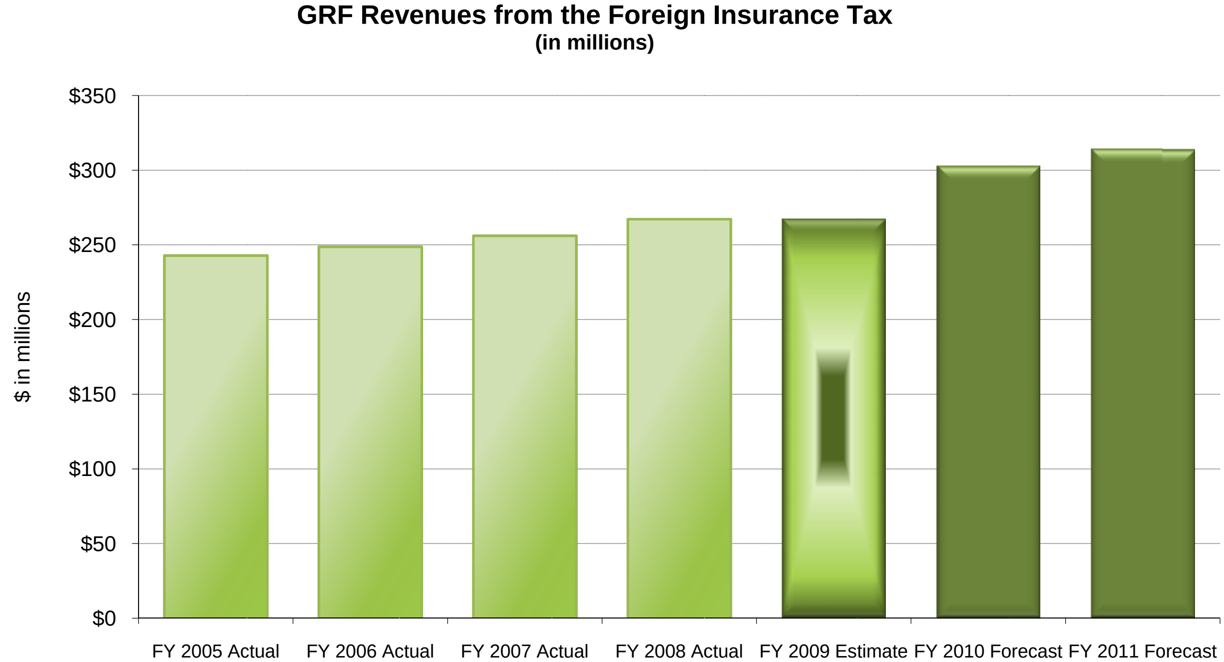
Foreign Insurance Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$242.9	$248.8	$256.2	$267.3	$267.5	$303.0	$314.0
Growth	5.4%	2.4%	3.0%	4.3%	0.1%	13.3%	3.6%

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 44% in FY 2008) 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 slightly faster in FY 2008 than in the preceding two fiscal years. However, this was due to a misclassification of revenue; some domestic insurance tax receipts were classified as receipts under the foreign insurance tax. Adjusting for the misclassification, revenue from the foreign insurance tax grew by just 1.0% in FY 2008, more slowly than in the two preceding years. Econometric analysis indicates that the slowdown was 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 deceleration in growth of receipts under the tax (after adjusting for the misclassification of receipts) is due primarily to the delayed effect of an increase in the average rate for six-month U.S. Treasury bills from 3.39% in 2005 to 4.81% in 2006. The growth in revenue projected for FY 2009 is primarily due to the decreases in these rates from 2006 to 2008; a strong increase due to falling interest rates is offset partially by an expected correction for the misclassification of receipts this year. Premium growth is projected to be above its long-term average in FY 2010 due primarily to the decrease in the rate from 2007 to 2008, and to return to very close to its long-term average in FY 2011 due to an expected increase in interest rates from 2009 to 2010.[5]

[5] According to Federal Reserve data, the six-month Treasury bill rate averaged 4.44% during 2007 in the secondary market, and 1.62% during 2008. Global Insight forecasts that the rate will average 0.74% in 2009 and 2.09% in 2010.