

INSURANCE DEPARTMENT
(Agency #425) 2007-09 BIENNIUM

I) AGENCY SUMMARY & REVENUE SOURCES

MISSION

The primary mission of the Department is consumer protection through insurer solvency, market conduct regulation, and fraud prevention and deterrence. The purpose of the Department is to serve and protect the public interest by the equitable enforcement of the State's laws and regulations affecting the insurance industry. Responsibilities include:

- Review and licensing of insurance companies;
- Testing and licensing of insurance agents;
- Reviewing policy forms and rates;
- Collection of premium taxes;
- Regulate and license limited surety agents, auto clubs, HMOs, pre-paid legal insurers, and hospital and medical corporations;
- Collection of funds for Firemen's' and Police Officers' pension funds;
- Registers third party administrators;
- Assists state agencies, institutions, and schools in the establishment of appropriate insurance programs and procurement coverage;
- Receives and investigates citizen complaints and provides information to the public;
- Administers receivership proceedings, Workers' Compensation Fraud Investigation Unit, Insurance Fraud Investigation Unit, and PrePaid Funeral Benefits Division; and
- Administers the Public Employees Workers' Compensation Claims.

TOTAL BIENNIAL BUDGET

The total authorized appropriation for FY08 is \$67.8 million, an increase of approximately \$4 million or 6.2% over base level and \$67.02 million in FY09, an increase of approximately \$4 million or 6.3% over base level.

FUNDING SOURCE

Funding from Fund Balances (approx. 42%), Special Revenues (approx. 13%), Trust Funds (approx. 23%), Miscellaneous Revolving Fund (approx. 11%), Workers' Compensation Revolving (approx. 10%), and Federal and Cash funds (approx. 1%).

II) SIGNIFICANT CHANGES

INSURANCE-STATE OPERATIONS (APPROPRIATION 2SW)

This appropriation is funded by special revenues which are fees assessed or imposed upon insurers, insurance agents, brokers, professional bail bond companies, and other licensees or registrants and other regulatory fees, and is to be used to defray the expenses of the State Insurance Department in the discharge of its administrative and regulatory powers and duties.

The total authorized appropriation is \$10.6 million in FY08 and \$10.8 million in FY09 and includes the following changes that result in a net reduction of this appropriation in the amount of \$136,612 in FY08 and \$126,612 in FY09 from the base level:

Regular Salaries & Matching - An increase to the base level of \$136,561 in FY08 and \$275,232 in FY09 to provide a 2% cost of living increase.

Operating Expenses - A reduction of \$195,605 each year of the biennium.

Conference Fees & Services - Reduction of \$60,136 each year.

Professional Fees & Services - Reduction of \$60,871 each year.

Data Processing - Reduction of \$65,000 each year.

Capital Outlay - Provides \$145,000 in FY08 and \$155,000 in FY09 which provides for replacement of office equipment (\$20,000 each year), replacement of IT equipment (\$100,000 each year), and \$25,000 in FY08 and \$35,000 in FY09 for IT disaster recovery capabilities. The IT disaster recovery capital items are to be funded by a portion of the decrease in operating expenses.

Professional Services - An increase of \$100,000 each year for additional actuarial support during financial examinations of licensed insurers.

INSURANCE FRAUD INVESTIGATION DIVISION (APPROPRIATION 2SY)

This appropriation is funded by an annual regulatory fee collected exclusively to support fraud investigation efforts.

The total authorized appropriation is \$967,559 in FY08 and \$981,402 in FY09 and includes the following increase:

Capital Outlay - An increase of \$6,070 each year for replacement of IT equipment.

STATE EMPLOYEE CLAIMS (APPROPRIATION 2TB)

This appropriation is funded by a revolving fund which derives its revenue from agency workers' compensation benefit contributions, and is used to process workers' compensation benefit claims payments for employees of the state.

The total authorized appropriation is \$12,000,000 each year of the biennium which is an increase of \$1,850,000 each year over base level to assure sufficient appropriation is available to cover the growing level of claims expenses.

PUBLIC EMPLOYEES CLAIMS SECTION (APPROPRIATION 2TD)

This appropriation is funded by transfers from the Public School Fund, County Aid Fund, and Municipal Aid Fund, and state agency fund accounts for administering the Workers' Compensation Claims program.

