areas. Taylor & Mulder noted, “individuals within those areas that would be charged a higher rate on the admitted market may seek coverage under Maryland Auto” and that loss ratios in zip codes limited by application of the affordability index would be high relative to unlimited zip codes. This is due to the premium being artificially suppressed and because the premium is low enough for high risks that policyholders in these zip codes are worse than average.

Taylor & Mulder also noted that there is a mismatch between the goal of the affordability index and the methodology. This can be seen in two potential issues that arise with the use of the cap:

1. The affordability index is not able to protect lower-income households in medium income or high-median income zip codes; and
2. The affordability index may limit the premium for high or medium income households residing in low-median income zip codes.³

Finally, Taylor & Mulder concluded that the application of the affordability index in certain zip codes means that other zip codes must receive larger rate increases in order to realize the needed rate change. “This means that non-limited ZIPs are unfairly subsidizing the rates of the 55 limited ZIPs.”

³ Appendix B lists the median incomes for the 55 ZIP codes to which the affordability index is applied. The mean (or average) incomes in these ZIP codes are higher. For example, in 21212, the median household income is \$ 94,014, but the mean household income is \$154, 547. Of the 12,616 households in that ZIP code - 5,881 have incomes over \$100,000, of which 3,025 have incomes greater than or equal to \$200,000. These figures come from the *2018-2022 American Community Survey 5-Year Estimates* published by the Maryland Department of Planning: https://planning.maryland.gov/MSDC/Documents/American_Community_Survey/2018-2022/ZCTA_21212_ACS_2018-2022.pdf.

D. Auto insurance affordability measures and methodologies used in other states for residual market rate setting or for residual market eligibility criteria, including how they compare to the method used by Maryland Auto

1. Maryland Auto response

In most states, rates are set by AIPSO,⁴ under an agreement with the Personal Automobile Insurance Plan (PAIP) in that state. Rates are set according to that state’s law which usually require rates to be “not excessive, inadequate or unfairly discriminatory.” By charging fully adequate rates, these states do not attempt to make residual market rates affordable. Adequate rates in these states, however, means that in many states virtually no drivers are insured in the PAIP. In 2023, thirty-three (33) States reported annual written PPA premium of \$0 to \$40,000. Using \$1,500 as an average policy cost, this would cover 0-26 policies per state. *AIPSO, Industry Data, Quarterly Residual Market Premiums*, 04/18/2024.

The Legislature could amend Insurance Article §20-507 to delete the requirement to consider the “statutory purpose of the Fund” in setting rates. This would require Maryland Auto to charge rates that were not “excessive, inadequate or unfairly discriminatory”, without considering affordability. But this would risk creating unintended consequences that would be detrimental to the State, which occurred following the Insurance Commissioner’s order in 1983 for Maryland Auto to increase its rates to adequate levels in nearly all markets. *Report of the Task Force on Maryland Automobile Insurance*, December 1984. As discussed below, a vacant residual market is not desirable.

The Affordability Index is unique to Maryland. No other state applies affordability measures to ZIP Codes or territories. Moreover, except for the California Low-Cost Automobile Insurance Plan, no other state uses an individual’s income to determine eligibility for a policy or the premium. Several states do make special arrangements for the residual market to factor in overall affordability including charging less than adequate rates for all residual policies and creating limited, and therefore less expensive, policies for residual market policyholders:

1. **New York** had \$68 million in PPA residual market premium in its assigned risk plan in 2022. *AIPSO, Industry Data, Quarterly Residual Market Premiums*, 4/18/2024. The statute which created the New York Automobile Insurance Plan (NYAIP) (N.Y. Laws Ins. Art. 53 5301) provides that the Plan’s assigned risk rates must be based on “loss and expense experience of the risks insured” except for rates “for the minimum limits required . . . by the vehicle . . . laws”.

⁴ “AIPSO” was formerly an acronym for Automobile Insurance Plans Service Office, but is now the organization's official name (not an acronym). AIPSO is a management organization and service provider for insurance industry groups responsible for administering the residual market.

In 1970, the New York Insurance Commissioner developed the “Stewart Formula” that considered the indicated rates for the assigned pool and the indications in the standard market. The two rates were blended to arrive at a less than adequate rate for the assigned risk policies. The losses on these policies are then recovered by the industry through an expense charge during ratemaking. Currently, the rate subsidy is roughly 40%. This allows the New York State Plan to provide affordable rates across the board, for all its policyholders. These policyholders are subsidized by assessments against insurers writing in New York’s private market. The total (PPA and CA) 2022 assessment was \$29.5 million. These assessments are recovered as general expenses in ratemaking, so the New York policyholders ultimately pay the cost.

The New York system seems to work exceptionally well. New York has one of the largest number of drivers in the residual market (\$68 million in premium); an uninsured motorist rate (10.8%) that is below the country wide average (14%); very low premium for UM coverage (\$35.77 approximately half the countrywide average); and a relatively small volume of incurred UM losses. *See* AIPSO, Industry Data, Quarterly Residual Market Premiums, 04/18/2024; NAIC, Auto Insurance Database, January 2023.

By contrast, Florida with a population similar to New York (21.5 million vs 20.2 million) has a very small residual market of \$372,000 premium while New York’s residual market was \$68 million. Superficially, Florida may seem successful. But Florida’s rate of uninsured motorists is higher than the country wide average at 14% and New York’s is much lower at 10.8%. Moreover, the amount Florida’s insured policyholders pay to subsidize uninsured motorists dwarfs the New York number (incurred UM losses of \$340 million vs. \$1.5 billion) (UM premium of \$35.77 vs \$199.28) Florida’s small residual market is actually a negative and shifts the costs to purchasers of UM coverage at a much higher rate than the ongoing assessment to subsidize the 40% inadequate rates. *See* AIPSO, Industry Data, Quarterly Residual Market Premiums, 04/18/2024; NAIC, Auto Insurance Database January 2023; Insurance Research Council, Uninsured Motorists, October 2023.

2. **New Jersey** had \$29 million in PPA residual market premium in its 2023 assigned risk plans, not including NJ SAIP. *AIPSO, Industry Data, Quarterly Residual Market Premiums, 04/18/2024.* SAIP is a medical only auto plan and is not comparable to other residual market plans.

The New Jersey assigned risk plan (PAIP) can include either a standard policy or the New Jersey “Basic Policy” which was established pursuant to (*NJSA 39:6A-3.1*). The Basic Policy is a low-cost alternative and offers limits below the statutory limit. The lower limits provide enough coverage

to meet the minimum insurance requirements for New Jersey law. The PAIP assessment in 2022 was \$2.1 million.

