

DEPARTMENT OF INSURANCE

DEFICIT APPROPRIATION REQUEST

FOR THE

2007 – 2009 BIENNIUM

Form Number 500

Agency Adjustment Summary

State of Nebraska - Administrative Services - Budget Division

	PAGE NUMBER 1	
	CODE & DESCRIPTION	
AGENCY	22	Insurance

EXPENDITURE ACCOUNT	ADJUSTMENTS	
	2007-2008	2008-2009
Permanent F.T.E. Positions		5.0
511100 Permanent Salaries - Wages		387,500
511200 Temporary Salaries - Wages		
511600 Per Diem Payments		
511900 Supplemental (One-time payments)		
All Other Salaries		
Sub-Total Salaries		387,500
515100 Retirement Plans Expense		23,756
515200 OASDI Expense		22,254
515400 Life and Accident Insurance Expense		120
515500 Health Insurance Expense		68,300
All Other Personal Services		
Sub-Total Benefits		114,430
510000 Personal Services		501,930
520000 Operating Expenses		
570000 Travel Expenses		
580000 Capital Outlay		
590000 Government Aid		
Total Expense		501,930
Means of Financing		
General Fund		
Cash Fund		501,930
Federal Fund		
Revolving Fund		
Total Funding		501,930

Note: In the blank lines under Operating Expenses, itemize individual line items that comprise a significant portion of the Total Operating Expenses.

Program Adjustment Narrative

State of Nebraska – Administrative Services – Budget Division

	CODE	DESCRIPTION
AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	01	L&H Actuary - New

Provide the following information: A) Description of Request; B) Rationale for Request; C) Impact of Request; and, D) Statutory Change if Required.

GENERAL INFORMATION FOR REQUESTS 01-05

Nebraska domestic companies' total assets as of December 31, 2006 were \$309 billion, ranking Nebraska seventh for total insurance company assets. In contrast, Nebraska domestic companies' total assets as of December 31, 2000 were \$98 billion. Insuring the financial solvency of these companies is a large responsibility and one that is not taken lightly. As the insurance industry in Nebraska grows and becomes more complex, it is imperative that the Department employ and retain qualified staff to insure the financial stability of a multi-billion dollar industry. Over the last seven years, several large life insurance companies have redomiciled to Nebraska including Pacific Life (\$86 billion in assets), AFLAC (\$50 billion in assets) and Jefferson Pilot (\$12 billion in assets). These larger companies require examiners with specific skills in the investment, actuarial, and reinsurance areas due to the size and complexity of their financial statements. As these larger and more complex companies redomicile to Nebraska, criticism from other states has surfaced that the experience of the Department's staff is not at the level required to insure financial stability of these companies. The Department does not believe this to be true, but recognizes the need to recruit staff with specialized skills that will help meet the Department's statutory requirements. In addition to these specialized staff requirements, the Department also recognizes the need to increase the examination staff to meet the growing number and complexity of companies domiciled in Nebraska.

Staffing requirements are determined by a myriad of factors. The number of companies domiciled in Nebraska, the asset size of these companies, the complexities and the risk tolerances of the investments, market share, product diversity and complexity, reinsurance philosophies, management attitudes and cooperation with the regulatory process are all factors in the determination.

The driving force as far as staffing requirements are concerned is the accreditation process. The accreditation standards, which the states are required to comply with, do not require or set certain staffing limitations. They have not set any ratios such as analysts or examiners per company, analysts or examiners per assets, premiums or capital and surplus, nor any other parameters pertaining to staffing requirements. What they do have are accreditation standards that require the Department to have the resources in place to effectively review, analyze and examine our domestic industry. The accreditation standards require the Department's review and examination processes to be performed in a timely manner. Timeliness guidelines are established in the accreditation standards and if these timelines are not being met, then it is assumed that the Department does not have adequate resources in place to effectively monitor the domestic industry, which if so determined, could affect our accreditation.

As of 12-31-06, the Financial Examination Division had nine financial analysts and three supervisors in the financial analyst area, and eleven financial examiners, one life and health actuary and four supervisors in the financial examination area.

Also, as of 12-31-06, the Nebraska Department of Insurance had 105 domestic insurers, 70 of which were considered multi-state companies (those companies licensed in more than one state). These 70 Nebraska insurers together ranked #4 nationally in total capital and surplus, #7 in total assets and #14 in gross premiums.

Program Adjustment Narrative

State of Nebraska – Administrative Services – Budget Division

	CODE	DESCRIPTION
AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	01	L&H Actuary - New

Provide the following information: A) Description of Request; B) Rationale for Request; C) Impact of Request; and, D) Statutory Change if Required.

As mentioned above, one area the accreditation process emphasizes is the timeliness issue. Highlights of a report from the NAIC are listed below:

The ratio of the number of companies per each analyst in Nebraska is 7.8. There are 17 states that have a lower ratio than Nebraska.

The ratio of the total assets under review per each analyst is \$32.9 billion. There are only 5 states that have a higher ratio than Nebraska's.

The ratio of the total gross premiums per each analyst is \$6.4 billion. Only 8 states have a higher ratio than Nebraska's.

