

# **LSC Greenbook**

**Analysis of the Enacted Budget**

**Department of Insurance**

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## **ATTACHMENT:**

Budget Spreadsheet By Line Item

# Department of Insurance

- The agency receives no GRF funding
- Funding for Department operations is derived primarily from fees that accompany appointments of insurance agents by insurance companies

## OVERVIEW

### Agency Overview

The Ohio Department of Insurance (INS) regulates the business of insurance in Ohio. Its mission is to serve and protect Ohio consumers through fair and efficient regulations, provide assistance and education to consumers, and promote a competitive marketplace for insurers. To carry out this mission, it licenses insurance agents and agencies, investigates allegations of misconduct by insurance agents or agencies, examines claims of consumer and provider fraud, investigates consumer complaints, and monitors the financial solvency and market conduct of insurance companies. The Department reviews insurance policies and forms used by insurance companies and the premiums they charge customers in the life, accident, health, managed care, and property and casualty insurance lines. It also administers the domestic and foreign insurance taxes, which in FY 2011 raised over \$445 million (combined) for the General Revenue Fund (GRF). The Department of Insurance is a cabinet-level agency.

The Department of Insurance does not receive funding from the GRF. Funding for Department operations is derived primarily from the fees that accompany appointments of insurance agents by insurance companies. The Department receives up to \$15 of this \$20 fee with the remaining revenue deposited into the GRF. This primary revenue source is supplemented by company filing fees, various smaller fees, and federal grants. In FY 2011, the agency's actual expenditures were \$35.4 million.

In 2010, the Department licensed and regulated approximately 1,663 insurance companies operating in the state, of which approximately 250 are "domestic" insurance companies, i.e., companies based and licensed to do business in Ohio. The other 1,414 insurance companies regulated by the Department, those based in another state but licensed to do business in Ohio, are referred to as "foreign" insurance companies. In 2010, the Department also licensed and regulated 286,461 insurance agents and about 20,448 agencies.

The following table presents the total number of full-time and part-time permanent employees. Numbers for FY 2011 did not include the Department's funded vacancies. Figures for FY 2012 and FY 2013 are estimates.

<b>Table 1. Department of Insurance Staffing Levels (Headcount)</b>					
<b>Key Area</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012 Estimates</b>	<b>FY 2013 Estimates</b>
Consumer Services	29	30	29	32	32
OSHIIP*	16	18	18	18	18
Licensing	19	18	19	20	20
Market Conduct	16	15	13	15	15
Fraud and Enforcement	23	23	24	26	26
Product Regulation	33	32	30	34	34
Risk Assessment	56	54	56	60	60
Program Management	76	82	84	76	76
Health Care Council	0	0	0	11	11
<b>TOTAL</b>	<b>268</b>	<b>272</b>	<b>273</b>	<b>292</b>	<b>292</b>

\*OSHIIP stands for Ohio Senior Health Insurance Information Program.

## Appropriation Overview

The following table provides the appropriations by fund group for the Department of Insurance for the FY 2012-FY 2013 biennium.

<b>Table 2. Appropriations by Fund Group, FY 2012-FY 2013 (Am. Sub. H.B. 153)</b>					
<b>Fund Group</b>	<b>FY 2011*</b>	<b>FY 2012</b>	<b>% change, FY 2011-FY 2012</b>	<b>FY 2013</b>	<b>% change, FY 2012-FY 2013</b>
General Services	\$1,394,069	\$0	-100.0%	\$0	N/A
Federal Special Revenue	\$2,542,280	\$4,270,726	68.0%	\$4,270,725	0.0%
State Special Revenue	\$31,424,477	\$32,001,222	1.8%	\$31,402,615	-1.9%
<b>TOTAL</b>	<b>\$35,360,826</b>	<b>\$36,271,948</b>	<b>2.6%</b>	<b>\$35,673,340</b>	<b>-1.7%</b>

\*FY 2011 figures represent actual expenditures.

The budget appropriates a total of \$36.3 million for FY 2012. This amount is \$0.9 million higher than FY 2011 actual expenditures, a 2.6% increase. The budget appropriates a total of \$35.7 million for FY 2013. This amount is \$0.6 million lower than FY 2012 appropriations, a 1.7% decrease. The Department receives no GRF appropriation in the FY 2012-FY 2013 biennium.

The budget provides the Department with federal funding of \$4.3 million for FY 2012. This amount is \$1.7 million, or 68.0%, higher than total federal funds in FY 2011. The amount of federal funding for FY 2013 is nearly the same amount as in FY 2012. The increase in federal funding for the FY 2012-FY 2013 biennium is primarily due to two federal grants, which total \$2.0 million for both FY 2012 and FY 2013, for the Health Insurance Premium Review and the Health Exchange Planning programs. The remaining federal funding for the biennium includes awarded federal grants for the

Ohio Senior Health Insurance Information Program (OSHIIP), \$2.3 million for both FY 2012 and FY 2013.