The New Jersey plan does not subsidize rates in the PAIP. Instead, to address affordability, the PAIP provides the “Basic Policy” which provides significantly lower coverage (e.g. no required BI liability and property damage minimum limits of \$5,000 vs the general \$25,000 minimum limits). The Basic Plan is significantly less expensive than the standard New Jersey insurance policy.

The NJ PAIP cannot provide insurance coverage for more than 10% of the aggregate number of private passenger automobile non-fleet exposures being written in the total private passenger automobile insurance.

3. **Massachusetts** had \$45 million in PPA residual market premium in its assigned risk plan. *See* AIPSO, Ranking of States by Residual and Total Market Premium, 8/4/2022. The statute which created the Massachusetts Automobile Insurance Plan (MAIP) (Mass. Gen. Laws c.175§ 113) provides that the Plan’s assigned risk rates may be disapproved if the Insurance Commissioner finds the rates to be “unfair or inconsistent with sound public policy.” This has allowed affordability to be considered in plan ratemaking. The Massachusetts regulations in turn allow insurers to include “residual market loads and fees” as expenses in rate proceedings. 21 CMR §79.00.

Assigned risks account for approximately .4% of the Massachusetts market and are approximately 22,000 policies. Drivers enter the program on a one-year policy with a guaranteed issue for three years. Those who have clean driving records for three years generally exit the plan after three years as they can be insured in the standard market.

The premium for assigned risk policies are set as the lesser of the insurers filed rate for that risk or the rate set by Commonwealth Automobile Reinsurers (CAR). To cover the cost of insuring the assigned risks, insurers include a portion as an overall expense in automobile rate filings. In 2019 we were advised by MAIP that this amounted to approximately \$15 per policyholder but up to date cost figures are not available.

These residual market costs are a general expense and do not appear as a separate item in premium billing or on the declaration page and policyholders are not advised of this charge. In addition, insurers are subject to an assessment to cover all the expenses and administrative costs of operating the MAIP.

4. **Rhode Island** had \$14 million in PPA residual market premium in its assigned risk plan. *See* AIPSO, Industry Data, Quarterly Residual Market Premiums, 4/18/2024. The statute which created the Rhode Island

Automobile Insurance Plan (RIAIP) (R.I. Gen. Laws §27-9-43) provides that the Plan's assigned risk rates must be approved by the Insurance Commissioner and may include "reasonable rate modifications" from standard ratemaking. Since at least 1979, approved rates have been subsidized and insurers have been permitted to increase rates to the voluntary market to cover the subsidy.

Currently, insurers in Rhode Island charge an extra \$6.24 per insured vehicle in their private passenger business. This amount is designed to offset the insurer's costs in the residual market. PAIP losses are pooled in Rhode Island and insurers are assessed for their portion of the losses and expenses. There is no guarantee that the \$6.24 will cover the losses but that is the intent.

The \$6.24 charge is treated as premium in the plan, resulting in rates that are artificially low and more affordable. The rates are typically 30% less than the indicated rates. Not counting this subsidy, the RIAIP, from 2019-2022, had a cumulative loss of \$26 million (net result of operation), on \$53 million in earned premiums. *See* AIPSO, Industry Data, Pooling Mechanism by State, Experience by Active Policy Yr. (Through 4th Q 2022). The subsidy offset this loss and allowed the RIAIP to continue to operate.

The subsidy charge is not listed on the premium bill.

5. **Pennsylvania** had \$1.3 million in PPA residual market premium in its assigned risk plan *See* AIPSO, Ranking of States by Residual and Total Market Premium, 8/1/2023. The statute which created the Pennsylvania Automobile Insurance Plan (PAIP) (75 Pa. C.S. §1742) does envision rates which are "adequate but not excessive". But the Insurance Commissioner has periodically capped the assigned risk rates and required insurers to add a flat surcharge to every insured vehicle to cover the shortfall. The current surcharge is \$1 per insured vehicle and is listed on the premium bill.
6. **California** had \$17 million in PPA residual market premium in 2023. California has two plans, one a relatively small (\$4.8 million) standard assigned risk plan and the California Low-Cost Auto Insurance Plan (CLCA) (\$12.4 million in premium). *See* AIPSO, Industry Data, Quarterly Residual Market Premiums, 04/18/2024.

The CLCA plan is a reduced coverage plan that is available only to people who have a good driving record. They also must meet income eligibility requirements. The plan covers \$10,000 for bodily injury or death per person and \$20,000 per accident and \$3,000 in property damage. It does not cover collision or comprehensive. The income limits are \$37,650 for an individual, \$51,000 for two persons, etc.

Requiring Fully Adequate Rates Would be Detrimental to Maryland Citizens

As noted above, states that charge fully adequate rates often basically insure no one in the residual market. While at first blush this may seem desirable, it would likely cause unintended consequences. First, there is a risk that a large number of Maryland Auto policyholders could not afford substantial premium increases occasioned by charging fully adequate rates and would become uninsured drivers. This is suggested by the fact that some of the states that have very few policies in the residual market have exceptionally high uninsured motorist rates. For example, Mississippi has a 22.2% rate of uninsured motorists and \$0 in PPA residual market premium and the District of Columbia has a 25.5% rate of uninsured motorists and only \$367,332 in PPA residual market premium. *See* AIPSO, Industry Data, Five Year Residual Market Written Premium, Private Passenger Total Liability and Physical Damage Written Premiums, 4/18/24; Insurance Research Council, Uninsured Motorists, October 2023. This same increase in the uninsured motorist population, when fully adequate rates are charged in the residual market, has also been the experience in Maryland. *See* Report of the Task Force, December 1984.

By contrast, states where a substantial number of drivers are insured through the State Plan have a comparatively low percentage of uninsured motorists, all below the country wide average of 14%. These include Massachusetts (8.8%); Pennsylvania (9.6%); New York (10.8%); and New Jersey (10.9%). *See* Insurance Research Council, Uninsured Motorists, October 2023; AIPSO, Industry Data, Five Year Residual Market Written Premium, Private Passenger Total Liability and Physical Damage Written Premiums, 7/26/2023.

Second, there is a risk that UM premiums and losses would increase if Maryland Auto's book of business would shrink in the wake of charging fully adequate rates. Many States with small residual markets have a disproportionate amount of uninsured motorist claims. In those states, insured drivers are subsidizing uninsured drivers through their UM policy. For example, Louisiana has \$163 million more UM claims losses than Maryland (\$370 million vs. \$189 million) which has a bigger population. This \$163 million goes into the UM loss ratio and ultimately increases rates charged to all policyholders in Louisiana that purchase UM coverage. *See* AIPSO, Industry Data, Quarterly Residual Market Premiums, 04/18/2024; NAIC, Auto Insurance Database, January 2023.

