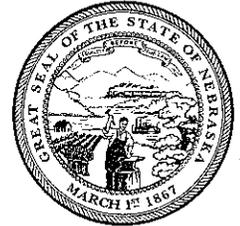


STATE OF NEBRASKA

DEPARTMENT OF INSURANCE

Ann M. Frohman

Director



January 15, 2010

Dave Heineman
Governor

Honorable Lavon Heidemann
Chairperson, Appropriations Committee
Nebraska State Legislature
Room 1004, State Capitol
Lincoln, NE 68509

Dear Chairperson:

As required by LB 1, Section 10 of the 101st Legislature, 2009 Special Session, I am submitting the Department of Insurance's report on specific actions and plans.

REDUCTIONS IN REAPPROPRIATION

Reductions in the Department of Insurance reappropriation from FY 2009-10 total \$1,368,930 and this amount will be reduced within the operational budget of our three programs. The department had no plans to spend these reappropriated amounts and therefore no reductions or cuts are required.

| <u>Program #</u> | <u>Program Description</u> | <u>Category</u> | <u>Fiscal Year</u> | <u>Cash Fund</u> |
|------------------|------------------------------------|-----------------|--------------------|------------------|
| 068 | Medical Professional Liability | Oper | FY09-10 | 35,171 |
| | | | FY10-11 | 0 |
| 069 | Enforcement of Standards | Oper | FY09-10 | 1,323,764 |
| | | | FY10-11 | 0 |
| 556 | Liquidation of Insurance Companies | Oper | FY09-10 | 9,995 |
| | | | FY10-11 | 0 |

REDUCTIONS IN APPROPRIATION

Reductions in the Department of Insurance appropriation for the FY 2009-11 biennium total \$838,117. No increase in fees will be required and these reductions do not affect federal program dollars. Because we were advised well in advance of anticipated budget challenges, the department refrained

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from filling certain vacant positions and is managing reductions through elimination of vacant positions and adjustments to work methods. There should be minimal impact on services. Reductions within the operational budget of our three programs are as follows:

| <u>Program #</u> | <u>Program Description</u> | <u>Category</u> | <u>Fiscal Year</u> | <u>Cash Fund</u> |
|------------------|------------------------------------|-----------------|--------------------|------------------|
| 068 | Medical Professional Liability | Oper | FY09-10 | 5,090 |
| | | | FY10-11 | 10,181 |
| 069 | Enforcement of Standards | Oper | FY09-10 | 275,773 |
| | | | FY10-11 | 546,323 |
| 556 | Liquidation of Insurance Companies | Oper | FY09-10 | 250 |
| | | | FY10-11 | 500 |

Program 068: Medical Professional Liability

This program does not impact the General Fund as it administers medical malpractice excess of loss insurance coverage purchased by policyholders who are members of the Nebraska medical community. Contract costs have been lower than anticipated and I believe reductions can be made as follows:

For FY 2010, the 2.5% reduction of \$5,090 in appropriations will be achieved by:

- Reduction of the legal services expense by \$2,000.
- Reduction of claims administration contract costs by \$3,090.

For FY 2011, the 5% reduction of \$10,181 in appropriations will be achieved by:

- Reduction of the legal services expense by \$3,000.
- Reduction of claims administration contract costs by \$7,181.

Program 069: Enforcement of Standards

This program has as its primary responsibility the financial surveillance and solvency monitoring of insurance companies domiciled in Nebraska whether they do

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business only in Nebraska or nationwide. The program also requires oversight of market practices of companies and insurance agents, reviewing insurance policies and rates, and investigating policyholder complaints including insurance fraud in the state.

Cuts have been identified in each fiscal year that include eliminating certain vacant positions, re-evaluating operating costs, and adjusting work flow and examination processes to prioritize what must be done to protect the public and maintain accreditation. A major adjustment to our examination work processes has also been implemented allowing in-house staff to complete an examination of an insurer instead of contracting with a firm for this examination, saving \$250,000 in FY2010-11. Going forward, we will seek out other state departments of insurance to perform joint examinations of insurance companies domiciled in other states but within the same holding company.

For FY 2010, the 2.5% reduction of \$275,773 in appropriations will be achieved as follows:

- Elimination of vacant positions including two examiner positions - \$136,350; one fraud investigator - \$69,221; and one office clerk - \$45,028. Elimination of these four vacant positions has already been implemented.
- Reduction in market conduct travel of \$25,174 due to emphasis on more desk audits.

For FY 2011, the 5% reduction of \$546,323 in appropriations will be achieved as follows:

- In addition to the elimination of vacant positions which nets permanent reductions of \$250,599 from FY 2010, a decrease of \$250,000 in contract examinations will be accomplished by coordinating a large insurance company examination with other states.
- Reduction in market conduct travel of \$20,550 due to changing to desk audits.

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Program 556: Liquidation of Insurance Companies

These costs are paid directly by the estate of the insurance company in liquidation but during times of uncertainty where there is little cooperation of management, access to resources to provide oversight is vital.

For FY 2010, the 2.5% reduction of \$250 in appropriations will be achieved as follows:

- This program has a small postage surcharge expenditure. No other expenditures are made from this program due to all liquidation costs being paid by the estate of the insurance company.

For FY 2011, the 5% reduction of \$500 in appropriations will be achieved as follows:

- See above for reductions.

CASH FUND TRANSFERS

Additional transfers of \$3 million per year will be transferred from the Insurance Cash Fund to the General Fund, making the total transferred from the Insurance Cash Fund \$9 million per year.

| <u>From Fund</u> | <u>To Fund</u> | <u>Fiscal Year</u> | <u>Previously Passed Transfers</u> | <u>Special Session Transfers</u> | <u>Total Transfers</u> |
|---------------------------------|-----------------------|--------------------|------------------------------------|----------------------------------|------------------------|
| 22210 Insurance Cash Fund | 10000 General Fund | FY09-10 | 6,000,000 | 3,000,000 | 9,000,000 |
| 22210 Insurance Cash Fund | 10000 General Fund | FY10-11 | 6,000,000 | 3,000,000 | 9,000,000 |

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There is no foreseen impact on the receipt of federal funds as a result of matching, maintenance of effort, or other requirements. Fees used to support agency operations will not be increased during this biennium to offset cash fund transfers to the General Fund.

I believe these adjustments will allow the department to make permanent efficiency gains and decrease the department's expenditures. I would be happy to discuss this further and can be reached at 471-4631 or Ann.Frohman@Nebraska.gov.

Sincerely,

Ann M. Frohman
Director

AMF:gtj

cc: Senator Danielle Conrad, Room 1008, State Capitol
Senator Tony Fulton, Room 2107, State Capitol
Senator Thomas Hansen, Room 1012, State Capitol
Senator John Harms, Room 2015, State Capitol
Senator Heath Mello, Room 1206, State Capitol
Senator John Nelson, Room 2028, State Capitol
Senator Jeremy Nordquist, Room 1208, State Capitol
Senator John Wightman, Room 2010, State Capitol
Sandy Sostad, Legislative Fiscal Office, Room 1007, State Capitol
Gary Bush, State Budget Division, Room 1320/1322, State Capitol