

Greenbook

LBO Analysis of Enacted Budget

Ohio Department of Insurance

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Attachment:

Appropriation Spreadsheet

LBO Greenbook

Ohio Department of Insurance

Quick look...

- The Department of Insurance regulates and licenses 1,712 insurance companies operating in Ohio, conducts financial examinations and audits, and annually licenses and regulates about 308,000 agents and 21,300 agencies.
 - The Department also administers the domestic and foreign insurance taxes.
- The Department employs 252 employees.
- The Department receives no GRF funding. Funding for the Department’s operations is derived primarily from fees that accompany appointments of insurance agents by insurance companies.
- The total amount appropriated for FY 2024 is \$5.2 million higher than FY 2023 actual expenditures and total amount appropriated for FY 2025 is \$721,034 higher than the total amount appropriated for FY 2024.
 - The budget eliminated two funds used by the Department and consolidated the two ALIs that draw on those funds into one new ALI, drawing on the Department of Insurance Operating Fund (Fund 5540).

Fund Group	FY 2022 Actual	FY 2023 Actual	FY 2024 Appropriation	FY 2025 Appropriation
Dedicated Purpose (DPF)	\$38,775,129	\$38,173,475	\$43,316,669	\$44,037,703
Federal (FED)	\$2,773,438	\$2,948,953	\$3,050,000	\$3,050,000
Total	\$41,548,567	\$41,122,428	\$46,366,669	\$47,087,703
% change	--	-1.0%	12.8%	1.6%

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 2023 raised about \$749.5 million (combined) for the General Revenue Fund.

The Department of Insurance is a cabinet-level agency with 252 employees as of July 2023.¹ Its activities are organized into the following key areas: consumer services, Ohio Senior Health Insurance Information Program (OSHIIP), fraud and enforcement, risk assessment, Office of Captive Insurance, market conduct, product regulation and actuarial services, agent licensing, and program management (executive, legal services, information technology, human resources, and fiscal services).

The Department of Insurance receives no GRF funding. 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 2023, the agency's actual expenditures were \$41.1 million.

In FY 2022, the Department licensed and regulated 1,712 insurance companies operating in the state, of which approximately 280 are "domestic" insurance companies, i.e., companies based and licensed to do business in Ohio. The other 1,432 are based in another state but licensed to do business in Ohio, and are referred to as "foreign" insurance companies. The Department also licensed and regulated about 308,000 insurance agents and about 21,300 agencies.

The Department is aided in monitoring the financial solvency and market conduct of foreign insurance companies by the applicable state department of insurance in which those companies are based. The 50 state departments of insurance receive support and coordination assistance through the National Association of Insurance Commissioners (NAIC).

Appropriation summary

The enacted budget appropriates a total of \$46.4 million for FY 2024, or \$5.2 million more than FY 2023 actual expenditures, a 12.8% increase. Total appropriations for FY 2025 are \$47.1 million, or \$721,034 more than FY 2024 total appropriations, a 1.6% increase. Increases in the enacted budget in FY 2024 and FY 2025 are largely due to anticipated personnel costs for filling vacancies and higher compensation for cost-of-living adjustments. The enacted budget provides the funding necessary to maintain Department of Insurance operations at current levels and to work toward the Department's mission of protecting and educating Ohio consumers, and regulating insurance markets in the state.

The enacted budget restructured funds used by the Department. Under the budget, the Superintendent's Examination Fund (Fund 5550) and the Captive Insurance Regulation and Supervision Fund (Fund 5PT0) were eliminated and ALIs associated with the funds (Fund 5550 ALI 820605, Examination and Fund 5PT0 ALI 820613, Captive Insurance Regulation and Supervision) were discontinued beginning in FY 2024. Revenues² and expenditures associated

¹ Source: [State of Ohio Employee Headcount Trends](#) (visited July 31, 2023).

² In conjunction with the elimination of these two funds, two revenue sources were redirected to Fund 5540: (1) insurers' reimbursements related to examinations of those insurance companies that were previously deposited into Fund 5550, and (2) application fees paid by captive insurers that were previously deposited into Fund 5PT0.

with Fund 5550 and Fund 5PT0 will instead be deposited into and paid from the Department of Insurance Operating Fund (Fund 5540, the Department's primary budget fund).