Both Maryland's UM losses (\$189 million) and Massachusetts (\$87 million) are much smaller than states with comparable sized populations including South Carolina (\$370 million); Colorado (\$474 million); Missouri (\$223 million) and Alabama (\$256 million). Also compare New York and Florida where the UM incurred bodily injury losses exceeded New York's total by more than \$1 billion. *See* AIPSO, Industry Data, Ranking of States by Residual and Total Market Premium, 8/4/2022; NAIC, Auto Insurance Database January 2023; United States Census 2020; AIPSO, Industry Data, Five Year Residual Market Written Premium, Private Passenger Total Liability and Physical Damage Written Premiums, 5/2/2023.

Large UM losses in a state translates into higher premiums paid by the insured drivers in that state. The 5 states with the largest residual markets (NC, MA, NY, NJ, MD) average \$39.64 in UM premiums while many states with very few drivers in the residual market have very high comparative rates for UM coverage, including \$214.49 (CO), \$199.28 (FL) and \$102.99 (DC). *See* AIPSO, Industry Data, Ranking of States by Residual and Total Market Premium, 8/4/2022; NAIC, Auto Insurance Database, January 2023. The insured drivers in those states were heavily subsidizing the uninsured through UM premiums.

2. MIA response

The MIA provided a comprehensive overview of other state mechanisms in the *MIA 2023 Joint Chairmen’s Report*.⁵ The relevant portion is reprinted here for convenience:

AIPSO develops and files premium rates for residual market plans in all states with a residual market mechanism other than Maryland, North Carolina, Massachusetts, and Texas. AIPSO provided information to the MIA about the rating methodology it used in those states.

As a general rule, the rates developed by AIPSO are intended to be adequate and are designed to allow the plan to be self-sustaining, but without a profit margin. AIPSO does not benchmark the rates to the voluntary market, and does not intentionally make the rates higher than the voluntary market. However, the residual market comprises poor risks with worse claims experience than the voluntary market, and rates are therefore generally higher relative to a pool that includes better drivers. Most insurance companies write policies for a wide variety of risks; residual market mechanisms are designed to include only a small subset of bad drivers.

Subject to state specific requirements, AIPSO’s actuarial approach to rate setting for residual market plans is based on the size of the state plan.

Plan Size	Actuarial Approach
Larger Sized State Plans	Prospective rating is based upon the plan’s experience, $(\text{losses} + \text{expenses})/\text{premium} = +/-$
Medium Sized State Plans	Base rate = Insurance Services Office, Inc. (ISO) ⁶ loss cost x loss cost multiplier

⁵ The *MIA 2023 Joint Chairmen’s Report* can be accessed at <https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Joint-Chairmens-Report-Maryland-Automobile-Insurance-Fund-and-the-Private-Insurance-Market.pdf>.

⁶ ISO is a provider of statistical, actuarial, and claims information and analytics to the insurance industry.

Small Sized State Plans	Plan rates are set as a relativity to ISO loss costs
-------------------------	--

While some states have adopted methods to reduce rates and address affordability for residual market plans, no state has adopted Maryland Auto’s approach and no state incorporates an affordability factor into to its rate setting.

New York, Pennsylvania, and Rhode Island have each adopted methods to reduce rates for their residual market mechanisms. New York has a formula, known as the “Stewart Formula,” developed by the Insurance Commissioner in 1970, to adjust for affordability. New York has a direct assignment residual market mechanism. The rate is developed to be more affordable as follows:

- AIPSO develops the regular assigned risk experience-based indication.
- AIPSO develops a voluntary market indication, but uses assigned risk premiums.
- Stewart Formula Indication is the straight average of these 2 indications.

Pennsylvania and Rhode Island have subsidized residual market rates by charging a flat dollar amount for every vehicle insured in the voluntary market, with the revenue from the fee being used to subsidize the residual market pool. Pennsylvania applies a surcharge of \$1 per vehicle; Rhode Island applies a surcharge of \$6.24 per vehicle. This additional revenue source helps to reduce the rates for the risk pools.

New Jersey, California, and Hawaii have specific programs to address auto premium costs for certain low-income drivers. These programs are not part of the state’s residual market plan and have separate eligibility requirements.

- New Jersey: New Jersey offers the Special Automobile Insurance Policy (SAIP).⁷ It is important to note that the SAIP does not provide liability, collision, or comprehensive coverage. The coverage is for emergency medical treatment immediately following an accident, and treatment of serious brain and spinal cord injuries up to \$250,000. It also provides a \$10,000 death benefit. Eligibility for the New Jersey SAIP is limited to people who are enrolled in federal Medicaid with hospitalization. The coverage costs \$360 if paid in advance for one year, or \$365 if paid in two installments.
- California: California’s Low Cost Auto Insurance (CLCA) program⁸ covers only new drivers and drivers with a good driving record who meet the financial limits. They must have a valid California driver’s license and own a vehicle valued at \$25,000 or less. The basic liability policy covers \$10,000

⁷ Information from the New Jersey Department of Banking and Insurance website: https://www.nj.gov/dobi/division_consumers/insurance/saip.htm.

⁸ Information from California’s Low Cost Auto Insurance website: <https://www.mylowcostauto.com/>.

bodily injury or death per person, \$20,000 bodily injury or death per accident, and \$3,000 property damage liability per accident. Consumers can add \$1,000 in medical payments coverage, and \$10,000 uninsured motorist bodily injury per person/\$20,000 uninsured motorist bodily injury per accident. Comprehensive and collision coverages are not available. The program is available to individuals whose annual gross household income does not exceed 250% of the federal poverty level.⁹ Drivers do not qualify if they have, within the previous three years, more than one of either a property damage only accident in which the driver was principally at fault or a point for a moving violation, an at-fault accident involving bodily injury or death. The driver may also not have a record of a misdemeanor or felony conviction for a violation of the Vehicle Code.

- Hawaii: Hawaii has a program for recipients of financial assistance payments or supplemental security income benefits.¹⁰ One vehicle per household is insured in the minimum limits program insurance without cost through the Hawaii Joint Underwriting Plan, although an additional vehicle may be eligible if needed for employment for transportation to a medical facility at least twice a month.¹¹

E. Advantages and disadvantages of including rate payers' credit reports to measure affordability

1. Maryland Auto response

Maryland Auto has never used credit to rate a policy. The use of credit is governed by statute. Insurance Article §27-501(e)(3) dictates the use of credit history for private passenger automobile insurance as follows:

An insurer may not

- refuse to underwrite, cancel, refuse to renew or increase the renewal premium or require a particular payment plan based in whole or in part, on the credit history of the insured or applicant;
- use credit history more than 5 years prior to the issuance of the new policy; or
- use the absence of credit history or number of credit inquiries as factors in rating a policy.

An insurer shall

⁹ California Insurance Code § 11629.73.

¹⁰ Hawaii Code R. § 17-654-3.