The total authorized appropriation is \$1,408,731 in FY08 and \$1,429,552 which includes the following changes that result in a net increase of \$8,000 each year:

Operating Expenses - A decrease of \$7,000 each year which will be reallocated to Capital Outlay to support Capital Outlay requests.

Capital Outlay - An increase of \$15,000 each year to replace non-IT equipment and IT equipment.

HEALTH INFORMATION COUNSELING (APPROPRIATION 2TE)

This appropriation is 100% federally funded and its purpose is to develop and maintain a network of local volunteers to dispense information and assist senior citizens with their insurance needs.

The total authorized appropriation is \$433,998 in FY08 and \$436,595 in FY09 with the following increases:

Operating Expenses - An increase of \$116,261 each year to continue a Miscellaneous Federal Grant that will provide additional capability to assist senior citizens with various insurance coverages.

Capital Outlay - An increase of \$8,000 each year for this program's share of the costs of replacing information technology equipment.

CONSUMER INFORMATION SYSTEM - CASH (APPROPRIATION 2TK)

This appropriation is funded by fund balances which were previously derived from a \$100 annual assessment level on each licensed insurer to be used to dispense information to the public regarding the various policy types, coverages and purchasing options offered by the insurance

industry.

The total budget is \$173,000 each year of the biennium which is a continuation of the base level. **NOTE: THIS ANNUAL ASSESSMENT IS NO LONGER COLLECTED, CONTINUING USE OF THIS APPROPRIATION WILL RESULT IN THE DEPLETION OF THE FUND BALANCE.**

CRIMINAL BACKGROUND CHECKS - CASH (APPROPRIATION 4HH)

This appropriation is funded by a \$20 fee charged to each first-time license applicant and is used to obtain criminal background data from the Arkansas State Police. This appropriation was established by requests from the Cash Fund Holding Account during FY06 and FY07. The total authorized appropriation is \$100,000 each year which is a continuation of the prior authorizations.

ARKANSAS MULTI AGENCY WORKERS' COMPENSATION TRUST (APPROPRIATION 4KV)

This appropriation is to be used to provide reinsurance, administration and payments of claims filed by state employees that exceed \$250,000 per claim, and to provide resources in the event that expenditures in the Workers' Compensation State Employee Claims account exceed its authorization. The total authorized appropriation is \$2 million each year. The Department will submit legislation during the 86th General Assembly to create the program fund, outline its operation, and designate revenues for its support.

III) ADDITIONAL POSITIONS

Total positions for the 2007-09 Biennium: 182

Total positions for the 2005-07 Biennium: 182

Increase / (Decrease): 0sa

IV) SPECIAL LANGUAGE

Repeals Arkansas Code §23-79-507(e): This section of the Code provided for funds to be transferred from the Insurance Department Trust Fund to the Comprehensive Health Insurance Pool in the amount of the prior year's deficit in the Comprehensive Health Insurance Pool, but not to exceed \$2 million. In years in which the Pool does not incur a deficit, no transfers are required. The appropriation for the Pool also was discontinued. This language and the appropriation are discontinued due to a mutual agreement between the Insurance Department and the CHIP POOL Administration, and according to the Department of Insurance, alternative funding sources do exist for the Pool and therefore it does not require the deficit reimbursements any longer.

THE ALTERNATIVE SOURCES OF FUNDING ARE FEDERAL FUNDS AND ASSESSMENTS OF INSURERS.

SPECIAL RATES OF PAY: Authorizes special rates of pay for current and new employees titled Insurance Examiner Grade 20, Financial Analyst Grade 20, Financial Analyst II Grade 21, and Insurance Senior Examiner (Grade 23). The Department will submit a salary structure plan for recruitment and retention of employees for Chief Fiscal Officer approval and Legislative Council/Joint Budget Committee (ALC/JBC) approval and will report implemented adjustments monthly to the Legislative Council. Adds non-severability language that if the ALC/JBC approval provision is ruled unconstitutional the entire section is void.

TRANSFER PROVISION: The unused appropriations in Regular Salaries, Extra Help, and Personal Services Matching may be transferred to Professional Fees & Services line item for contracting with qualified individuals or firms for exam assistance in the event the Department cannot maintain a

full roster of examination personnel.
Rev. April, 2007.