## **Major Initiatives**

### **Transfer From Fund 5540 to GRF**

The budget requires the Director of Budget and Management, by July 31 of each fiscal year, to transfer \$5 million from the Department of Insurance Operating Fund (Fund 5540) to the GRF.

### **Health Care Coverage and Quality Council**

The budget eliminates the Health Care Coverage and Quality Council. The Council was established under Am. Sub. H.B. 1 of the 128th General Assembly to advise the Governor and General Assembly on strategies to expand affordable health insurance coverage and to improve the cost and quality of the state's health insurance system.

### **Insurers Supervision, Rehabilitation, and Liquidation Act**

The budget makes several changes to Ohio's Insurer Rehabilitation and Liquidation Law. The changes do not apply to any affiliates of an insurer that is the subject of a formal delinquency proceeding, but they apply only to formal delinquency proceedings that commence on or after the effective date of Am. Sub. H.B. 153.

The budget provides protection of specified rights related to "netting agreements" and "qualified financial contracts" in the context of insurance company rehabilitations or liquidations. The budget also establishes guidelines for termination, liquidation, acceleration, close out, transfer, and repudiation of netting agreements or qualified financial contracts.

The budget requires damages to be measured as of the date of an insurer's termination, liquidation, acceleration, or close out of a netting agreement or qualified financial contract. The claim for damages must be actual direct compensatory damages. The budget requires any net or settlement amount that a nondefaulting party owes to an insurer be given to the receiver for the insurer upon termination of a netting agreement or qualified financial contract.

The LSC bill analysis provides greater detail about these, and other, changes that the budget makes to the Insurer Rehabilitation and Liquidation Law. These changes have no fiscal effect on the Department. The Office of the Ohio Insurance Liquidator is technically a private trustee's office overseen by the Franklin County Court of Common Pleas, and is funded by a share of the estate left by a liquidated insurance company.

### **Most Favored Nation Clauses in Health Care Contracts**

The budget prohibits all health care contracts entered into or offered to a health care provider from including a most favored nation clause. A "most favored nation" clause in a health care contract generally requires a health care provider to charge an insurer rates for providing health care services that are not higher than the provider charges any other insurer. The budget removes language that had originally provided for a three year moratorium on most favored nation clauses in health care contracts. It also specifies that contracts in effect prior to June 25, 2008, are permitted to retain a most favored nation clause for the duration of the existing contract, unless that contract is amended, extended, or renewed.

### **Wellness Programs Offered by Insurers**

The budget allows health and life insurers, including public employee benefit plans, to offer wellness or health improvement programs that include rewards and incentives to encourage or reward participation.

## **ANALYSIS OF ENACTED BUDGET**

### **Introduction**

This section provides an analysis of each appropriation item in the Department's budget. For each category a table is provided listing the appropriation in each fiscal year of the biennium. Following the table, a narrative describes how the appropriation is used and any changes affecting the appropriation under the budget. The four categories used in this analysis are as follows:

1. Operating Expenses;
2. Consumer Services;
3. Examination; and
4. Health Care.

To aid the reader in finding each item in the analysis, the following table shows the category in which each appropriation has been placed, listing the line items in order within their respective fund groups and funds. This is the same order the line items appear in the budget bill.

<b>Categorization of INS's Appropriation Line Items for Analysis of Enacted Budget</b>		
<b>Fund</b>	<b>ALI and Name</b>	<b>Category</b>
<b>Federal Special Revenue Fund Group</b>		
3EV0 820610	Health Insurance Premium Review	4: Health Care
3EW0 820611	Health Exchange Planning	4: Health Care
3U50 820602	OSHIIP Operating Grant	2: Consumer Services
<b>State Special Revenue Fund Group</b>		
5540 820601	Operating Expenses-OSHIIP	2: Consumer Services
5540 820606	Operating Expenses	1: Operating Expenses
5550 820605	Examination	3: Examination

**Category 1: Operating Expenses (820606)**

Appropriations for Operating Expenses				
Fund	ALI and Name		FY 2012	FY 2013
<b>State Special Revenue Fund Group</b>				
5540	820606	Operating Expenses	\$22,745,538	\$22,288,550
<b>State Special Revenue Fund Group Subtotal</b>			<b>\$22,745,538</b>	<b>\$22,288,550</b>
<b>Total Funding: Operating Expenses</b>			<b>\$22,745,538</b>	<b>\$22,288,550</b>

This appropriation line item provides funding for the general operating expenses for the Department of Insurance, excluding the OSHIIP and the agency Financial Examination programs. The appropriation draws on the Department of Insurance Operating Fund (Fund 5540). Fund 5540 receives funding from various fees, such as a \$20 annual fee assessed to each insurance agent licensed to provide insurance service in Ohio, appointment fees assessed to insurance agencies, and fees for certain services or transactions performed by the Department.