¹¹ Hawaii Code R. § 17-654-6.

- advise an applicant at the time of the application that credit history is used, and on request provide an applicant a quote that shows where credit history is used; and
- review the credit history of an insured who was adversely impacted by the use of credit in the carrier's initial rating every 2 years or at the request of an insured and shall adjust the premium of an insured whose credit history reflects improvement.

An insurer may

- use the credit history of an applicant to rate a new policy, provide a discount or impose a surcharge of up to 40%.

The *2004 MIA Report* stated:

- “The MIA has neither the data nor the information to reach a definitive conclusion regarding the impact of the use of credit scoring by insurers on low-income and minority populations.”
- “At this time, there is insufficient data to conclusively determine whether the use of credit scoring by insurers has an adverse impact on low-income or minority populations. This is due, in part, to the fact that insurers do not collect information regarding an applicant's race or income.”

The *2023 Consumer Federation of America Report*, which focused on the impact of the use of credit on the prices charged to Americans with safe driving histories, stated:

- “American consumers with clean driving records and excellent credit pay an average annual auto insurance premium of \$470 for state-mandated coverages. If those same consumers instead have fair credit, their average premium increases to \$701, even if their driving records are perfect. Good drivers with poor credit face even higher premiums, averaging \$1,012 for basic coverage across the country.”
- “In percentage terms, consumers with fair credit pay premiums that average 49% higher than the premiums paid by consumers with excellent credit. Consumers with poor credit pay 115% more than consumers with excellent credit and 44% more than those with fair credit.”
- “As credit impacts are generally uniform statewide but in-state territorial rates vary widely, often by ZIP Code or census tract, drivers with fair and poor credit in higher priced urban communities face minimum limits insurance premiums that are often more than a thousand dollars higher than their neighbors with excellent credit.”

The question is whether the use of credit could benefit Maryland Auto in terms of affordability. As set forth, the use of credit history for private passenger automobile insurance rate making is permissible under the circumstances set forth

in Insurance Article § 27-501(e)(3). However, Maryland Auto has never used credit to rate a policy. Since Maryland Auto has never used credit reporting as a rate making criteria, it lacks statistically sufficient data on its policyholders to reach a determination as to the advantages or disadvantages of including rate payer's credit reports. This is similar to the MIA's conclusion of its 2004 credit study when the MIA stated it had "neither the data nor the information to reach a definitive conclusion regarding the impact of the use of credit scoring by insurers on low-income and minority populations."

Despite insufficient information to state a definitive position on the advantages or disadvantages of including rate payers' credit reports to measure affordability, it seems logical to surmise that people with good credit ratings, given the potential for up to a 40% discount, are more likely to be insured by the standard market rather than the residual market.

2. MIA response

The MIA does not have any additional comments to those offered by Maryland Auto.

F. Affordability measures from elsewhere in insurance practice or otherwise that may fit the purpose of determining auto insurance affordability for the purpose of Maryland Auto rate setting

1. Maryland Auto response

In the health insurance arena, subsidies and credits are widely used to make health insurance policies more affordable. This ranges from the Medicare program to the Federal Affordable Care Act and to various state programs. The common theme is that the federal or state government provides subsidies or credits to insurers that provide discounted health insurance policies to individuals who meet income eligibility standards.

A State program of note is the Young Adult Health Insurance Subsidies Pilot Program operated by the Maryland Health Benefit Exchange Fund. This program was adopted in 2021 and was extended for two years in 2023, (Ch.777, 2021) (Ch.256, 2023). This program was designed to reduce the amount young adults pay for health benefits plans and was supported by the State Reinsurance Fund. Eligibility extended to young adults 18 - 41 years old whose income was between 133% and 400% of the federal poverty level. The State expected to pay up to \$20 million per year for the Young Adult subsidies.

A similar subsidy program could be developed to replace Maryland Auto's Affordability Index. It would apply state-wide and would be available to individuals or families that met appropriate income guidelines. The income levels, the amount of the subsidies and the funding source would have to be determined.

2. MIA response

One option to consider is changing the residual market eligibility criteria to include an affordability factor into the process used to certify that an applicant meets the eligibility requirements. As discussed in the *MIA 2023 Joint Chairmen's Report*,¹² some states require applicants to certify that they have tried and failed to obtain automobile insurance in the state within the preceding 60 days and have been unable to obtain such insurance at rates not exceeding those applicable under the state plan. Eighteen (18) states take this approach: Connecticut, Delaware, District of Columbia, Illinois, Iowa, Kentucky, Missouri, Nebraska, New Hampshire, New York, North Dakota, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Virginia, and West Virginia.

G. Proposed recommendations for modifying the affordability index and methodology used for Maryland Auto rate setting

1. Maryland Auto response

The recommendations listed below are dependent on factors of which Maryland Auto has limited or no information, including policy holder income and resources and how the various proposals would affect the assessments. If any of the proposals are seriously considered, Maryland Auto would suggest it be done on a pilot program basis. Maryland Auto would need to conduct a limited study on individual policyholder income levels. This would help stakeholders to better understand whether individualized income requirements are cost prohibitive (added work for producers) or operate as an obstacle to placing coverage (applicants unable to furnish income support). If the limited study is successful and does not operate as a barrier, this information would allow Maryland Auto and the MIA to work together to establish individualized income levels and potential annual adjustments.

1. Maryland Auto could apply affordability consideration based on median household income and expand the program to allow applicants in other ZIP Codes to offer proof of financial income supporting application of an affordability consideration. If an applicant's actual income is lower than the included ZIP Code MHI, the applicant's quote could be capped based on the Affordability Index even if they were not previously eligible due to the MHI in their ZIP Code ZIP Code.
2. Maryland Auto could, either by a statutory change or regulatory approval, replace the Affordability Index, (affordable rates only by ZIP Code), with across-the-board affordable rates for Maryland Auto insureds. This would be similar to New York and Rhode Island. The rates could be set at an

¹² The *MIA 2023 Joint Chairmen's Report* can be accessed at <https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Joint-Chairmens-Report-Maryland-Automobile-Insurance-Fund-and-the-Private-Insurance-Market.pdf>.

agreed upon level (e.g. 20% - 40% below fully adequate) and would be offered to all Maryland Auto insureds. This would avoid the issue of discrimination where a low-income person in a high-income ZIP Code does not receive the benefit of the Affordability Index. The assessment process would remain but be amended as discussed below.

In New York rates are 40% inadequate. In Rhode Island rates are 30% inadequate. In Maryland we believe that a combination of an annual assessment and 20% inadequate rates charged across-the-board, subject to unforeseen market conditions, would achieve a break-even position financially. An annual assessment of one half of one percent of statewide premium (\$5.7 billion) would generate a \$25 million assessment, which would easily enough offset substantial rate inadequacy.