As one can see, we are in the bottom third of the ratio of companies per analyst. However, we are near the top when it comes to the ratio of each analyst when one considers the size of these companies as well as the volume of business being produced by these companies.

Since our last accreditation review in 2002, we have been fortunate to have several organizations either decide to start a new company in Nebraska or to redomesticate existing companies to the state. The size of these companies has varied. However the majority of our redomesticated companies have been large national and/or international organizations that are considered among the leaders in their fields. While these companies have brought a good deal of economic development and jobs to this state, they have also placed an increased workload on the Financial Examination Division. These companies, for the most part, are large well-capitalized companies. They are very sophisticated in their product development areas as well as in their approach to accumulating their asset base to support the sales of their new and existing products.

The number of large companies we now have with their sophisticated products, as well as their assets, has caused us to consider additional staff. (Nebraska at 12-31-06 had 34 property and casualty companies with assets well over \$100 billion and 27 life companies with assets well over \$191 billion) New investment vehicles are being brought to the market's on a regular basis. Companies are constantly developing new products to increase sales and capture a larger market share. With these new investment vehicles and new product designs comes a need to consider bringing on staff specialists in these respective fields. During the past several years we have contracted for work in the examination, actuarial, reinsurance and investment areas. While the use of outside consultants will probably always be used to some extent, it would be beneficial to all concerned to try to bring as much of this work in-house as possible.

Our statutes require a financial examination of all domestic insurers at least once every four years. We currently are trying to maintain a three-year year examination cycle for most of our domestic insurers. This is in part so that we can meet the timelines as imposed in the accreditation standards; allow us some flexibility in scheduling should it be warranted; address problems that may surface; conduct an examination if needed with a company's redomestication.

Program Adjustment Narrative

State of Nebraska – Administrative Services – Budget Division

	CODE	DESCRIPTION
AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	01	L&H Actuary - New

Provide the following information: A) Description of Request; B) Rationale for Request; C) Impact of Request; and, D) Statutory Change if Required.

The Financial Examination Division currently has one life and health actuary. Due to the increase in the size and number of our domestic life and health companies, our life and health actuary cannot keep up; thus we have been outsourcing the actuarial work for our larger life and health companies for the past several years.

Recently we have been in serious talks with several organizations regarding redomestications. There is a large multi-national corporation with \$12 billion in annualized sales and a very large and sophisticated hedging program in place to mitigate the risks associated with these sales, considering Nebraska. It is also anticipated that shortly four companies domiciled in three different states will consolidate to Nebraska (two in 2007 and two in 2008). All of these companies are life and health companies. In addition, we are anticipating at least two property and casualty companies as well as additional title companies to redomesticate sometime in the future.

If Nebraska continues to attract insurance companies to the state, our resources are going to have to increase to adequately supervise and regulate our domestic industry.

SPECIFIC INFORMATION FOR REQUEST 01

The Department currently has one Life and Health actuary that is responsible for the actuarial work of the 28 life and health companies domiciled in Nebraska. As of December 31, 2006, the Department had oversight responsible for \$189 billion in life company assets, with West Coast Life and Pacific Life making up \$89 billion of this amount when they redomiciled to Nebraska in September 2005. The Department is also in the final stages of approving the redomestication of another large life company with assets totaling \$ 12 billion. With the growth of life and health companies that have redomiciled to Nebraska over the last few years or have begun the redomestication process to Nebraska, an additional Life and Health actuary is needed. The Department has been advertising a Property and Casualty Actuary position for the past few months with a top salary of \$87,000 but received no applicants. This position was originally budget up to \$107,000 but we recognize that this salary will not be competitive with the market based on our desire to hire someone with 5-7 years experience with 10 years experience preferable. It has been our experience when contracting with actuarial companies that \$350 - \$400 per hour is not uncommon. As a point of reference, a recent UNL graduate with a Masters in Actuarial Sciences received a starting salary of \$80,000.

The Department is requesting an annualized increase in PSL of \$120,000 and an increase in appropriations of \$150,000 that includes \$30,000 for benefits, to hire a second Life and Health Actuary.

All expenses associated with this position will be reimbursed by the insurance companies being examined.

Program Adjustment Request

State of Nebraska - Administrative Services - Budget Division

	PAGE NUMBER	5
	CODE & DESCRIPTION	
AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	01	L&H Actuary - New

EXPENDITURE ACCOUNT	APPROPRIATIONS		ADJUSTMENTS	
	2007-2008	2008-2009	2007-2008	2008-2009
Permanent F.T.E. Positions	107.0	107.0		1.0
511100 Permanent Salaries - Wages	5,360,429	5,491,944		120,000
511200 Temporary Salaries - Wages				
511600 Per Diem Payments				
511900 Supplemental (One-time payments)				
All Other Salaries				
Sub-Total Salaries	5,360,429	5,491,944	0	120,000
515100 Retirement Plans Expense	394,678	406,545		8,962
515200 OASDI Expense	396,433	407,226		7,354
515400 Life and Accident Insurance Expense	2,592	2,592		24
515500 Health Insurance Expense	854,101	854,101		13,660
All Other Personal Services	51,799	51,799		
Sub-Total Benefits	1,699,603	1,722,263	0	30,000
510000 Personal Services	7,060,032	7,214,207	0	150,000
520000 Operating Expenses	1,252,765	2,836,308		
570000 Travel Expenses	816,290	436,645		
580000 Capital Outlay	0	0		
590000 Government Aid	0	0		
Total Expense	9,129,087	10,487,160	0	150,000
Means of Financing				
General Fund				
Cash Fund	9,129,087	10,487,160		150,000
Federal Fund				
Revolving Fund				
Total Funding	9,129,087	10,487,160	0	150,000

Note: In the blank lines under Operating Expenses, itemize individual line items that comprise a significant portion of the Total Operating Expenses.

