

# Redbook

## LBO Analysis of Executive Budget Proposal

### Ohio Department of Insurance

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Attachment:

Appropriation Spreadsheet

# LBO Redbook

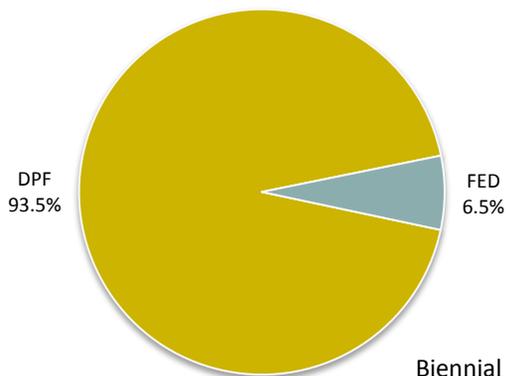
## Ohio Department of Insurance

### Quick look...

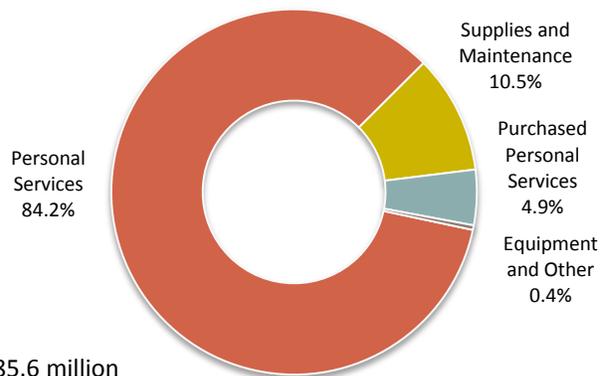
- The Department of Insurance regulates and licenses more than 1,650 insurance companies operating in Ohio, conducts 58 financial examinations and 8,000 desk audits, and annually licenses and regulates over 220,000 agents and 17,900 agencies.
  - The Department also administers the domestic and foreign insurance taxes.
- The Department employs 245 full-time permanent 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 executive budget total recommended funding for FY 2020 is \$4.3 million higher than FY 2019 estimated expenditures and total recommended funding for FY 2021 is \$1.3 million higher than total recommended funding for FY 2020.
  - Increases in the executive budget in FY 2020 and FY 2021 are due to funding increases in the following three line items: 820606, Operating Expenses (Fund 5540), 820605, Examination (Fund 5550), and 820613, Captive Insurance Regulation and Supervision (Fund 5PT0).

Fund Group	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Dedicated Purpose	\$33,790,210	\$34,983,967	\$39,348,790	\$40,671,010
Federal	\$2,323,517	\$2,813,849	\$2,793,150	\$2,793,150
<b>Total</b>	<b>\$36,113,728</b>	<b>\$37,797,816</b>	<b>\$42,141,940</b>	<b>\$43,464,160</b>
% change	--	4.7%	11.5%	3.1%

**Chart 1: INS Budget by Fund Group  
FY 2020-FY 2021 Biennium**



**Chart 2: INS Budget by Expense Category  
FY 2020-FY 2021 Biennium**



Biennial total: \$85.6 million

## 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 2018 raised about \$555 million (combined) for the General Revenue Fund.

The Department of Insurance is a cabinet-level agency with 245 full-time permanent employees. 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 2019, the agency's estimated expenditures are \$37.8 million.

In FY 2018, the Department licensed and regulated more than 1,650 insurance companies operating in the state, of which approximately 270 are "domestic" insurance companies, i.e., companies based and licensed to do business in Ohio. The other 1,380 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 over 220,000 insurance agents and about 17,900 agencies.

The Department is aided in monitoring the financial solvency and market conduct of foreign insurance companies by the departments of insurance for the states 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 executive recommendation 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 executive's recommended total funding for FY 2020 is \$42.1 million, or \$4.3 million more than FY 2019 estimated expenditures, an 11.5% increase. Recommended total funding for FY 2021 is \$43.5 million. This amount is \$1.3 million higher than FY 2020 recommended total funding, a 3.1% increase. Increases in the executive budget in FY 2020 and FY 2021 are due to funding increases associated with the cost of pay raises of employees under the union contract, additional costs associated with retaining an actuarial consultant, and adding new personnel to product regulation and risk assessment areas.