The budget also created a new ALI, Fund 5540 ALI 820401, Examination, to replace ALIs 820605 and 820613. The new DPF item, 820401, is used to pay for departmental oversight of licensed insurance companies under the Risk Assessment Division and the Department's regulatory and enforcement responsibilities related to captive insurers. The new ALI receives a \$10.7 million appropriation in FY 2024, 26.6% more than the combined actual FY 2023 expenditures from the two line items it replaced. The budget appropriates \$10.8 million to ALI 820401 in FY 2025, \$123,034 (1.2%) higher than the appropriation in FY 2024.

The other two remaining DPF line items in the Department's budget also receive funding increases for FY 2024-FY 2025. Fund 5540 ALI 820606, Operating Expenses, is used for general departmental operations, and it receives an increase of \$3.0 million (10.1%) in FY 2024, followed by an increase of \$598,000 (1.8%) in FY 2025. The increase in ALI 820606 accounts for about 56% of the total FY 2024 funding increase for the Department, while the aforementioned net increase appropriated to the new ALI, 820401, accounts for nearly 43% of the total FY 2024 funding increase. The remaining increase is attributed to the Ohio Senior Health Insurance Information Program (OSHIIP), funded primarily by a federal grant.

Revenue to the Department of Insurance Operating Fund (Fund 5540), combined with the actual FY 2023 year-end cash balance of the fund, is expected to be sufficient to support the appropriations for the upcoming biennium. The cash balance of Fund 5540 at the end of FY 2023 was \$60.8 million. Revenue to Fund 5540, primarily fees from insurance agent appointments, grew nearly 46% from FY 2019 to FY 2023, though that revenue source yields varying amounts from year to year. In contrast, the sources of revenue (excluding transfers) over that same time period to Fund 5550 and Fund 5PT0 grew 15.8% and 52.2%, respectively, albeit the latter growth rate reflects a relatively small base. Department officials anticipate actual fees may continue to increase in the near future, likely due to a growing insurance industry in Ohio, despite the increasing use of direct delivery methods for insurance policies instead of through agent sales (i.e., officials suspect a possible reduction in agent appointments).

The enacted budget also appropriates \$3.1 million for FY 2024 from federal Fund 3U50. This amount is \$101,047 higher than actual expenditures from the line item in FY 2023, an increase of 3.4%. The appropriation in FY 2025 is the same as the appropriation for FY 2024.

Enacted budget provisions

H.B. 33 included several changes to insurance laws. Several of these provisions have minimal, if any, impact on the Department's budget. This section describes the law changes and indicates those that are expected to have fiscal impact.

Dental and vision coverage under health benefit plans

H.B. 33 expands the requirement that health benefit plans, including health insuring corporations, public employee benefit plans, and health benefit plans regulated under the Employee Retirement Income Security Act of 1974 (ERISA), cover certain dependent children until the age of 26 to include dental and vision plans. The provision applies to policies, contracts, or agreements providing coverage of dental care or vision care services that are issued, renewed,

or amended on or after January 1, 2024. The provision may potentially increase costs for the state and local governments to provide health care coverage for employees and their dependents.

Insurance navigator license fees

The enacted budget reduces the certification and annual renewal fees for business entities that act as insurance navigators to \$200 and \$100, respectively. The provision reverses a change made by H.B. 509 of the 134th General Assembly by requiring individual insurance navigators to pay certification and renewal fees specified by the Superintendent of Insurance, rather than \$200 for initial certification and \$100 for annual renewal. H.B. 33 specifies that the provision is remedial in nature and intended to clarify the law as it existed before the provision's effective date. The provision may decrease fee revenue deposited into the Department of Insurance Operating Fund (Fund 5540).

