

**Greenbook**  
**LSC Analysis of Enacted Budget**

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**Department of Insurance**

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### **ATTACHMENT:**

Budget Spreadsheet By Line Item

# Department of Insurance

- The agency receives no GRF funding
- Funding for the Department of Insurance's 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 2017 raised about \$570 million (combined) for the General Revenue Fund (GRF).

The Department of Insurance is a cabinet-level agency with 256 full-time permanent employees.<sup>1</sup> Its activities are organized into nine 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).

In FY 2016, the Department licensed and regulated approximately 1,700 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 1,450 based in another state but licensed to do business in Ohio are referred to as "foreign" insurance companies. The Department also licensed and regulated over 205,000 insurance agents and about 17,000 agencies.

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<sup>1</sup> This figure represents total headcount in FY 2016 and did not include five part-time employees and seven intermittent employees.

## Appropriation Overview

The enacted budget provides the funding necessary to maintain the agency's operations at current levels. The following table provides the appropriations by fund group for INS for the FY 2018-FY 2019 biennium.

<b>Fund Group</b>	<b>FY 2017*</b>	<b>FY 2018</b>	<b>% change, FY 2017-FY 2018</b>	<b>FY 2019</b>	<b>% change, FY 2018-FY 2019</b>
Dedicated Purpose	\$33,662,234	\$35,895,389	6.6%	\$35,895,389	0.0%
Federal	\$2,319,026	\$2,793,150	20.4%	\$2,793,150	0.0%
<b>TOTAL</b>	<b>\$35,981,259</b>	<b>\$38,688,539</b>	<b>7.5%</b>	<b>\$38,688,539</b>	<b>0.0%</b>

\*FY 2017 figures represent actual expenditures.

The enacted budget appropriates a total of \$38.7 million for FY 2018. This amount is \$2.7 million, or 7.5%, higher than FY 2017 actual expenditures. The budget appropriates a total of \$38.7 million for FY 2019, the same as the total appropriations for FY 2018. Increases in the budget in FY 2018 are due to funding increases in all five line items: 820601, Operating Expenses – OSHIIP (Fund 5540); 820606, Operating Expenses (Fund 5540); 820605, Examination (Fund 5550); 820613, Captive Insurance Regulation and Supervision (Fund 5PT0); and 820602, OSHIIP Operating Grant (Fund 3U50). Funding in line items 820601 and 820602 are used to pay for the administration of the Consumer Services Program. Funding in line item 820606 is used for general departmental operations while line item 820605 is primarily used for departmental oversight of licensed insurance companies. Funding in line item 820613 is used to pay for the Department's regulatory and enforcement responsibilities related to captive insurers.

The budget provides the Department with federal funding of about \$2.8 million each for FY 2018 and FY 2019. This amount is about \$474,000, or 20.4%, higher than the actual federal funds expenditures in FY 2017.

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. This primary revenue source is supplemented by company filing fees, various smaller fees, and federal grants. In FY 2017, the agency's actual expenditures were \$36.0 million.

## Payer Education on Mental Health and Addiction Services

The enacted budget requires the Superintendent of Insurance, in consultation with the Director of Mental Health and Addiction Services, to develop consumer education on mental health and addiction services insurance parity, including establishing a consumer hotline to collect information and help consumers understand

their insurance benefits. The budget requires both departments to jointly report on their efforts under the program, annually before each January 30, to the General Assembly, the Joint Medicaid Oversight Committee, and the Governor.

This provision would increase administrative costs for the Department of Insurance or the Department of Mental Health and Addiction Services, and likely for both. The cost of establishing, staffing, and operating a consumer hotline would be about \$100,000 annually. The Department of Insurance's administrative costs are paid from the Department of Insurance Operating Fund (Fund 5540).

### **Cash Transfer from Select Non-GRF Funds to the GRF**

The budget authorizes the Director of Budget and Management to transfer cash to the GRF from any fund used by the Department of Insurance for which there are no constitutional restrictions preventing the transfer. The amounts of the transfers, in both FY 2018 and FY 2019, may be up to 2% of the amount appropriated in FY 2017 from those funds. Under the authorization, up to approximately \$716,000 may be transferred each year from Funds 5540, 5550, and 5PT0 to the GRF.

### **Application for Innovative Waiver**

The budget requires the Superintendent of Insurance to apply to the U.S. Secretary of Health and Human Services and the U.S. Secretary of the Treasury for an innovative waiver regarding health insurance coverage in Ohio as specified under section 3901.052 of the Revised Code by January 31, 2018. Section 3901.052 was enacted by Am. Sub. H.B. 64 of the 131st General Assembly, and requires the application to include a request for waivers of the employer and individual mandates that were established in the federal Affordable Care Act (ACA).