The Department of Insurance's regulatory and licensing responsibilities can be broken down into the following key areas: (1) consumer affairs, (2) market conduct, (3) agent licensing, (4) risk assessment, (5) fraud and enforcement, (6) product regulation, and (7) administrative support. In addition, the Department of Insurance is required under Ohio law to oversee and administer the liquidation process of an Ohio domiciled insurance company that becomes insolvent and requires liquidation. The Ohio Liquidation Office, under the budget, is responsible to administer the operations. The Ohio Liquidation Office's personnel costs are reimbursed to the Department from the insolvent insurance companies that are being liquidated.

The budget provides sufficient funding to continue the Department's general operation at its current level of service and to continue to achieve its mission. The budget appropriates a total of \$22.7 million in FY 2012 in this line item. The FY 2012 amount represents an increase of \$0.4 million, or 2.0%, from actual expenditures in FY 2011. The budget appropriates a total of \$22.3 million in FY 2013, which is about \$0.5 million, or 2.0%, lower than the FY 2012 amount.

## Category 2: Consumer Services (820602 and 820601)

The appropriation line items, OSHIIP Operating Grant (820602) and Operating Expenses–OSHIIP (820601) provide funding for the administration of the Consumer Services Program. The program assists and educates Ohioans on insurance issues. It also assists seniors in making informed decisions about health insurance related matters. Over 90% of the funding for the program comes from a federal grant, with the remainder coming from the Department of Insurance Operating Fund (Fund 5540). Fund 5540 receives funding primarily from fees paid by insurance agents and by insurance companies.

The appropriation for state funding for FY 2012 is \$190,000, or 77.9%, above the actual expenditures for FY 2011. The budget appropriates \$180,000 for state funding for FY 2013, which is 5.3% lower than the FY 2012 appropriation. Total appropriations for state funding for FYs 2012-2013 are \$370,000, which is 35.9% higher than actual state funding for FYs 2010-2011.

The federal grant that provides most of the funding for this program was \$2.0 million in FY 2010. In FY 2011, the amount of the federal grant was \$2.1 million. The budget appropriates \$2.3 million each year for the FY 2012-FY 2013 biennium, an increase of 10.4% over actual spending in FY 2011.

Appropriations for Consumer Services				
Fund	ALI and Name		FY 2012	FY 2013
<b>Federal Special Revenue Fund Group</b>				
3U50	820602	OSHIIP Operating Grant	\$2,270,726	\$2,270,725
<b>Federal Special Revenue Fund Group Subtotal</b>			<b>\$2,270,726</b>	<b>\$2,270,725</b>
<b>State Special Revenue Fund Group</b>				
5540	820601	Operating Expenses–OSHIIP	\$190,000	\$180,000
<b>State Special Revenue Fund Group Subtotal</b>			<b>\$190,000</b>	<b>\$180,000</b>
<b>Total Funding: Consumer Services</b>			<b>\$2,460,726</b>	<b>\$2,450,725</b>

### Category 3: Examination (820605)

This line item funds departmental oversight of insurance companies that are licensed to operate in Ohio. It allows the Department to monitor approximately 250 domestic insurance companies and 1,401 foreign and alien insurance companies licensed to sell insurance in Ohio, in cooperation with other state insurance departments and the National Association of Insurance Commissioners. It allows the Department to monitor companies' financial solvency, by reviewing financial statements and other records, and to conduct regular on-site examinations. Ohio law requires a financial examination be conducted at least once every five years. Funding for the appropriation comes from the Superintendent's Examination Fund (Fund 5550). The Department's expenses from conducting an examination of a company are paid by the company to the Superintendent and deposited into Fund 5550.

The budget appropriates \$9.1 million for FY 2012 in this line item. This amount represents an increase of \$197,695, or 2.2%, from actual expenditures for FY 2011. The budget appropriates \$8.9 million for FY 2013, which is \$131,619, or 1.5%, lower than the appropriation for FY 2012.

Appropriations for Examination				
Fund	ALI and Name		FY 2012	FY 2013
<b>State Special Revenue Fund Group</b>				
5550	820605	Examination	\$9,065,684	\$8,934,065
<b>State Special Revenue Fund Group Subtotal</b>			<b>\$9,065,684</b>	<b>\$8,934,065</b>
<b>Total Funding: Examination</b>			<b>\$9,065,684</b>	<b>\$8,934,065</b>

### Category 4: Health Care (820610 and 820611)

This is a new program under the budget. The program is funded by federal grants included in two new appropriation line items, Health Insurance Premium Review (820610) and Health Exchange Planning (820611). In 2010, the Department was awarded two federal grants from the U.S. Department of Health and Human Services. No state matching funds were required. The grants, which are related to the federal Patient Protection and Affordable Care Act (PPACA), would help the agency to perform health insurance rate review and to pay for initial planning activities related to the implementation and administration of a health exchange in Ohio.

