

# Office of Superintendent of Insurance

## FY15 Budget Request

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**Presented to**  
**Legislative Finance Committee**  
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**By**

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# Transition – Legal Authority

The Office of Superintendent of Insurance (OSI) was created on July 1, 2013

- Pursuant to the passage of Constitutional Amendment 4 during the 2012 General Election; and
- Subsequent enactment of House Bill 45 (Laws of 2013, Chapter 74) from the 1<sup>st</sup> Session of the 51<sup>st</sup> Legislature.
- These actions removed the insurance regulatory function from the Public Regulation Commission (where it was housed as the “Insurance Division”) and placed it in a newly-created adjunct state agency entitled the “Office of Superintendent of Insurance.”
- The enabling legislation also created an Insurance Nominating Committee to appoint the Superintendent of Insurance.

# Transition - Administrative

## **FTE:**

The staff have remained essentially the same as they were while within the Insurance Division of the PRC. The incumbent Superintendent of Insurance under the PRC, John Franchini, was subsequently appointed by the Insurance Nominating Committee to retain his role as Superintendent.

(See slide 13 for further details on FTE.)

## **Office Location:**

The physical location of the OSI has remained in the same location as it was under the Insurance Division of the PRC. OSI will be expanding into space vacated by the Corporations Bureau to accommodate the expansion of FTE.

## **Network:**

The entire network was separated by July 1, 2013. However, OSI was not given or able to purchase any new equipment to do so, but will use current appropriations and FY15 budget to update.

## **E-Docket:**

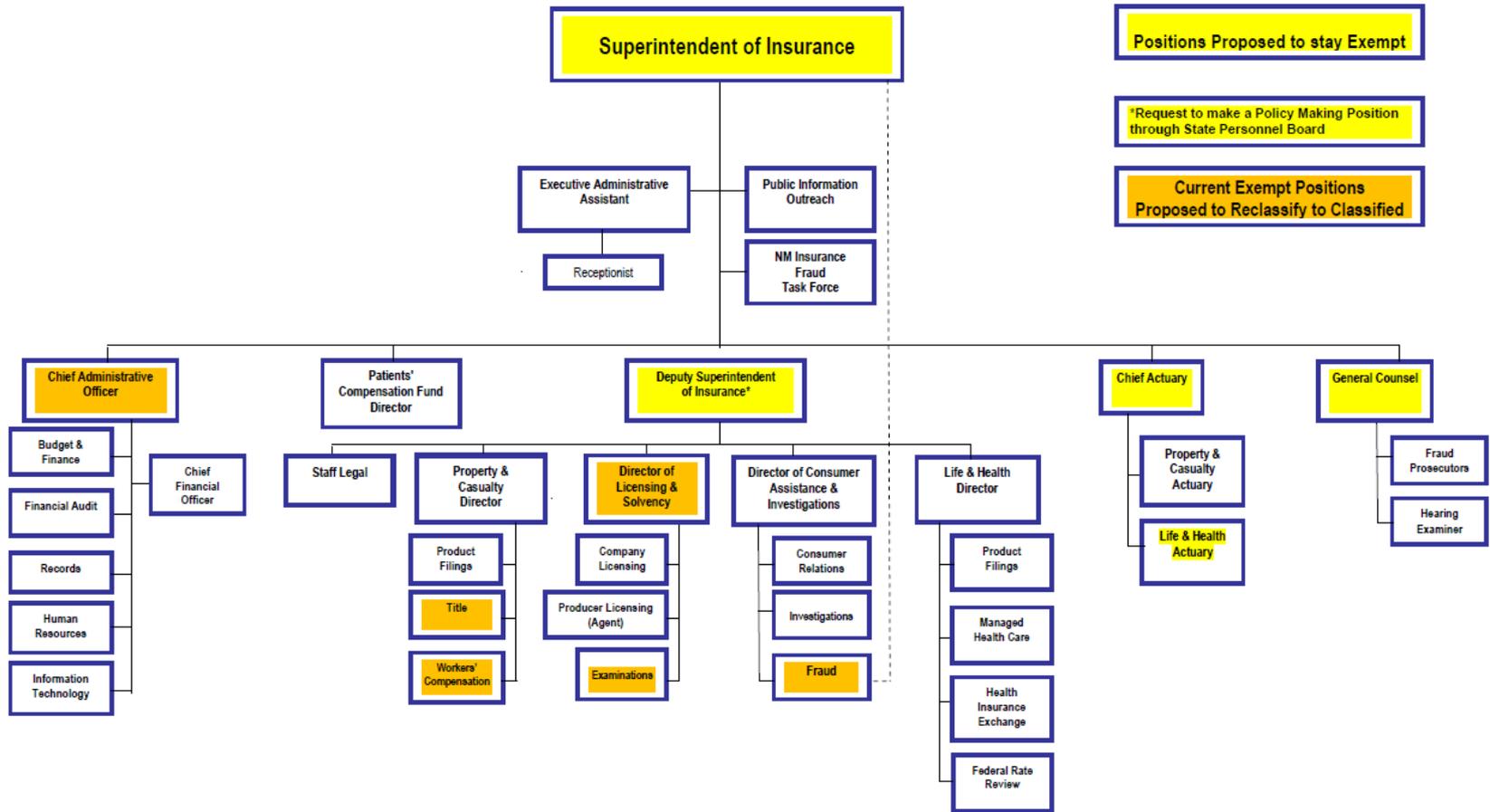
The OSI currently uses PRC's E-docketing system. OSI is in the process of obtaining its own system by June 30, 2014.