Mine subsidence insurance

H.B. 33 allows a board of county commissioners, in a county where insurers are required to offer mine subsidence insurance under existing law, to adopt a resolution requiring such insurers to include mine subsidence insurance coverage provided by the Ohio Mine Subsidence Underwriting Association. The provision specifies that insurers must provide the coverage beginning either on or before the date specified in the resolution, or on July 1 of the first year that begins after the resolution was adopted, whichever is later. The provision also specifies that, if the board rescinds the requirement, insurers must cease requiring the coverage and instead offer the coverage as an option, on or before the date specified in the rescinding resolution, or July 1 of the first year that begins after the resolution was adopted, whichever is later. The budget requires the board to promptly send a copy of either such resolution to the Director of Natural Resources and the Superintendent of Insurance. The provision requires the Director and Superintendent to post the resolution on their respective websites. The provision may minimally increase certain counties' administrative costs. The provision allows a board of county commissioners in Delaware, Erie, Geauga, Lake, Licking, Medina, Ottawa, Portage, Preble, Summit, or Wayne County to adopt such resolution.

Analysis of FY 2024-FY 2025 budget

Operating Expenses (ALI 820606)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Appropriation	FY 2025 Appropriation
5540 ALI 820606, Operating Expenses					
\$26,490,532	\$27,418,382	\$29,748,899	\$29,496,225	\$32,465,978	\$33,063,978
% change	3.5%	8.5%	-0.8%	10.1%	1.8%

The budget provides an increase in the FY 2024 appropriation of about \$3.0 million, or 10.1%, from the actual expenditures in FY 2023. The appropriation for FY 2025 is \$598,000 higher than the appropriation for FY 2024. The increase in FY 2024 is largely due to anticipated personnel costs for filling vacancies and cost-of-living expenses. This appropriation item provides

funding for the general operating expenses for the Department of Insurance, excluding the Ohio Senior Health Insurance Information Program (OSHIIP), and the agency's Risk Assessment programs. The appropriation draws on Fund 5540.

Labor costs are the principal expense for this line item. The Department of Insurance's regulatory and licensing responsibilities can be broken down into the following key areas: (1) consumer services, (2) market conduct, (3) agent licensing, (4) risk assessment, (5) fraud investigation and enforcement, (6) product regulation and actuarial services, and (7) program management.

Department personnel that serve in the consumer services area respond to inquiries, investigate and resolve complaints from Ohio consumers, and provide information and publications related to insurance. Staff in this area provide extra support to elderly consumers under OSHIIP, which is described separately. Consumer services staff coordinate community outreach activities, guide victims at disaster assistance sites, and participate in insurance fairs throughout the state. The consumer services staff recovered about \$9.5 million in restitution for Ohio consumers in FY 2022. They also received over 21,400 inquiries and complaints.

Personnel in the market conduct area examine records of insurance companies doing business in Ohio on a routine basis or as needed to ensure that these companies comply with the state's insurance laws and regulations. They are also responsible for gathering industry information from a variety of sources, including consumer complaints, company filings, the National Association of Insurance Commissioners (NAIC) databases, and research tools. The Department must conduct additional market conduct examinations to ensure compliance with certain uniform contract provisions between health care providers and contracting entities (i.e., health insurers); insurers pay for the cost of examinations. The Department administers a health care provider complaint program, inclusive of complaints related to contracts, credentials, and claims.

The Department issues licenses to insurance agents and agencies and is responsible for ensuring that only qualified and competent individuals or entities are licensed to provide insurance service in Ohio. The Department also maintains agents' continuing education requirements and processes insurance company appointments of authorized agents. Annually, the Department processes millions of service requests, including appointments, terminations, address or name changes, telephone calls, and emails from individuals and business entities who are licensed to provide insurance service in the state.

Personnel in the risk assessment area monitor the financial solvency of every domestic and foreign insurance company that is licensed to do business in Ohio, including captive insurers to ensure that they are capable of meeting their contractual agreements to policyholders and claimants. They also oversee complex transactions such as mergers, acquisitions, redomestications, reinsurance agreements, and inter-company agreements to ensure that insurance companies have enough money to pay claims filed by consumers.