The Department views funding for the actuarial consultant as necessary to provide an initial review of complex actuarial and statistical models that are used by companies to compute rates for insurance products and to train agency personnel in product regulation areas on using such models. The Department requested additional personnel in those areas due to increasing company reporting requirements, and an increase in the number of domestic insurers licensed to do business in Ohio. The increase also would ensure that the Department has sufficient and qualified staff to meet the ratio of staff to number of insurance companies needed to pass the accreditation process conducted by NAIC every five years. NAIC recommends a ratio of 1:20, i.e., an analyst should be responsible for reviewing fewer than 20 companies, to ensure that he or she would do an adequate job of assessing financial conditions of those insurance companies in a timely and in-depth manner. Over the past five years, the Department's ratio has increased from 1:19.6 to 1:23.3.

The following are line items that would be affected by the increase: 820606, Operating Expenses (Fund 5540), 820605, Examination (Fund 5550), and 820613, Captive Insurance Regulation and Supervision (Fund 5PT0). Funding in line item 820606 is used for general departmental operations, line item 820605 is used for departmental oversight of licensed insurance companies, and line item 820613 is used to pay for the Department's regulatory and enforcement responsibilities related to captive insurers.

Revenue to the Department of Insurance Operating Fund (Fund 5540), combined with the estimated FY 2019 year-end cash balance of the fund, is expected to be sufficient to support the recommended appropriations for the upcoming biennium. However, revenue to Fund 5540 declined in FY 2018, and fees from insurance agent appointments, which constitute the main source of revenue for Fund 5540, yield varying amounts of revenue from year to year.<sup>1</sup>

The executive budget also provides the Department with federal funding of \$2.8 million for FY 2020. This amount is \$20,699 lower than estimated total federal funds in FY 2019, a decrease of 0.7%. Recommended federal funding for FY 2021 is the same as the recommended federal funding for FY 2020.

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<sup>1</sup> Revenue to Fund 5550 is based on assessments that reflect costs, so the revenue-raising mechanism will support the amounts appropriated in line item 820605.

## Staffing levels

As of January 2019, the Department employed 245 full-time permanent employees, five part-time permanent employees, and seven intermittent employees. The following table presents the Department of Insurance staffing level in FY 2019 through FY 2021. All figures shown are Department of Insurance estimates. In the next biennium, the Department estimates a total of five full-time equivalent (FTE) employees will be added under the product regulation and risk assessment areas and anticipates a reduction of one FTE employee under the program management area.

Key Area	FY 2018 Actual	FY 2019 Estimates	FY 2020 Estimates	FY 2021 Estimates
Market Conduct	11	13	13	13
Licensing	15.5	15.5	15.5	15.5
Fraud	23	22.5	22.5	22.5
Risk Assessment	49	49.5	51.5	51.5
Product Regulation	37	38	41	41
Consumer Services	29	30	30	30
OSHIIP	23.75	24.25	24.25	24.25
Program Management	72	72	71	71
<b>Total</b>	<b>260.25</b>	<b>264.75</b>	<b>268.75</b>	<b>268.75</b>

## Analysis of FY 2020-FY 2021 budget proposal

### Operating Expenses (ALI 820606)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
<b>5540 ALI 820606, Operating Expenses</b>					
\$25,231,717	\$26,093,944	\$25,589,462	\$26,202,530	\$29,580,629	\$30,661,244
% change	3.4%	-1.9%	2.4%	12.9%	3.7%

This appropriation item provides funding for the general operating expenses for the Department of Insurance, excluding OSHIIP and the agency's Financial Examination programs. The appropriation draws on Fund 5540.

The budget bill includes a provision that requires health insurers to provide coverage for telemedicine services if the service in question would be covered by the health insurer when provided in person by a health provider. "Telemedicine services" are defined as a mode of providing health care services through synchronous or asynchronous information and

communication technology by a healthcare professional who is located at a site other than that at which the patient is located.

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 and enforcement, (6) product regulation and actuarial services, and (7) administrative support.

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 OSHIP, 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. In FY 2018, the consumer services staff recovered about \$5.6 million in restitution for Ohio consumers. They also received over 26,000 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, NAIC databases, and research tools. The Department is also required to conduct additional market conduct examinations to ensure compliance with certain uniform contract provisions between health care providers and contracting entities (i.e., health insurers), and insurers pay for the cost of examinations.

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.

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 to ensure that they are capable of meeting their contractual agreements to policyholders and claimants. They also oversee complex transactions such as mergers, acquisitions, redemptions, reinsurance agreements, and inter-company agreements to ensure that insurance companies have enough money to pay claims filed by consumers.

The Department's fraud and enforcement area investigates insurance fraud and agent misconduct, and 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 receives thousands of allegations of insurance fraud and agent misconduct annually. 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 administrative support 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.

