

Office of the
Legislative Fiscal Analyst

FY 2005 Budget Recommendations

Joint Appropriations Subcommittee for
Commerce and Revenue

Insurance Department

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1.0 Insurance Department

Summary

The Insurance Department (UCA 31A-2-101) protects the public by regulating insurance companies and individual agents to assure equitable and competitive business practices.

	Analyst FY 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing			
General Fund	10,381,800		10,381,800
General Fund Restricted	22,100		22,100
Dedicated Credits	1,819,600		1,819,600
Restricted Revenue	17,725,500		17,725,500
Beginning Balance	723,700		723,700
Closing Balance	9,275,700		9,275,700
Lapsing Balance	(2,600)		(2,600)
Total	<u>\$39,945,800</u>	<u>\$0</u>	<u>\$39,945,800</u>
Programs			
Insurance Department Admin.	5,932,500		5,932,500
Comp. Health Insurance Pool	33,928,400		33,928,400
Bail Bond Program	19,500		19,500
Title Insurance Program	65,400		65,400
Total	<u>\$39,945,800</u>	<u>\$0</u>	<u>\$39,945,800</u>
FTE/Other			
Total FTE	82		82

Organizational Structure

The Department is divided into seven work sections and is funded from the General Fund. The Department reorganized its work processes along lines of insurance. Activity, function and structure have been regrouped to reduce processing time, improve Department efficiency, and enhance customer service. Traditionally, this grouping has been considered one budget. These funds are offset by fees collected by the Department and which are deposited into the General Fund. Fees are collected for a variety of activities in addition to licensing of agents and brokers.

2.0 Budget Highlights: Insurance Department

2.1 Comprehensive Health Insurance Program

Created in 1991, the Utah Comprehensive Health Insurance Pool (now called *HIPUtah* to avoid confusion with CHIP) provides access to health insurance coverage to people who are considered uninsurable. The Pool is funded by appropriations from the Legislature, premiums by the insured and by employers, and interest and dividends.

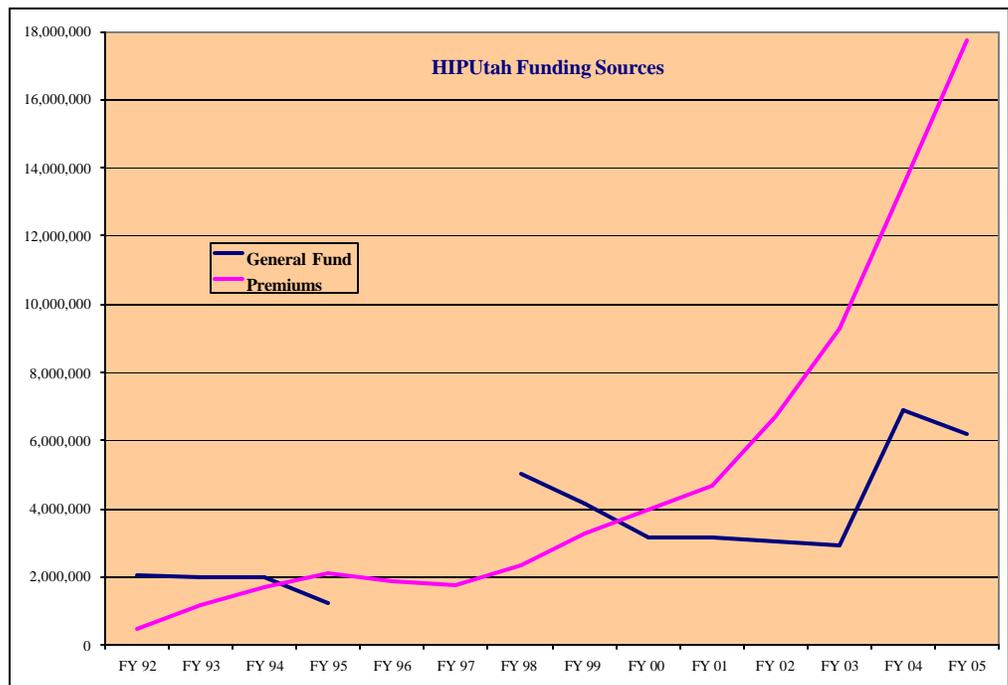
Health Insurance Portability & Accountability Act of 1996 (HIPPA).

This federal law guarantees health insurance for groups 2-50 in the private market. Individuals losing coverage because their conditions are uninsurable are guaranteed coverage. In Utah, those individuals are insured through *HIPUtah*. All other individuals have coverage through private individual insurance.

S.B. 60, 1997 Session, Open Enrollment Amendments, mandates access to individual coverage for Utah Residents who are not eligible for public programs or private group insurance. Coverage comes through *HIPUtah* for individuals with uninsurable medical conditions. These people would otherwise seek coverage from private insurance companies which might cause them to discontinue offering individual insurance coverage. To avoid this, the Legislature agreed to increase *HIPUtah* funding and provide coverage for individuals with an average medical risk of 200% or higher. All others have access to coverage through private individual insurance.