The Department's fraud investigation and enforcement area investigates insurance fraud, agent misconduct, and allegations of unlicensed insurance activity. The Department also investigates consumers, medical providers, and third parties suspected of defrauding insurance companies in the state. The Department assists in the prosecution of consumer and provider insurance fraud. The Department promotes the detection and prevention of insurance fraud through public awareness campaigns, educational programs, and cooperation among insurers,

governmental agencies, and insurance industry groups. The Department annually receives thousands of allegations of insurance fraud and agent misconduct. Department staff review policy forms, endorsements, and manual rules and rates for products marketed to Ohio consumers by Ohio-licensed property and casualty companies. Personnel in the Life, Health, and Managed Care Division are responsible for reviewing the contractual provisions of all Ohio-licensed life and health and accident policies to ensure they are in compliance with Ohio and federal laws. The Department licenses multiple employer trusts, alliances, and health insuring corporations and accredits independent review organizations. The Life, Health, and Managed Care Division also monitors the activities of all health insuring corporations operating in Ohio.

Personnel involved in program management include legal services staff who provide legal advice on regulatory transactions including changes of control, mergers, redemptions, demutualizations and the investment activities of domestic insurance companies, and enforcement issues. They also administer public hearings involving insurance agent and company licenses, provide legal assistance on a variety of issues to other offices in the Department of Insurance, and supervise litigation. Other personnel in this area include information technology staff who are responsible for the overall technology infrastructure and administer the Department's telecommunications system and website. Other personnel who manage and support the overall operations of the Department include staff in the executive, fiscal operations, and human resources offices.

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 being liquidated.

Operating Expenses – OSHIIP (ALI 820601) and OSHIIP Operating Grant (ALI 820602)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Appropriation	FY 2025 Appropriation
Fund 5540 ALI 820601, Operating Expenses – OSHIIP					
\$227,381	\$87,781	\$177,396	\$253,843	\$189,000	\$189,000
% change	-61.4%	102.1%	43.1%	-25.5%	0.0%
Fund 3U50 ALI 820602, OSHIIP Operating Grant					
\$2,721,175	\$2,595,342	\$2,773,438	\$2,948,953	\$3,050,000	\$3,050,000
% change	-4.6%	6.9%	6.3%	3.4%	0.0%
Total					
\$2,948,556	\$2,683,123	\$2,950,834	\$3,202,796	\$3,239,000	\$3,239,000
% change	-9.0%	10.0%	8.5%	1.1%	0.0%

The appropriation line items, Operating Expenses – OSHIIP (820601) and OSHIIP Operating Grant (820602), provide funding for the administration of the Consumer Services Program. OSHIIP assists and educates Ohioans on insurance issues, including health insurance for seniors. The

program annually assists hundreds of thousands of consumers, and it helped save approximately \$25.2 million in FY 2022 for Medicare recipients, who switched plans based on their health care and prescription needs. About 94% of the funding for the program comes from federal grants, with the remainder coming from the Department of Insurance Operating Fund (Fund 5540).

The state appropriation for FY 2024 is \$189,000, a decrease of \$64,843 from the actual expenditures in FY 2023, and an increase of \$11,604, or 6.5%, from actual FY 2022 state expenditures. The state appropriation for FY 2025 is also \$189,000, unchanged from FY 2024. The total amount appropriated for the biennium from state sources is \$378,000, which is \$53,239 (12.3%) less than actual expenditures in the prior biennium, \$431,239.

The federal grant that provides most of the funding for this program was nearly \$2.8 million in FY 2022 and about \$2.9 million in FY 2023. Department officials expect the grant amount to be nearly \$3.1 million for each year of the upcoming biennium.

The total amount appropriated for the entire OSHIP program for FY 2024 is about \$3.2 million, 8.5% more than the actual total expenditures for FY 2023. The increase is primarily related to personnel costs. The total appropriation for FY 2025 is identical to the FY 2024 amount.

