COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF ENVIRONMENTAL PROTECTION
BUREAU OF MINING AND RECLAMATION
MINE SUBSIDENCE INSURANCE PROGRAM

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DISTRIBUTION OF MINE SUBSIDENCE INSURANCE SURPLUS FUNDS EFFORTS AND COSTS ANALYSIS

Section 10(c) of the Act of August 23, 1961 (P. L. 1068 No. 484), *as amended*, 52 P.S. §§ 3201-3226 (act) provides the Mine Subsidence Insurance (MSI) Board (Board) with the authority to declare that there are reserves within the MSI Fund (Fund) that are in excess of those needed to finance the Fund's operations and that a portion or all of those funds, which would be considered surplus, may be distributed to subscribers to the Fund. The act prescribes exactly how surplus is to be distributed to subscribers, as follows: "distributed among the subscribers in proportion to the premiums paid by them and the proportionate share of such subscribers as shall remain subscribers to the fund shall be credited to the installment of premiums next due by them and the proportionate share of such subscribers as shall have ceased to be subscribers in the fund shall also be refunded to them out of the fund in the manner hereinafter provided."

An analysis of the efforts and costs needed to revise MSI's database operations to support the distribution of surplus funds was conducted by MSI program management and managers from the Department of Environmental Protection's (DEP) Bureau Information Technology (IT). Based upon that analysis, system revisions to implement the distribution of surplus would take approximately 18 months of effort and cost about $250,000. Annual costs to support the distribution of surplus are estimated at about $30,000.

The act prescribes that surplus is to be distributed in two ways, as a payment to the eligible subscribers who have canceled their coverage and as a credit to renewal premiums of active subscribers. Distributing surplus as a payment to eligible subscribers who cancel coverage can be accomplished with minimal changes to MSI's operations and forms, a few database modifications, and some minor computer programming. However, the complexity associated with the distribution of surplus to active subscribers as credits to policy renewals would impact many aspects of the computer systems that manage the insurance policy renewal operations. Extensive revisions to MSI's operations, significant modifications to the database, and complex computer programming would be required to implement disbursements as credits to premium renewals.

The DEP staff who analyzed the distribution of surplus also developed MSI's eCommerce systems that are now being finalized. Distribution of surplus as a credit to policy renewal premiums affects many of the same operations and aspects of MSI computer systems that the eCommerce project impacts. As a result, the efforts and costs associated with the eCommerce project were used as the basis for the estimates in the surplus distribution project. However, the scope of work for a surplus distribution project would exceed that of the eCommerce project if conditions were not established to limit the complexity of the premium credit operations. The limiting conditions would preclude a surplus distribution when rate changes are being implemented, limit the amount of surplus being distributed to an amount that could be distributed in one year, and limit the number of surplus distributions to one surplus distribution at a time.

Distributing surplus as a credit to renewal premiums is a simple concept. When it was established in the act, the Fund had a very limited number of subscribers and used paper booking operations to process policy renewals. Today, with close to 60,000 subscribers, policy renewal operations are completely automated. As a result, distributing surplus as credits to policy renewal premiums would require extensive revisions to the sophisticated and complex computer systems developed to facilitate the policy renewal operations. Those changes would require considerable effort and expense. In essence, the method of distributing surplus to active subscribers through credits to renewal premiums, as prescribed in the act, has become obsolete. Therefore, before any surplus is distributed, MSI program management suggests that efforts be made to have section 10(c) of the act revised so that it simply provides the Board with the authority to distribute surplus to the eligible subscribers, as they are identified in the act. Then, at the Board's discretion, surplus as declared by the Board could be distributed as a payment to active subscribers. The efforts and costs required to modify MSI systems to support the distribution of surplus as payments would be minimal when compared to efforts and costs needed to develop and support surplus distribution as credits to renewal premiums.

Following is the list of issues that were discussed by DEP staff as they evaluated the distribution of surplus:

Issue 1 - Requirements of the Act

The act requires that the Board analyze the Fund's financial position annually. It may then determine if there is a surplus of funds and distribute all or part of any surplus to subscribers or use surplus to pay for MSI operations. Following are criteria the law provides for the distribution of surplus:

1) Subscribers are active policyholders at the end of a fiscal year (FY).

2) The surplus is distributed among the subscribers in proportion to the premiums paid by them during the FY analyzed.

3) Those remaining in the Fund get their portion as a credit "to the installment of premiums next due by them."

4) Those who cancel coverage get a check for their portion.

Issue 2 - Surplus Apportionment

The portion of the surplus distributed is calculated by:

1) Dividing the premium that was paid for a policy during the FY by the total premium collected during the FY to produce a factor.

2) The surplus is then multiplied by the factor to produce the amount of surplus that is credited to a policy renewal or paid as a premium refund.

Issue 3 - Limiting Conditions

The Board is also contemplating limiting conditions as follows:

1) All surplus must be distributed in one year.

2) Renewals amounts must be at least some nominal amount.

3) Limit the surplus so that no proportional share is more than 90% of the renewal amount.

Issue 4 - Business Requirements

1) Changes to the payment notice for the policies affected to include the premium, the credit for the surplus, and the amount due.

2) Modify the Oracle systems to calculate and account for premium refunds. Note that multiple year refunds are possible.

NOTE: Modifications to all the billing processes including the newly developed eCommerce processes will be required. New tables, fields and formulas would also likely be required.

Issue 5 - Other Factors

1) January 1, 2009 premium rate changes will reduce renewal premiums by 25% to 60%.

2) Fiscal year report times and the Board meeting dates effect the implementation of the premium distribution. Refunds will need to be retroactive and reductions to renewals will need to take place over a one year period.

Issue 6 – Issues resulting from issues, by the issue number

3.1) If the surplus amount is in excess of the premium amount that would be payable by the subscribers at the end of the FY, returning all the surplus in one year may result in the need to credit the full renewal amount and also send a check to a policyholder and those canceling their policies would also receive payments in excess of the premiums they paid.

3.2) See 6.3.1. In addition, this may result in multiple year renewal credits.

3.3) See 6.3.1 and 6.3.2