## **Financial Data:**

The entire records of OSI were maintained by PRC. OSI obtains records by request to the PRC. Not having records readily available has in some cases hampered operations.

# New Organizational Structure

## Office of Superintendent of Insurance (OSI) - 440 Organizational Chart Proposed for FY14



# Vision and Mission

## AGENCY VISION

As a newly-created agency, the OSI envisions revising its organizational structure to improve its functionality and to attract and retain qualified insurance regulatory professionals. The OSI also plans to replace its legacy IT system with a system promulgated by the National Association of Insurance Commissioners and used by most other state insurance departments. Lastly, the OSI plans to fully convert to paperless on-line processes for insurance agents and other licensees to obtain and renew their insurance licenses.

## AGENCY MISSION

The mission of the OSI is to provide consumers with convenient access to reliable insurance products which are underwritten by dependable and financially sound companies. The OSI strives to ensure that these companies have a proven history of fair and reasonable rates and are represented by trustworthy and qualified agents. The OSI is committed to consumer protection and to the deterrence and prosecution of insurance fraud.

# Organizational Functions/FY13 Statistics

## Company Licensing

The Company Licensing Bureau licenses insurance companies and other risk-bearing insurance entities. Pursuant to this, the bureau receives, reviews and renders determinations on applications from insurance companies that want to enter the New Mexico insurance market. The bureau oversees almost \$500 million in insurance company deposits held with Century Bank and the State Treasurer's Office for the protection of New Mexico policyholders. The bureau also reviews and processes documentation submitted by insurance companies for acquisitions, re-domestications, mergers and name changes. Lastly, the bureau is responsible for the collection of premium taxes and policy filings from surplus lines brokers.

- Active insurance companies and insurance related companies: 1,477
- Total Securities Held with Custodial Bank: \$448,802,000
- Total Surety Bonds Held with State Treasurer: \$18,440,000

## Producer (Agent) Licensing

The Agent Licensing Bureau licenses approximately 100,000 insurance professionals, as well as non-risk-bearing insurance entities. This includes insurance agents, agencies, brokers, adjusters, third party administrators, consultants, bail bondsmen, solicitors and motor clubs, as well as limited license insurance vendors such as cell phone sales agents and travel agents. To protect consumers, the bureau determines the qualifications and eligibility of applicants; approves pre-licensing and continuing education courses; tracks continuing education credits; and processes license applications, renewals and the appointment of agents by insurance companies.

- Total Active Licenses in New Mexico: 118,327
- Number of Company Appointments: 150,144
- Number of Appointment Cancellations: 135,526
- Number of Continuing Education Transactions: 4,906
- Number of Renewals: 590,519
- Number of Business Entity Licenses Issued: 1,407
- Number of Producer Licenses Issued: 28,021
- Number of Affiliation Transactions: 14,188

# Organizational Functions/FY13 Statistics

## Examinations

The Examinations Bureau reviews all insurance company financial statements filed with the OSI. The bureau also conducts periodic financial and market conduct examinations, as well as ad hoc specialized examinations of insurance companies. The Chief Examiner coordinates an internal solvency review team, consisting of financial analysts and actuaries, to review annual and quarterly financial statements filed by insurance companies domiciled in New Mexico and elsewhere and to plan examination activity.

## Life & Health Product Filings

The Life & Health Product Filing Bureau reviews and renders determinations on the rates and coverage provisions filed by insurance companies for products pertaining to health, life, annuities, long-term care, Medicare supplement and credit life and disability. The bureau approves or disapproves such filings where required, based on their compliance with insurance statutes, regulations and bulletins and based on OSI policies and procedures. As a member of the Interstate Insurance Compact, New Mexico participates in multi-state reviews of many life and annuity product filings.

- Total Types of Insurance Filed: 3,451 (Largest: Life 1,215; Health 869; Annuity 465; Medicare Supplement 445; Long Term Care 400)

- **Property/Casualty Product Filings**

The Property/Casualty Product Filing Bureau reviews and renders determinations on the rates and coverage provisions filed by insurance companies for products pertaining to automobile, homeowners, workers' compensation, medical malpractice and assorted other products. The bureau approves or disapproves such filings, where required, based on their compliance with insurance statutes, regulations and bulletins and based on OSI policies and procedures.