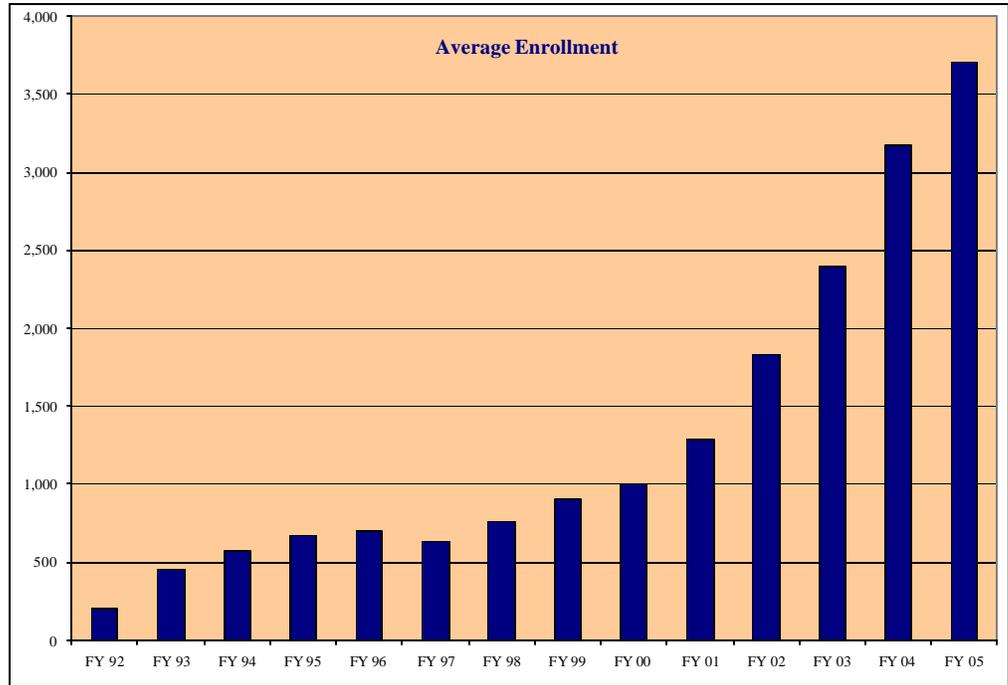
HIPUtah Funding

This shows premium income increasing. General Fund contributions increased to \$6,916,200 in FY 04. In FY 96 & FY 97 there was no General Fund appropriation. Ongoing funding amounts to \$6,203,900.



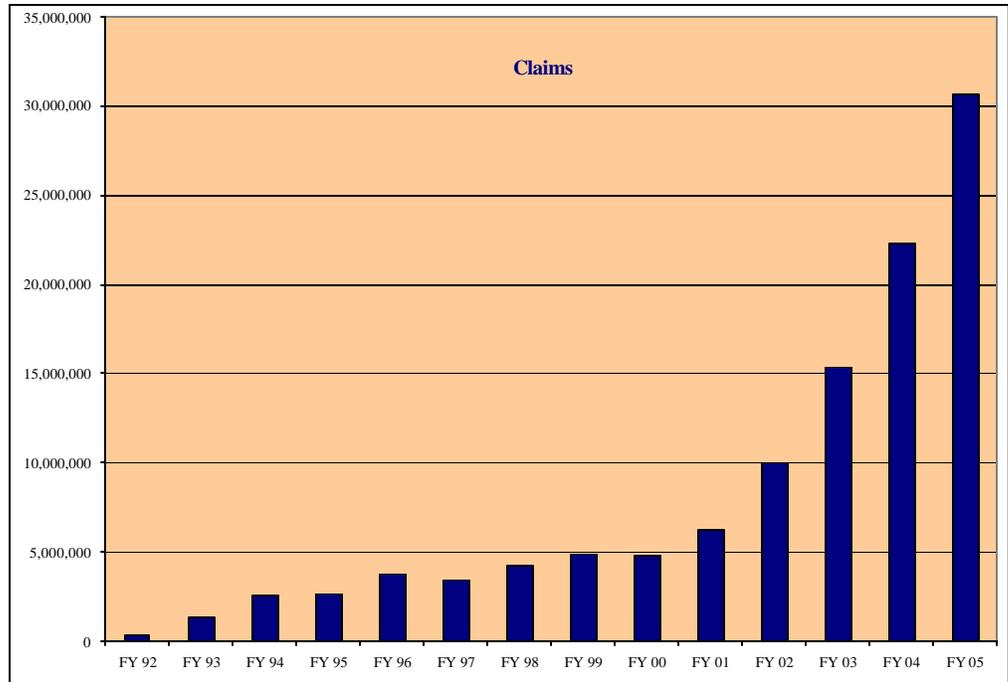
HIPUtah Average Enrollments

Enrollments increased dramatically while state funding was stable. The FY 04 increase staved off capping the fund but did not replenish reserves.



