

**Program Budget Comparison**

The following table summarizes the total legislative budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	58.00	58.00	58.00	58.00	58.00	58.00	0.00	0.00%
Personal Services	3,542,103	3,528,621	3,852,295	3,826,496	7,070,724	7,678,791	608,067	8.60%
Operating Expenses	2,032,708	1,786,288	2,551,587	2,561,539	3,818,996	5,113,126	1,294,130	33.89%
Equipment & Intangible Assets	5,810	9,057	5,810	5,810	14,867	11,620	(3,247)	(21.84%)
Benefits & Claims	10,448,099	10,678,166	10,004,758	10,004,758	21,126,265	20,009,516	(1,116,749)	(5.29%)
Transfers	0	0	0	0	0	0	0	n/a
<b>Total Costs</b>	<b>\$16,028,720</b>	<b>\$16,002,132</b>	<b>\$16,414,450</b>	<b>\$16,398,603</b>	<b>\$32,030,852</b>	<b>\$32,813,053</b>	<b>\$782,201</b>	<b>2.44%</b>
General Fund	0	0	1,646,660	6,763,375	0	8,410,035	8,410,035	n/a
State Special	16,028,720	16,002,132	14,767,790	9,635,228	32,030,852	24,403,018	(7,627,834)	(23.81%)
Federal Special	0	0	0	0	0	0	0	n/a
<b>Total Funds</b>	<b>\$16,028,720</b>	<b>\$16,002,132</b>	<b>\$16,414,450</b>	<b>\$16,398,603</b>	<b>\$32,030,852</b>	<b>\$32,813,053</b>	<b>\$782,201</b>	<b>2.44%</b>

**Program Description**

The Insurance Division regulates the insurance industry in Montana. The Policyholder Services Unit is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies. The Examinations Bureau is responsible for monitoring the financial solvency of insurance companies, collecting premium taxes and company fees, and auditing insurance company annual statements. Also housed in this bureau is the Captive Insurance program, which promotes and regulates captive insurers in the state. Captive insurance companies (captives) are formed and wholly owned by the businesses, associations, and groups that they insure. Captives are formed as risk management tools and as alternatives to the traditional insurance market. Captive insurers domiciled in Montana provide insurance to rural hospitals, nursing homes, doctors, commercial trucking companies, contractors, and others. The legislature passed enacting legislation in 2001.

The Rates Bureau and the Forms Bureau are responsible for reviewing form filings and rate filings to ensure compliance with the applicable insurance code. The Licensing Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjusters. The Insure Montana Bureau administers the Small Business Health Insurance Purchasing Pool and the Tax Credit program. The Legal Unit, which serves both the Insurance and Securities Divisions, provides legal support to the divisions. The Investigations unit, which is under the Legal Unit, reviews code and rule violations, including possible criminal violations, and recommends referral of cases to county attorneys for prosecution.

**Program Highlights**

<b>Insurance Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>◆ The Insurance Division 2015 biennium budget is about \$782,000 greater than the 2013 biennium due to:                             <ul style="list-style-type: none"> <li>• \$672,000 for financial and market conduct examinations of insurance companies as statutorily required</li> <li>• \$279,000 for statewide present law adjustments to fully fund positions and for fixed cost and inflationary increases</li> <li>• \$190,000 for pay increases granted in FY 2013 to move pay for most positions up to 85% of the market midpoint</li> <li>• \$125,000 for an additional FTE for supervision and regulation of captive insurance companies, which was approved as a one-time appropriation</li> </ul> </li> <li>◆ A \$8.4 million one-time general fund appropriation continues the Insure Montana program for the 2015 biennium, but is about \$887,000 less than the shortfall in state special revenue funding for the program</li> </ul>

**Program Narrative**

The Insurance Division 2015 biennium budget is about \$780,000 greater than the 2013 biennium budget and major changes are noted in the Highlights Table. The most significant legislative decision was to add one-time funding to continue the Insure Montana program. The Governor’s budget eliminated Insure Montana due to insufficient funds in the health and Medicaid initiatives state special revenue account and the belief that implementation of the Affordable Care Act and the health insurance exchange effective January 1, 2014 would take the place of the program.