Examination (ALI 820401)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Appropriation	FY 2025 Appropriation
Fund 5540 ALI 820401, Examination					
\$0	\$0	\$0	\$0	\$10,661,691	\$10,784,725
% change	N/A	N/A	N/A	N/A	1.2%
Fund 5550 ALI 820605, Examination					
\$8,052,679	\$8,256,657	\$8,502,966	\$8,105,987	\$0	\$0
% change	2.5%	3.0%	-4.7%	-100.0%	N/A
Fund 5PT0 ALI 820613, Captive Insurance Regulation and Supervision					
\$349,728	\$306,697	\$345,869	\$317,420	\$0	\$0
% change	-12.3%	12.8%	-8.2%	-100.0%	N/A
Total					
\$8,402,407	\$8,563,354	\$8,848,834	\$8,423,407	\$10,661,691	\$10,784,725
% change	1.9%	3.3%	-4.8%	26.6%	1.2%

The table above shows a new line item, 820401, in the enacted budget alongside the two line items it replaced. Beginning in FY 2024, item 820401 is used to pay for departmental oversight of licensed insurance companies, including the Department's regulatory and enforcement responsibilities related to captive insurers, the same uses as the two line items it replaced. The budget bill eliminated Fund 5550 and Fund 5PT0, transferred any balance in those funds to Fund 5540, and transferred any encumbrances linked to the old ALIs to item 820401.

The budget appropriates \$10.7 million for this new line item in FY 2024 and \$10.8 million in FY 2025. The appropriation for FY 2024 in this new ALI is \$2.2 million higher than the total FY 2023 expenditures from the two ALIs that it replaced, a 26.6% increase. The appropriation for FY 2025 in the new ALI is \$123,034 (1.2%) higher than the FY 2024 appropriation.

The Department monitors the financial solvency of insurance companies by reviewing financial statements and other records, and by conducting regular onsite examinations. Ohio law requires a financial examination be conducted at least once every five years.

Funding for this oversight will come from the Department's Operating Fund (Fund 5540). The Department's expenses from conducting an examination of a company will be paid by the company to the Superintendent of Insurance and deposited into Fund 5540.

H.B. 117 of the 130th General Assembly allowed captive insurance companies to operate in Ohio beginning in September 2014. A captive insurer is a wholly owned subsidiary created to provide insurance to its noninsurance parent company (or companies). Among other provisions, H.B. 117 established a \$500 fee to apply to form a captive insurer, and established other fees and revenue sources for the Captive Insurance Regulation and Supervision Fund (Fund 5PT0). The budget did not change the existing fees, but required they be deposited into Fund 5540 instead of Fund 5PT0, which was abolished. In FY 2022 the Department licensed a total of six captive insurance companies to do business in Ohio.

FY 2024 - FY 2025 Final Appropriations

All Fund Groups

Line Item Detail by Agency			Appropriations			FY 2023 to FY 2024	Appropriations	FY 2024 to FY 2025
			FY 2022	FY 2023	FY 2024	% Change	FY 2025	% Change
Report For: Main Operating Appropriations Bill			Version: As Enacted					
INS	Department of Insurance							
5540	820401	Examination	\$0	\$0	\$ 10,661,691	N/A	\$ 10,784,725	1.15%
5540	820601	Operating Expenses-OSHIIP	\$ 177,396	\$ 253,843	\$ 189,000	-25.54%	\$ 189,000	0.00%
5540	820606	Operating Expenses	\$ 29,748,899	\$ 29,496,225	\$ 32,465,978	10.07%	\$ 33,063,978	1.84%
5550	820605	Examination	\$ 8,502,966	\$ 8,105,987	\$ 0	-100.00%	\$ 0	N/A
5PT0	820613	Captive Insurance Regulation and Supervision	\$ 345,869	\$ 317,420	\$ 0	-100.00%	\$ 0	N/A
Dedicated Purpose Fund Group Total			\$ 38,775,129	\$ 38,173,475	\$ 43,316,669	13.47%	\$ 44,037,703	1.66%
3U50	820602	OSHIIP Operating Grant	\$ 2,773,438	\$ 2,948,953	\$ 3,050,000	3.43%	\$ 3,050,000	0.00%
Federal Fund Group Total			\$ 2,773,438	\$ 2,948,953	\$ 3,050,000	3.43%	\$ 3,050,000	0.00%
Department of Insurance Total			\$ 41,548,567	\$ 41,122,428	\$ 46,366,669	12.75%	\$ 47,087,703	1.56%