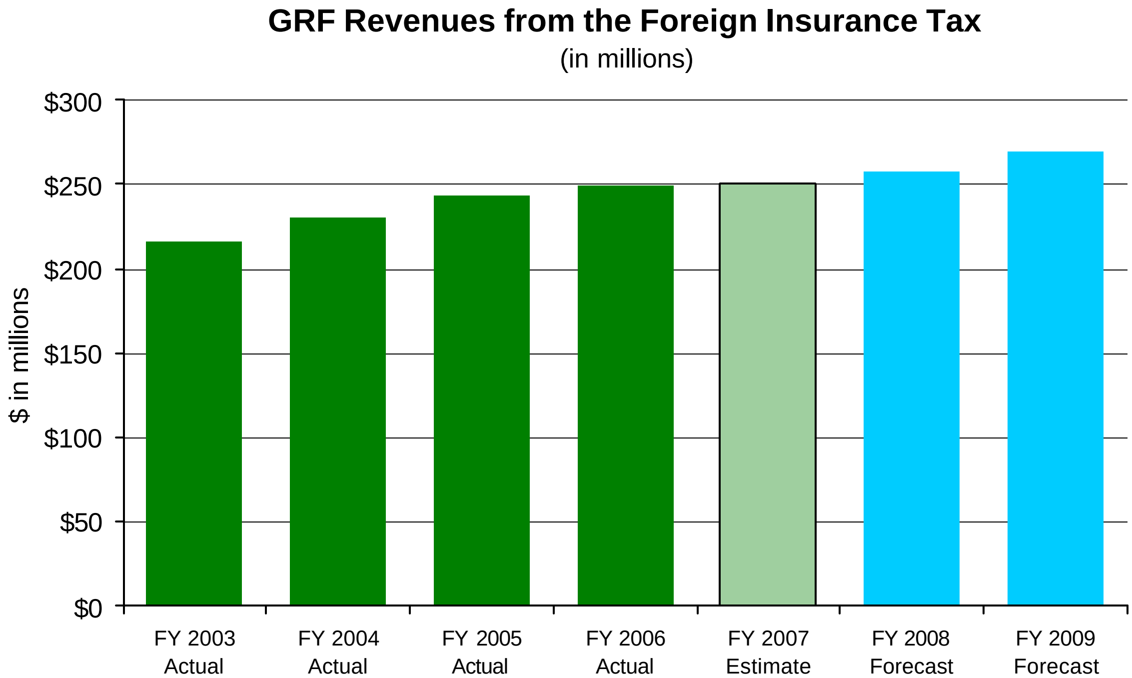
Foreign Insurance Tax



	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate	FY 2008 Forecast	FY 2009 Forecast
Revenue	$216.4	$230.5	$242.9	$248.8	$250.0	$257.4	$269.1
Growth	0.9%	6.5%	5.4%	2.4%	0.5%	3.0%	4.6%

The foreign insurance tax is levied on premiums collected by insurance companies headquartered in a state other than Ohio. The tax is generally 1.4% of premiums; the primary exception is foreign insurance companies that are health insuring corporations (HICs) which pay 1.0% of premiums. This tax structure is the same as the current domestic insurance tax structure. Approximately half of the revenue from this tax derives from premiums paid for life insurance, with slightly less (about 47%) deriving from premiums paid to fire and casualty insurers, a line of business that includes homeowner's insurance, automobile insurance, and other lines of business.

Revenue from this tax grew more slowly in FY 2006 than in the preceding two fiscal years. Econometric analysis indicates that the slowdown is due primarily to the effect of short-term interest rates on insurance premiums. Insurance companies receive revenue to pay claims and administrative costs from two primary sources: premiums and earnings on investments. When interest rates fall, premiums need to rise faster for insurance companies to avoid financial losses; conversely when interest rates rise, insurance companies do not need to increase premiums as much in order to make profits.

The average rate for six-month U.S. Treasury bills fell from 3.34% in 2001 to 1.68% in 2002 and then to 1.05% in 2003.[3] The rate then rose to 1.58% in 2004, 3.39% in 2005, and 4.81% in 2006. The falling rates from 2001 to 2003 were the primary reason for an acceleration in premium growth that caused revenue from this tax in FYs 2004 and 2005 to grow faster than long-term average growth of about 4.8%.[4] Conversely, the increase in these rates from 2003 to 2005 is the primary reason that revenues grew more slowly in FY 2006 than the long-term average. The slow growth in revenue projected for FY 2007 revenue is primarily due to the increases in these rates from 2004 to 2006. Premium growth is projected to remain below its long-term average in FY 2008 due primarily to the increase in the rate from 2005 to 2006, and to return to very close to its long-term average in FY 2009 due to an expected stability in interest rates for the period 2006 through 2008.[5]

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[3] These rates are the average secondary market rates for the calendar year, as reported by the Federal Reserve.

[4] This is the average growth rate in revenue under the tax for the 15 years from FY 1991 to FY 2006, after adjusting for changes in the tax rates enacted by Am. Sub. H.B. 215 of the 122nd General Assembly.

[5] Global Insight forecasts that the six-month Treasury bill rate will average 4.69% in 2007 and 4.49% in 2008.