

# **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. INS also administers the domestic and foreign insurance taxes, which in FY 2013 raised \$481 million (combined) for the General Revenue Fund. The Department of Insurance is a cabinet-level agency.

The Department of Insurance does not receive funding from the GRF. Funding for 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 2013, the agency's actual expenditures were \$33.7 million.

In 2012, the Department licensed and regulated approximately 1,600 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 1,350 based in another state but licensed to do business in Ohio are referred to as "foreign" insurance companies. INS also licensed and regulated over 212,000 insurance agents and about 21,000 agencies.

The following table presents the total number of full-time and part-time permanent employees at the beginning of each fiscal year by key area. Figures for FY 2014 and FY 2015 are estimates.

Key Area	FY 2013	FY 2014 Estimates	FY 2015 Estimates
Consumer Services	24	31	31
OSHIIP	22	22	22
Licensing	15	16	16
Market Conduct	12	14	14
Fraud and Enforcement	23	23	23
Product Regulation	36	47	47
Risk Assessment	54	56	56
Program Management	79	83	83
<b>TOTAL</b>	<b>265</b>	<b>292</b>	<b>292</b>

\*Source: Department of Insurance

## Appropriation Overview

The following table provides the appropriations by fund group for INS for the FY 2014-FY 2015 biennium.

Fund Group	FY 2013*	FY 2014	% change, FY 2013-FY 2014	FY 2015	% change, FY 2014-FY 2015
Federal Special Revenue	\$3,340,316	\$3,270,725	-2.1%	\$3,270,725	0.0%
State Special Revenue	\$30,367,679	\$35,934,498	18.3%	\$33,274,432	-7.4%
<b>TOTAL</b>	<b>\$33,707,996</b>	<b>\$39,205,223</b>	<b>16.3%</b>	<b>\$36,545,157</b>	<b>-6.8%</b>

\*FY 2013 figures represent actual expenditures

The budget appropriates a total of \$39.2 million for FY 2014. This amount is \$5.5 million higher than FY 2013 actual expenditures, a 16.3% increase. The increase in funding for FY 2014 is intended to provide resources needed for increased regulatory responsibilities associated with implementation of the federal Affordable Care Act (ACA). The budget appropriates a total of \$36.5 million for FY 2015. This amount is \$2.7 million lower than FY 2014 appropriations, a 6.8% decrease.

The budget provides the Department with federal funding of \$3.3 million for FY 2014. This amount is \$69,591, or 2.1%, lower than the actual total federal funds in FY 2013. The amount of federal funding for FY 2015 is the same as in FY 2014.

## Major Initiatives

### Transfer from Fund 5540 to GRF

The budget requires the Director of Budget and Management to transfer \$5 million by July 31 each year of the biennium from the Department of Insurance Operating Fund (Fund 5540) to the GRF. Department officials indicate that there is

sufficient cash in Fund 5540 to accommodate the transfers. The enacted budget also allows the Director, upon a request from the Department of Insurance, to transfer funds from Fund 5540 to the Superintendent's Examination Fund (Fund 5550) to pay for expenses incurred in examining domestic fraternal benefit societies. Department officials point out that such transfers typically range between \$250,000 and \$350,000 annually.

### **Fees Paid to Superintendent of Insurance**

The budget limits agent appointment and agent appointment annual renewal fees that the Department of Insurance may charge to not more than \$20, as opposed to the current fee of \$20. The budget also abolishes the agent appointment termination fee. The provision would reduce revenue to the Department of Insurance Operating Fund (Fund 5540) from agent appointment termination fees, and may reduce revenue to Fund 5540 from agent appointment and agent appointment annual renewal fees.

### **Telemedicine Policy Workgroup**

The budget authorizes the Executive Director of the Office of Health Transformation to convene a workgroup of state agency directors to study policy matters regarding telemedicine, including telemedicine practice, technology, and reimbursement. If the workgroup is convened, the budget act specifies that the superintendent of Insurance must be a member of it.

## 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.

Categorization of INS Appropriation Line Items for Analysis of Enacted Budget		
Fund	ALI and Name	Category
<b>Federal Special Revenue Fund Group</b>		
3EV0 820610	Health Insurance Premium Review	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)

This appropriation item provides funding for the general operating expenses for the Department of Insurance, excluding the OSHIIP and the agency's 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 enacted budget permits the agent appointment and annual renewal fees, currently \$20, to be reduced.

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. Personnel costs for the Ohio Liquidation Office, which is responsible for the administration of the liquidation, are reimbursed to the Department from the insolvent insurance companies that are being liquidated.

The budget appropriates a total of \$27.6 million in FY 2014 in this line item. This amount represents an increase of 21.7% from the actual expenditures for FY 2013. The increased funding is due to high volume and complexity of insurance regulation associated with the ACA. The budget appropriates a total of \$24.9 million in FY 2015, which is 9.7% lower than the FY 2014 appropriation.

Appropriations for Operating Expenses				
Fund	ALI and Name		FY 2014	FY 2015
<b>State Special Revenue Fund Group</b>				
5540	820606	Operating Expenses	\$27,570,433	\$24,910,367
<b>State Special Revenue Fund Group Subtotal</b>			<b>\$27,570,433</b>	<b>\$24,910,367</b>
<b>Total Funding: Operating Expenses</b>			<b>\$27,570,433</b>	<b>\$24,910,367</b>

## 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. This program assists and educates Ohioans on insurance issues, including health insurance for seniors. 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 budget appropriates \$180,000 in line item 820601 for FY 2014, which is \$174,947 above actual expenditures for FY 2013. The budget appropriates \$180,000 for FY 2015, which is the same as the FY 2014 appropriation. Total appropriations for FYs 2014-2015 are \$360,000. Total expenditures for FYs 2012-2013 were \$65,703. The increase in appropriations for FYs 2014-2015 is \$294,297, or 448% of total expenditures for FYs 2012-2013.

