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TESTIMONY IN SUPPORT OF HB0876 (2021)
MARYLAND UNINSURED EMPLOYERS' FUND

Bill Number – HB0876 (2021)

Submitted by – State of Maryland Uninsured Employers' Fund
Michael W. Burns, Director

Position – FAVORABLE

Hearing Date - February 16, 2021

The Maryland Uninsured Employers' Fund (UEF) appears today in support of HB0876 – "Uninsured Employers' Fund and Subsequent Injury Fund – Amount of Assessment on Awards and Settlements – Sunset Extension." This legislation extends for a period of one year a temporary change in the assessment amounts charged by the Uninsured Employers' Fund (UEF or agency) and the Subsequent Injury Fund (SIF) which was enacted by the Legislature in SB0008 in 2020.

In 2020 the Legislature enacted legislation which temporarily reduced the percentage of the assessments that the Subsequent Injury Fund receives from the Workers Compensation Commission (WCC) on certain awards and settlements from the current 6 1/2% to 5 1/2% and increase the percentage of assessments that the Uninsured Employers' Fund receives from certain awards and settlements from 1% to 2% for a period of one year (SB0008, 2020). Each 1% of the assessment is estimated to raise \$4,000,000 for both the UEF and the SIF in any given year. The legislature scheduled the legislation to sunset on June 30, 2021 and the assessments of both the SIF and the UEF to revert to the level present before the 2020 legislation effective July 1, 2021.

HB0876 will extend the current assessment increase due to sunset on June 30, 2021 for one year – until June 30, 2022. On July 1, 2022 the legislation will sunset by operation of law

and the SIF and UEF assessments will then automatically revert to the pre-2020 legislation levels described above.

The UEF is a statutory agency created to protect Maryland workers who are injured on the job (from an accidental injury and occupational disease). The purpose of the agency is to provide workers' compensation medical and support benefits when an uninsured employer fails to provide the benefits awarded by the WCC or in cases where a self-insured employer becomes insolvent.

The UEF is a special fund, which means that is funded by fines levied by the WCC against uninsured employers and assessments imposed on most awards of permanent disability indemnity benefits. The agency also receives reimbursements from uninsured employers for expenditures made to claimants. Uninsured employers often refuse to reimburse the agency for these expenditures requiring the agency to track them down and initiate legal proceedings to force them to obey the law. The agency's obligation to provide benefits and/or compensation is generally triggered when an uninsured employer defaults on an award issued by the WCC.

The agency is 100% self-funded.

An "Unpaid Loss Analysis as of June 30, 2020" (Loss Study) dated December 8, 2020 (see attached) prepared for the UEF indicates that revenue projections and expenditures prepared for future years indicate an ongoing shrinking of the fund balance until the balance turns from a positive figure to a negative one in the next decade.

The Loss Study examined the projected balance of the Fund going forward with and without the one-year extension proposed in HB0876. The Loss Study found that without the proposed one-year extension of the assessment increase the UEF balance would go negative in 2030, with a balance of negative \$2.548 million in that year. (Loss Study, App. A, Exhibit 1 Sheet 1). The Loss Study also determined that with the one-year increase in the assessment proposed in this legislation the UEF would remain positive into the 2030's, with the Fund balance being an estimated \$3.110 million in 2030 (Loss Study, App. 1, Exhibit 1 Sheet 2). The infusion of an additional amount of funding as provided for under this legislation results, therefore, in a total increase of the balance of the Fund of \$5.658 million in 2030.

The Covid-19 pandemic and resulting affects have impacted the Fund substantially. In spite of the 1% increase in the assessment for fiscal 2021, which in normal times would have resulted in a yearly increase of approximately \$4 million in the revenue received by the UEF from the increased assessment, the UEF assessment amount actually received half-way through Fiscal 2021 is actually down by approximately \$1.1 million. This is a direct result of the ramifications of the Covid-19 pandemic and resulting effects on the economy, workers compensation claims and society. It evidences a severe shock to the UEF and its ongoing financial stability due to Covid-19. Failure to address the impact of Covid-19 on the agency will result, without any doubt, in the Fund going negative at some point in the years ahead, certainly well before the 2030 date projected in the Loss Study.

In light of the reasons for the assessment increase previously found by the Legislature in 2020 and the completely unexpected and increasingly substantial disruptions and negative impact to the UEF balance as a result of the Covid-19 outbreak and resulting closures, HB0876 is a wise, prudent and necessary measure designed to ensure the ongoing stability of the UEF without increasing costs for relevant insurers. It will also not be an undue burden on the SIF, whose Fund balance remains robust:

January 2021	\$106,575,528
June 2020	\$106,839,693
January 2020	\$104,804,011
September 2019	\$102,792,314

The UEF balance as of December, 2020 was \$6,500,636.93.

The proposed change of the sunset provision will only be effective for one year – the results which were sought for the current legislative session but have been disrupted by the Covid-19 pandemic will then be available for review and evaluation during next year’s session of the Legislature. The financial situation of the agency will be clearer and the way forward more defined. This proposed legislation effectuates the decision of the legislature last year to provide needed financial support to the UEF and the Covid-19 pandemic’s disruptive effects make it a necessary, prudent and conservative way to support the agency and insure its ongoing stability. Acting now will provide years of stability for the Fund in the future for a modest investment today.

The agency respectfully requests the Committee members for a favorable vote on HB0876 and sincerely thanks the Committee for this opportunity to appear today before the Committee and testify.

Thank you.

Respectfully submitted,

Michael W. Burns

Michael W. Burns, Esq.
Director

Encl.