# Organizational Functions/FY13 Statistics

## Consumer Assistance

The Consumer Assistance Bureau receives, processes, tracks and resolves complaints and inquiries from consumers about insurance rates and handles claims for all insurance products, other than those involving managed health care. The bureau alerts the Investigations Bureau of situations where a complaint reveals a potential violations of insurance statutes and regulations by an insurance company or other insurance licensee.

- Life and Health Complaints: 129; Property and Casualty: 397; Other: 36

## Managed Health Care

The Managed Health Care Bureau administers and enforces New Mexico's Patient Protection Act and related regulations. The bureau handles complaints and inquiries from managed health care consumers and conducts over 100 outreach presentations throughout the state to inform consumers and health care providers of their rights under the Patient Protection Act. The bureau reviews external grievance appeals, proposes rule amendments and also takes appropriate enforcement actions where merited.

## Investigations

The Investigations Bureau investigates concerns arising from consumer complaints and other sources to determine whether a licensed insurance company or agent has violated insurance statutes or regulations and takes appropriate enforcement actions where merited.

- Number of Investigations: 108

## Insurance Fraud

The Insurance Fraud Bureau investigates and prosecutes, through state district courts, insurance fraud committed by insurance policyholders and applicants, medical providers, third party claimants and other perpetrators of white-collar insurance crimes. The bureau collaborates with state, local and federal law enforcement and regulatory agencies in these efforts.

# Organizational Functions/FY13 Statistics

## **Title Insurance**

The Title Insurance Bureau regulates title insurance through rate-making and rule-making hearings and through periodic on-site inspections of the more than 100 title plants that exist throughout the state. The bureau investigates allegations of escrow theft and other infractions by title agents and insurers and coordinates with the Investigation and Fraud Bureaus for appropriate enforcement actions.

## **Workers' Compensation**

The Workers' Compensation Bureau monitors the New Mexico Workers' Compensation Assigned Risk Pool, handles complaints by employers regarding their workers' compensation class code assignments and premiums, oversees the Safety Bonus Program, and represents the OSI in other matters relating to Workers' Compensation coverage written through insurance companies.

- Formal Complaints: 20; Workers' Compensation Inquiries: 239; Appeal Board Hearings: 6

## **Financial Audit**

The Financial Audit Bureau is responsible for processing, auditing and collecting premium tax filings and revenue for all insurers (approximately 1,600) who write insurance premiums in the State of New Mexico including life, health, property, casualty, vehicle and bail bonding companies.

# Organizational Functions

## Affordable Care Act Programs

The OSI has received grants under the Affordable Care Act to help OSI enhance its health rate review process and to assist consumers with understanding their health care options. These grants have allowed the OSI to hire additional staff and actuarial consultants and to develop the [www.nmhealthratereview.com](http://www.nmhealthratereview.com) website that provides consumers with information and feedback opportunities on health rate filings.

## Patient's Compensation Fund

The Patient's Compensation Fund ("PCF") is an insurance risk-assuming operation that, in accordance with the Medical Malpractice Act, is administered by the Superintendent of Insurance. It provides medical malpractice insurance coverage to 1,800 New Mexico physicians and one large hospital and has approximately \$50 million in assets. Despite its size and importance, it currently has only one FTE (an analyst) and no Director. Providing the Patient's Compensation Fund with a Director, who is knowledgeable in medical malpractice underwriting, claim settlements and insurance operations, will ensure that the PCF's policy decisions and overall operations will be handled in a competent and professional manner to reduce any potential liability.

The day-to-day functions of the PCF are currently handled by one dedicated FTE, one contracted claim settlement expert and the part-time involvement of the Property/Casualty Actuary and the General Counsel. As part of its proposed reorganization, the OSI envisions creating the position of PCF Director in order to put this important function on a more stable and dedicated footing.

# Overall FY15 Budget Request Numbers

## OSI is funded entirely from Other State Funds

While the numbers reflected in the agency request is for a total budget of \$34.6 million, the actual request to support the agency is \$26 million of which \$9.3 million is for overall agency operations and \$16.6 million is for the Patients' Compensation Fund. The request shows \$8.6 million in Other Revenue to account for the General Accepted Accounting Principles method for accounting for the transfers used for the budget for OSI.

For agency operations, excluding \$15.2 million directly paid out in medical malpractice settlements and claims, the request amounts to a \$1.8 million, or 20 percent increase over the FY14 operating budget. This is actually less than 5% of all the revenues it collects for the state.

**Note: Difficult to completely rely on FY13 and FY14 budgets as OSI was not an independent agency and was not in complete control of its budget and expenditures. There are many unexpected expenditures that are now surfacing as a stand along agency.**

OSI is required to make its FY15 operating budget request sufficient to cover these needs and which include requesting additional staff for information technology needs and the Affordable Care Act. As a new agency, in FY14 we are currently working on revising the organizational structure inherited from the PRC's Insurance Division to improve OSI's functional and managerial structure which is reflected in our organizational chart.

