

# Redbook

## LBO Analysis of Executive Budget Proposal

### Ohio Department of Insurance

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#### TABLE OF CONTENTS

<b>Quick look</b> .....	<b>1</b>
<b>Overview</b> .....	<b>2</b>
Agency overview.....	2
Appropriation summary.....	2
Staffing levels.....	4
<b>Analysis of FY 2024-FY 2025 budget proposal</b> .....	<b>5</b>
Operating Expenses (ALI 820606).....	5
Operating Expenses – OSHIIP (ALI 820601) and OSHIIP Operating Grant (ALI 820602) .....	7
Examination (ALI 820401).....	8
<b>Domestic and foreign insurance taxes</b> .....	<b>9</b>

Attachment:

Appropriation Spreadsheet

# LBO Redbook

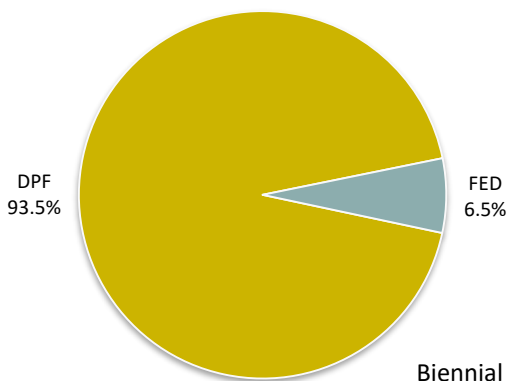
## Ohio Department of Insurance

### Quick look...

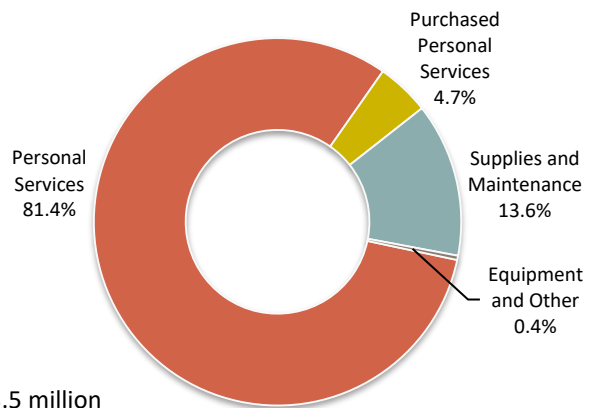
- The Department of Insurance regulates and licenses 1,712 insurance companies operating in Ohio, conducts financial examinations and audits, and annually licenses and regulates about 308,000 agents and 21,300 agencies.
  - The Department also administers the domestic and foreign insurance taxes.
- The Department employs 248 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 2024 is \$2.0 million higher than FY 2023 estimated expenditures and total recommended funding for FY 2025 is \$721,034 higher than the total recommended funding for FY 2024.
  - The executive budget recommends eliminating two funds used by the Department and consolidating 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 Estimate	FY 2024 Introduced	FY 2025 Introduced
Dedicated Purpose (DPF)	\$38,775,129	\$41,545,853	\$43,316,669	\$44,037,703
Federal (FED)	\$2,773,438	\$2,869,513	\$3,050,000	\$3,050,000
Total	\$41,548,567	\$44,415,366	\$46,366,669	\$47,087,703
% change	--	6.9%	4.4%	1.6%

**Chart 1: INS Budget by Fund Group  
FY 2024-FY 2025 Biennium**



**Chart 2: INS Budget by Expense Category  
FY 2024-FY 2025 Biennium**



Biennial total: \$93.5 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 2022 raised about \$641 million (combined) for the General Revenue Fund.

The Department of Insurance is a cabinet-level agency with 248 employees as of January 2023.<sup>1</sup> 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 estimated expenditures are \$44.4 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 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

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<sup>1</sup> Source: [State of Ohio Employee Headcount Trends](#) (visited February 14, 2023); data in Table 1 represent the number of full-time employees at the beginning of a fiscal year received from the Department of Insurance.

protecting and educating Ohio consumers, and regulating insurance markets in the state. The executive's recommended total funding for FY 2024 is \$46.4 million, or \$2.0 million more than FY 2023 estimated expenditures, a 4.4% increase. Recommended total funding for FY 2025 is \$47.1 million, or \$721,034 more than FY 2024 recommended total funding, a 1.6% increase. Increases in the executive budget in FY 2024 and FY 2025 are largely due to anticipated personnel costs for filling vacancies and cost-of-living increases.

