

# Greenbook

## LBO Analysis of Enacted Budget

### Ohio Department of Insurance

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Attachment:

Appropriation Spreadsheet

# LBO Greenbook

## Ohio Department of Insurance

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### Quick look...

- The Department of Insurance regulates and licenses 1,675 insurance companies operating in Ohio, conducts 64 financial examinations and 8,000 desk audits, and annually licenses and regulates over 252,000 agents and 19,220 agencies.
  - The Department also administers the domestic and foreign insurance taxes.
- The Department employed 245 employees as of June 2021.
- 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 total amount appropriated for FY 2022 is \$4.8 million higher than FY 2021 actual expenditures and the total amount appropriated for FY 2023 is the same as the total amount appropriated for FY 2022.
  - Just over 90% of the increase in the agency’s enacted budget in FY 2022 is due to appropriation increases in two line items: 820606, Operating Expenses (Fund 5540), and 820605, Examination (Fund 5550).

Fund Group	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
Dedicated Purpose (DPF)	\$35,120,320	\$36,069,517	\$40,671,010	\$40,671,010
Federal (FED)	\$2,721,175	\$2,595,342	\$2,793,150	\$2,793,150
Total	\$37,841,495	\$38,664,859	\$43,464,160	\$43,464,160
% change	--	2.2%	12.4%	0.0%

## 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 2021 raised about \$634 million (combined) for the General Revenue Fund.

The Department of Insurance is a cabinet-level agency with 245 employees as of June 2021. 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 2021, the agency's actual expenditures were \$38.7 million.

In FY 2020, the Department licensed and regulated more than 1,675 insurance companies operating in the state, of which approximately 260 are "domestic" insurance companies, i.e., companies based and licensed to do business in Ohio. The other 1,415 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 252,000 insurance agents and about 19,220 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 enacted budget appropriates a total of \$43.5 million for FY 2022, or \$4.8 million more than FY 2021 actual expenditures, a 12.4% increase. Total appropriations for FY 2023 also amount to \$43.5 million, identical to FY 2022 total appropriations. Increases in the enacted budget in FY 2022 and FY 2023 are largely due to anticipated personnel costs for filling vacancies. The enacted budget 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.

Funding in line item 820606, Operating Expenses (Fund 5540) is used for general departmental operations, and the amounts appropriated in this line item account for about 71% of the total amount appropriated for the Department for the FY 2022-FY 2023 biennium. The amount appropriated in this line item for FY 2022 is \$3.4 million, or 12.6%, greater than actual FY 2021 expenditures under the line item. That increase accounts for about 72% of the total FY 2022 appropriations increase for the Department. Line item 820605, Examination (Fund 5550) is used for departmental oversight of licensed insurance companies, including captive insurers, and is the second largest line item in the Department's budget. The amount appropriated in appropriation line item (ALI) 820605 is about \$923,000 (11.2%) greater than FY 2021 expenditures from the line item, accounting for about 19% of the increase from FY 2021. The three other line items account for the remaining 9% of the increase in the Department's budget.

Revenue to the Department of Insurance Operating Fund (Fund 5540), combined with the actual FY 2021 year-end cash balance of the fund, is expected to be sufficient to support the appropriations for the upcoming biennium. However, revenue to Fund 5540 has remained flat since 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> Department officials suspect actual fees in the near future may be lower than the estimated amounts as the result of 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 enacted budget also appropriates \$2.8 million for FY 2022 from federal Fund 3U50 in ALI 820602, OSHIIP Operating Grant, one of the three line items referred to above. This amount is \$197,808 higher than actual expenditures from the line item in FY 2021, an increase of 7.6%. The appropriation in FY 2023 is the same as the appropriation for FY 2022.

## **Enacted budget provisions**

The enacted budget includes an uncodified law provision affecting the Department and several changes to insurance laws. A couple of these provisions likely have no more than minimal impact on the Department's budget.