### **Suspension of Open Enrollment, Conversion, and Reinsurance Board Provisions**

The budget extends the provisions of Section 3 of S.B. 9 of the 130th General Assembly from January 1, 2018, to January 1, 2022. This provision continues the suspension of the operation of all of the following until that date: (1) Ohio's Open Enrollment Program, (2) Ohio's Health Reinsurance Program, and (3) Conversion options under an existing health insuring corporation (HIC) contract. The programs may be duplicative of guaranteed health insurance coverage under the ACA.

### **Application of Prior Authorization Requirements to Dental Benefits**

The budget exempts dental benefits offered as a part of a health benefit plan from prior authorization requirements imposed on HICs, sickness and accident insurers, public employee benefit plans, and multiple employer welfare arrangements. The exemption may decrease insurance premiums for the state and local governments' health benefit plans, thus reducing the state and local governments' costs to provide health benefits to employees and their beneficiaries.

## 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. The four categories used in this analysis are as follows:

1. Operating Expenses;
2. Consumer Services;
3. Examination; and
4. Captive Insurance.

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 act.

Categorization of INS Appropriation Line Items for Analysis of Enacted Budget		
Fund	ALI and Name	Category
<b>Dedicated Purpose Fund Group</b>		
5540 820601	Operating Expenses – OSHIIP	2: Consumer Services
5540 820606	Operating Expenses	1: Operating Expenses
5550 820605	Examination	3: Examination
5PT0 820613	Captive Insurance Regulation & Supervision	4: Captive Insurance
<b>Federal Fund Group</b>		
3U50 820602	OSHIIP Operating Grant	2: Consumer Services

### Category 1: Operating Expenses (820606)

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 the Department of Insurance Operating Fund (Fund 5540). Fund 5540 receives funding from various fees, including an annual fee assessed to each insurance agent licensed to provide insurance service in Ohio.

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. 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 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.

The budget appropriates \$26.9 million in FY 2018 in this line item. This amount represents an increase of about \$844,000, or 3.2%, from the actual expenditures for FY 2017. The budget appropriates \$26.9 million in FY 2019, the same as the FY 2018 appropriation.

Appropriations for Operating Expenses				
Fund	ALI and Name		FY 2018	FY 2019
<b>Dedicated Purpose Fund Group</b>				
5540	820606	Operating Expenses	\$26,937,840	\$26,937,840
<b>Dedicated Purpose Fund Group Subtotal</b>			<b>\$26,937,840</b>	<b>\$26,937,840</b>
<b>Total Funding: Operating Expenses</b>			<b>\$26,937,840</b>	<b>\$26,937,840</b>

The budget allows the Director of Budget and Management, 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 historically have ranged between \$210,000 and \$535,000 annually.

The budget makes two changes to insurance law enforced by the Department. First it enables an HIC to use an accreditation from the Accreditation Association for Ambulatory Health Care to meet quality assurance program requirements. Second, it allows an insurer to include a notice of cancellation of automobile insurance due to nonpayment of premium with a bill. Neither of these provisions is expected to have a significant fiscal effect on the Department.



**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 from Fund 5540 for FY 2018. There were no actual expenditures in FY 2017. The appropriation for FY 2019 is also \$180,000. In FY 2017, the actual amount of the federal grant was about \$2.3 million. Department officials expect the grant amount to be about \$2.8 million for each year of the upcoming biennium.

The total state appropriation and federal grant for the program for FY 2018 is about \$3.0 million, which is about \$654,000 (28.2%) higher than the actual total expenditures for FY 2017. The total funding for FY 2019 is about \$3.0 million, which is the same as the total funding in FY 2018.

<b>Appropriations for Consumer Services</b>				
<b>Fund</b>	<b>ALI and Name</b>		<b>FY 2018</b>	<b>FY 2019</b>
<b>Dedicated Purpose Fund Group</b>				
5540	820601	Operating Expenses – OSHIIP	\$180,000	\$180,000
<b>Dedicated Purpose Fund Group Subtotal</b>			<b>\$180,000</b>	<b>\$180,000</b>
<b>Federal Fund Group</b>				
3U50	820602	OSHIIP Operating Grant	\$2,793,150	\$2,793,150
<b>Federal Fund Group Subtotal</b>			<b>\$2,793,150</b>	<b>\$2,793,150</b>
<b>Total Funding: Consumer Services</b>			<b>\$2,973,150</b>	<b>\$2,973,150</b>

### Category 3: Examination (820605)

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 2016, the Department 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 budget appropriates \$8.1 million each for FY 2018 and FY 2019 for this line item. This amount is about \$802,000, or 10.9%, higher than the actual expenditures for FY 2017.