3. The Legislature could establish a Maryland Auto subsidy program based on the applicant's household income. Individuals across the State would be eligible for reduced rates (e.g. 20% - 40% below adequate) based on a household income below a multiple of the Poverty index (see the reference to the Young Adult Health Insurance Subsidies Pilot Program above). The income standard would have to be established to collect and certify eligibility. The assessment could remain in place to cover the cost of the subsidy.
4. Similar to Recommendation 2, Maryland Auto could charge less than adequate but affordable rates. As is done in Rhode Island, insurers would charge their policyholders an extra annual fee of \$5.00 (the extra charge in Rhode Island is \$6.25 to cover) per policy or per insured vehicle and provide these funds to Maryland Auto to cover the shortfall. An across the board annual \$5.00 charge (\$2.50 on a 6-month policy) would generate approximately \$25 million annually (based on estimated 5 million registered vehicles). This could replace or supplement the current assessment statute.
5. Eliminating the two turndown requirements would expand Maryland Auto's customer base and spread its business across a wider spectrum of risks, with a mix of high-risk and good drivers. Maryland Auto would continue to be the guaranteed insurer but could also issue policies to anyone who applied. Removing the requirement to be declined by two insurers would place Maryland Auto in the same posture as IWIF, before the 2013 conversion to Chesapeake Employers Insurance Company. IWIF was created in 1914 to guarantee that Maryland Employers would be able to affordably purchase workers compensation insurance in the State. IWIF was insurer of last resort but was never limited to this role. IWIF, like Maryland Auto, was a unit of State government with a Governor appointed Board. IWIF however was permitted to insure any employer that applied for coverage and declinations by the private sector was not required. This allowed IWIF to insure more

than 20% of the market and keep rates affordable even for the residual market. It was extremely successful for decades and eventually converted into a private entity that is still the insurer of last resort. Insurance Article §24-307.

6. The Maryland Auto installment payment plan could be changed to provide more affordable down payments. This would expand the use of Maryland Auto installment plans and enhance affordability but would be a financial risk as the current down payment of 18% is now set to ensure that Maryland Auto has sufficient premium at the start of the policy.
7. The Affordability Index could be retained as the most reasonable approach to affordability. The other recommendations are all much more drastic changes to the system and would either increase the assessment or dilute the effect of the Affordability Index in the Baltimore metro area and a few other areas of the State that have the most extreme high base rate/low-income ratio.

As noted above, the basic concept of the Affordability Index is to consider not only the median household income but also the cost of insurance in that area. Maryland Auto's base rates vary widely around the State (\$866 base rate in Somerset County to \$2,831 in Baltimore City). As a result, an individual buying a minimal limit, liability only policy in Baltimore City pays \$2,000 more before driving records and other considerations like loss history are applied. So, for zip codes with similar household income the insurance is more affordable in Somerset County than in Baltimore City.

The main criticisms of the Affordability Index are (a) it is discriminatory in that it does not include all low-income individuals, and it may include higher income individuals that do not need the subsidy; and (b) it will cause an assessment. The discrimination complaint is accurate but is somewhat irrelevant. In many respects, it is similar to other insurance underwriting categories. Not all people with poor credit are poor drivers yet everyone who has poor credit gets surcharged by insurers that use credit. The same is true of residence, age and other characteristics. The fact that these characteristics are not universally true does not mean that they have no value.

The Affordability Index focuses on Baltimore, where some zip codes have median household incomes as low as \$31,000. The Zip Codes which are covered have an average median household income of \$64,632 while the nonimpacted zip code average is \$95,917. Clearly the Index is targeted at and reaches primarily lower-income drivers. The fact that everyone statewide is not covered does not diminish these basic facts.

The liability base rates are the starting point for rating all policyholders in the territory. Premiums for individuals are determined by factoring in an individual's driving, age, gender, marital status, the type and age of the

vehicle and other underwriting characteristics. The total policy premium is also determined by the other coverages that are purchased (collision, comprehensive etc.). The Affordability Index applies only to the liability base rates and therefore does not affect the cost of other coverages and does not affect the factors or % surcharges that apply based on the policyholder's driving record or other underwriting criteria.

In addition, the Affordability Index does not lower current rates but instead caps or limits liability base rate increases and is a very reasonable approach.

The second criticism is that the Affordability Index will cause an assessment. This is also accurate. However, the effect of abandoning affordability considerations in Maryland Auto rate making, as suggested by the MIA, would be significant. First, and most importantly, rates in Baltimore City, and a handful of other zip codes, would be raised drastically, in some cases by over 40%. Second, abandoning affordability would lead to inconsistency and uncertainty for those Maryland citizens unable to secure auto insurance in the standard market and may also lead to an increase in the uninsured population in Maryland.

The fact that an assessment is expected is not a reason to raise rates in Baltimore by 25% to 40%. Maryland has not had annual assessments, unlike most other states where annual assessments are common. Moreover, projected assessments will be relatively small when considering the size of the market. A \$20 million assessment would increase insurer costs by less than 1/3 of 1% of its Maryland premium (.003 assessment ratio), or \$3.00 for every \$1,000 in premium. If recouped from policyholders, a \$20 million assessment would translate into a \$4.50 charge (\$.38 additional on a monthly bill), where the annual premium is \$1,500; \$7.50 charge (\$.63 additional on a monthly bill), where the annual premium is \$2,500.

All things considered, it may be preferable to allow Maryland Auto to continue the Affordability Index rather than enact significant changes that would risk increasing the assessment, raising Baltimore City rates and creating additional uninsured motorists.

8. Maryland Auto should continue to work with and collaborate with the MIA to explore additional affordability concepts. This would have the potential to achieve consensus among regulators, the industry, producers and policyholders as to the appropriate level of rates to achieve relative affordability; the size and scope of necessary financial assistance to support affordability; and how best to fulfill the statutory mission of Maryland Auto. Success in this effort will depend in part on whether the MIA continues to assert that Maryland Auto is required to charge fully adequate rates, and that considering affordability is inappropriate if an assessment may occur.

The above recommendations all require financial support to Maryland Auto policyholders. The residual auto market for both PPA and CA in other states are supported by assessments. In addition, in direct assignment states, insurers are responsible for any losses on their risks. Assessments can be significant, including for Calendar Year 2022: Illinois (\$45 million); New York (29.5 million); New Jersey (\$62 million); Iowa (\$9 million); Louisiana (\$2.3 million); California (\$10.5 million); Ohio (\$20 million). Subsidy programs in other insurance often involve state funds but as pertaining to auto insurance, subsidy and assessment mechanisms are all a part of normal business for the standard auto insurance carriers operating within the state. In auto insurance, financial support is universally provided by assessments on the rest of the motor vehicle insurance market.