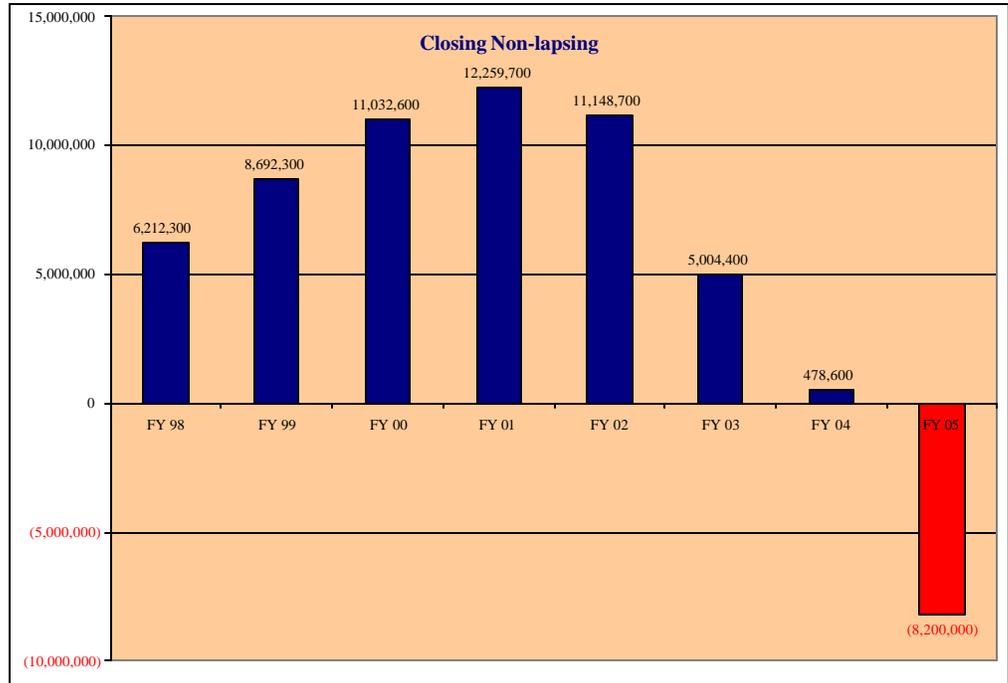
HIPUtah Claims

The increase in claims follows the increase in enrollments.



HIPUtah Non-lapsing Balances

This is what is left over at the end of each fiscal year. An insurance company would need larger reserves. FY 05 shows a negative \$8.2 million balance.



The HIPUtah board will cap funding rather than allow the fund to go insolvent. The last chart shows the deficit if HIPUtah does not receive additional funding. If the board caps enrollment, private individual insurers would then be forced to guarantee coverage to those with uninsurable medical conditions. These private insurers may then face the option of going out of the individual coverage business or becoming unprofitable. A decision to get out of the business would leave thousands uninsured.

The Analyst recommends adding this to end of session Budget Increase List at \$10,000,000 in one-time General Fund with the following intent:

The Legislature intends to provide sufficient funding so that HIPUtah will not have to cap enrollment. If the amount appropriated is not sufficient, HIPUtah should request a supplemental appropriation in the next legislative session. The Legislature will give high priority to such a request.

The Analyst would prefer to recommend on-going funding but that is impractical in this tight budget year.

2.2 Core Software Maintenance Agreement

The Department’s COSMOS integrated database is the management information system that regulates insurance companies, agents, and agencies. When the system was installed, the Legislature funded the purchase but not the maintenance agreement. Since that time they have been funding the agreement with Non-lapsing Balances. For FY 04 and FY 05 the Department has run out of Non-lapsing. They are requesting \$110,000 (\$55,000 in FY 04 and \$55,000 in FY 05) for the Maintenance Agreement.

3.1 Programs: Insurance Department-Administration

Recommendation The Analyst recommends funding of \$4,527,900.

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
Financing				
General Fund	4,051,100	4,177,900	4,177,900	
General Fund, One-time		12,600		(12,600)
Dedicated Credits Revenue	273,700	352,900	350,000	(2,900)
Beginning Nonlapsing	302,800	237,300	213,700	(23,600)
Closing Nonlapsing	(237,300)	(213,700)	(213,700)	
Lapsing Balance	(62,200)			
Total	\$4,328,100	\$4,567,000	\$4,527,900	(\$39,100)
Expenditures				
Personal Services	3,778,800	3,776,200	3,763,300	(12,900)
In-State Travel	2,200	3,700	4,100	400
Out of State Travel	40,100	40,100	40,100	
Current Expense	204,100	205,300	205,300	
DP Current Expense	118,600	266,700	240,100	(26,600)
DP Capital Outlay	184,300	275,000	275,000	
Total	\$4,328,100	\$4,567,000	\$4,527,900	(\$39,100)
FTE/Other				
Total FTE	69	71	71	0

*Non-state funds as estimated by agency

Purpose

Administration manages the other divisions and is responsible for budgeting, financial tracking, personnel, actuarial services, and managerial statistics.

Information Technology is responsible for all of the data processing equipment and maintenance in the department which includes the LAN/WAN.

