# Redbook

LBO Analysis of Executive Budget Proposal

Ohio Department of Insurance

Ruhaiza Ridzwan, Senior Economist
February 2021

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Attachment:
- Appropriation Spreadsheet
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 employs 254 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 2022 is $1.8 million higher than FY 2021 estimated expenditures and total recommended funding for FY 2023 is the same as the total recommended funding for FY 2022.
- Increases in the executive budget in FY 2022 are due to funding increases in four line items: 820602, OSHIIP Operating Grant (Fund 3U50); 820606, Operating Expenses (Fund 5540); 820605, Examination (Fund 5550); and 820613, Captive Insurance Regulation and Supervision (Fund 5PT0).

<table>
<thead>
<tr>
<th>Fund Group</th>
<th>FY 2020 Actual</th>
<th>FY 2021 Estimate</th>
<th>FY 2022 Introduced</th>
<th>FY 2023 Introduced</th>
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</thead>
<tbody>
<tr>
<td>Dedicated Purpose</td>
<td>$35,120,320</td>
<td>$38,993,207</td>
<td>$40,671,010</td>
<td>$40,671,010</td>
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<tr>
<td>Federal</td>
<td>$2,721,175</td>
<td>$2,717,609</td>
<td>$2,793,150</td>
<td>$2,793,150</td>
</tr>
<tr>
<td>Total</td>
<td>$37,841,495</td>
<td>$41,710,816</td>
<td>$43,464,160</td>
<td>$43,464,160</td>
</tr>
<tr>
<td>% change</td>
<td>--</td>
<td>10.2%</td>
<td>4.2%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Chart 1: INS Budget by Fund Group
FY 2022-FY 2023 Biennium

Chart 2: INS Budget by Expense Category
FY 2022-FY 2023 Biennium

Biennial total: $86.9 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 2020 raised about $608 million (combined) for the General Revenue Fund.

The Department of Insurance is a cabinet-level agency with 254 employees as of January 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 estimated expenditures are $41.7 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 executive recommendation 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.
The executive’s recommended total funding for FY 2022 is $43.5 million, or $1.8 million more than FY 2021 estimated expenditures, a 4.2% increase. Recommended total funding for FY 2023 is also $43.5 million, identical to FY 2022 recommended total funding. Increases in the executive budget in FY 2022 and FY 2023 are largely due to anticipated personnel costs for filling vacancies.

The following are line items that would be affected by the increase: 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 item 820606 is used for general departmental operations, and the proposed increase in ALI 820606 accounts for about 75% of the total proposed FY 2022 funding increase for the Department. Line item 820605 is used for departmental oversight of licensed insurance companies, including captive insurers, and line item 820613 is used to pay for the Department’s regulatory and enforcement responsibilities related to captive insurers. Line item 820602 is funded by a federal grant for OSHIIP.

Revenue to the Department of Insurance Operating Fund (Fund 5540), combined with the estimated FY 2021 year-end cash balance of the fund, is expected to be sufficient to support the recommended 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.\(^1\) 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 executive budget also proposes an appropriation of $2.8 million for FY 2022 from federal Fund 3U50. This amount is $75,541 higher than estimated expenditures from the line item in FY 2021, an increase of 2.8%. The recommended appropriation in FY 2023 is the same as the recommended amount for FY 2022.

**Staffing levels**

As of January 2021, the Department employed 244 full-time permanent employees, seven part-time employees, and three intermittent employees. The following table presents the Department of Insurance staffing level in FY 2020 through FY 2023. Figures shown for FY 2021 through FY 2023 are Department of Insurance estimates. In the next biennium, the Department anticipates filling various vacant positions in most key areas.