Appropriations for Examination				
Fund	ALI and Name		FY 2018	FY 2019
<b>Dedicated Purpose Fund Group</b>				
5550	820605	Examination	\$8,127,549	\$8,127,549
<i>Dedicated Purpose Fund Group Subtotal</i>			<b>\$8,127,549</b>	<b>\$8,127,549</b>
<b>Total Funding: Examination</b>			<b>\$8,127,549</b>	<b>\$8,127,549</b>

### Category 4: Captive Insurance (820613)

This category consists of a line item that provides funding for administrative expenses related to the oversight of captive insurers. H.B. 117 of the 130th 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 2016, the Department licensed six captive insurance companies. In FY 2017, there were 14 captive insurance companies licensed to do business in Ohio.

During fiscal years 2016 and 2017, the Director of Budget and Management transferred money 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 budget requires the Director, in consultation with the Superintendent, to establish a schedule for repaying Fund 5540 for the amounts previously transferred. Captive insurance regulation is a relatively new regulatory responsibility for the Department, and the reason funds had to be transferred from Fund 5540 to Fund 5PT0 during fiscal years 2016 and 2017 to provide resources to regulate captive insurers prior to the receipt of licensing fees by Fund 5PT0.

The budget provides appropriations of about \$0.7 million each in FY 2018 and FY 2019 for this line item. This amount is \$408,000, or 168.2%, higher than the actual expenditures for FY 2017.

Appropriations for Captive Insurance				
Fund		ALI and Name	FY 2018	FY 2019
<b>Dedicated Purpose Fund Group</b>				
5PT0	820613	Captive Insurance Regulation and Supervision	\$650,000	\$650,000
<b><i>Dedicated Purpose Fund Group Subtotal</i></b>			<b><i>\$650,000</i></b>	<b><i>\$650,000</i></b>
<b>Total Funding: Captive Insurance</b>			<b>\$650,000</b>	<b>\$650,000</b>

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# FY 2018 - FY 2019 Final Appropriation Amounts

# All Fund Groups

## Line Item Detail by Agency

			FY 2016	FY 2017	Appropriation FY 2018	FY 2017 to FY 2018 % Change	Appropriation FY 2019	FY 2018 to FY 2019 % Change
<b>Report For Main Operating Appropriations Bill</b>			<b>Version: As Enacted</b>					
<b>INS</b>	<b>Department of Insurance</b>							
5540	820601	Operating Expenses-OSHIIP	\$ 175,711	\$0	\$ 180,000	N/A	\$ 180,000	0.00%
5540	820606	Operating Expenses	\$ 25,231,717	\$ 26,093,944	\$ 26,937,840	3.23%	\$ 26,937,840	0.00%
5550	820605	Examination	\$ 7,099,597	\$ 7,325,926	\$ 8,127,549	10.94%	\$ 8,127,549	0.00%
5PT0	820613	Captive Insurance Regulation and Supervision	\$ 153,290	\$ 242,364	\$ 650,000	168.19%	\$ 650,000	0.00%
<b>Dedicated Purpose Fund Group Total</b>			<b>\$ 32,660,314</b>	<b>\$ 33,662,234</b>	<b>\$ 35,895,389</b>	<b>6.63%</b>	<b>\$ 35,895,389</b>	<b>0.00%</b>
3EVO	820610	Health Insurance Premium Review	\$ 1,065	\$0	\$ 0	N/A	\$ 0	N/A
3U50	820602	OSHIIP Operating Grant	\$ 2,188,102	\$ 2,319,026	\$ 2,793,150	20.44%	\$ 2,793,150	0.00%
<b>Federal Fund Group Total</b>			<b>\$ 2,189,167</b>	<b>\$ 2,319,026</b>	<b>\$ 2,793,150</b>	<b>20.44%</b>	<b>\$ 2,793,150</b>	<b>0.00%</b>
<b>Department of Insurance Total</b>			<b>\$ 34,849,481</b>	<b>\$ 35,981,259</b>	<b>\$ 38,688,539</b>	<b>7.52%</b>	<b>\$ 38,688,539</b>	<b>0.00%</b>