As a new adjunct state agency, it is critical and within the public's interest to ensure that the agency functions properly, efficiently and with an appropriate budget to ensure dependable regulatory oversight in carrying out the New Mexico Insurance Code.

# FTE/Personnel

**OSI Total FTE:** 96.0 (not including federal positions)

**Before Transition:** 84.0 (As Insurance Division of PRC)

**12 New Positions for new agency:**

(7 new positions; 5 from PRC: 3 filled, 2 vacant)

**Current Vacancies:** 27 (not including federal positions)

**Exempt:**

Current exempt positions 11

Propose to reduce to 5 Exempt (reclassify 6: 3 filled, 2 vacant)

**Federal Positions:** 5 created to date; 4 filled

Additional Grants authorize an additional 10

# Personal Services & Employee Benefits Summary

## **Personal Services and Employee Benefits (\$576,200 increase over FY14)**

Includes the addition of 8 FTE consisting of:

- 4 FTE needed to deal with the issues that develop due to the implementation of the Affordable Care Act passed by Congress which will take effect now in 2014
- 3 FTE needed to contend with information technology issues stemming from the newly-created adjunct state agency
- 1 FTE needed for managerial oversight of the Patents Compensation Fund.

Increases in the category are also attributed to higher group insurance rates; an increase in the Public Employee Retirement Association (PERA) contributions; and reclassifications to establish the proper management structure of the new agency.

# Personal Services & Employee Benefits Detail

## Personal Services/Employee Benefits

- (2% Vacancy Rate Applied)

### Increases:

- Group Health Insurance 67.3
- Retirement 64.5
- Social Security 22.4

Subtotal Benefits Increase: 154.2

- Total Additional Positions: 8
  - Affordable Care Act (ACA) - (4)
  - Information Technology - (3)
  - Patients' Compensation Fund Director – (1)

# Contractual Services - Summary

**Contractual Services (\$412,600 increase over FY14) NOTE: The request can be reduced by \$287,700 for IT services which will be covered through our special information technology appropriatoin previously appropriated.**

The general increase in expenditures within the contractual services category includes \$41.1 thousand for the annual financial and compliance audit. No funding was not included in the current operating budget since the FY 14 audit will be covered by the Public Regulation Commission (PRC), since it included the old Insurance Division before the transition.

\$100.0 thousand was included for an audit of premium taxes and an additional \$50.0 thousand to cover complex rate hearings due to the implementation of ACA.

Other increases are attributed to information technology expenditures which includes \$100.0 for professional support for transitioning to a web-based software system and maintain its current and new systems. With the conversion of the new agency from the PRC, a number of technological resources that were utilized by the Insurance Division remained with the PRC, so the new agency will be required to build and maintain its own information technology system.

# Contractual Services - Detail

**Total Increase Contractual Services                      412.6                      (Can reduce request by 287.0)**

- **Audit - Premium Taxes                      100.0 - For independent outside expertise to review our auditing procedures and methods of collecting taxes to assist in setting up best practices to ensure we are collecting all taxes due.**
  
- **Other financial or budgetary assistance 25.0 - as may be needed in various areas. Currently at least \$50,000 has been used in this area.**
  
- **Annual Financial Audit                      41.1**
  
- **Attorney Fees                                      50.0 - To assist in complex rate hearings if needed. With ACA, hearings may increase.**
  
- **IT -                      IT Maintenance Contracts (Can reduce request by 287.0)**

# Other Costs – Summary/Detail

## Other Costs (Total increase: \$969.1 over FY14)

The increase in other costs is spread out throughout the category and will primarily be used to cover additional costs attributed to being a stand alone agency and the Affordable Care Act.

Increase includes \$305.0 thousand from the Patients Compensation Fund to supplement payouts for a projected increase in medical malpractice settlements and potentially claims and \$100.0 thousand to purchase vehicles to help supplement an aging vehicle fleet.

### Specific Increases:

- Fuel & Oil /Parts for department owned vehicles (aging fleet);
- Potential maintenance costs of building not covered by GSD;
- Maintenance for air conditioning of data room for server, cost split with PRC;
- Supplies and replacement of computers, printers, etc. out of warranty;
- Replace furniture that is broken and furniture for additional staff;
- Postage and Mail services: Increase in mailings required due to increase of companies/agents, filing, etc;
- Rent-Equipment: Postage machine/folder (previously covered in PRC's budget);
- Employee Education and Training: Necessary/required for insurance and financial training/updates to changes in laws;
- Furniture and Fixtures: Cubicles as necessary to make operations more efficient, particularly, if move occurs;
- IT Equipment: The IT equipment transferred to OSI from PRC, OSI will have to maintain this equipment as a stand-alone agency. Additionally, there will be new equipment that will need to be maintained for network. Any IT supplies or inventory that PRC transferred to the new OSI was mostly out dated equipment that now needs to be replaced as warranties will be expired by FY 15, although most have already expired; and
- Replace 4 vehicles with high mileage. OSI had very little input in the vehicles that were turned over from PRC.