The assessment process in current law is adequate but should be amended in two respects. First, under current law when an assessment occurs, the amount of the assessment only brings Maryland Auto's surplus back to break even. There is an opportunity to amend the current assessment calculation to 125% of the operating loss or surplus insufficiency to provide for funding slightly greater than back to even. Additionally, legislation could be crafted to provide for a per-vehicle, per-policy charge, with a sunset provision, to provide additional funding beyond annual losses. These proposals would mitigate long term future additional assessments. It is difficult to get out of the hole under the current scheme which may not even return the surplus to the assessment trigger. A cushion above the trigger level for a few years would increase the chance of a full recovery.

Second, the line-item billing for the "Maryland Auto assessment" should be deleted. This causes unnecessary confusion. No other Maryland insurance assessment (MIA, Uninsured Employers Fund, Guaranty Funds, Subsequent Injury Fund, Workers Compensation Commission) allows a line-item bill for the assessment. Moreover, in all the PAIP states administered by AIPSO line-item billing is not permitted. Assessment in all these areas is treated as an expense for operating in the State and the same should be true with a Maryland Auto assessment.

2. MIA response

Maryland Auto has taken the position that because the Commissioner may consider Maryland Auto's purpose when reviewing Maryland Auto's rates, affordability should therefore be considered during rate review in addition to the statutory requirement that rates may not be excessive, inadequate or unfairly discriminatory. The MIA agrees that affordability should be considered by Maryland Auto and the MIA when setting rates, but not at the expense of allowing inadequate or unfairly discriminatory rates. Therefore, the MIA recommends that Maryland Auto should be removed from the file and use/competitive rating framework and be subject to Title 11, subtitle 2 of the Insurance Article instead of Title 11, subtitle 3.

As discussed above, the Affordability Index as currently used creates rates where some applicants are eligible for lower rates, not based on their financial needs, but on the location in which they live. Since Maryland Auto's statutory mandate is to insure high risk consumers for whom coverage is unavailable in the private insurance market (the "high risk pool"), general subsidies seem inappropriate. However, needs-based subsidies, subject to the availability of Funds, may be appropriate.

Given that the Affordability Index is not actuarially justified, the MIA recommends that other means be used to consider affordability. Some options are outlined in Maryland Auto's response above. Another option to consider is changing the eligibility requirements so that individuals may apply to Maryland Auto if they have attempted in good faith to obtain a policy that provides the security required under § 17-103 of the Transportation Article from at least two Association members within 60 days prior to the date of the person's application to Maryland Auto and have been unable to obtain a policy from such an association member at rates not exceeding the rates for such insurance under a policy issued by Maryland Auto. As discussed above, eighteen states take this approach.

Finally, the General Assembly may want to consider the financing and installment requirements of Maryland Auto. Premium financing plans may appeal to Maryland Auto policyholders because they generally require a smaller down payment than Maryland Auto's installment plan. However, premium financing plans make Maryland Auto policies less affordable in the long run (once the finance charge is included). A higher percentage of Maryland Auto policyholders use premium financing plans, as compared to those insured through the private market. Maryland Auto policies financed through premium financing plans are more likely to be canceled for nonpayment than those financed through Maryland Auto's installment plan.¹³ One possible legislative intervention would be to prohibit premium financing for a Maryland Auto insured unless the insured is provided with a document that compares the Maryland Auto installment plan with the premium financing plan, and elects in writing to reject the installment option and to finance the premium. Additionally, the General Assembly could require Maryland Auto to evaluate its installment plan on an annual basis to assess the size of the down-payment, installments, and fees in consideration of Maryland Auto's surplus and to reduce the down-payment and extend installments.

The MIA is available to discuss any of the recommendations presented above with Maryland Auto and interested legislators in greater detail.

¹³ For additional information about the adverse impact that premium financing has on the affordability of Maryland Auto policies, see the *MIA 2023 Joint Chairmen's Report* at 19-24: <https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Joint-Chairmens-Report-Maryland-Automobile-Insurance-Fund-and-the-Private-Insurance-Market.pdf>.

III. APPENDICES

Appendix A. Application of Affordability Index Example
(Aug 2024 Filing)

Appendix B. Application of Affordability Index by Zip Code
(Aug 2024 Filing)

Application of Affordability Index Example (based on 8-25-2024 Rate Filing)