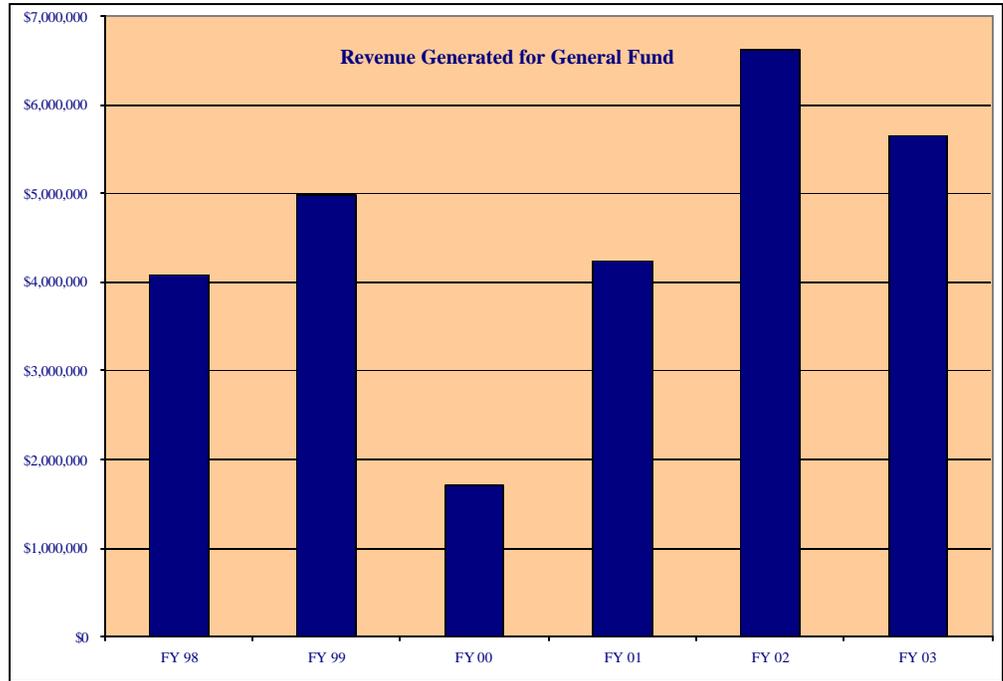
Producer Services is responsible for the issuance and renewal of licenses to all Utah insurance agents and agencies. Licensees qualify through examination.

Financial Examination and Company Licensing/Solvency Division licenses 1,469 insurance companies to do business in Utah. It also monitors financial strength and solvency. The division is responsible for the financial examination of insurers according to statute. Because not all of the companies are headquartered in Utah, the examiners may spend their time out of state. The Insurance Department is reimbursed by the insurer being examined for all costs incurred during the examination, which includes examiners salaries and benefits. These reimbursements are deposited into the General Fund.

Property and Casualty, Health, and Life Divisions function by line of insurance. These divisions handle telephone and walk-in complaints and inquiries from the public. They review and analyze policy forms and rates which are filed by insurance companies, and investigate and resolve alleged violations of the insurance code and rules.

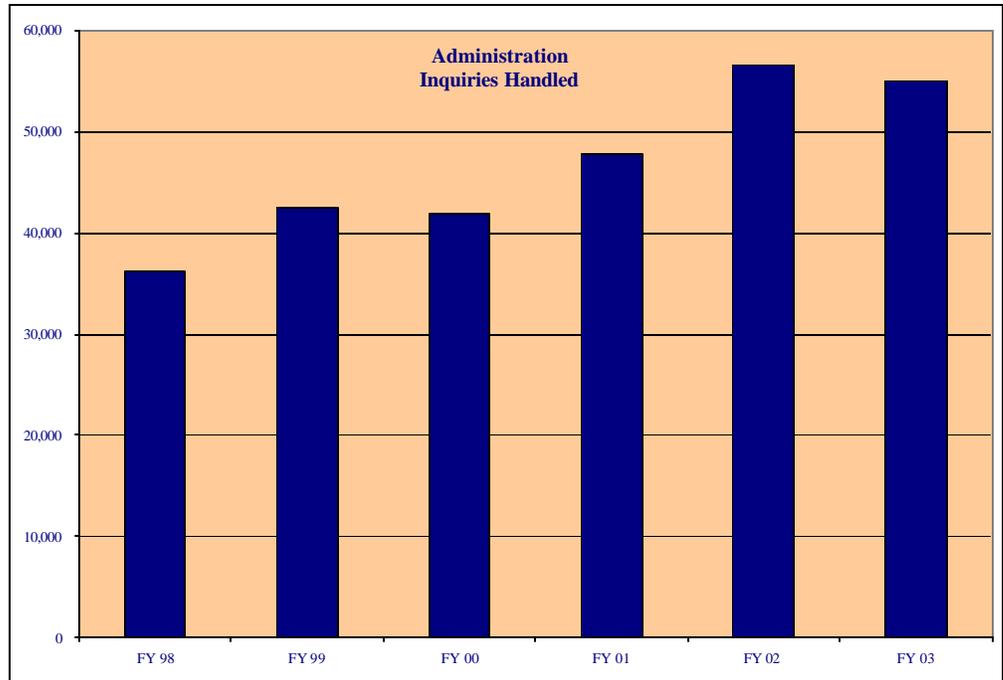
Performance Measures

The Department generates significant revenue to the General Fund.



Performance Measures

Inquiries is a measure of “busy”ness and shows a generally increasing trend.



COSMOS

The Insurance Department purchased an off-the-shelf management information system. The purpose of the system is to update and integrate insurance processing systems and to implement e-commerce type of transactions. The system is currently on-line.

COSMOS is an application designed for state insurance departments and the insurance industry. The system:

- 1) will promote e-commerce within the industry;

- 2) is compatible with the National Association of Insurance Commissioner's (NAIC) initiatives;
- 3) incorporates Internet connectivity;
- 4) should streamline the way the insurance industry, companies, agencies and agents do business; and
- 5) provide uniform treatment of activity and regulation throughout the industry.