# Patients' Compensation Fund

- **1 Additional FTE: Position knowledgeable in medical malpractice underwriting, claim settlements and insurance operations**
- **Convert existing 1 FTE from term to perm**
- **Increase of 300.0 for payouts of court-ordered claims and settlements**

# Revenues - Overall

- The OSI collects approximately \$200 million in annual revenues, 90% of which are from premium taxes and surtaxes levied on insurance companies that write policies in New Mexico. Most of the remaining revenues are derived from annual licensing fees levied on insurance agents, insurance carriers and other insurance licensees. Approximately 95% of collected revenues are transferred to the general fund, the fire protection fund, the law enforcement protection fund, the public election fund, the Carrie Tingley fund as well as used to fund the operations of the OSI.
- The following OSI operations have dedicated funding:
  - Patient's Compensation Fund (PCF), which is funded by approximately \$10 million of annual surcharges levied on health care providers who obtain medical malpractice coverage from the PCF. These funds are restricted to pay judgments and settlements rendered on behalf of medically injured patients, as well as the PCF's operating expenses, which includes one dedicated PCF FTE, as well as contracted professionals and OSI resources used in relation to the PCF.
  - Insurance Fraud Fund, which is funded by a small portion of the premium taxes levied on insurers. This fund pays for the operations of the OSI's Insurance Fraud Bureau.
  - Title Maintenance Fund, which is funded by assessments levied on title insurers. This fund pays for the OSI's Title Insurance Bureau.
- In addition to the above three separate sources of funding, the OSI has been awarded over \$4 million in federal grants to implement aspects of the Affordable Care Act in New Mexico.

# Sources of Revenues & Distributions

## Sources of Revenues:

- Licenses, Renewals and Appointments
- Premium Taxes
- Fines and Penalties
- Surplus Line Taxes
- Insurance Premium Surtaxes
- Assessments
- Patients' Compensation Fund
- Continuing Education
- Miscellaneous (i.e copies)

## Distributions/Transfers

- ✓ State General Fund
- ✓ Fire Protection Fund
- ✓ Law Enforcement Protection Fund
- ✓ Carrie Tingley
- ✓ Public Election Fund
- ✓ Insurance Operating Fund

# Revenue Processed Fiscal Years 2010 - 2013

|  | FY 13<br><u>Fiscal Year</u> | FY 12<br><u>Fiscal Year</u> | FY 11<br><u>Fiscal Year</u> | FY 10<br><u>Fiscal Year</u> |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Licenses, Renewals &amp; Appointments</b> | \$19,178,370.50             | \$19,112,366.71             | \$16,758,130.50             | \$16,243,529.85             |
| <b>Premium Taxes</b>                         | \$141,387,833.53            | \$158,244,626.84            | \$169,341,739.67            | \$175,777,003.78            |
| <b>Fines &amp; Penalties</b>                 | \$843,126.59                | \$958,488.66                | \$231,044.54                | \$310,673.68                |
| <b>Surplus Line Taxes</b>                    | \$2,689,433.16              | \$2,757,858.76              | \$2,704,626.30              | \$2,445,902.27              |
| <b>Insurance Premium Surtax</b>              | \$30,445,982.31             | \$32,686,568.82             | \$36,049,652.90             | \$36,876,183.34             |
| <b>Assessments</b>                           | \$2,142,551.11              | \$1,682,720.43              | \$810,861.95                | \$1,365,835.97              |
| <b>Patient's Compensation Fund</b>           | \$11,134,060.45             | \$12,188,092.37             | \$10,855,690.27             | \$12,733,122.99             |
| <b>Continuing Education</b>                  | \$97,167.00                 | \$98,563.60                 | \$106,418.10                | \$107,803.40                |
| <b>Deductions</b>                            | (\$634,670.34)              | (\$499,326.16)              | (\$3,038,003.51)            | (\$3,528,756.34)            |
| <b>Miscellaneous</b>                         | <u>\$3,780.15</u>           | <u>\$55,113.67</u>          | <u>\$23,389.38</u>          | <u>\$55,316.32</u>          |
| <b>Grand Total:</b>                          | \$207,287,634.46            | \$227,285,073.70            | \$233,843,550.10            | \$242,386,615.26            |