The federal grant that provides most of the funding for this program was about \$2.1 million in FY 2012. In FY 2013, the actual amount of the federal grant was about \$2.2 million. Department officials expect the grant amount to be about \$2.0 million for each year of the upcoming biennium.

The appropriation for the program for FY 2014 is \$2.2 million, or 2.8% lower than the actual expenditures in FY 2013. The appropriation for FY 2015 is \$2.2 million, which is the same as the appropriation in FY 2014.

Appropriations for Consumer Services				
Fund		ALI and Name	FY 2014	FY 2015
<b>Federal Special Revenue Fund Group</b>				
3U50	820602	OSHIIP Operating Grant	\$1,970,725	\$1,970,725
<b>Federal Special Revenue Fund Group Subtotal</b>			<b>\$1,970,725</b>	<b>\$1,970,725</b>
<b>State Special Revenue Fund Group</b>				
5540	820601	Operating Expenses – OSHIIP	\$180,000	\$180,000
<b>State Special Revenue Fund Group Subtotal</b>			<b>\$180,000</b>	<b>\$180,000</b>
<b>Total Funding: Consumer Services</b>			<b>\$2,150,725</b>	<b>\$2,150,725</b>

**Category 3: Examination (820605)**

This line item funds departmental oversight of licensed insurance companies. Ohio law requires a financial examination be conducted at least once every five years. The Department monitors the financial solvency of insurance companies by reviewing financial statements and other records, and by conducting regular on-site examinations. Funding for this oversight 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 \$8.2 million each for FY 2014 and FY 2015 for this line item. This amount is \$472,386, or 6.1% higher than the actual expenditures for FY 2013.

<b>Appropriations for Examination</b>				
<b>Fund</b>	<b>ALI and Name</b>		<b>FY 2014</b>	<b>FY 2015</b>
<b>State Special Revenue Fund Group</b>				
5550	820605	Examination	\$8,184,065	\$8,184,065
<b>State Special Revenue Fund Group Subtotal</b>			<b>\$8,184,065</b>	<b>\$8,184,065</b>
<b>Total Funding: Examination</b>			<b>\$8,184,065</b>	<b>\$8,184,065</b>

**Category 4: Health Care (820610)**

This line item provides federal funding to enhance reviews of health insurance premiums. In September 2011, the Department was awarded a three-year federal grant related to rate review from the U.S. Department of Health and Human Services (HHS). No state matching funds were required. Funding is used to develop and upgrade technology to meet reporting requirements and data analysis. Funding will also allow the Department to continue to pay for several staff positions related to health insurance rate reviews due to the impact of the ACA. The budget appropriates \$1.3 million for FY 2014 and the same amount for FY 2015.

<b>Appropriations for Health Care</b>				
<b>Fund</b>	<b>ALI and Name</b>		<b>FY 2014</b>	<b>FY 2015</b>
<b>Federal Special Revenue Fund Group</b>				
3EVO	820610	Health Insurance Premium Review	\$1,300,000	\$1,300,000
<b>Federal Special Revenue Fund Group Subtotal</b>			<b>\$1,300,000</b>	<b>\$1,300,000</b>
<b>Total Funding: Health Care</b>			<b>\$1,300,000</b>	<b>\$1,300,000</b>

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# FY 2014 - FY 2015 Final Appropriation Amounts

# All Fund Groups

## Line Item Detail by Agency

			FY 2012	FY 2013	Appropriation FY 2014	FY 2013 to FY 2014 % Change	Appropriation FY 2015	FY 2014 to FY 2015 % 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	\$ 281,175	\$0	\$0	N/A	\$0	N/A
<b>General Services Fund Group Total</b>			<b>\$ 281,175</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>	<b>\$0</b>	<b>N/A</b>
3EV0	820610	Health Insurance Premium Review	\$ 779,377	\$ 1,133,676	\$ 1,300,000	14.67%	\$ 1,300,000	0.00%
3EW0	820611	Health Exchange Planning	\$ 769,106	\$0	\$0	N/A	\$0	N/A
3U50	820602	OSHIIIP Operating Grant	\$ 2,061,926	\$ 2,206,641	\$ 1,970,725	-10.69%	\$ 1,970,725	0.00%
<b>Federal Special Revenue Fund Group Total</b>			<b>\$ 3,610,409</b>	<b>\$ 3,340,316</b>	<b>\$ 3,270,725</b>	<b>-2.08%</b>	<b>\$ 3,270,725</b>	<b>0.00%</b>
5540	820601	Operating Expenses-OSHIIIP	\$ 60,650	\$ 5,053	\$ 180,000	3,462.49%	\$ 180,000	0.00%
5540	820606	Operating Expenses	\$ 21,786,507	\$ 22,650,948	\$ 27,570,433	21.72%	\$ 24,910,367	-9.65%
5550	820605	Examination	\$ 8,443,397	\$ 7,711,679	\$ 8,184,065	6.13%	\$ 8,184,065	0.00%
<b>State Special Revenue Fund Group Total</b>			<b>\$ 30,290,554</b>	<b>\$ 30,367,679</b>	<b>\$ 35,934,498</b>	<b>18.33%</b>	<b>\$ 33,274,432</b>	<b>-7.40%</b>
<b>Department of Insurance Total</b>			<b>\$ 34,182,137</b>	<b>\$ 33,707,996</b>	<b>\$ 39,205,223</b>	<b>16.31%</b>	<b>\$ 36,545,157</b>	<b>-6.78%</b>