Core Software Maintenance Agreement

The Department's COSMOS integrated database is the management information system that regulates insurance companies, agents, and agencies. When the system was installed, the Legislature funded the purchase but not the maintenance agreement. Since that time they have been funding the agreement with Non-lapsing Balances. For FY 04 and FY 05 the Department has run out of Non-lapsing that is not dedicated to other uses. They are requesting \$110,000 (\$55,000 in FY 04 and \$55,000 in FY 05) for the Maintenance Agreement.

3.2 Programs: Bail Bond Insurance Program

Recommendation

The Analyst recommends funding of \$19,500. These funds are restricted by statute to this program’s purposes.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
GFR - Bail Bond Surety Admin	22,100	22,100	22,100	
Lapsing Balance	(20,400)	(2,600)	(2,600)	
Total	\$1,700	\$19,500	\$19,500	\$0
Expenditures				
Personal Services	1,000	17,000	17,000	
In-State Travel		1,500	1,500	
Current Expense	700	1,000	1,000	
Total	\$1,700	\$19,500	\$19,500	\$0

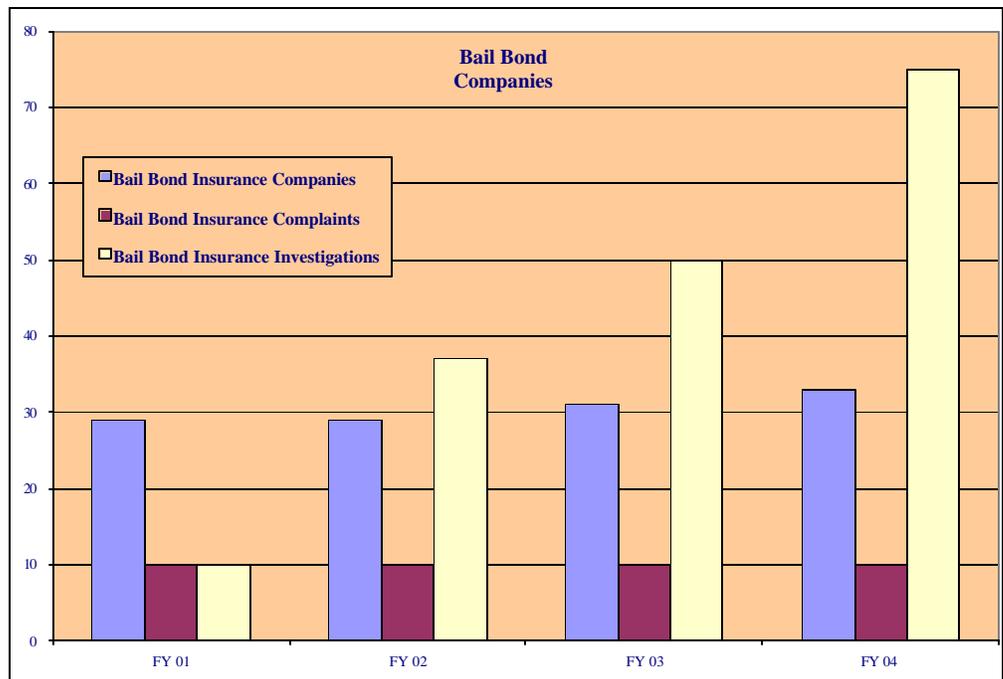
*Non-state funds as estimated by agency

Purpose

The Insurance Department regulates the bail bond surety industry and bail bond agents operating in Utah (Title 31A-23-35). This requires them to ensure that all bail bond sureties and bail bond agents demonstrate adequate preparation, competency, and practice honesty and integrity. The Department is to ensure that Utah has a strong bail bond surety insurance market that actively supports the needs of our citizens, judiciary, and law enforcement organizations for reliable bail bond sureties, bail bond agents, and bail bonds at competitive prices. Assistance is provided to the public through information and education. The Department investigates and prosecutes unprofessional conduct by bail bond sureties or bail bond agents. Staff is provided to the Bail Bond Surety Oversight Board who reviews new licensing applications and reviews complaints.

Performance Measures

There has been a slight increase in the number of companies, complaints are holding steady, and investigations are increasing significantly.



3.4 Programs: Insurance Department-Insurance Relative Value Study

Recommendation The Analyst recommends a budget of \$103,000. Funding is made from Dedicated Credits collected from insurance companies.

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
Financing				
Dedicated Credits Revenue	76,700	70,000	78,000	8,000
Beginning Nonlapsing	190,000	122,000	132,500	10,500
Closing Nonlapsing	(122,000)	(132,500)	(107,500)	25,000
Total	<u>\$144,700</u>	<u>\$59,500</u>	<u>\$103,000</u>	<u>\$43,500</u>
Expenditures				
Current Expense	75,400	59,500	103,000	43,500
DP Capital Outlay	69,300			
Total	<u>\$144,700</u>	<u>\$59,500</u>	<u>\$103,000</u>	<u>\$43,500</u>

*Non-state funds as estimated by agency

Purpose Under UCA 31A-22-307, the Relative Value Study is to determine the reasonable value of medical expenses. It is funded by a 0.01 percent tax on motor vehicle liability, uninsured motorist, and personal injury protection insurance premiums. These funds are collected by the Tax Commission as Dedicated Credits and are made non-lapsing in the Utah Code. The study is produced by Relative Value Studies, Inc. of Denver. The contract to do the study is re-bid every three years. The Department charges \$10 per copy.