# Revenue Collections and Distributions

## Fiscal Years 2007 – 2013

|  | FY2007**                 | FY2008**                 | FY2009**                 | FY2010**                 | FY2011**                 | FY2012**                 | FY2013 **                |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>INSURANCE SUSPENSE FUND*</b>                  | <b>\$190,304,008.49</b>  | <b>\$196,682,074.00</b>  | <b>\$206,613,666.29</b>  | <b>\$231,848,534.56</b>  | <b>\$226,836,581.77</b>  | <b>\$213,814,966.46</b>  | <b>\$194,545,316.09</b>  |
| LESS DISHONORED CHECKS                           | (\$9,681.89)             | (\$33,796.00)            | (\$1,828.16)             | (\$10,941.00)            | (\$56,598.00)            | (\$56,031.16)            | (\$42,092.27)            |
| LESS REFUNDS                                     | (\$967,347.65)           | (\$1,026,752.78)         | (\$1,446,085.18)         | (\$3,514,749.57)         | (\$3,021,884.96)         | (\$443,295.00)           | (\$592,578.07)           |
| LESS PRC ADJUSTMENTS & TRANSFERS***              | (\$682,028.36)           | (\$100,818.00)           | (\$876,390.03)           | (\$800.00)               | (\$940,094.41)           | (\$81,062.31)            | (\$1,549,755.83)         |
| <b>INSURANCE SUSPENSE FUND SUB-TOTAL</b>         | <b>\$188,644,950.59</b>  | <b>\$195,520,707.22</b>  | <b>\$204,289,362.92</b>  | <b>\$228,322,043.99</b>  | <b>\$222,818,004.40</b>  | <b>\$213,234,577.99</b>  | <b>\$192,360,889.92</b>  |
| <b>INSURANCE OPERATION FUND</b>                  | <b>(\$6,799,607.06)</b>  | <b>(\$7,552,664.21)</b>  | <b>(\$8,264,136.95)</b>  | <b>(\$8,275,775.03)</b>  | <b>(\$8,947,111.36)</b>  | <b>(\$9,338,127.58)</b>  | <b>(\$9,619,969.35)</b>  |
| <b>FIRE PROTECTION FUND</b>                      | <b>(\$62,169,362.42)</b> | <b>(\$64,815,369.60)</b> | <b>(\$68,224,527.94)</b> | <b>(\$66,430,881.98)</b> | <b>(\$67,452,200.20)</b> | <b>(\$68,576,625.55)</b> | <b>(\$71,006,406.59)</b> |
| <b>CARRIE TINGLEY</b>                            | <b>(\$12,490.00)</b>     | <b>(\$18,170.00)</b>     | <b>(\$23,713.00)</b>     | <b>(\$33,223.00)</b>     | <b>(\$25,673.00)</b>     | <b>(\$27,514.00)</b>     | <b>(\$30,220.00)</b>     |
| <b>NM FINANCE AUTHORITY</b>                      | <b>(\$1,395,203.00)</b>  | <b>(\$1,681,413.91)</b>  | <b>(\$1,761,417.00)</b>  | <b>\$0.00</b>            | <b>\$0.00</b>            | <b>\$0.00</b>            | <b>\$0.00</b>            |
| <b>INSURANCE SUSPENSE FUND LESS DISTRIBUTION</b> | <b>\$118,268,288.11</b>  | <b>\$121,453,089.50</b>  | <b>\$126,015,568.03</b>  | <b>\$153,582,163.98</b>  | <b>\$146,393,019.84</b>  | <b>\$135,292,310.86</b>  | <b>\$111,704,293.98</b>  |
| <b>X 10% TO LAW ENFORCEMENT FUND (LEF)</b>       | <b>(\$11,826,828.93)</b> | <b>(\$12,145,309.07)</b> | <b>(\$12,601,556.93)</b> | <b>(\$15,358,216.55)</b> | <b>(\$14,733,311.43)</b> | <b>(\$13,537,337.32)</b> | <b>(\$8,280,806.75)</b>  |
| <b>REVERSION TO GENERAL FUND **</b>              | <b>\$106,441,459.18</b>  | <b>\$109,307,780.43</b>  | <b>\$113,414,011.10</b>  | <b>\$138,223,947.43</b>  | <b>\$131,659,708.42</b>  | <b>\$121,754,973.54</b>  | <b>\$103,423,487.23</b>  |

Note: Premium taxes are only a portion what is received into the Insurance Suspende Fund.

\*The figures below are included in Insurance Suspende Fund

\*\*\*Includes transfers to the Voter Election Fund

\*\* Unaudited Numbers by OSI

There are other fees, penalties, etc. that are included in the numbers above and impact the various transfers.