### **Long-term care insurance incentive study**

The budget requires the departments of Insurance and Medicaid to complete a joint study by July 1, 2022, analyzing whether offering tax credits or other incentives for the purchase of long-term care insurance would increase the number of Ohioans with such insurance. The required study is also to evaluate (1) whether offering tax credits or other incentives to employers to provide such policies for employees is likely to increase the number of Ohioans with such insurance, and (2) whether hybrid life insurance policies should be included in the state long-term care partnership program defined in section 3923.41 of the Revised Code. The study is likely to increase costs to the departments. If production of the report is contracted out instead of using existing staff, the cost could be in the tens of thousands of dollars. Department of Insurance costs would be paid from Fund 5540.

### **Joint venture title insurance companies**

The budget requires, for a title company that is a joint venture, the company's annual review to assess whether or not all members of the joint venture received revenue from the title company commensurate to their ownership interest in the title company. In addition, the enacted budget requires the Superintendent of Insurance to promulgate rules setting forth the standards of the review and providing the form in which this information is to be provided. The Superintendent is also allowed to prescribe the specific records and documents to be kept by the joint venture. The enacted budget also specifies certain requirements, including a ten-year record retention requirement, for title insurance companies that are joint ventures. These provisions

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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.

may minimally increase the Department's administrative costs for regulating title insurance companies. Any such increase would be paid from Fund 5540.

### Drug data disclosures

The enacted budget requires health plan issuers, including pharmacy benefit managers, to release specified information, including cost-sharing, prior authorization, step therapy, quantity limits, and site-of-service restrictions related to all drugs covered under a health benefit plan, upon request to the covered person, the covered person's health care provider, or the third-party representative. The enacted budget specifies that the required information must meet certain conditions, including the format in which such information is to be provided. The enacted budget's requirements apply to health plan issuers and health benefit plans as defined in section 3922.01 of the Revised Code, which includes a nonfederal government health plan. The drug data disclosure requirements take effect January 1, 2022. These requirements may increase the Department of Insurance's administrative costs for regulating health insurers.<sup>2</sup> Any increase in the Department's administrative costs would be offset by any civil penalties that may arise from failure to comply with these requirements. Any penalties would be deposited into Fund 5540 and any increase in administrative costs would be paid from Fund 5540.

## Analysis of FY 2022-FY 2023 budget

### Operating Expenses (ALI 820606)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>5540 ALI 820606, Operating Expenses</b>					
\$25,589,462	\$25,062,013	\$26,490,532	\$27,418,382	\$30,861,244	\$30,861,244
% change	-2.1%	5.7%	3.5%	12.6%	0.0%

The budget provides an increase in the FY 2022 appropriation of about \$3.4 million, or 12.6%, from the actual expenditures for FY 2021. The appropriation in FY 2023 is identical to the appropriation in FY 2022. The increase in FY 2022 is largely due to anticipated personnel costs for filling vacancies; in recent years about 80% of the funding for this line item is for personal services. This appropriation item provides funding for the general operating expenses for the Department of Insurance, excluding OSHIP and the agency's Financial Examination 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) licensing, (4) risk assessment, (5) fraud investigation and enforcement, (6) product regulation, 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

<sup>2</sup> There also may be costs to the state employee health benefit plans.

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 \$6.2 million in restitution for Ohio consumers in FY 2020. They also received over 22,600 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 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 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 over 2.5 million 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, 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.

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

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 5540 ALI 820601, Operating Expenses – OSHIIP</b>					
\$205,724	\$130,894	\$227,381	\$87,781	\$180,000	\$180,000
% change	-36.4%	73.7%	-61.4%	105.1%	0.0%
<b>Fund 3U50 ALI 820602, OSHIIP Operating Grant</b>					
\$2,323,517	\$2,832,797	\$2,721,175	\$2,595,342	\$2,793,150	\$2,793,150
% change	21.9%	-3.9%	-4.6%	7.6%	0.0%
<b>Total:</b>					
\$2,529,241	\$2,963,691	\$2,948,556	\$2,683,123	\$2,973,150	\$2,973,150
% change	17.2%	-0.5%	-9.0%	10.8%	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. In FY 2020, OSHIIP assisted about 366,000 consumers and helped save approximately \$31.2 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 Fund 5540.

