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FISCAL IMPACT REPORT

ORIGINAL DATE 02/09/21

SPONSOR Gallegos/Duhigg LAST UPDATED _____ HB _____

SHORT TITLE Mandatory Financial Responsibility SB 147

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23	FY24	FY25		
	Unknown but positive > \$1,000.0	Unknown but positive > \$1,000.0	Unknown but positive > \$1,000.0	Unknown but positive > \$1,000.0	Recurring	General Fund (Insurance Premiums Tax)

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		***	***			

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Office of Superintendent of Insurance (OSI)

SUMMARY

Synopsis of Bill

Senate Bill 147 doubles all the limits in Section 66-5-208 NMSA 1978 and Section 66-5-215 NMSA 1978, the Mandatory Financial Responsibility Act.

The effective date of this bill is July 1, 2021.

FISCAL IMPLICATIONS

According to the OSI:

Raising the bodily injury liability limits from 25/50 to 50/100 will increase the corresponding premiums by 36 percent, while raising the property damage liability limit from 10 thousand to 20 thousand and will increase the corresponding premium by 13 percent.

Additionally, increasing the liability insurance limits will eventually lead to an increase in the Uninsured Motorist (UM) premiums as well.

Section 7-40-3 NMSA 1978 imposes an insurance premiums tax of three and three thousandths percent on the net premiums paid. There is a 1 percent surtax on health insurance. Total general fund collections for all insurance taxes are shown here:

Insurance Premiums Tax	FY19	FY20	FY21	FY 22	FY23	FY24	FY25
Insurance Taxes (\$ millions)	216.3	259.2	230.8	221.9	228.0	234.1	294.4

An unknown portion of this total is attributed to automobile insurance covered by the Mandatory Financial Responsibility Act or the portion of automobile insurance that is at the minimum coverage levels. However, if premiums rise pursuant to the provisions of this bill, there would be a corresponding increase in premiums tax. This is shown as “unknown, but > 1,000.0” in the revenue table on page 1.

If the limits of financial responsibility had been indexed to the consumer price index, then the limits, which were established in 1983 and have not been increased since, would be as shown in the table below:

	Current Law	CPI/U Indexed	SB-147 Proposed
Bodily Injury or death	\$25,000	\$70,000	\$50,000
Bodily Injury or death, 2 or more persons	\$50,000	\$140,000	\$100,000
Property damage	\$10,000	\$28,000	\$20,000
Surety bond	\$60,000	\$168,000	\$120,000

SIGNIFICANT ISSUES

OSI is concerned about the effect of doubling the MFRA limits on the rate-paying population and consequential increase in the number of uninsured motorists on the highways.

Doubling the required minimum limits will increase the cost of auto insurance significantly, which could result in an increase in the number of uninsured drivers on the road, especially while so many residents of New Mexico are already struggling financially due to the Covid restrictions and closures.

New Mexico has consistently been in the top 5 in the country with respect to the number of uninsured drivers. With 26.7 percent of uninsured drivers in 2015, New Mexico was the #1 state in the country with the highest uninsured rate. Driving the rate of uninsured drivers

even higher by raising the limits and making auto insurance unaffordable for many will be detrimental to New Mexico. Also, if lower income residents cannot afford to purchase Uninsured Motorists coverage, they will be left without recourse if involved in an accident with an uninsured driver.

Additional considerations include:

- The current limits, at 25/50, match the limits required in the majority of other states. 34 other states have the same 25/50 limit, and 8 additional states have limits lower than that.
- Data shared by the industry a few years ago in connection with the introduction of a similar bill indicated that the vast majority of accidents in New Mexico result in damages that are below the minimum limits. If necessary, OSI can request an updated analysis from the industry. That data indicates that increasing the minimum limits will increase the coverage available for only a very small number of the more severe accidents, but at the risk of there not being any insurance protection at all if the party at fault happens to be uninsured (about a one-in-four chance, per the current Uninsured Driver statistics.)

The mandatory financial responsibility limits were established in 1983 and have not been increased since.

7-40-3. Imposition and rate of tax; denomination of "premium tax" and "health insurance premium surtax".

History: 1953 Comp., § 64-5-206, enacted by Laws 1978, ch. 35, § 282; 1978 Comp., § 66-5-206, recompiled as 1978 Comp., § 66-5-208 by Laws 1983, ch. 318, §§ 7, 9.

ADMINISTRATIVE IMPLICATIONS

OSI indicates that this proposal would cause administrative difficulties:

If the minimum limits are raised, insurance carriers will have to file new/revised rates, rules and forms, straining the OSI P&C Filing Bureau personnel resources, which are already over capacity.

LG/sb/rl