The executive budget would restructure funds used by the Department. Under the proposed budget, the Superintendent's Examination Fund (Fund 5550) and the Captive Insurance Regulation and Supervision Fund (Fund 5PT0) will be eliminated and ALIs associated with the funds (Fund 5550 ALI 820605, Examination and Fund 5PT0 ALI 820613, Captive Insurance Regulation and Supervision) will be discontinued beginning in FY 2024. Both revenues that are currently deposited into and expenditures paid from Fund 5550 and Fund 5PT0 will be deposited into and paid from the Department of Insurance Operating Fund (Fund 5540, the Department's primary budget fund). Insurers' reimbursements related to examinations of those insurance companies, currently deposited into Fund 5550, and application fees paid by captive insurers that are currently deposited into Fund 5PT0, will be deposited into Fund 5540 when Fund 5550 and Fund 5PT0 are eliminated. The executive budget also creates a new ALI, Fund 5540 ALI 820401, Examination, to replace ALIs 820605 and 820613. The new line item 820401 will be 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. Recommended funding for the new line item in FY 2024, \$10.7 million, is 6.5% more than the combined estimated FY 2023 expenditures from the two line items it is replacing.

The other three line items in the Department's budget also would receive funding increases under the executive budget. Fund 5540 ALI 820606, Operating Expenses is used for general departmental operations, and it receives an increase of \$1.1 million (3.5%) in FY 2024, followed by an increase of \$598,000 (1.8%) in FY 2025. The proposed increase in ALI 820606 accounts for about 57% of the total proposed FY 2024 funding increase for the Department, while the new Fund 5540 ALI 820401 accounts for about 33% of the total proposed FY 2024 funding increase. The remaining increase is for 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 estimated FY 2023 year-end cash balance of the fund, is expected to be sufficient to support the recommended appropriations for the upcoming biennium. The cash balance of Fund 5540 at the end of FY 2022 was \$48.0 million, and the Department projects a cash balance of \$57.6 million at the end of FY 2023. Revenue to Fund 5540, primarily fees from insurance agent appointments, grew nearly 46% from FY 2018 to FY 2022, though that revenue source yields varying amounts of revenue from year to year; in contrast the sources of revenue (excluding transfers) to Fund 5550 and Fund 5PT0 grew 11.9% and 73.9% from FY 2018 to FY 2022, the latter from a relatively small base. Department officials anticipate actual fees in the near future may continue to increase, likely due to a growing insurance industry in the state, 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 executive budget also proposes an appropriation of \$3.1 million for FY 2024 from federal Fund 3U50. This amount is \$180,487 higher than estimated expenditures from the line item in FY 2023, an increase of 6.3%. The recommended appropriation in FY 2025 is the same as the recommended amount for FY 2024.

## Staffing levels

As of January 2023, the Department employed 238 full-time permanent employees, five part-time employees, and five intermittent employees.<sup>2</sup> The following table presents the Department of Insurance staffing level at the beginning of FY 2022 through FY 2025. Figures shown for FY 2023 through FY 2025 are Department of Insurance estimates. In the next biennium, the Department anticipates filling various vacant positions in most key areas.

<b>Key Area</b>	<b>FY 2022 Actual</b>	<b>FY 2023 Estimates</b>	<b>FY 2024 Estimates</b>	<b>FY 2025 Estimates</b>
Market Conduct	10	9	10	10
Agent Licensing	14	14	16	16
Fraud and Enforcement	19	20	18	18
Risk Assessment and Captive Insurance	52	51	52	52
Product Regulation and Actuarial Services	32	35	40	40
Consumer Services	22	22	28	28
OSHIIP	20	21	20	20
Program Management	65	67	70	70
<b>Total</b>	<b>234</b>	<b>239</b>	<b>254</b>	<b>254</b>

<sup>2</sup> Source: [State of Ohio Employee Headcount Trends](#) (visited February 14, 2023); data in Table 1 represent the number of full-time employees at the beginning of a fiscal year received from the Department of Insurance.

## Analysis of FY 2024-FY 2025 budget proposal

### Operating Expenses (ALI 820606)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
<b>5540 ALI 820606, Operating Expenses</b>					
\$26,490,532	\$27,418,382	\$29,748,899	\$31,354,162	\$32,465,978	\$33,063,978
% change	3.5%	8.5%	5.4%	3.5%	1.8%

The executive recommends an increase in the FY 2024 appropriation of about \$1.1 million, or 3.5%, from the estimated expenditures for FY 2023. The recommended amount in FY 2025 is \$598,000 higher than the recommended amount in FY 2024. The increase in FY 2024 is largely due to anticipated personnel costs for filling vacancies and cost-of-living expenses. About 78% of the proposed funding for this line item is for personal services, and 15% is for supplies and maintenance; most of the remainder is for purchased personal services.

