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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research and Drafting

Legislative Budget Office

H.B. 530
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 530's Bill Analysis

Version: As Reported by House Insurance

Primary Sponsor: Rep. Lampton

Local Impact Statement Procedure Required: No

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Highlights

- Expanding the number of companies and the dollar value of resident contracts covered by the Ohio Life and Health Insurance Guaranty Association (OLHIGA), along with other bill provisions, may increase future assessments of OLHIGA member insurers, which are tax deductible. As a result, the bill's passage will likely reduce GRF revenue in some years, possibly by several million dollars, though the timing of the losses is uncertain.
- Any reduction in GRF tax revenue will also impact disbursements from the Local Government Fund (LGF) and the Public Library Fund (PLF); during the current fiscal biennium, the LGF receives 1.66% of GRF tax revenue while the PLF receives 1.70%.

Detailed Analysis

The bill adds health insuring corporations (HICs) to the list of legal entities which are required to maintain membership in the Ohio Life and Health Insurance Guaranty Association (OLHIGA), and adds claims made by health care providers to the types of claims for which OLHIGA is to provide coverage. It increases the coverage cap for unallocated annuity contract holders that are not participants in a governmental retirement plan from $1 million to $5 million. The bill also specifies that the venue in a lawsuit against OLHIGA is to be in Franklin County. The bill makes a number of other changes to current law governing OLHIGA, descriptions of which can be found in the LSC bill analysis.

The following section provides an overview of OLHIGA and how it works. That section is followed by LBO's fiscal analysis of the bill.

Ohio Life and Health Insurance Guaranty Association

OLHIGA is a nonprofit association of insurance companies that sell life insurance, health insurance, and annuities in Ohio. It was created in 1989 by Ohio law to provide protection for

certain policy holders against the insolvency and liquidation of an insurance company licensed to sell in Ohio. All insurance companies licensed by the state to sell life, health, and annuity policies must belong to the Guaranty Association. Under ongoing law, if a company is liquidated, the Guaranty Association steps in to cover claims of the company's policyholders up to the established limits. Under current law, HICs are explicitly excluded from membership in OLHIGA. The bill changes that and requires HICs to become members. It also adds claims by health care providers to the types of claims for which OLHIGA is to provide coverage.

OLHIGA assessments

Funds to pay the claims and cover associated administrative costs come from assessments on Association member insurance companies. Such assessments are only made when funds are needed to ensure the actuarial soundness of OLHIGA. The Association calculates the capacity it needs to provide coverage to the policyholders of its member insurers, and calls for assessments from its members to guarantee its financial viability.

The table below displays the dollar figure of assessments called and policies refunded in recent years.[1] In the table, "called assessments" are remittances *to* the Association by its member insurers, and "refunded assessments" are payments *by* the Association back to its member insurers.

OLHIGA Assessments and Policy Refunds

Calendar Year	Called Assessments	Refunded Assessments
2012	$0	$0
2013	$13,150,000	$7,300,000
2014	$0	$0
2015	$0	$0
2016	$0	$0
2017	$44,818,000	$0
2018	$0	$0
2019	$0	$0
2020	$0	$0

Source: National Organization of Life and Health Insurance Guaranty Associations

[1] Each member's assessment is determined by the proportion of premiums in the state that it receives, and cannot exceed 2% of its average annual premiums.

Fiscal impact

Tax revenue

Bill provisions that include HICs among the companies covered by the Association, and that increase the coverage cap for certain unallocated annuity contract holders have the potential to increase future OLHIGA liabilities, and therefore future assessments. OLHIGA members are commonly liable for insurance premium taxes; the tax bases are each insurance company's premium revenue. When member insurers pay OLHIGA assessments, they receive a discount of 20% of the payment on their insurance premium tax, thus reducing their tax liability by this amount.[2]

Receipts from insurance premium taxes are deposited into the GRF, which bears the majority of revenue losses from assessment offsets. A portion of GRF tax receipts is subsequently transferred to the Local Government Fund (LGF, 1.66%) and the Public Library Fund (PLF, 1.70%).[3] Thus, any reduction in GRF tax receipts from the bill would also reduce amounts disbursed to counties, municipalities, and townships across Ohio via the LGF and to public libraries via the PLF. It is possible that any revenue losses attributable to increased assessments could be mitigated, or even fully offset, by affected insurers increasing premiums to account for the assessments, as they are authorized to do. Also, some bill provisions that modify the list of policies that are eligible for coverage may mitigate such revenue losses.

The most recent legislation enacted to expand OLHIGA coverage was S.B. 223 of the 131st General Assembly, which increased the monetary caps for certain policy coverage and added structured settlement annuities to the coverage base. Within 18 months of S.B. 223's enactment, OLHIGA billed its member insurers a total of $44.8 million; at a credit rate of 20%, the bill reduced GRF revenue by nearly $9.0 million.

The magnitude of OLHIGA assessments called as a result of H.B. 530 will depend on the size and risk factors associated with all insurers and policies added under the bill.[4] LBO is unable to directly compare possible GRF losses under H.B. 530 with other recent law changes. But a reduction in GRF revenue of several million dollars appears to be a possibility in some years.

Department of Insurance

The bill allows the Superintendent of Insurance to notify, by electronic means, insurance commissioners in other states of adverse actions taken against insurers; under current law the Superintendent is required to mail such notice. This provision may decrease Department costs, likely minimally, paid from the Department of Insurance Operating Fund (Fund 5540).

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[2] The tax credit is authorized in section 3956.20 of the Revised Code. The bill specifies that a member insurer who is tax-exempt may recoup prior assessments paid to OLHIGA by adding a surcharge on the premiums charged to its customers, but it also specifies that the surcharge is not subject to tax. This provision will not impact revenue flows to the GRF via the main insurance taxes.

[3] The percentage allocation to the PLF was set by H.B. 110, the current General Assembly's operating budget act. The PLF allocation will revert to its codified 1.66% beginning July 2023, under current law.

[4] As of February 14, 2022, the Department of Insurance reports that 48 HICs were authorized to do business in Ohio.

Political subdivisions

As noted above, revenue distributions to counties, municipalities, townships, and public libraries via the LGF and PLF would be modestly impacted. Also, the bill requires any civil suits against the Association to be filed within the Franklin County court system. Any direct fiscal impact on political subdivisions as a result of the bill will likely be minimal.

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