



Ohio Department of Insurance Budget Testimony FY 2010-2011
Mary Jo Hudson, Director
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Introduction- About the Department

I would like to thank Chairman Slesnick, Ranking Member Goodwin, and members of the Agriculture and Development Subcommittee of the House Finance Committee for inviting me here today.

I am pleased to present the Ohio Department of Insurance's FY 2010-2011 biennial budget request, which is aligned with our mission to provide consumer protection through education and fair but vigilant regulation while promoting a stable and competitive environment for insurers.

Over the next biennium, the Department will continue to focus on our number one priority, to protect insurance consumers and promote a healthy insurance market. We strive for continuous improvement of our consumer service efforts, and will also do more to encourage speed to market efforts for insurance products.

Other priority initiatives next biennium include protecting seniors against predatory sales practices and implementing healthcare coverage alternatives for Ohioans.

About the Department

I would like to begin by telling you a little bit about what we do as one of the state's largest consumer protection agencies.

The Department is charged with regulating Ohio's dynamic and sophisticated insurance industry. We regulate nearly 1,700 insurance companies, 18,700 agencies and 83,000 Ohio insurance agents. We also monitor the activities of approximately 178,000 out-of-state agents to ensure that these agents comply with Ohio standards for sales practices.

Insurance companies write about \$54 billion in premiums in Ohio, the 9th largest volume (2007 NAIC) in the country. This robust competition has created some of the lowest insurance rates in the country to the benefit of Ohio consumers and businesses. Ohio insurers contribute about \$447 million annually in premium taxes to the General Revenue Fund.

The insurance industry is a major growth driver for our state's economy. It is one of Ohio's largest industries, with a payroll of more than \$5 billion and employment of about 107,000 people, not counting insurance agents or consultants who operate as single-person businesses.

Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526

Fraud Hotline: 1-800-686-1527

OSHIP Hotline: 1-800-686-1578

TDD Line: (614) 644-3745

(Printed in house)

Monitoring the financial solvency of insurance companies operating in Ohio is the most important form of consumer protection that we conduct. We license and monitor the financial solvency of insurance companies doing business in Ohio to assure that the companies are fiscally sound and stable.

The Department reviews thousands of rate requests filed by companies to ensure that the rates meet all state-mandated actuarial and financial requirements.

In addition, we review company forms to ensure compliance with the insurance code, such as consumer disclosure requirements. We also review new insurance products to determine their compliance with the Ohio insurance code.

We license agents, assure that the agents obtain their continuing education requirements, and investigate allegations of wrongdoing. We also conduct investigations of insurance companies in the marketplace, called “market conduct” exams, to assess complaints or investigate allegations of wrongdoing. Our investigations can lead to suspension or revocation of licenses or authority to operate in Ohio, or even to criminal prosecutions.

Over the last biennium, the Department fielded more than 227,670 calls to our consumer affairs division, which includes calls to our Ohio Senior Health Insurance Information Program (OSHIIP).

In FY 2008-2009, nearly 365,500 seniors attended OSHIIP programs for information and assistance with the federal Medicare program. From July 1, 2007 to present date, OSHIIP counselors have enrolled 5,550 Ohioans in various components of the Medicare program.

Nearly one-third of the 6,500 consumer complaints received by the Department in 2008 dealt with the denial of claims by insurance companies. Of these, the majority – an estimated 40 % of the calls – related to denial of health insurance claims. For the past biennium, we have placed special emphasis on efforts to assure that more Ohioans have access to health care coverage.

As a result of reviewing the total number of complaints, the Department saved or recovered more than \$9.7 million for Ohioans in 2008. There were 634 fewer consumer complaints filed in 2008, down from 7,140 complaints in 2007.

Insurance fraud can cause insurance rates to increase. The Department is authorized to conduct investigations into insurance fraud allegations. The 29 staff members in our fraud and enforcement division respond to more than 4,400 insurance fraud and enforcement referrals each year. In the FY 2008-2009 biennium, we assisted in the conviction of 91 individuals, and 183 referrals for prosecution. We also revoked 173 licenses for cause.

One of the top cases we worked on in FY 2008-2009 involved breaking up a Fairfield County fraud ring that involved ten criminals, who had defrauded insurers and financial institutions of over \$3.5 million through cargo thefts, auto thefts and mortgage flipping.

We believe that if the Department is doing its best work, eliminating unnecessary regulatory burdens and red tape, and working for predictability, we will help continue to assure a strong insurance market along with solid protection for consumers.

We believe that Ohio's insurance market should be defined by the highest standards. If we work to raise the bar – for solvency, predictability, and consumer protection - it will benefit Ohio insurance consumers and maintain a healthy insurance marketplace.

We also want to connect Ohio insurers to our state's workforce and business development efforts to assure that we are growing and supporting our next generations.