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\(^1\) 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.
Table 1. Department of Insurance Staffing Levels (Full-Time Employee)

<table>
<thead>
<tr>
<th>Key Area</th>
<th>FY 2020 Actual</th>
<th>FY 2021 Estimates</th>
<th>FY 2022 Estimates</th>
<th>FY 2023 Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Conduct</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Licensing</td>
<td>15</td>
<td>15</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Fraud Investigation</td>
<td>21.5</td>
<td>22</td>
<td>22.5</td>
<td>22.5</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>52</td>
<td>52</td>
<td>54</td>
<td>54</td>
</tr>
<tr>
<td>Product Regulation</td>
<td>36</td>
<td>36</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Consumer Services</td>
<td>29</td>
<td>29</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>OSHIIP</td>
<td>27</td>
<td>33</td>
<td>34</td>
<td>34</td>
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<tr>
<td>Program Management</td>
<td>68.5</td>
<td>70.5</td>
<td>70.5</td>
<td>70.5</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>259</strong></td>
<td><strong>268.5</strong></td>
<td><strong>279</strong></td>
<td><strong>279</strong></td>
</tr>
</tbody>
</table>

Analysis of FY 2022-FY 2023 budget proposal

Operating Expenses (ALI 820606)

<table>
<thead>
<tr>
<th>FY 2018 Actual</th>
<th>FY 2019 Actual</th>
<th>FY 2020 Actual</th>
<th>FY 2021 Estimate</th>
<th>FY 2022 Introduced</th>
<th>FY 2023 Introduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>5540 ALI 820606, Operating Expenses</td>
<td></td>
<td>$25,589,462</td>
<td>$25,062,013</td>
<td>$26,490,532</td>
<td>$29,554,070</td>
</tr>
<tr>
<td>% change</td>
<td></td>
<td>-2.1%</td>
<td>5.7%</td>
<td>11.6%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

The executive recommends an increase in the FY 2022 appropriation of about $1.3 million, or 4.4%, from the estimated expenditures for FY 2021. The recommended amount in FY 2023 is identical to the recommended amount in FY 2022. The increase in FY 2022 is largely due to anticipated personnel costs for filling vacancies. About 80% of the proposed funding for this line item is for personal services, and 12% 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 OSHIIP 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 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 also 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, 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)

<table>
<thead>
<tr>
<th>Fund</th>
<th>FY 2018 Actual</th>
<th>FY 2019 Actual</th>
<th>FY 2020 Actual</th>
<th>FY 2021 Estimate</th>
<th>FY 2022 Introduced</th>
<th>FY 2023 Introduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund 5540 ALI 820601, Operating Expenses – OSHIIP</td>
<td>$205,724</td>
<td>$130,894</td>
<td>$227,381</td>
<td>$180,000</td>
<td>$180,000</td>
<td>$180,000</td>
</tr>
<tr>
<td>% change</td>
<td>-36.4%</td>
<td>73.7%</td>
<td>-20.8%</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Fund 3U50 ALI 820602, OSHIIP Operating Grant</td>
<td>$2,323,517</td>
<td>$2,832,797</td>
<td>$2,721,175</td>
<td>$2,717,609</td>
<td>$2,793,150</td>
<td>$2,793,150</td>
</tr>
<tr>
<td>% change</td>
<td>21.9%</td>
<td>-3.9%</td>
<td>-0.1%</td>
<td>2.8%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,529,241</td>
<td>$2,963,691</td>
<td>$2,948,556</td>
<td>$2,897,609</td>
<td>$2,973,150</td>
<td>$2,973,150</td>
</tr>
<tr>
<td>% change</td>
<td>17.2%</td>
<td>-0.5%</td>
<td>-1.7%</td>
<td>2.6%</td>
<td>0.0%</td>
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</tr>
</tbody>
</table>

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 the Department of Insurance Operating Fund (Fund 5540).

Recommended state funding for FY 2022 is $180,000, the same as estimated expenditures for FY 2021, and a decrease of $47,381, or 20.8%, from actual FY 2020 state expenditures. The recommended state funding for FY 2023 is $180,000, the same as FY 2022 recommended funding. Total recommended state funding for the biennium is $360,000. State funding for the FY 2020-FY 2021 biennium is estimated to be $407,381. The recommended state
funding for FY 2022 and FY 2023 is $47,381, or 11.6%, lower than the estimated state funding for the current biennium.

The total federal grant that provides most of the funding for this program was about $2.7 million in FY 2020. In FY 2021, the estimated total federal grant is about $2.7 million. Department officials expect the grant amount to be about $2.8 million for each year of the upcoming biennium.

The recommended level of total funding for the program for FY 2022 is about $3.0 million, 2.6% more than the estimated total for FY 2021. The increase is primarily related to personnel costs. The recommended total funding for FY 2023 is also about $3.0 million.