#### Health Insurance Premium Review (820610)

This line item provides new federal funding to enhance reviews of health insurance premiums. Funding will be used to develop and upgrade technology to meet reporting requirements and data analysis. Funding will also be used to hire seven additional staff to enable the Department to review complex health insurance rate filings more quickly and efficiently. The Department anticipated that additional resources will be available in subsequent years to fund the staff positions on an ongoing basis. The budget appropriates \$1.0 million for FY 2012 and the same amount for FY 2013.

#### Health Exchange Planning (820611)

This line item provides new federal funding to pay for initial planning activities related to a health exchange and to evaluate how an exchange will be operated and governed in Ohio. The federal PPACA requires all states to establish a health exchange by January 1, 2014. An exchange is a mechanism for organizing a health insurance marketplace and helping individuals and small businesses to shop for coverage and compare available plan options, price, and benefits covered. Funding will also be used to hire three additional staff to evaluate and plan for a health exchange in Ohio. The Department anticipated that additional resources will be available in subsequent years to fund the staff positions on an ongoing basis. The appropriation for FY 2012 is \$1.0 million. The same amount is appropriated for FY 2013.

Appropriations for Health Care				
Fund	ALI and Name		FY 2012	FY 2013
<b>Federal Special Revenue Fund Group</b>				
3EVO	820610	Health Insurance Premium Review	\$1,000,000	\$1,000,000
3EW0	820611	Health Exchange Planning	\$1,000,000	\$1,000,000
<b>Federal Special Revenue Fund Group Subtotal</b>			<b>\$2,000,000</b>	<b>\$2,000,000</b>
<b>Total Funding: Health Care</b>			<b>\$2,000,000</b>	<b>\$2,000,000</b>

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# FY 2012 - FY 2013 Final Appropriation Amounts

# All Fund Groups

Line Item Detail by Agency			FY 2010	FY 2011	Appropriations FY 2012	FY 2011 to FY 2012 % Change	Appropriations FY 2013	FY 2012 to FY 2013 % Change
<b>Report For Main Operating Appropriations Bill</b>			<b>Version: Enacted</b>					
<b>INS Department of Insurance</b>								
5AG0	820603	Health Information Technology and Health Care Coverage and Quality Council	\$ 8,000,000	\$ 1,394,069	\$ 0	-100.00%	\$ 0	N/A
<b>General Services Fund Group Total</b>			<b>\$ 8,000,000</b>	<b>\$ 1,394,069</b>	<b>\$ 0</b>	<b>-100.00%</b>	<b>\$ 0</b>	<b>N/A</b>
3EV0	820610	Health Insurance Premium Review	\$0	\$ 299,412	\$ 1,000,000	233.99%	\$ 1,000,000	0.00%
3EW0	820611	Health Exchange Planning	\$0	\$ 148,988	\$ 1,000,000	571.19%	\$ 1,000,000	0.00%
3EX0	820612	Consumer Assistance Grant	\$0	\$ 36,980	\$ 0	-100.00%	\$ 0	N/A
3U50	820602	OSHIIP Operating Grant	\$ 2,033,398	\$ 2,056,900	\$ 2,270,726	10.40%	\$ 2,270,725	0.00%
<b>Federal Special Revenue Fund Group Total</b>			<b>\$ 2,033,398</b>	<b>\$ 2,542,280</b>	<b>\$ 4,270,726</b>	<b>67.99%</b>	<b>\$ 4,270,725</b>	<b>0.00%</b>
5540	820601	Operating Expenses-OSHIIP	\$ 165,434	\$ 106,826	\$ 190,000	77.86%	\$ 180,000	-5.26%
5540	820606	Operating Expenses	\$ 20,748,054	\$ 22,297,210	\$ 22,745,538	2.01%	\$ 22,288,550	-2.01%
5540	820609	State Coverage Initiative Administration	\$ 271,996	\$ 152,452	\$ 0	-100.00%	\$ 0	N/A
5550	820605	Examination	\$ 8,515,263	\$ 8,867,989	\$ 9,065,684	2.23%	\$ 8,934,065	-1.45%
<b>State Special Revenue Fund Group Total</b>			<b>\$ 29,700,746</b>	<b>\$ 31,424,477</b>	<b>\$ 32,001,222</b>	<b>1.84%</b>	<b>\$ 31,402,615</b>	<b>-1.87%</b>
<b>Department of Insurance Total</b>			<b>\$ 39,734,145</b>	<b>\$ 35,360,826</b>	<b>\$ 36,271,948</b>	<b>2.58%</b>	<b>\$ 35,673,340</b>	<b>-1.65%</b>