| PREMIUM TAX AND SURTAX FOR INSURANCE          | FY2007                  | FY2008                  | FY2009                  | FY2010                  | FY2011                  | FY2012                  | FY2013                  |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>PREMIUM TAX (Insurance) Line Item 54</b>   | <b>\$94,004,901.25</b>  | <b>\$95,888,341.86</b>  | <b>\$94,520,801.05</b>  | <b>\$116,090,692.33</b> | <b>\$109,832,775.93</b> | <b>\$98,392,182.53</b>  | <b>\$78,752,491.94</b>  |
| <b>SURTAX (Health Insurance) Line Item 53</b> | <b>\$21,828,222.87</b>  | <b>\$22,955,163.16</b>  | <b>\$28,382,370.99</b>  | <b>\$36,876,183.34</b>  | <b>\$36,061,780.31</b>  | <b>\$32,686,568.82</b>  | <b>\$30,445,982.31</b>  |
| <b>PREMIUM TAX (Fire Fund) Line Item 78</b>   | <b>\$56,581,609.44</b>  | <b>\$59,165,662.60</b>  | <b>\$60,413,287.15</b>  | <b>\$59,686,311.45</b>  | <b>\$60,080,801.97</b>  | <b>\$59,852,444.31</b>  | <b>\$62,635,341.59</b>  |
| <b>Totals</b>                                 | <b>\$172,414,733.56</b> | <b>\$178,009,167.62</b> | <b>\$183,316,459.19</b> | <b>\$212,653,187.12</b> | <b>\$205,975,358.21</b> | <b>\$190,931,195.66</b> | <b>\$171,833,815.84</b> |

# Performance Measures

| Measure # | Type       | FY14 / FY15 Actual/Request  | FY11 Actual | FY12 Actual | FY13 Actual | FY14 Request | FY14 Target | FY15 Target       |
|-----------|------------|---|-------------|-------------|-------------|--------------|-------------|-------------------|
| 1         | Outcome    | Percent of employers whose workers' compensation accident frequency is reduced through counseling, advice and training.                                       | 33.00%      | 48.00%      | 62.96%      | 75.00%       | 75.00%      | 75.00%            |
| 2         | Outcome    | Percent of favorable evaluations from managed healthcare outreach presentation attendees.   | 100.00%     | 100.00%     | 0.00%       | 95.00%       | 100.00%     | Discontinued      |
| 3         | Output     | Percent of internal and external insurance-related grievances closed within one hundred eighty days of filing.  | 100.00%     | 98.00%      | 94.72%      | 95.00%       | 98.00%      | 98.00%            |
| 4         | Output     | Percent of producer applications, appointments and renewals processed within ten business days.   | 95.00%      | 98.00%      | 100.00%     | 98.00%       | 98.00%      | 98.00%            |
| 5         | Output     | Percent of insurance division interventions conducted with domestic and foreign insurance companies when risk-based capital is less than two hundred percent. | 100.00%     | 100.00%     | 4.35%       | 100.00%      | 100.00%     | Discontinued      |
| 6         | Output     | Percent of insurance division interventions conducted with domestic and foreign insurance companies when their surplus is less than the minimum.              | 100.00%     | 100.00%     | 0.00%       | 100.00%      | 100.00%     | Discontinued      |
| 7         | Output     | Percent of domestic company examination reports adopted within eighteen months of the examination period.   | 100.00%     | 100.00%     | 90.00%      | 100.00%      | 100.00%     | 100.00%           |
| 8         | Output     | Percent of form and rate filings processed within ninety days.  | 100.00%     | 100.00%     | 98.94%      | 100.00%      | 100.00%     | Discontinued      |
| 9         | Output     | Number of managed healthcare outreach presentations conducted annually.   | 112         | 112         | 101.00      | 100          | 112         | Changed Below #14 |
| 10        | Efficiency | Percent of insurance fraud bureau complaints processed and recommended for either further administrative action or closure within sixty days.                 | 81.50%      | 81.50%      | 64.13%      | 88.00%       | 88.00%      | 88.00%            |
| 11        | Output     | Percent of insurance division interventions conducted with domestic insurance companies when risk-based capital is less than two hundred percent.             | N/A         | N/A         | N/A         | N/A          | N/A         | 100.00%           |
| 12        | Output     | Percent of form and rate filings processed within ninety days within the Life & Health Bureau.  | N/A         | N/A         | N/A         | N/A          | N/A         | 95.00%            |
| 13        | Output     | Percent of form and rate filings processed within ninety days within the Property & Casualty Bureau.  | N/A         | N/A         | N/A         | N/A          | N/A         | 90.00%            |
| 14        | Output     | Number of managed healthcare outreach activities conducted annually.  | N/A         | N/A         | N/A         | N/A          | N/A         | 112               |

# Budget Adjustment Language - Request

## Section 4 (Fiscal Year 2015 Operating Budget Appropriations) Language:

- *The internal service funds/interagency transfers appropriations to the insurance operations program of the office of superintendent of insurance include six hundred ninety-five thousand eight hundred dollars (\$695,800) from the patients compensation fund, two hundred eighty-one thousand five hundred dollars (\$281,500) from the title ins maintenance assess fund, five hundred thirty-one thousand seven hundred dollars (\$531,700) from the insurance fraud fund, and six million three hundred nine thousand four hundred dollars (\$6,309,400) from the insurance operations fund for the insurance operations.*
- *The internal service funds/interagency transfer appropriations to the insurance operations program of the office of superintendent of insurance include one million one hundred fifty-eight thousand four hundred dollars (\$1,158,400) from the insurance fraud fund for the fraud program.*
- *The internal service funds/interagency transfer appropriations to the insurance operations program of the office of superintendent of insurance include three hundred fifty-seven thousand five hundred dollars (\$357,500) from the title ins maintenance assess fund for the title program.*