**Examination (ALI 820605)**

<table>
<thead>
<tr>
<th>Fund 5550 ALI 820605, Examination</th>
<th>FY 2018 Actual</th>
<th>FY 2019 Actual</th>
<th>FY 2020 Actual</th>
<th>FY 2021 Estimate</th>
<th>FY 2022 Introduced</th>
<th>FY 2023 Introduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund 5550 ALI 820605, Examination</td>
<td>$7,666,829</td>
<td>$7,471,246</td>
<td>$8,052,679</td>
<td>$8,903,442</td>
<td>$9,179,766</td>
<td>$9,179,766</td>
</tr>
<tr>
<td>% change</td>
<td>-2.6%</td>
<td>7.8%</td>
<td>10.6%</td>
<td>3.1%</td>
<td>0.0%</td>
<td></td>
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</table>

The executive proposal provides an increase of about $276,000 (or 3.1%) in FY 2022 from the estimated expenditures for FY 2021. The increase is largely due to supplies and maintenance costs. The recommended funding in FY 2023 is identical to the recommended amount 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 executive’s budget proposal 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)**

<table>
<thead>
<tr>
<th>Fund 5PT0 ALI 820613, Captive Insurance Regulation and Supervision</th>
<th>FY 2018 Actual</th>
<th>FY 2019 Actual</th>
<th>FY 2020 Actual</th>
<th>FY 2021 Estimate</th>
<th>FY 2022 Introduced</th>
<th>FY 2023 Introduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund 5PT0 ALI 820613, Captive Insurance Regulation and Supervision</td>
<td>$328,195</td>
<td>$339,857</td>
<td>$349,728</td>
<td>$355,695</td>
<td>$450,000</td>
<td>$450,000</td>
</tr>
<tr>
<td>% change</td>
<td>3.6%</td>
<td>2.9%</td>
<td>1.7%</td>
<td>26.5%</td>
<td>0.0%</td>
<td></td>
</tr>
</tbody>
</table>
The executive proposal recommends appropriations of $450,000 each in FY 2022 and FY 2023 for this line item. The increase of approximately $94,000 (26.5%) from FY 2021 estimated 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 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 SPTO). 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.

**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 1990 through FY 2020 from the taxes.2

![Chart 3: Domestic and Foreign Insurance Tax Revenues](chart.png)

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2 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 122nd 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 2022 - FY 2023 Appropriations - As Introduced

**Department of Insurance**

<table>
<thead>
<tr>
<th>INS</th>
<th>Department of Insurance</th>
<th>FY 2020</th>
<th>OBM Estimate FY 2021</th>
<th>Introduced FY 2022</th>
<th>FY 2021 to FY 2022</th>
<th>Introduced FY 2023</th>
<th>FY 2022 to FY 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>5540</td>
<td>Operating Expenses-OSHIIP</td>
<td>$227,381</td>
<td>$180,000</td>
<td>$180,000</td>
<td>0.00%</td>
<td>$180,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>5540</td>
<td>Operating Expenses</td>
<td>$26,496,532</td>
<td>$29,554,070</td>
<td>$30,861,244</td>
<td>4.42%</td>
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<td>0.00%</td>
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<tr>
<td>5550</td>
<td>Examination</td>
<td>$8,052,679</td>
<td>$8,903,442</td>
<td>$9,179,766</td>
<td>3.10%</td>
<td>$9,179,766</td>
<td>0.00%</td>
</tr>
<tr>
<td>5PT0</td>
<td>Captive Insurance Regulation and Supervision</td>
<td>$349,728</td>
<td>$355,695</td>
<td>$450,000</td>
<td>26.51%</td>
<td>$450,000</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**Dedicated Purpose Fund Group Total**

| Dedicated Purpose Fund Group Total | $35,120,320 | $38,993,207 | $40,671,010 | 4.30% | $40,671,010 | 0.00% |

**Federal Fund Group Total**

| Federal Fund Group Total | $2,721,175 | $2,717,609 | $2,793,150 | 2.78% | $2,793,150 | 0.00% |

**Department of Insurance Total**

| Department of Insurance Total | $37,841,495 | $41,710,816 | $43,464,160 | 4.20% | $43,464,160 | 0.00% |