We do all this with funding outside of the General Revenue Fund. Our funding is derived from a combination of fees and assessments on the insurance industry.

General Operating Budget and Contributions to GRF

The Department was created in 1872 and has been a non-General Revenue Fund agency since 1981. Of our approximately \$34 million annual operating budget, the largest portion comes from agent appointment fees. In FY 2008, these fees generated \$37.3 million. The appointment fee is \$20 per line of business, raised from \$15 in 1990, of which \$5 goes automatically to the GRF (\$8.9 million last fiscal year).

Additional fees and assessments related to the Department's operations going to the GRF in FY 2008 totaled more than \$15.8 million. This figure does not include the \$445 million in premium tax that is paid annually to the GRF by insurance companies operating in Ohio. The premium tax is certified by our Department and collected by the State Treasury and remitted directly to the GRF.

We maintain three separate rotary funds, Fund 554 – our Operating Fund, Fund 555 – our Examination Fund, and Fund 3U50 – our OSHIIP Fund, that I will now describe briefly:

The Department of Insurance Operating Fund (designated Fund 554):

Three-fourths of agent appointment fees, along with other fees, are credited to this fund. All operating expenses of the Department, except for expenses of financial examinations of insurers and the OSHIIP program, are paid from Fund 554.

Examination Fund (designated Fund 555):

Payments from insurers for expenses of examination of financial affairs and other assessments are credited to this fund. Generally these credits match expenditures for these exams.

The Ohio Senior Health Insurance Information Program (“OSHIIP”) Fund (designated Fund 3U50):

OSHIIP is partially funded through a federal grant to provide health insurance information to Ohio seniors. As federal funds are transferred, they are deposited in this fund so they are not commingled with other Department funds. The current federal funding level is about \$1 million a year. Since 2005, the program has played an essential role in educating Ohioans about Medicare prescription drug coverage. Ohio currently has 1.8 million Medicare beneficiaries, and approximately 12,000 Ohioans turn 65 each month. OSHIIP is supported primarily by federal funds, but the Department contributes approximately 11 percent annually to operations.

Summary of FY 2010-2011 Budget Request

The Department’s proposed budget includes three components. The first is our standard operating fund, as I just described, which is essentially flat compared to our FY 2009 budget (\$34.4 million in each year of the biennium).

Secondly, and new for the Department, our budget request reflects \$10 million per fiscal year from the GRF for initiatives that will be led by the Health Coverage and Quality Council, which I will discuss in detail later.

Finally, we have the opportunity to draw down federal stimulus package funding that will support health information technology. This may allow the state to receive \$10 in federal matching funds for every \$1 in state funding. This opportunity for federal stimulus package funding represents the largest part of the Department’s budget request for the upcoming biennium and is the reason why the Department’s budget looks like it is growing. In reality, our operating expenses have remained flat, but the opportunity for federal stimulus funds to support health information technology is an opportunity our state cannot miss.

From our operation funds, we will commit approximately \$1 million a year to upgrade the Department’s regulatory computer system. This commitment will require reprioritizing our continuing operations to free up resources necessary for the upgrade. Enclosed is a chart (Appendix A) showing the Department’s operating budgets for the three funds over a six-year period.

The Department’s staff ceiling is currently at 283 employees and has been at that level since September 2000. Our staff size is modest compared to other states with similar size domestic markets. We will continue to assess the changing personnel needs and leverage technology to ensure that we have necessary staffing and resources to effectively carry out statutory responsibilities and to implement new initiatives in priority areas, such as combating insurance fraud, protecting seniors against predatory sales practices, and address health insurance market issues.

In fact, last biennium, we realigned some key staff to provide a foundation for increased efficiencies and improved customer service by streamlining operations of several divisions within the Department.

For example, we merged the functions of two separate divisions, the Office of Property & Casualty and the Office of Life & Health Services, to form the one division of Office of Product Regulation under the oversight of one Assistant Director. This realignment reduced top-level management and improved communications with stakeholders.

Protecting Seniors

We are working diligently to curb predatory sales practices directed to seniors. Our areas of concern include sales of Medicare Advantage Plans, certain life settlement sales, and sales of annuity products.

As for Medicare Advantage Plans, our jurisdiction in this area has been severely limited by Congress, so we are also working with senior centers and other senior advocates to educate them on these issues and gain their assistance in protecting seniors.

We are also working with the plans, on a voluntary basis, to encourage proper training and monitoring of their agents to protect the integrity of the Ohio market.

In the last biennium, our Enforcement Division conducted 17 seminars for agents and agent groups that focused on Predatory Sales Practices associated with the sale of Medicare Product.

We also held four Senior Summits to educate seniors about predatory sales practices, and the Department developed presentations for seniors regarding Stranger Originated Life Insurance transactions and Equity Indexed Annuities.