The executive recommends an increase in the FY 2020 appropriation of about \$3.4 million, or 12.9%, from the estimated expenditures for FY 2019. The executive recommends an increase of about \$1.1 million, or 3.7%, in FY 2021 compared to the FY 2020 recommended amount.

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

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
<b>Fund 5540 ALI 820601, Operating Expenses – OSHIIP</b>					
\$175,711	\$0	\$205,724	\$180,000	\$180,000	\$180,000
% change	-100%	N/A	-12.5%	0.0%	0.0%
<b>Fund 3U50 ALI 820602, OSHIIP Operating Grant</b>					
\$2,188,102	\$2,319,026	\$2,323,517	\$2,813,849	\$2,793,150	\$2,793,150
% change	6.0%	0.2%	21.1%	-0.7%	0.0%
<b>Total</b>					
\$2,363,813	\$2,319,026	\$2,529,241	\$2,993,849	\$2,973,150	\$2,973,150
% change	-1.9%	9.1%	18.4%	-0.7%	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. This program assists and educates Ohioans on insurance issues, including health insurance for seniors. About 94% 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.

Recommended state funding for FY 2020 is \$180,000, the same as estimated expenditures for FY 2019, and a decrease of \$25,724, or 12.5%, from actual FY 2018 state expenditures. The recommended state funding for FY 2021 is \$180,000, the same as FY 2020 recommended funding. Total recommended state funding for FY 2020 and FY 2021 is \$360,000. State funding for FY 2018 and FY 2019 is estimated to be \$385,724. The recommended state funding for FY 2020 and FY 2021 is \$25,724, or 6.7%, lower than the estimated state funding for FY 2018 and FY 2019.

The federal grant that provides most of the funding for this program was about \$2.3 million in FY 2018. In FY 2019, the estimated amount of the federal grant is about \$2.8 million. Department officials expect the grant amount to be about \$2.8 million for each year of the upcoming biennium.

The recommended level of total funding for the program for FY 2020 is about \$3.0 million, 0.7% less than the estimated total for FY 2019. The recommended total funding for FY 2021 is about \$3.0 million, the same as the recommended total funding in FY 2020.

### Examination (ALI 820605)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
<b>Fund 5550 ALI 820605, Examination</b>					
\$7,099,597	\$7,325,926	\$7,666,829	\$7,995,267	\$8,938,161	\$9,179,766
% change	3.2%	4.7%	4.3%	11.8%	2.7%

This appropriation 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 onsite examinations. In FY 2018, the Department's Risk Assessment staff conducted 58 financial examinations of Ohio domestic insurers and about 8,000 desk audits. 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 executive proposal provides an increase of about \$0.9 million, or 11.8%, in FY 2020 from the estimated expenditures for FY 2019. The executive recommends an increase of about \$242,000, or 2.7%, from the FY 2020 recommended amount in FY 2021.

## Captive Insurance Regulation and Supervision (ALI 820613)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
<b>Fund 5PT0 ALI 820613, Captive Insurance Regulation and Supervision</b>					
\$153,290	\$242,364	\$328,195	\$606,170	\$650,000	\$650,000
% change	58.1%	35.4%	84.7%	7.2%	0.0%

This line item provides funding for administrative expenses related to the oversight of captive insurers. H.B. 117 of the 130<sup>th</sup> General Assembly allowed captive insurance companies to operate in Ohio. Enacted in June 2014, the act's effective date was in September 2014. Among other provisions, H.B. 117 provided for 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). In FY 2018, the Department licensed a total of 15 captive insurance companies to do business in Ohio.

During FY 2016 and FY 2017, the Director of Budget and Management transferred \$1.0 million from Fund 5540 to Fund 5PT0 to pay for necessary operating needs associated with regulating captive insurance companies in Ohio that occurred before receipts related to such regulation were deposited into Fund 5PT0. The money was to be repaid to Fund 5540 once revenue to Fund 5PT0 was sufficient to provide for repayment, but as of March 2019, the required repayment had not yet been made. The executive proposal requires the Director, in consultation with the Superintendent, to establish a schedule for repaying Fund 5540 for the amounts previously transferred.