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.

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 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 administers a health care provider complaint program, including 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 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 program management include legal services staff who provide legal advice on regulatory transactions including changes of control, mergers, redomestications, 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 Estimate	FY 2024 Introduced	FY 2025 Introduced
<b>Fund 5540 ALI 820601, Operating Expenses – OSHIIP</b>					
\$227,381	\$87,781	\$177,396	\$180,000	\$189,000	\$189,000
% change	-61.4%	102.1%	1.5%	5.0%	0.0%
<b>Fund 3U50 ALI 820602, OSHIIP Operating Grant</b>					
\$2,721,175	\$2,595,342	\$2,773,438	\$2,869,513	\$3,050,000	\$3,050,000
% change	-4.6%	6.9%	3.5%	6.3%	0.0%
<b>Total</b>					
\$2,948,556	\$2,683,123	\$2,950,834	\$3,049,513	\$3,239,000	\$3,239,000
% change	-9.0%	10.0%	3.3%	6.2%	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. Annually, OSHIIP assisted hundreds of thousands of consumers. In FY 2022 OSHIIP helped save approximately \$25.2 million 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).

Recommended state funding for FY 2024 is \$189,000, an increase of \$9,000 from the estimated expenditures for FY 2023, and an increase of \$11,604, or 6.5%, from actual FY 2022 state expenditures. The recommended state funding for FY 2025 is also \$189,000, the same as FY 2024 recommended funding. Total recommended state funding for the biennium is \$378,000. State funding for the FY 2022-FY 2023 biennium is estimated to be \$357,396. The recommended state funding for FY 2024 and FY 2025 is \$20,604, or 5.8%, higher than the estimated state funding for the current biennium.

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

The recommended level of total funding for the program for FY 2024 is about \$3.2 million, 6.2% more than the estimated total for FY 2023. The increase is primarily related to personnel costs. The recommended total funding for FY 2025 is also about \$3.2 million.



## Examination (ALI 820401)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
<b>Fund 5540 ALI 820401, Examination</b>					
\$0	\$0	\$0	\$0	\$10,661,691	\$10,784,725
% change	N/A	N/A	N/A	N/A	1.2%
<b>Fund 5550 ALI 820605, Examination</b>					
\$8,052,679	\$8,256,657	\$8,502,966	\$9,551,679	\$0	\$0
% change	2.5%	3.0%	12.3%	-100.0%	N/A
<b>Fund 5PT0 ALI 820613, Captive Insurance Regulation and Supervision</b>					
\$349,728	\$306,697	\$345,869	\$460,012	\$0	\$0
% change	-12.3%	12.8%	33.0%	-100.0%	N/A
<b>Total</b>					
\$8,402,407	\$8,563,354	\$8,848,834	\$10,011,691	\$10,661,691	\$10,784,725
% change	1.9%	3.3%	13.1%	6.5%	1.2%

The table above shows a new line item in the executive proposal compared to the two line items it is replacing. The executive proposal recommends \$10.7 million funding in this new line item in FY 2024 and \$10.8 million in FY 2025. Beginning in FY 2024, the new line item will be 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 the two line items being replaced currently fund. A provision of the budget bill eliminates Fund 5550 and Fund 5PT0, transfers any balance in those funds to Fund 5540, and transfers any encumbrances linked to the old ALIs to ALI 820401.

The recommended FY 2024 funding in this new ALI is \$650,000 higher than the total anticipated FY 2023 expenditures in the two ALIs that it will replace, a 6.5% increase. The recommended FY 2025 funding in the new ALI is \$123,034 higher than the recommended FY 2024 funding, or about a 1.2% increase.

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. 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.