Liability GRA	Zip Code from Census Rept	Median Household Income 2022 Estimate from Census Report	I. GRA Proposed Base Rates				II. Affordability Threshold Rates					III. Current Base Rates Current Liability Total Rate incl. Exp Fee of \$138	IV. Current Base Rates (reduced by impact of Fixed Fee Change)				V. Zip-Code Proposed Base Rates (Limited by Affordability Threshold#)				VI. Base Rate Change			
			GRA BI Prop Base Rate	GRA PD Prop Base Rate	GRA UM Prop Base Rate	GRA EL Prop Base Rate	Affordability Threshold Max Rate (incl. fixed fees)*	BI Max Base Rate ⁽¹⁾	PD Max Base Rate ⁽¹⁾	UM Max Base Rate ⁽¹⁾	EL Max Base Rate ⁽¹⁾		BI Curr Base Rate	PD Curr Base Rate	UM Curr Base Rate	EL Curr Base Rate	BI Prop Base Rate#	PD Prop Base Rate#	UM Prop Base Rate#	EL Prop Base Rate#	BI Base Rate Change	PD Base Rate Change	UM Base Rate Change	EL Base Rate Change
			100	21217	\$36,665	\$1,198	\$870	\$498	\$793	\$1,025	\$291		\$210	\$131	\$213	\$2,965	\$958	\$695	\$426	\$712	\$958	\$695	\$426	\$712
105	21208 /	\$89,702	\$885	\$743	\$288	\$524	\$2,509	\$842	\$701	\$298	\$488	\$2,139	\$707	\$594	\$244	\$419	\$842	\$701	\$288	\$488	+16%	+16%	+13%	+16%
105	21233 O	-\$1	\$885	\$743	\$288	\$524	N/A	N/A	N/A	N/A	N/A	\$2,139	\$707	\$594	\$244	\$419	\$885	\$743	\$288	\$524	+22%	+23%	+13%	+25%
110	21216	\$46,761	\$1,212	\$870	\$528	\$891	\$1,308	\$392	\$280	\$172	\$284	\$2,969	\$967	\$695	\$419	\$712	\$967	\$695	\$419	\$712	-2%	-1%	-3%	+0%
110	21223	\$35,541	\$1,212	\$870	\$528	\$891	\$994	\$283	\$202	\$124	\$205	\$2,969	\$967	\$695	\$419	\$712	\$967	\$695	\$419	\$712	-2%	-1%	-3%	+0%
110	21230	\$95,470	\$1,212	\$870	\$528	\$891	\$2,670	\$867	\$618	\$379	\$626	\$2,969	\$967	\$695	\$419	\$712	\$967	\$695	\$419	\$712	-2%	-1%	-3%	+0%
115	21207 /	\$59,822	\$955	\$734	\$347	\$565	\$1,673	\$552	\$420	\$202	\$319	\$2,251	\$764	\$587	\$274	\$452	\$764	\$587	\$274	\$452	-2%	-1%	-4%	+0%
115	21285	-\$1	\$955	\$734	\$347	\$565	N/A	N/A	N/A	N/A	N/A	\$2,251	\$764	\$587	\$274	\$452	\$955	\$734	\$347	\$565	+22%	+23%	+21%	+25%
115	21286	\$92,722	\$955	\$734	\$347	\$565	\$2,593	\$891	\$679	\$327	\$516	\$2,251	\$764	\$587	\$274	\$452	\$891	\$679	\$327	\$516	+14%	+14%	+14%	+14%
120	21153	-\$1	\$798	\$782	\$288	\$445	N/A	N/A	N/A	N/A	N/A	\$2,051	\$639	\$625	\$227	\$386	\$798	\$782	\$288	\$445	+22%	+24%	+21%	+15%
120	21225 /	\$49,171	\$798	\$782	\$288	\$445	\$1,375	\$410	\$395	\$149	\$241	\$2,051	\$639	\$625	\$227	\$386	\$639	\$625	\$227	\$386	-2%	-1%	-5%	+0%
120	21226 /	\$71,500	\$798	\$782	\$288	\$445	\$2,000	\$624	\$602	\$227	\$367	\$2,051	\$639	\$625	\$227	\$386	\$639	\$625	\$227	\$386	-2%	-1%	-5%	+0%
120	21228 /	\$102,592	\$798	\$782	\$288	\$445	\$2,869	\$920	\$890	\$336	\$543	\$2,051	\$639	\$625	\$227	\$386	\$798	\$782	\$288	\$445	+22%	+24%	+21%	+15%
120	21244	\$80,335	\$798	\$782	\$288	\$445	\$2,247	\$708	\$684	\$258	\$417	\$2,051	\$639	\$625	\$227	\$386	\$708	\$684	\$258	\$417	+8%	+8%	+8%	+8%
120	21250	-\$1	\$798	\$782	\$288	\$445	N/A	N/A	N/A	N/A	N/A	\$2,051	\$639	\$625	\$227	\$386	\$798	\$782	\$288	\$445	+22%	+24%	+21%	+15%
120	21252	-\$1	\$798	\$782	\$288	\$445	N/A	N/A	N/A	N/A	N/A	\$2,051	\$639	\$625	\$227	\$386	\$798	\$782	\$288	\$445	+22%	+24%	+21%	+15%
125	21060	\$95,596	\$758	\$718	\$263	\$349	\$2,673	\$880	\$823	\$336	\$454	\$1,902	\$608	\$574	\$227	\$321	\$758	\$718	\$263	\$349	+22%	+23%	+11%	+9%
125	21090	\$118,048	\$758	\$718	\$263	\$349	\$3,301	\$1,102	\$1,030	\$421	\$568	\$1,902	\$608	\$574	\$227	\$321	\$758	\$718	\$263	\$349	+22%	+23%	+11%	+9%
125	21128	\$122,021	\$758	\$718	\$263	\$349	\$3,412	\$1,142	\$1,066	\$436	\$588	\$1,902	\$608	\$574	\$227	\$321	\$758	\$718	\$263	\$349	+22%	+23%	+11%	+9%
125	21204	\$92,734	\$758	\$718	\$263	\$349	\$2,593	\$852	\$796	\$326	\$439	\$1,902	\$608	\$574	\$227	\$321	\$758	\$718	\$263	\$349	+22%	+23%	+11%	+9%
125	21219	\$116,000	\$758	\$718	\$263	\$349	\$3,244	\$1,082	\$1,011	\$413	\$558	\$1,902	\$608	\$574	\$227	\$321	\$758	\$718	\$263	\$349	+22%	+23%	+11%	+9%
125	21222 /	\$60,483	\$758	\$718	\$263	\$349	\$1,691	\$533	\$499	\$204	\$275	\$1,902	\$608	\$574	\$227	\$321	\$608	\$574	\$227	\$321	-2%	-1%	-5%	+0%
125	21227 /	\$78,626	\$758	\$718	\$263	\$349	\$2,199	\$714	\$666	\$272	\$367	\$1,902	\$608	\$574	\$227	\$321	\$714	\$666	\$263	\$349	+15%	+14%	+11%	+9%
125	21240 O	-\$1	\$758	\$718	\$263	\$349	N/A	N/A	N/A	N/A	N/A	\$1,902	\$608	\$574	\$227	\$321	\$758	\$718	\$263	\$349	+22%	+23%	+11%	+9%
130	21224 /	\$86,443	\$765	\$645	\$266	\$338	\$2,417	\$780	\$722	\$328	\$407	\$1,939	\$613	\$574	\$253	\$328	\$765	\$645	\$266	\$338	+22%	+11%	+1%	+3%

*Affordability Threshold Max rate = 3.3%xMHI div Avg Class Factor of 1.18; if no MHI provided in Census Rept, use proposed GRA rates

#Proposed for Zip-CodeRate = GRA Proposed Base Rate unless greater than Affordability Max Base Rate, then use the Higher of the Affordability Max Base Rate or the Current Base Rate reduced by fixed fee change

(1) Max Base Rate = Total Affordability Rate less \$180 Fixed Fees allocated to Covg using ratio of Curr Covg Base Rate to Curr Total Base Rate

