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**MIA BULLETIN 05-7**

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

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

DATE: May 19, 2005

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Preparing for the Audit***

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

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

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

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

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Alfred W. Redmer, Jr.  
Insurance Commissioner

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

**SUMMARY INFORMATION**

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

For the amount on line 8:

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

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

**SUMMARY INFORMATION**

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**ATTACHED SCHEDULES**

Schedule A: Summary by Classification and Geographical Territory.

Schedule B: Providers Electing to Not Receive State Subsidies.

Schedule C: State Subsidy Computation Examples.

**CERTIFICATION**

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

(SEAL)      Signed: \_\_\_\_\_

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

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



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

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

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

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

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

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

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

**Components of Premium**

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

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

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

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

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

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

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

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

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