More Dedicated Credits have been collected over the years than are needed to fund the study. The collection rate was reduced by the 1997 Legislature. Increased population and improved collections have maintained more than sufficient revenue to fund the biennial study.

3.5 Programs: Insurance Department-Fraud Division

Recommendation The Analyst recommends \$1,301,600.

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated*	Analyst	Difference
Dedicated Credits Revenue	1,016,900	1,316,600	1,316,600	
Beginning Nonlapsing	133,300	41,000	57,900	16,900
Closing Nonlapsing	(41,000)	(57,900)	(72,900)	(15,000)
Total	<u>\$1,109,200</u>	<u>\$1,299,700</u>	<u>\$1,301,600</u>	<u>\$1,900</u>
Expenditures				
Personal Services	589,800	702,100	700,000	(2,100)
In-State Travel	3,100	3,400	3,400	
Out of State Travel	8,500	6,700	9,600	2,900
Current Expense	488,100	573,700	573,000	(700)
DP Current Expense	12,800	13,800	15,600	1,800
DP Capital Outlay	6,900			
Total	<u>\$1,109,200</u>	<u>\$1,299,700</u>	<u>\$1,301,600</u>	<u>\$1,900</u>
FTE/Other				
Total FTE	10	10	10	0

*Non-state funds as estimated by agency

Purpose

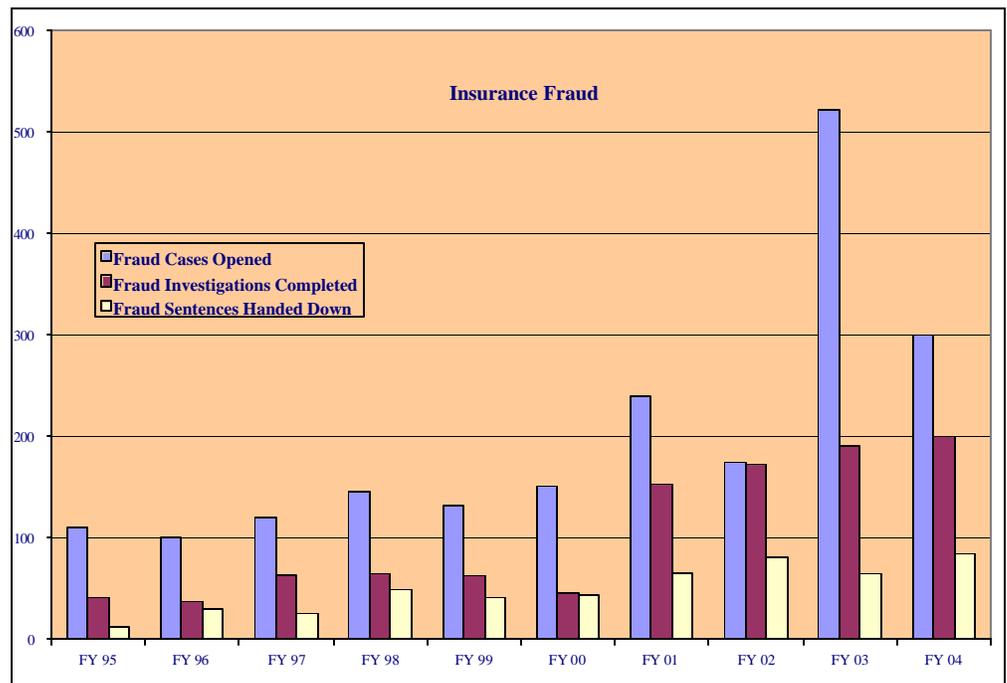
The 1994 Legislature created the Insurance Fraud Act (UCA 31A-31-101 through 108). This division conducts criminal investigations and prosecutes insurance fraud violators. Nationwide, insurance fraud is estimated at over \$3 billion. The program is funded by assessments made on insurers according to the amount of business they do in Utah:

Total Utah Premiums	Assessment
\$1,000,000 or less	\$75
\$1,000,000 to \$2,500,000	\$263
\$2,500,000 to \$5,000,000	\$563
\$5,000,000 to \$10,000,000	\$1,125
\$10,000,000 to \$50,000,000	\$4,500
More than \$50,000,000	\$11,250

These funds are collected as Dedicated Credits that are designated non-lapsing in the Utah Code.

Performance Measures

Fraud Investigations are increasing.



3.6 Programs: Insurance Department-Title Insurance

Recommendation The Analyst recommends funding of \$65,400 from Dedicated Credits and Non-lapsing Balances.

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
Financing				
Dedicated Credits Revenue	68,200	75,000	75,000	
Beginning Nonlapsing	52,400	45,300	54,700	9,400
Closing Nonlapsing	(45,300)	(54,700)	(64,300)	(9,600)
Total	<u>\$75,300</u>	<u>\$65,600</u>	<u>\$65,400</u>	<u>(\$200)</u>
Expenditures				
Personal Services	63,800	58,300	58,100	(200)
In-State Travel	2,100	4,100	4,100	
Out of State Travel	700	1,000	1,000	
Current Expense	1,000	2,100	2,100	
DP Current Expense		100	100	
DP Capital Outlay	7,700			
Total	<u>\$75,300</u>	<u>\$65,600</u>	<u>\$65,400</u>	<u>(\$200)</u>
FTE/Other				
Total FTE	1	1	1	0

*Non-state funds as estimated by agency

Purpose The 1998 Legislature passed House Bill 265, Title Insurance Amendments, which created Utah Code 31A-23-315. The new law allows an assessment on title insurance companies and agencies to pay for any cost or expense incurred by the Department in administration, investigation and enforcement of code provisions as related to the marketing of title insurance. The need to regulate the marketing of title insurance has been realized by the title insurance industry and the Department. This program provides an additional qualified person who will respond to industry complaints.