We plan to continue our efforts in FY 2010-2011 to protect and educate Ohio seniors from predatory sales practices.

Healthcare Coverage Reform

We have requested GRF funding of \$10 million in each year of the next biennium to support the implementation of strategies recommended by the Healthcare Coverage and Quality Council, which was established last week by executive order and is to be codified by HB 1. While we proposed that up to \$7 million will be used to leverage federal funding for Health Information Technology, the remainder may be used to advance strategies to make health care more effective and affordable, such as patient centered medical homes, consumer information and payment reform. In addition, \$479,575 a year out of the Department's budget will be used to staff and support the Council.

Who is Uninsured in Ohio?

As we talk about health care reform, it is important to know who is uninsured in Ohio. Ohio has about 11.2 million residents. Approximately 1.3 million Ohioans, or 12%, are uninsured.

Uninsured Ohioans are a diverse group, but they do have some common characteristics. For example, uninsured Ohioans generally have lower incomes. About 70 percent of uninsured Ohioans live at or below 300 percent of the federal poverty level.

In fact, about 350,000 uninsured Ohioans live at or below 100% of the federal poverty level (FPL) and an additional 410,000 uninsured Ohioans live between 100% and 200% FPL.

An estimated 7.8 percent of the premiums paid for health insurance coverage in Ohio is due to costs shifted by providers for uncompensated care. In 2006, this equaled \$330 of the premium paid for an individual policy and \$950 of the premium paid for a family policy, raising the cost of coverage. Therefore, one can conclude that the cost of care for Ohio's uninsured residents will continue to be shifted to the government, employers and the insured until we address these issues head-on.

Healthcare Reform Initiative

In 2007, the State of Ohio entered the State Coverage Initiative (SCI) program. SCI is a partnership between the Robert Wood Johnson Foundation and AcademyHealth. SCI was created to assist states in developing and implementing programs to expand the availability of quality and affordable healthcare to those who currently lack healthcare coverage.

Governor Strickland created a bipartisan team (SCI Team) to work together in an open, inclusive, and transparent process to reduce the number of uninsured Ohioans. The core SCI team included representatives from the Governor's administration, stakeholders, and legislators. We were honored to have on the team Representative Sandra Williams and Senators Tom Niehaus and Shirley Smith, as well as former representative Jim Raussen.

The SCI team was later joined by the larger Advisory Committee. The Advisory Committee consisted of the 12 members of the SCI Team, as well as 34 leaders in Ohio's healthcare community. The inclusion of consumer advocates, nurses, doctors, hospitals, businesses, labor, free clinics, community health centers, and health insurance companies provided us the opportunity to hear from and obtain feedback from every segment of the community.

Both the SCI Team and Advisory Committee dedicated countless hours in order to develop the recommendations delivered to Governor Strickland in August 2008.

In its report, *Covering the Uninsured*, (available on our website at www.healthcarereform.ohio.gov) the SCI team outlined 26 strategies designed to provide affordable and quality healthcare to uninsured Ohioans. However, many of these recommendations have significant budgetary implications for both the state and consumers, which are not possible in these economic times.

Despite the current economic situation, contained in the Governor's Executive Budget are modest recommendations that can be implemented with little, if any, budgetary effect. We have taken these recommendations to the Governor, he has reviewed them, and we believe that we are taking prudent first steps to expand health care coverage to uninsured Ohioans. The four major areas for reform include 1). Open enrollment; 2). Dependent coverage; 3). State continuation coverage; and 4). Section 125 plans. While there are cost implications, we believe they are spread across the market in a way that minimizes negative impact and maximizes results in terms of covering the uninsured.

- **Open Enrollment:** Currently, Ohio's individual market allows insurers to consider an applicant's age, residence, gender and health condition when deciding to issue a policy or in setting the premium rate for a policy. Approximately 400,000 Ohioans rely on the individual market for their coverage.

Many Ohioans cannot obtain coverage in the individual market because of pre-existing conditions. HIPAA requires states to have a method of assuring that some individuals with pre-existing conditions can obtain insurance coverage. States can do this through open enrollment or forming a high risk pool.

We need to revise Ohio's open enrollment laws, as less than 2,000 Ohioans are currently enrolled in open enrollment. Monthly rates for open enrollment average about \$815 for an individual and can sometimes reach several thousand dollars. Family coverage is usually more than twice as expensive. As you can imagine, many Ohioans simply cannot afford these rates, particularly if they have a family to cover.

We are proposing to change the open enrollment rules so that the rates will be reduced by 50 to 70 percent, to a monthly average of \$300. The changes we are proposing are expected to have a moderate impact on rates in the individual market, with expected increases of approximately 5.5%.

While some individuals may drop their coverage due to this increase, we believe that at least 52,000 Ohioans will be able to afford coverage with this change.