The state appropriation for FY 2022 is \$180,000, which is about \$92,200, or 105.1%, higher than actual expenditures for FY 2021, and a decrease of \$47,400, or 20.8%, from actual FY 2020 state expenditures. The state appropriation for FY 2023 is \$180,000, the same as the FY 2022 appropriation. Total state appropriation amount for the biennium is \$360,000. State

spending for the FY 2020-FY 2021 biennium was \$315,162. The state appropriation for the FY 2022-FY 2023 biennium is \$44,838, or 14.2%, greater than the actual state spending for the preceding biennium.

The total federal grant that provides most of the funding for this program was about \$2.7 million in FY 2020. In FY 2021, the actual total federal grant was about \$2.6 million. Department officials expect the grant amount to be about \$2.8 million for each year of the FY 2022-FY 2023 biennium.

The total appropriations for the program for FY 2022 are about \$3.0 million, 10.8% more than the actual total spending for FY 2021. The increase is primarily related to personnel costs. The total appropriations for FY 2023 are also about \$3.0 million.

### Examination (ALI 820605)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 5550 ALI 820605, Examination</b>					
\$7,666,829	\$7,471,246	\$8,052,679	\$8,256,657	\$9,179,766	\$9,179,766
% change	-2.6%	7.8%	2.5%	11.2%	0.0%

The enacted budget provides an appropriation increase of about \$923,100 (or 11.2%) in FY 2022 from the actual expenditures for FY 2021. The increase is largely due to supplies and maintenance costs. The appropriation in FY 2023 is identical to the appropriation in FY 2022.

This appropriation line item funds departmental oversight of licensed insurance companies, including captive insurers. 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 2020, 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 of Insurance and deposited into Fund 5550.

The budget also allows the Director of Budget and Management to transfer cash from Fund 5540 to Fund 5550 upon request by the Superintendent of Insurance, for expenses incurred in examining domestic fraternal benefit societies as required by section 3921.28 of the Revised Code. In recent years, the transfer has been in the range of \$210,000 to \$535,000.

### Captive Insurance Regulation and Supervision (ALI 820613)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 5PT0 ALI 820613, Captive Insurance Regulation and Supervision</b>					
\$328,195	\$339,857	\$349,728	\$306,697	\$450,000	\$450,000
% change	3.6%	2.9%	-12.3%	46.7%	0.0%

The budget appropriates \$450,000 each in FY 2022 and FY 2023 for this line item. The increase of approximately \$143,300 (46.7%) from FY 2021 actual expenditures is largely related to costs of purchased personal services and supplies and maintenance.

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 2020, the Department licensed a total of six captive insurance companies to do business in Ohio. In addition, a portion of administrative expenses related to analysis and examination of captive insurers is funded by line item 820605, Examinations.

FY 2022 - FY 2023 Final Appropriations

All Fund Groups

Line Item Detail by Agency			FY 2020	FY 2021	Appropriations FY 2022	FY 2021 to FY 2022 % Change	Appropriations FY 2023	FY 2022 to FY 2023 % Change
Report For: Main Operating Appropriations Bill			Version: As Enacted					
INS Department of Insurance								
5540	820601	Operating Expenses-OSHIIP	\$ 227,381	\$ 87,781	\$ 180,000	105.06%	\$ 180,000	0.00%
5540	820606	Operating Expenses	\$ 26,490,532	\$ 27,418,382	\$ 30,861,244	12.56%	\$ 30,861,244	0.00%
5550	820605	Examination	\$ 8,052,679	\$ 8,256,657	\$ 9,179,766	11.18%	\$ 9,179,766	0.00%
5PT0	820613	Captive Insurance Regulation and Supervision	\$ 349,728	\$ 306,697	\$ 450,000	46.72%	\$ 450,000	0.00%
Dedicated Purpose Fund Group Total			\$ 35,120,320	\$ 36,069,517	\$ 40,671,010	12.76%	\$ 40,671,010	0.00%
3U50	820602	OSHIIP Operating Grant	\$ 2,721,175	\$ 2,595,342	\$ 2,793,150	7.62%	\$ 2,793,150	0.00%
Federal Fund Group Total			\$ 2,721,175	\$ 2,595,342	\$ 2,793,150	7.62%	\$ 2,793,150	0.00%
Department of Insurance Total			\$ 37,841,495	\$ 38,664,859	\$ 43,464,160	12.41%	\$ 43,464,160	0.00%