3.7 Programs: Comprehensive Health Insurance Pool

Summary

The Comprehensive Health Insurance Pool provides access to health insurance coverage to people who are considered uninsurable. The Pool is funded by appropriations from the Legislature, premiums by the insured and by employers, and interest and dividends. An actuary regularly evaluates the pool to assure adequate funds are available.

This program is funded from its own line item.

The Analyst’s recommendation shows a Closing Non-lapsing balance of \$9,520,400 that is positive. These numbers are almost always negative and they show how much is being carried into the next year. A positive number shows how much the projected budget is out of balance, and so the Analyst is recommending a \$10,000,000 infusion of one-time General fund that is explained in the 2.0 section as is the rapid growth of the program

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated*	Analyst	Difference
General Fund	2,916,200	6,916,200	6,203,900	(712,300)
Restricted Revenue	9,565,100	13,456,300	17,725,500	4,269,200
Beginning Nonlapsing	9,842,400	5,004,400	478,600	(4,525,800)
Closing Nonlapsing	(5,004,400)	(478,600)	9,520,400	9,999,000
Total	<u>\$17,319,300</u>	<u>\$24,898,300</u>	<u>\$33,928,400</u>	<u>\$9,030,100</u>
Expenditures				
Out of State Travel	4,000	5,000	5,000	
Current Expense	17,141,000	24,793,000	33,823,100	9,030,100
DP Current Expense		300	300	
Other Charges/Pass Thru	174,300	100,000	100,000	
Total	<u>\$17,319,300</u>	<u>\$24,898,300</u>	<u>\$33,928,400</u>	<u>\$9,030,100</u>
FTE/Other				

*Non-state funds as estimated by agency

4.0 Tables: Insurance Department

4.1 Funding History

	2001	2002	2003	2004	2005
Financing	Actual	Actual	Actual	Estimated*	Analyst
General Fund	7,213,200	4,245,800	6,967,300	11,094,100	10,381,800
General Fund, One-time				12,600	
General Fund Restricted	15,000	22,100	22,100	22,100	22,100
Dedicated Credits	8,871,400	1,118,000	1,435,500	1,814,500	1,819,600
Restricted Revenue			9,565,100	13,456,300	17,725,500
Beginning Balance	11,918,800	776,900	10,520,900	5,450,000	723,700
Closing Balance	(13,036,600)	(678,500)	(5,450,000)	(937,400)	9,275,700
Lapsing Balance	(42,800)	(97,800)	(82,600)	(2,600)	(2,600)
Total	\$14,939,000	\$5,386,500	\$22,978,300	\$30,909,600	\$39,945,800
Programs					
Insurance Department Administration	5,417,100	5,326,400	5,582,000	5,926,200	5,932,500
Comprehensive Health Insurance Pool	9,486,800		17,319,300	24,898,300	33,928,400
Bail Bond Program	1,300	2,400	1,700	19,500	19,500
Title Insurance Program	33,800	57,700	75,300	65,600	65,400
Total	\$14,939,000	\$5,386,500	\$22,978,300	\$30,909,600	\$39,945,800
Expenditures					
Personal Services	4,043,900	4,296,400	4,433,400	4,553,600	4,538,400
In-State Travel	7,900	13,200	7,400	12,700	13,100
Out of State Travel	60,000	39,300	53,300	52,800	55,700
Current Expense	9,816,500	722,300	17,910,300	25,634,600	34,707,500
DP Current Expense	241,300	187,200	131,400	280,900	256,100
DP Capital Outlay	315,900	128,100	268,200	275,000	275,000
Capital Outlay	48,400				
Other Charges/Pass Thru	405,100		174,300	100,000	100,000
Total	\$14,939,000	\$5,386,500	\$22,978,300	\$30,909,600	\$39,945,800
FTE/Other					
Total FTE	85	83	80	82	82

*Non-state funds as estimated by agency.