Some stakeholders have suggested that the better way to cover the uninsured is through a high risk pool. In 2005, the Department hired Leif Associates, an actuary specializing in high risk pools, to conduct a study to determine the feasibility of an Ohio high risk pool.

While it was determined that high risk pool was a viable option, only 17,000 individuals would eventually be covered. In its fifth year of operation, the high risk pool would cost about \$144 million, which must be funded through outside sources.

A high risk pool is an expensive program and it is designed to lose money. That is why an outside funding source is required. In fact, the SCI Team did not recommend a high risk pool for this very reason. In other words, there was not enough “bang for the buck” with a high risk pool.

The SCI Team decided it would be better to use that amount of money on a program that would provide relief to a larger group of people, instead of concentrating it on a smaller group. For example, the SCI Team recommended a reinsurance program that would cover an estimated 181,000 more Ohioans at an approximate cost of \$157 million. The SCI Team believed that these kind of resources could be better used, when available, to cover many more people than a high risk pool would ever cover.

- **Dependent Coverage:** Our budget request also expands dependent child coverage up to age 29. Coverage for dependents typically ends when the child turns 18 or 23 if they are enrolled in college. This change will allow young adults who do not have other coverage to remain on their parent’s policies until the age of 29.

The reason to allow coverage until the age of 29 is twofold: almost 22% of Ohio’s uninsured are between the ages of 18 and 25, and many young adults do not have access to employer sponsored coverage because they are just starting out in their careers, and many employers now do not provide coverage to employees.

This change does not require employers to pay for this coverage, as the employee will be responsible for paying the full amount of the coverage. However, if the employer pays for this or other dependent coverage, the payments will be tax exempt for the employee. We estimate that over 21,000 more Ohioans will obtain coverage with this modification.

- **State Continuation Coverage:** Another coverage change included in our budget request involves the continuation of healthcare benefits during unemployment. Many of you are likely familiar with the federal COBRA program, which permits extended coverage.

Employers with fewer than 20 employees are not subject to federal COBRA. The only continuation coverage available to employees at these small businesses is continuation coverage under state law, which is sometimes called mini-COBRA. Under currently law, Ohio’s mini-COBRA coverage only lasts for 6 months, unlike federal COBRA which lasts at least 18 months.

We are recommending that the length of mini COBRA coverage be extended to one year. While individuals will be responsible for the full cost of the coverage, we believe that this change will help Ohioans keep their coverage while looking for new employment. We also propose making Ohio's mini COBRA eligibility the same as federal COBRA eligibility.

- **Section 125 Plans:** The last coverage item in our budget request is a requirement for employers to offer Section 125, or “cafeteria” plans to their employees so that employees can use their own money to purchase health insurance. While it normally costs an employer between \$200 to \$500 to create a Section 125 plan, the Department plans to set up website, and provide employers with plan documents and instructions to create Section 125 plans at little or no cost. The only expense to the employer is the cost of deducting monies from the employee's paycheck and placing it in a separate account for the employee to buy their own health insurance. This is a minor expense when compared to the 40% savings the employee will get off their health insurance premiums. This requirement is phased-in over a few years, so employers will have plenty of time to comply.
- **Other Regulatory Reforms:** In addition to the items directly related to coverage included in our budget request, we also propose changes to existing law that will encourage transparency in our health insurance markets.

For example, all insurers will be required to file all individual and small group health insurance rates and loss ratio data with the Department. This additional information will allow the Department to better monitor the current health insurance markets. We will also consolidate within the Department all network adequacy review and regulation. Currently, this regulatory activity is broken up between the Department of Insurance and the Department of Health. This change would consolidate this regulatory function within the Department to create efficiencies.

Another area of reform that the Department seeks is a slight change to Ohio's independent review statute. Independent review allows a consumer to appeal an insurer's denial of a health insurance claim to an independent third party in certain circumstances. The independent party decides the appeal. Sometimes, consumers contact the Department about claim denials and sometimes the Department determines that the dispute should be decided through the independent review process. The Department seeks authority to move such a case into the independent review process when that is appropriate.

While we have done much work on healthcare reform, there is still much that needs to be done. One major roadblock in healthcare reform is funding. We found that we need to delve further into how healthcare reform can be funded. To accomplish this goal, we request the authority for funding to conduct a study of how healthcare programs should be financed.

Conclusion

In conclusion, we at the Ohio Department of Insurance are working to assure a safe, sound and competitive insurance market, regular communication with stakeholders, and solid protection for consumers. We are also working to foster efficient and effective operations within the Department, and to address healthcare affordability and availability issues in Ohio. We respectfully request your consideration of our budget request to achieve these goals.

This concludes my testimony. Thank you for your time and attention. I am happy to answer any questions.