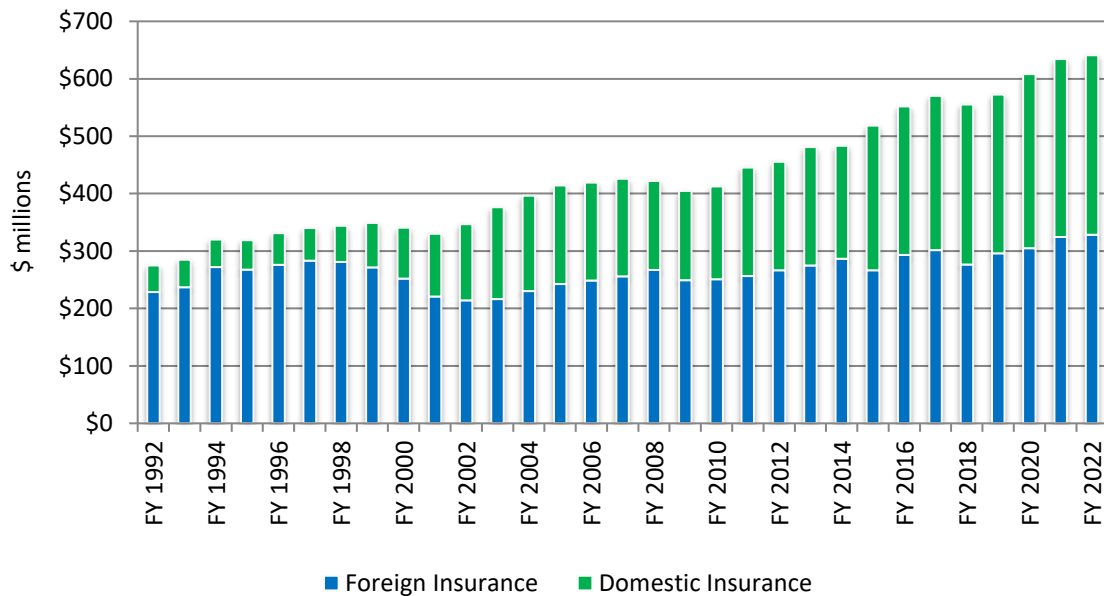
H.B. 117 of the 130<sup>th</sup> General Assembly allowed captive insurance companies to operate in Ohio. Enacted in June 2014, the act's effective date was in September 2014. Among other provisions, H.B. 117 provided for a \$500 fee to apply to form a captive insurer, and established other fees and revenue sources for the Captive Insurance Regulation and Supervision Fund (Fund 5PT0). The budget bill would not change the existing fees, but provides that they be

deposited into Fund 5540 instead of Fund 5PT0. In FY 2022 the Department licensed a total of six captive insurance companies to do business in Ohio.

## 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 1992 through FY 2022 from the taxes.<sup>3</sup>

Chart 3: Domestic and Foreign Insurance Tax Revenues



INS/lb

<sup>3</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.

# FY 2024 - FY 2025 Appropriations - As Introduced

# All Fund Groups

Line Item Detail by Agency			FY 2022	Estimate	Introduced	FY 2023 to FY 2024	Introduced	FY 2024 to FY 2025
				FY 2023	FY 2024	% Change	FY 2025	% Change
<b>Report For: Main Operating Appropriations Bill</b>			<b>Version: As Introduced</b>					
<b>INS</b>	<b>Department of Insurance</b>							
5540	820401	Examination	\$0	\$0	\$ 10,661,691	N/A	\$ 10,784,725	1.15%
5540	820601	Operating Expenses-OSHIIP	\$ 177,396	\$ 180,000	\$ 189,000	5.00%	\$ 189,000	0.00%
5540	820606	Operating Expenses	\$ 29,748,899	\$ 31,354,162	\$ 32,465,978	3.55%	\$ 33,063,978	1.84%
5550	820605	Examination	\$ 8,502,966	\$ 9,551,679	\$0	-100.00%	\$0	N/A
5PT0	820613	Captive Insurance Regulation and Supervision	\$ 345,869	\$ 460,012	\$0	-100.00%	\$0	N/A
<b>Dedicated Purpose Fund Group Total</b>			<b>\$ 38,775,129</b>	<b>\$ 41,545,853</b>	<b>\$ 43,316,669</b>	<b>4.26%</b>	<b>\$ 44,037,703</b>	<b>1.66%</b>
3U50	820602	OSHIIP Operating Grant	\$ 2,773,438	\$ 2,869,513	\$ 3,050,000	6.29%	\$ 3,050,000	0.00%
<b>Federal Fund Group Total</b>			<b>\$ 2,773,438</b>	<b>\$ 2,869,513</b>	<b>\$ 3,050,000</b>	<b>6.29%</b>	<b>\$ 3,050,000</b>	<b>0.00%</b>
<b>Department of Insurance Total</b>			<b>\$ 41,548,567</b>	<b>\$ 44,415,366</b>	<b>\$ 46,366,669</b>	<b>4.39%</b>	<b>\$ 47,087,703</b>	<b>1.56%</b>