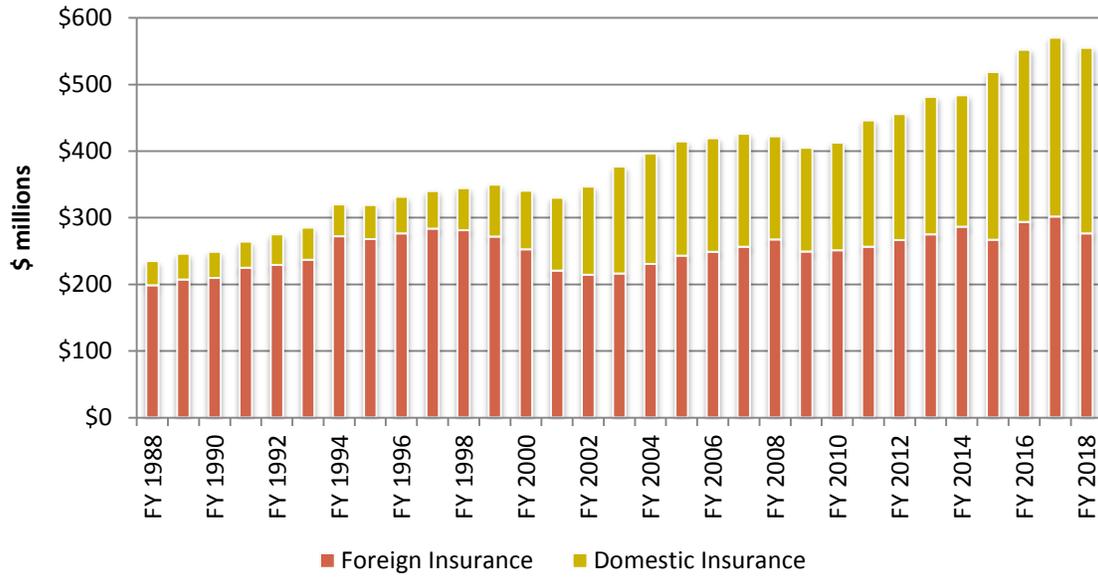
The executive proposal provides appropriations of about \$0.65 million each in FY 2020 and FY 2021 for this line item. This amount is about \$44,000, or 7.2%, higher than the estimated expenditures for FY 2019.

## Domestic and foreign insurance taxes

The Department of Insurance administers the domestic and foreign insurance taxes. The chart below presents the amount of revenues credited to the GRF for FY 1988 through FY 2018 from the taxes.<sup>2</sup>

<sup>2</sup> The revenue decrease from the foreign insurance tax between FY 1999 and FY 2003 was due to changes in the tax rates which were made by Am. Sub. H.B. 215 of the 122<sup>nd</sup> General Assembly; in the case of the domestic insurance tax, the revenue increase was due to changes in tax rates and the tax base made by the same act.

Chart 3: Domestic and Foreign Insurance Taxes



**FY 2020 - FY 2021 Appropriations - As Introduced**

**All Fund Groups**

Line Item Detail by Agency			Estimate	Introduced	FY 2019 to FY 2020	Introduced	FY 2020 to FY 2021	
			FY 2018	FY 2019	FY 2020	FY 2020	FY 2021	% Change
<b>Report For: Main Operating Appropriations Bill</b>			<b>Version: As Introduced</b>					
<b>INS Department of Insurance</b>								
5540	820601	Operating Expenses-OSHIIP	\$ 205,724	\$ 180,000	\$ 180,000	0.00%	\$ 180,000	0.00%
5540	820606	Operating Expenses	\$ 25,589,462	\$ 26,202,530	\$ 29,580,629	12.89%	\$ 30,661,244	3.65%
5550	820605	Examination	\$ 7,666,829	\$ 7,995,267	\$ 8,938,161	11.79%	\$ 9,179,766	2.70%
5PT0	820613	Captive Insurance Regulation and Supervision	\$ 328,195	\$ 606,170	\$ 650,000	7.23%	\$ 650,000	0.00%
<b>Dedicated Purpose Fund Group Total</b>			<b>\$ 33,790,210</b>	<b>\$ 34,983,967</b>	<b>\$ 39,348,790</b>	<b>12.48%</b>	<b>\$ 40,671,010</b>	<b>3.36%</b>
3U50	820602	OSHIIP Operating Grant	\$ 2,323,517	\$ 2,813,849	\$ 2,793,150	-0.74%	\$ 2,793,150	0.00%
<b>Federal Fund Group Total</b>			<b>\$ 2,323,517</b>	<b>\$ 2,813,849</b>	<b>\$ 2,793,150</b>	<b>-0.74%</b>	<b>\$ 2,793,150</b>	<b>0.00%</b>
<b>Department of Insurance Total</b>			<b>\$ 36,113,728</b>	<b>\$ 37,797,816</b>	<b>\$ 42,141,940</b>	<b>11.49%</b>	<b>\$ 43,464,160</b>	<b>3.14%</b>