## Section 7 (Information Technology Extensions and Reauthorizations):

- *OSI is requesting a reauthorization and an extension for another year of the five hundred ninety thousand dollars (\$590,000) other state funds Information Technology appropriation appropriated in Subsection 12 of Section 7 of Chapter 19 of Laws 2012. The appropriation was originally appropriated to the Public Regulation Commission (PRC), but due to the creation of the new OSI agency on July 1, 2014, it was not possible for the new agency to timely analyze the components necessary for the project and to seek Department of Information Technology (DoIT) authorization to utilize said funds. OSI has presented a plan to the DoIT Project Certification Committee (PCC) on October 23, 2013, to get authorization to begin working on the full project. The PCC approved the certification of funds. However, it may take additional time to have all components of the project in place before the appropriation expires on June 30, 2014. Therefore, the agency is requesting additional time to spend the initial appropriation for Phase I of the project, if necessary. If not approved, the agency may be left with a partially funded project that it cannot complete. If this occurs, the agency will have to continue to utilize an out-of-date system that is costly and inefficient.*
- *Reauthorize the appropriation contained in Subsection 12 of Section 7 of Chapter 19 of Laws 2012, to migrate the insurance system and processes towards a paperless, web-based environment to the office of superintendent of insurance from the public regulation commission and extend the appropriation through fiscal year 2015. The appropriation is from assessments authorized by Section 59A-6-1.1 NMSA 1978 for an insurance division licensing and revenue accounting system.*

## Agency/Program Specific FY15 BAR Authority:

OSI is requesting to continue to include the following BAR authority in FY15 that it currently has in FY14:

- *the patients compensation fund of the New Mexico office of superintendent of insurance may request budget increases up to two million dollars (\$2,000,000) from fund balance for patient's compensation expenses;*

# Consideration of Potential Legislation

- ✓ NAIC model law updates required for accreditation.

## Summary of proposed legislation to be submitted on behalf of the Office of the Superintendent of Insurance:

The only legislation presently being proposed is a bill submitted at the 2013 session to update our Insurance Code with Model Act revisions promulgated by the National Association of Insurance Commissioners (“NAIC”). This was submitted last year as SB412, sponsored by Senator Carroll Leavell, who has agreed to sponsor the legislation again this year.

SB 412 amends the Insurance Code to incorporate updates to model laws promulgated by the NAIC in the following areas:

- Risk-based capital requirements
- Valuation of life insurance reserves to incorporate “principle-based” reserving
- Credit allowed to insurers for obtaining reinsurance
- Insurance holding company systems
- Insurers in hazardous financial condition
  
- SB 412 also amends the Insurance Code to:
- Clarify the calculation of quarterly premium tax estimates
- Exclude health care plans and prepaid dental plans from the definition of “member insurers” in the Life and Health Insurance Guaranty Association Act
- Clarify the Superintendent’s authority to cooperate with federal and international regulatory agencies and to grant confidential status to certain required filings

**NOTE: The first section concerning updates to the risk-based capital provisions is considered crucial to our continued accreditation status with the Financial Regulation Standards and Accreditation Committee.** New Mexico has been informed of this directly by this Committee at the last National meeting. This one section will therefore be duplicated in a separate bill as well as being retained in the original bill, so as to improve the ability to get this important legislation passed into law.

# Affordable Care Act

## **NOTE:**

**THE AFFORDABLE ACT WILL BE DISCUSSED  
VERBALLY DUE TO THE FLUIDITY OF ISSUES.**

# CONCLUSION

- We do not have an entire fiscal year to base expenses on as a standalone agency and are therefore asking for considerable understanding when analyzing and recommending an appropriate budget for FY15.
- When comparing the FY15 request to FY14, please keep in mind that FY14 is understated and arbitrary in some cases since there were/are unknowns expenses that are occurring as a stand alone agency.
- OSI indicated an initial need in other costs for FY14 when becoming a standalone agency but was limited to the funds in the specific categories that were transferred from PRC which did not include any additional funds in the other costs category, although there was a clear need.
- As the fiscal year progresses, we are becoming aware of more recurring expenditures.
- We gave our best estimates for FY15 based upon what we knew at that time the request was submitted and as we progress through FY14.
- Thank you for your consideration in reviewing and recommending a realistic budget for the Office of the Superintendent of Insurance as a standalone agency.
- We appreciate the opportunity to present our budget request and ask for the opportunity to have a realistic budget appropriated based upon anticipated needs as a stand alone agency.