4.2 Fees

Fees for Administration:	Old Fee	New Fee	Fee Change
Global license fees for Admitted Insurers			
Certificate of Authority-initial license application	1,000.00	1,002.00	2.00
Certificate of Authority-renewal	300.00	302.00	2.00
Certificate of Authority-Reinstatement	1,000.00	1,002.00	2.00
Certificate of Authority-amendment	250.00	252.00	2.00
Form A Filing	2,000.00	2,002.00	2.00
Redomestication Filing	2,000.00	2,002.00	2.00
Organizational Permit for Mutual Insurer	1,000.00	1,002.00	2.00
Global service fees for admitted insurer based on Utah premium volume show in most current year's annual statement			
Zero premium volume			
More than \$0 to less than \$1M premium volume	700.00	700.00	
\$1M to less than \$3M premium volume	1,100.00	1,100.00	
\$3M to less than \$6 M premium volume	1,550.00	1,550.00	
\$6M to less than \$11M premium volume	2,100.00	2,100.00	
\$11M to less than \$15M premium volume	2,750.00	2,750.00	
\$15M to less than \$20M premium volume	3,500.00	3,500.00	
\$20M or more in premium volume	4,350.00	4,350.00	
Insurer Examination-Agency Cost			
Global license fees for surplus lines insurer; other organization; accredited/trusteed reinsurer			
Surplus lines insurer and accredited/trusted reinsurer			
Initial license application	1,000.00	1,002.00	2.00
Renewal	300.00	302.00	2.00
Reinstatement	1,000.00	1,002.00	2.00
Other Organization			
Initial License Application	250.00	252.00	2.00
Renewal	200.00	202.00	2.00
Reinstatement	250.00	252.00	2.00
Global service fees for surplus lines insurer; other organization; accredited/trusteed reinsurer	200.00	200.00	
Captive Insurer Fees			
Initial license application		202.00	202.00
Initial license application review (actual costs incurred)			
Initial license issuance		302.00	302.00
Renewal		302.00	302.00
Reinstatement		302.00	302.00
Annual service fee		200.00	200.00
Viatical Settlement Provider Fees			
Initial license application		1,002.00	1,002.00
Renewal		302.00	302.00
Reinstatement		1,002.00	1,002.00
Annual service fee		600.00	600.00
Global individual license fee			
Res/non-res full line producer license or renewal per two-year license period			
Initial, express initial, or renewal if renewed prior to renewal deadline	70.00	72.00	2.00
Renewal-renewed 1-30 days after renewal date and prior to lapse date	140.00	142.00	2.00
Reinstatement of lapsed license 2-24 months after renewal deadline	190.00	192.00	2.00
Res/non-res limited line producer license or renewal per two-year licensing period			
Initial or renewal if renewed prior to renewal deadline	45.00	47.00	2.00
Renewal - renewed 1-30 days after renewal date and prior to lapse date	90.00	92.00	2.00
Reinstatement of lapsed license 2-24 months after renewal deadline	140.00	142.00	2.00
Addition of producer classification or line of authority	25.00	27.00	2.00
Global full line and limited line agency license fee			
Res/non-res initial or renewal license if renewed prior to renewal deadline	75.00	77.00	2.00
Renewal - renewed 1-30 days after renewal date and prior to lapse date	150.00	152.00	2.00
Reinstatement of lapsed license 2-24 months after renewal deadline	200.00	202.00	2.00
Addition of classification or line of authority to agency license	25.00	27.00	2.00
Title agency filing		25.00	25.00
Health insurance purchasing alliance per annual licensing period			
Res/non-res initial or renewal license if renewed prior to renewal deadline	500.00	502.00	2.00
Renewal - renewed 1-30 days after renewal date and prior to lapse date	750.00	752.00	2.00
Reinstatement of lapsed license 2-12 months after renewal deadline	800.00	802.00	2.00
Continuing Education Fees			
CE provider initial or renewal license, if renewed prior to renewal deadline	250.00	252.00	2.00
CE provider renewal lic-renewed 1-60 days after renewal date and prior to	300.00	302.00	2.00
CE provider reinstatement of lapsed license 3-12 months after renewal date	350.00	352.00	2.00
CE provider post approval or \$5 per hour whichever is more	25.00	27.00	2.00

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Other fees			
Photocopy per page	.50	.50	
Copy complete Annual Statement/Copy	40.00	42.00	2.00
Prod of lists-printed/page	1.00	1.00	
Prod of lists-electronic 1-500 records	50.00	52.00	2.00
Prod of lists-elec-501 or more records/rec	.10	.11	.01
Accepting Service of legal process	10.00	12.00	2.00
Returned check charge	20.00	20.00	
Workers comp schedule	5.00	5.00	
Address Correction Fee		35.00	35.00
Compliance and Enforcement Fines (not a fee, but fines collected from)			
Total General Fund Revenue			
Dedicated credit fees			
Fraud Assessment (dedicated credit; estimate of revenue to be collected from assessment)			
Title Assessment (dedicated credit; estimate of revenue to be collected from assessment)			
Relative Value Study (dedicated credit)	10.00	12.00	2.00
Utah insurance code book	25.00		-25.00
Mailing fee for books	3.00	3.00	
Electronic commerce dedicated fees			
E-commerce and internet technology services fee			
Insurer:admitted, surplus lines	75.00	75.00	
Captive insurer		1,000.00	1,000.00
Other organization and viatical settlement provider	50.00	50.00	
CE Provider	20.00	20.00	
Agency	10.00	10.00	
Producer	5.00	5.00	
Database access	3.00	3.00	
Paper filing process fee	5.00	5.00	
Non-electronic appointment (initial or termination) filing fee, per appointment	5.00		-5.00
Paper application processing fee	23.00	25.00	2.00
Total Dedicated Fee Revenue			
Restricted revenue fees			
Bail bond agency/annual lic period			
Resident initial or renewal license if renewed prior to renewal deadline (restricted revenue)	250.00	252.00	2.00
Renewal license-renewed 1-30 days after renewal date and prior to lapse (restricted revenue)	500.00	502.00	2.00
Reinstatement of lapsed license 2-12 months after renewal deadline (restricted revenue)	600.00	602.00	2.00