The legislature concluded that employees could not purchase health insurance on the individual health insurance exchange if insurance continued to be offered through their employer and it was affordable, meaning that a policy for the employee only cost less than 9.5% of household income. Due to these considerations and other changes in the insurance market, the legislature opted to continue the program for another biennium. The legislature added \$8.4 million general fund and \$6.0 million in insurance fee state special revenue to offset the reduction in health and Medicaid state special revenue that has traditionally funded the program. The 2015 Legislature would need to add funds to continue Insure Montana in the 2017 biennium since it is funded from one-time appropriations.

Appropriation increases are partially offset by an \$887,000 reduction in the total appropriated for the Insure Montana program compared to the 2013 biennium budget.

**Funding**

The following table shows program funding by source of authority for the 2015 biennium as adopted by the legislature.

Total State Auditor's Office Funding by Source of Authority 2015 Biennium Budget - Insurance							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$8,410,035	\$0	\$0	\$8,410,035	25.6%		
State Special Total	\$24,403,018	\$0	\$0	\$24,403,018	74.4%		
02235 Insurance Fee Account	\$17,034,258	\$0	\$0	\$17,034,258	51.9%		
02528 Captive Account	\$358,137	\$0	\$0	\$358,137	1.1%		
02770 Health Insurance Tax Credits	\$1,498,190	\$0	\$0	\$1,498,190	4.6%		
02789 6901-chip/mcha Tobacco Sett Fd	\$1,890,151	\$0	\$0	\$1,890,151	5.8%		
Total All Funds	\$32,813,053	\$0	\$0	\$32,813,053	100.0%		
<b>Percent - Total All Sources</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>				

The Insurance Division is funded with primarily with state special revenue. A one-time appropriation of \$8.4 million general fund supports continuation of the Insure Montana program through the end of the 2015 biennium.

State special revenue sources support the following functions:

- o Insurance licensure fees, examination fees, and penalties, which fund program functions related to insurance regulation, including a one-time \$6.0 million appropriation to continue the Insure Montana program through FY 2015
- o Health and Medicaid initiatives (tobacco taxes), which fund the Insure Montana program
- o Tobacco settlement revenues, which support premium subsidies for the state high risk insurance pool through the Montana Comprehensive Health Association (MCHA)

**Montana Comprehensive Health Association**

The Montana Legislature created the MCHA in 1985 to provide access to health insurance benefits to Montana residents who were otherwise considered uninsurable due to medical conditions. MCHA operations are funded through the premiums paid by those insured in the program and through assessments on all disability (accident and health) benefit policies written in the state of Montana. MCHA also receives an allocation from the tobacco settlement revenue - about \$925,000 in FY 2012. The legislature passed SB 223, which requires development and approval of a plan to terminate MCHA since persons receiving insurance through MCHA will be eligible to purchase insurance through the individual health insurance exchanges that will be implemented January 1, 2014. Low income individuals will be eligible for premium and co pay assistance through the exchanges.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	16,028,720	16,028,720	32,057,440	97.70%
Statewide PL Adjustments	0	0	0	0.00%	150,102	128,948	279,050	0.85%
Other PL Adjustments	0	0	0	0.00%	583,615	588,922	1,172,537	3.57%
New Proposals	1,646,660	6,763,375	8,410,035	100.00%	(347,987)	(347,987)	(695,974)	(2.12%)
<b>Total Budget</b>	<b>\$1,646,660</b>	<b>\$6,763,375</b>	<b>\$8,410,035</b>		<b>\$16,414,450</b>	<b>\$16,398,603</b>	<b>\$32,813,053</b>	

The majority of funds support base budget costs. A new proposal to continue Insure Montana through the end of the 2015 biennium is partly funded from a one-time appropriation of general fund and insurance state special revenue.

