Auto Affordability in Maryland

Options and Potential Alternatives

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Affordability Index: Purpose and Types

Purpose: An affordability index measures how likely it is that an average individual can afford to purchase a particular item in an existing economy

Types:

1. **Region to Region-compares the price of a good in one region to the same or comparable good in another region**

1. **Personal income-measures the price of a good against some baseline of personal income.**

Affordability Measures in Housing & Health

Housing

1. 30% of income for housing
+ simple, easy to use
- rigid, does not reflect variety of typologies
1. Residual income- income left for housing after other expenses.
+ more varied

- more complicated

1. Disposable income-how much of income goes to all monthly debt obligations including housing. Add total debt/by income

Health

Affordable coverage under ACA

For health insurance, a plan is considered affordable if the cost of the least expensive option is less than a specific percentage of a household's income. For the 2025 plan year, this is 9.02%

2017 Federal Insurance Office (FIO) Study

Affordability Index- ratio of average annual personal auto liability premiums in the voluntary market to median household income

Affordability Threshold-2% threshold, considering auto insurance "unaffordable" in zip codes where the Affordability Index exceeded 2%. The 2% was benchmarked against the national average, where households typically spent about 1.8% of their income on auto insurance

Findings: 10 zipcodes in Baltimore City exceeded the Affordability Index. 12.4% of Maryland population and 334,269 population.

Maryland Auto Affordability Index

- 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.

FIO January 2025 Study

- Between 2015-2022 premium rates increased, loss severity increased, loss frequency decreased.
- Updated study includes three affordability measures 1.5%, 2%, and 3% for more granular analysis.
- Study also looks at use of non-driving factors in separate section. Note on underwriting.

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FIO Premium to Income Ratios, Maryland 2022

Total # of AP zipcodes-162, 34% of all state zipcodes, 52.6% of state population

PIR >1.5-543,135 population, 16.8% state pop
PIR>2-196,272 population, 6.1 % of state pop
PIR>3-67,046 population, 2.1 % of state pop

Bottom line

Up to 16.8 % of state population experience rates for a product required by law that are considered unaffordable.

mer Price Index for All Urban Consumers (CPI-U)

Id: CUUR0000SETE
asonally Adjusted
Title: Motor vehicle insurance in U.S. city average, all urban consumers, not seasonally adjusted
U.S. city average
Motor vehicle insurance
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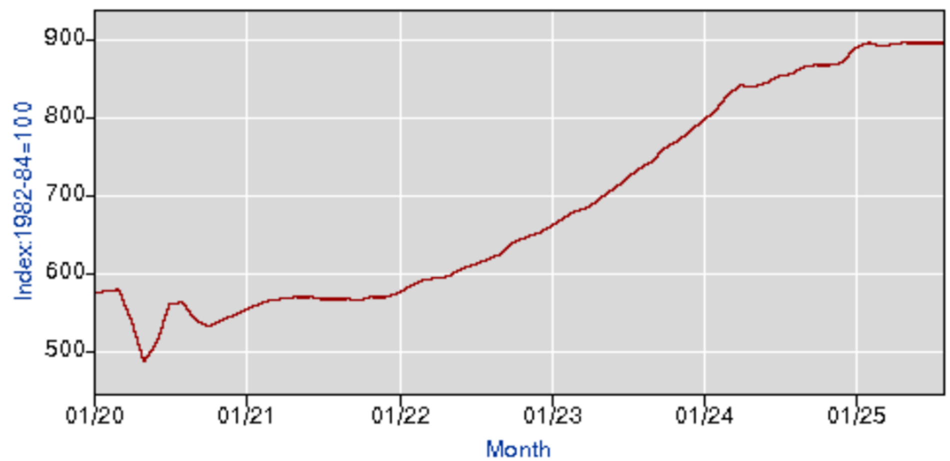

Auto Insurance increases 2020-2025

Need for State Action

Insurance CEO Compensation

Company	Title(s)	2023 Compensation	2024 Compensation	2024 Auto Insurance Rate Increase	2024 Homeowners Rate Increase
Allstate	Chairman, Chief Executive Officer, and President	$16,516,626	$26,147,258	12.2%	10.4%
American Family	Chair and Chief Executive Officer	$4,094,460	$8,422,016		16.9%
Berkshire Hathaway (GEICO)	Chief Executive Officer	$10,000,000	$15,000,000	3.7%	
Farmers	Chief Executive Officer	$3,352,972	$5,100,068	9.8%	11.9%
Liberty Mutual	Chairman, Chief Executive Officer, and President	$10,346,284	$10,240,997	9.9%	16.6%
Nationwide	Chief Executive Officer	$11,362,300	$15,845,201		12.7%
Progressive	Chief Executive Officer and President	$15,636,618	$16,377,514	2.9%	15.5%
State Farm	Chief Executive Officer and President	$3,578,361	$4,412,867	8.0%	10.9%
Travelers	Chairman and Chief Executive Officer	$22,730,072	$23,059,498	7.4%	8.8%
USAA	Chief Executive Officer and President	$8,118,816	$9,610,174	2.6%	4.2%
Totals		**$105,736,509**	**$134,215,593**	**7.7%**	**11.2%**

Other State Approaches

New York-"Stewart Formula" blended rate, currently 40% subsidy funded by assessment on insurers writing in private market-currently $29.5 million-passed onto consumers. Low UM, low premium.

MA-MAIP-commissioner can disapprove rates, assigned risk enter program one year with 3 guaranteed. $15 per policyholder supports costs of covering this pool of drivers.Insurers subject to an assessment to cover administrative costs of MAIP.

CA -Low Cost Auto Insurance Program. Discussed previously. Reduces minimum liability coverage for eligible drivers.

Recommendations-Administrative & Legislative Approaches

Increase Transparency & Oversight

1. Make rate filings and supporting materials available to the public, including weight of ratings factors
2. Shift from 'file and use' to prior approval process requiring insurers to disclose & justify claims costs and administrative expenses.
3. Empower MIA Commissioner to disapprove rates if they are unfair or inconsistent with sound public policy (see Mass. Gen. Laws c.175§ 113))

Recommendations-Administrative & Legislative Approaches

Lower rates for all drivers, rein in excess

Pass new rule (legislation) modeled on California rule for excluded expenses that creates formula for acceptable and excluded corporate compensation. Any salaries above the "acceptable max" cannot be passed on to drivers. Certain advertising costs cannot be passed on to policyholders. Similar to Maryland's recently passed Ratepayer Freedom Act but for insurance. Saves CA drivers millions each year.

("Excluded Expenses" 10 CCR §2644.10),

Recommendations-Administrative & Legislative Approaches

Lower Rates for Drivers in FIO Study

1. Determine scope-focus on >3, >2, or >1.5 or all
2. Start annual assessment process for insurers like every other state does to create pool for subsidies.
3. Pilot California or New York approaches in Baltimore City, Prince Georges for 2-3 years.
4. Assess efficacy of program.
5. If successful, expand program statewide.

Eliminate Use of Credit

1. Use of credit has the highest surcharge if someone has moderate or poor credit.
2. Use of credit has no causal relationship to driving-related losses.
3. Use of credit can be tied to medical debt, is error prone and more.

Develop 'balancing threshold' to address disparate impact

Building on DC DISB study, develop a balancing threshold for when a factor may meet actuarial standards but have a disparate, discriminatory effect even though facially neutral.