Application of Affordability Index by ZIP Code (based on 8-25-2024 Rate Filing)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Liability GRA	Zip Code from Census Rept	City from Census Report	Median Household Income 2022 Estimate from Census Report	Impacted by Application of Affordab. Index?	Policy Count (Dec-2023 Inforce)	Selected Base Rate Change (Base Rate +Fixed Fee Change approx. 0% if Curr Base Rate > Max Base Rate)	Estimated Impact of Affordab. Index on Base Rate
100	21217	Baltimore	\$36,665	Yes	159	-1%	-22%
105	21208	Baltimore; Garrison; Lochearn; Milford Mill; Owings Mills; Pikesville; Randallstown	\$89,702	Yes	133	+16%	-6%
110	21216	Baltimore	\$46,761	Yes	174	-2%	-25%
110	21223	Baltimore	\$35,541	Yes	123	-2%	-25%
110	21230	Baltimore	\$95,470	Yes	70	-2%	-25%
115	21207	Baltimore; Lochearn; Woodlawn	\$59,822	Yes	419	-2%	-25%
115	21286	Hampton; Parkville; Towson	\$92,722	Yes	45	+14%	-9%
120	21225	Baltimore; Brooklyn Park	\$49,171	Yes	293	-2%	-24%
120	21226	Baltimore; Brooklyn Park; Glen Burnie; Pasadena; Riviera Beach	\$71,500	Yes	29	-2%	-24%
120	21244	Milford Mill; Randallstown; Woodlawn	\$80,335	Yes	375	+8%	-14%
125	21222	Baltimore; Dundalk; Edgemere	\$60,483	Yes	415	-2%	-22%
125	21227	Arbutus; Baltimore; Baltimore Highlands; Catonsville; Lansdowne	\$78,626	Yes	195	+14%	-6%
135	21221	Essex; Middle River; Rosedale	\$68,140	Yes	295	-2%	-23%
135	21237	Baltimore; Middle River; Perry Hall; Rosedale; Rossville; White Marsh	\$84,118	Yes	150	+9%	-12%
140	21201	Baltimore	\$42,324	Yes	54	-2%	-23%
140	21202	Baltimore	\$59,098	Yes	67	-2%	-23%
140	21212	Baltimore; Towson	\$94,014	Yes	76	-2%	-23%
140	21213	Baltimore	\$47,870	Yes	258	-2%	-23%
140	21215	Baltimore; Lochearn; Pikesville	\$49,523	Yes	325	-2%	-23%
140	21218	Baltimore	\$58,847	Yes	185	-2%	-23%
140	21229	Arbutus; Baltimore; Catonsville; Woodlawn	\$52,692	Yes	233	-2%	-23%
145	21205	Baltimore	\$38,211	Yes	130	-2%	-24%
145	21206	Baltimore; Overlea; Rosedale	\$61,572	Yes	356	-2%	-24%
145	21209	Baltimore; Pikesville; Towson	\$89,398	Yes	28	-2%	-24%
145	21211	Baltimore	\$79,909	Yes	15	-2%	-24%
145	21214	Baltimore	\$77,398	Yes	79	-2%	-24%
145	21231	Baltimore	\$88,091	Yes	28	-2%	-24%
145	21239	Baltimore; Towson	\$62,547	Yes	145	-2%	-24%
150	21234	Baltimore; Carney; Hampton; Overlea; Parkville; Perry Hall	\$80,692	Yes	222	+4%	-19%
150	21236	Baltimore; Carney; Overlea; Perry Hall; Rossville; White Marsh	\$91,855	Yes	95	+19%	-4%
205	21133	Milford Mill; Randallstown	\$83,305	Yes	270	+12%	-10%
240	21220	Bowleys Quarters; Middle River; Rossville	\$77,571	Yes	264	+16%	-2%
300	21821	Chance; Dames Quarter; Deal Island	\$42,250	Yes	3	+14%	-1%
300	21822	Allen; Eden; Fruitland	\$42,346	Yes	21	+14%	-1%
300	21835	Linkwood	\$34,659	Yes	2	-4%	-19%

Application of Affordability Index to Liability Base Rates (based on 8-25-2024 Rate Filing)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Liability GRA	Zip Code from Census Rept	City from Census Report	Median Household Income 2022 Estimate from Census Report	Impacted by Application of Affordab. Index?	Policy Count (Dec-2023 Inforce)	Selected Base Rate Change (Base Rate +Fixed Fee Change approx. 0% if Curr Base Rate > Max Base Rate)	Estimated Impact of Affordab. Index on Base Rate
415	20626	<i>Coltons Point</i>	\$56,806	Yes	0	+2%	-17%
415	20670	<i>Patuxent River</i>	\$53,125	Yes	0	-2%	-21%
500	21502	Bel Air; Bier; Bowling Green; Bowmans Addition; Corriganville; Cresaptown; Cumberland; La Vale;	\$56,958	Yes	21	+12%	-5%
500	21521	Barton; Moscow	\$59,792	Yes	0	+16%	-1%
500	21530	Flintstone	\$57,115	Yes	1	+12%	-5%
500	21531	Friendsville	\$56,250	Yes	1	+11%	-6%
500	21532	Carlos; Clarysville; Eckhart Mines; Finzel; Frostburg; Gilmore; Grahamtown; Klondike;	\$55,761	Yes	7	+10%	-7%
500	21539	Detmold; Gilmore; Lonaconing; Nikep	\$57,143	Yes	0	+12%	-5%
500	21541	<i>McHenry</i>	\$58,519	Yes	0	+14%	-3%
500	21545	Barrelville; Mount Savage	\$58,250	Yes	0	+14%	-3%
500	21555	Oldtown	\$47,917	Yes	0	-3%	-20%
500	21557	Bier; Danville; Dawson; McCoolle; Rawlings	\$40,625	Yes	0	-3%	-20%
500	21562	Franklin; McCoolle; Westernport	\$57,693	Yes	0	+13%	-4%
500	21740	Bagtown; Beaver Creek; Cearfoss; Fairview; Funkstown; Hagerstown; Halfway; Kemps Mill;	\$57,150	Yes	137	+12%	-5%
510	21750	Hancock; Pecktonville	\$50,833	Yes	2	+10%	-9%
510	21766	Little Orleans	\$55,592	Yes	0	+19%	0%
510	21767	Maugansville	\$44,531	Yes	1	-3%	-22%
850	21061	Ferndale; Glen Burnie; Linthicum; Severn	\$79,778	Yes	233	+16%	-5%
910	20710	Bladensburg; Edmonston	\$58,884	Yes	289	+5%	-8%
910	20712	Brentwood; Chillum; Mount Rainier	\$64,674	Yes	179	+11%	-2%
ST	State		\$91,373		35,461	+12%	-4%
TOTAL FOR 55 IMPACTED ZIP-CODES ABOVE			\$64,632	Yes	6,602	+3%	-17%

(3) added city description in italics if blank on Census Rept

(5) 3.3% Affordability Index Applied by Zip-code

(7) Base rate decreases offset by higher Fixed Fees

Number of Zip-codes ⁽²⁾	% of Zip-codes Impacted	Zip-code Impacted?	Average Median Household Income*	% of Policies Impacted	Total Number of Policies#	Selected Base Rate Change (Wtd Avg**)	Impact of Affordability Index on Base Rate**
55	12%	Yes	\$64,632	19%	6,602	+3%	-17%
422	88%	No	\$95,917	81%	28,859	+15%	+0%
477	100%	Total	\$91,373	100%	35,461	+12%	-4%

*does not include Zip-codes with invalid MHI from Census Rept, Wtd w/ 5 yrs of MAI Expos

#MAI 12-31-2023 Inforce Policy Counts

**Weighted w/ MAI Pol Cts by zip-code