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the base budget adopted by the legislature.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					245,798					252,827
Vacancy Savings					(151,513)					(151,801)
Inflation/Deflation					985					2,210
Fixed Costs					54,832					25,712
<b>Total Statewide Present Law Adjustments</b>		<b>\$0</b>	<b>\$150,102</b>	<b>\$0</b>	<b>\$150,102</b>		<b>\$0</b>	<b>\$128,948</b>	<b>\$0</b>	<b>\$128,948</b>
DP 50 - Initial Motion to FY 2012 Base	0.00	0	(150,102)	0	(150,102)	0.00	0	(128,948)	0	(128,948)
DP 51 - Adjustment for Statewide Personal Services	0.00	0	94,285	0	94,285	0.00	0	101,026	0	101,026
DP 52 - Adjustment for Statewide Operations	0.00	0	55,817	0	55,817	0.00	0	27,922	0	27,922
DP 3004 - Actuarial Review	0.00	0	75,000	0	75,000	0.00	0	75,000	0	75,000
DP 3005 - Traditional Insurance In-House Exams (RST/OTO)	0.00	0	10,185	0	10,185	0.00	0	10,185	0	10,185
DP 3006 - Elected Official - Captive Insurance FTE (OTO)	0.00	0	64,736	0	64,736	0.00	0	60,091	0	60,091
DP 3007 - In-House Captives Insurance Exams	0.00	0	16,890	0	16,890	0.00	0	16,890	0	16,890
DP 3008 - Captive Regulatory and Supervision (RST/OTO)	0.00	0	85,000	0	85,000	0.00	0	95,000	0	95,000
DP 3009 - Biennial Financial Exams (BIENNIAL/RST/OTO)	0.00	0	186,604	0	186,604	0.00	0	186,604	0	186,604
DP 3010 - Elected Official-Cont. Ed Market Conduct (RST/OTO)	0.00	0	18,800	0	18,800	0.00	0	11,900	0	11,900
DP 3011 - In-house Market Conduct Exams (RST/OTO)	0.00	0	26,400	0	26,400	0.00	0	18,500	0	18,500
DP 3012 - Biennial Market Conduct Exams (BIENNIAL/RST/OTO)	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
DP 3013 - Rent	0.00	0	0	0	0	0.00	0	14,752	0	14,752
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$583,615</b>	<b>\$0</b>	<b>\$583,615</b>	<b>0.00</b>	<b>\$0</b>	<b>\$588,922</b>	<b>\$0</b>	<b>\$588,922</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$733,717</b>	<b>\$0</b>	<b>\$733,717</b>	<b>0.00</b>	<b>\$0</b>	<b>\$717,870</b>	<b>\$0</b>	<b>\$717,870</b>

DP 50 - Initial Motion to FY 2012 Base - The legislature adopted a motion to establish the starting point for budget deliberations as the FY 2012 base. This adjustment removes statewide present law adjustments for personal services, vacancy savings, fixed costs, and inflation/deflation.

DP 51 - Adjustment for Statewide Personal Services - This adjustment funds statewide personal services and vacancy savings.

DP 52 - Adjustment for Statewide Operations - This adjustment establishes the fixed cost and inflation/deflation rates as approved by the General Government Joint Appropriations Subcommittee.

DP 3004 - Actuarial Review - This appropriation funds the implementation of HB 334 passed by the 2011 Legislature, which requires the financial and compliance audit and rate review of the State Fund. The CSI must report any concerns or recommendations based on the review to the Governor, the Legislative Audit Committee, and the Economic Affairs Interim Committee (EAIC).

This is a new responsibility, but the legislature did not allocate any additional funds or FTE for the actuarial review of the rates and reserves. The agency currently employs one full time property and casualty actuary, but due to the

position's heavy workload, the CSI actuary is unable to conduct the review as required by the law. Estimates obtained for the reviews are about \$75,000 to contract with an independent actuary to review the rates and reserves of the State Fund. For the 2012 report to the EAIC, the CSI contracted with an independent consulting actuary to do the actuarial reviews, but the CSI contractor could only conduct a partial review due to the limited funds available. Base expenditures were \$10,000.

DP 3005 - Traditional Insurance In-House Exams (RST/OTO) - The legislature added insurance license fee state special revenue each fiscal year for insurance examinations by division staff. This funding will support 3 farm mutual exams, which will require 2 examiners. Additionally, for contracted exams it may be necessary for the examiner supervising contract examiners to make periodic field visits.

The appropriation also funds training to ensure examiners are accredited for performing exams. This request supports 3 employees' attendance at the National Association of Insurance Commissioners (NAIC) Financial summit and the Society of Financial Examiners (SOFE) and 1 employee attendance at 3 NAIC national meetings and 2 other NAIC related trainings.

The appropriation is restricted for these uses and was designated as one-time.

DP 3006 - Elected Official - Captive Insurance FTE (OTO) - The legislature approved the CSI's request to fund an FTE for administration of the captive insurance program as a one-time appropriation. The FTE was approved based on a projected increase in the number of captive insurance companies in Montana.

DP 3007 - In-House Captives Insurance Exams - The legislature appropriated insurance premium tax state special revenue for examination of captive firms performed by division staff. The cost of the exam is reimbursed by the companies being examined. Base level expenditures totaled \$3,410.

In each year of the 2015 biennium, 20 pure captive exams and 4 risk retention group exams will be completed. Each risk retention group exam requires a two week period of travel by an in-house examiner. For the pure exams, funds support 5 week long trips out of state and 10 in-state, week long trips.

DP 3008 - Captive Regulatory and Supervision (RST/OTO) - This appropriation funds promotion and administration of the captive insurance industry. This program is funded with 5% of the premium tax and all fees and assessments received by the commissioner. The appropriation is restricted and one-time only.

DP 3009 - Biennial Financial Exams (BIENNIAL/RST/OTO) - The legislature approved a biennial, restricted, one-time appropriation for examination of insurance companies. These expenditures are reimbursed by the companies examined.

According to MCA 33-1-401, "The commissioner shall examine the affairs, transactions, accounts, records, and assets of each authorized insurer as often as the commissioner considers advisable. The commissioner shall examine each authorized insurer not less frequently than every 5 years."

DP 3010 - Elected Official-Cont. Ed Market Conduct (RST/OTO) - The legislature approved the CSI request for an appropriation to fund continuing education for employees who perform market conduct examinations of insurance companies. The appropriation is restricted and one-time only.

DP 3011 - In-house Market Conduct Exams (RST/OTO) - The legislature approved a restricted, one-time appropriation for increased costs of in-house expenses related to market conduct exams during the 2015 biennium.

DP 3012 - Biennial Market Conduct Exams (BIENNIAL/RST/OTO) - The legislature appropriated insurance fee state special revenue for contracted services to perform insurance company market conduct examinations. The cost of the exam is billed to the companies being examined. This adjustment funds anticipated cost increases, is restricted, and authorized for the 2015 biennium only.

DP 3013 - Rent - This adjustment adds state special revenue for increased office rent. The current lease does not include inflationary adjustments for rent. When the lease expires the agency anticipates a 5% increase on January 2015 for the last half of FY 2015.

**New Proposals**

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3016 - Elected Official Market Adjustment											
03	0.00	0	95,354		0	95,354	0.00	0	95,354	0	95,354
DP 30140 - Insure Montana Bridge (RST/OTO)											
03	0.00	1,646,660	(2,090,001)		0	(443,341)	0.00	6,763,375	(7,206,716)	0	(443,341)
<b>Total</b>	<b>0.00</b>	<b>\$1,646,660</b>	<b>(\$1,994,647)</b>		<b>\$0</b>	<b>(\$347,987)</b>	<b>0.00</b>	<b>\$6,763,375</b>	<b>(\$7,111,362)</b>	<b>\$0</b>	<b>(\$347,987)</b>

DP 3016 - Elected Official Market Adjustment - The legislature approved funding for pay adjustments implemented in FY 2013 by the CSI to bring most staff up to 85% of the market midpoint. The adjustments are funded from a combination of insurance and security fee state special revenue.

DP 30140 - Insure Montana Bridge (RST/OTO) - The State Auditor’s Office operates the Insure Montana program, which offers health insurance premium subsidies and tax credits to employers offering health insurance to employees. This adjustment removes Insure Montana from the base budget and funds it as a one-time-only, restricted, biennial appropriation from three sources:

- o \$8,410,035 general fund
- o \$6,000,000 insurance fee state special revenue
- o \$5,120,473 state special revenue from tobacco taxes allocated to the health and Medicaid Initiatives account

The net impact of the new proposal lowers the existing appropriation for the program by \$433,341 each year. The appropriation amount was determined based on changes enacted in HB 48. HB 48 requires eligibility for premium assistance to be based on household income rather than an individual employee’s salary and limits premium assistance to households earning no more than 400% of the federal poverty level (about \$94,000 for a family of 4 in 2013).