Program Adjustment Narrative

State of Nebraska – Administrative Services – Budget Division

	CODE	DESCRIPTION
AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	02	Reins. Specialist - New

Provide the following information: A) Description of Request; B) Rationale for Request; C) Impact of Request; and, D) Statutory Change if Required.

The Department is requesting an annualized increase in PSL of \$80,000 to hire a Reinsurance Specialist. Many of the same reasons that the Department is requesting a Life and Health Actuary as outlined in Request 01 also hold true for the need of a Reinsurance Specialist. The Reinsurance Specialist will review contracts where our domestic insurance companies (both Life and Health and Property and Casualty companies) enter into contracts with other insurance companies to indemnify a company against all or part of losses it may sustain. These contracts serve to increase capacity and limit liability by sharing liability when losses overwhelm the primary insurer's resources. Currently this process is divided among several financial analysts. The Department feels that reinsurance among companies is of such importance that one individual should be responsible for all reinsurance contracts. The complexities and number of reinsurance agreements among insurance companies has increased as larger companies have redomiciled to Nebraska.

The Department is requesting an annualized increase in PSL of \$80,000 and an increase in appropriations of \$105,600 that includes \$25,600 for benefits, to hire a Reinsurance Specialist.

All expenses associated with this position will be reimbursed by the insurance companies being examined.

Program Adjustment Request

State of Nebraska - Administrative Services - Budget Division

	PAGE NUMBER	7
	CODE & DESCRIPTION	
AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	02	Reins. Specialist - New

EXPENDITURE ACCOUNT	APPROPRIATIONS		ADJUSTMENTS	
	2007-2008	2008-2009	2007-2008	2008-2009
Permanent F.T.E. Positions	107.0	107.0		1.0
511100 Permanent Salaries - Wages	5,360,429	5,491,944		80,000
511200 Temporary Salaries - Wages				
511600 Per Diem Payments				
511900 Supplemental (One-time payments)				
All Other Salaries				
Sub-Total Salaries	5,360,429	5,491,944	0	80,000
515100 Retirement Plans Expense	394,678	406,545		5,946
515200 OASDI Expense	396,433	407,226		5,970
515400 Life and Accident Insurance Expense	2,592	2,592		24
515500 Health Insurance Expense	854,101	854,101		13,660
All Other Personal Services	51,799	51,799		
Sub-Total Benefits	1,699,603	1,722,263	0	25,600
510000 Personal Services	7,060,032	7,214,207	0	105,600
520000 Operating Expenses	1,252,765	2,836,308		
570000 Travel Expenses	816,290	436,645		
580000 Capital Outlay	0	0		
590000 Government Aid	0	0		
Total Expense	9,129,087	10,487,160	0	105,600
Means of Financing				
General Fund				
Cash Fund	9,129,087	10,487,160		105,600
Federal Fund				
Revolving Fund				
Total Funding	9,129,087	10,487,160	0	105,600

Note: In the blank lines under Operating Expenses, itemize individual line items that comprise a significant portion of the Total Operating Expenses.

Program Adjustment Narrative

State of Nebraska – Administrative Services – Budget Division

	CODE	DESCRIPTION
AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	03	Examiners - New

Provide the following information: A) Description of Request; B) Rationale for Request; C) Impact of Request; and, D) Statutory Change if Required.

As mentioned earlier, Nebraska domestic companies' total assets as of December 31, 2006 were \$309 billion, ranking Nebraska seventh for total insurance company assets. We recognize that as companies redomicile to Nebraska, we must maintain a staff of Examiners to insure our goal of examining each company once every three years is attainable. In addition to expanding our staff to meet the examination needs of larger companies in Nebraska, we also need to plan for the future when key individuals begin to retire in the next few years. We estimate it takes at least five years of experience before an Examiner is experienced to be in charge of a smaller company's examination.

The Department is requesting an annualized increase in PSL of \$80,000 and an increase in appropriations of \$119,280 that includes \$39,280 for benefits, to hire two entry-level Examiners.

All expenses associated with these positions will be reimbursed by the insurance companies being examined.

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Program Adjustment Request

State of Nebraska - Administrative Services - Budget Division

PAGE NUMBER 9

CODE & DESCRIPTION

AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	03	Examiners - New

EXPENDITURE ACCOUNT	APPROPRIATIONS		ADJUSTMENTS	
	2007-2008	2008-2009	2007-2008	2008-2009
Permanent F.T.E. Positions	107.0	107.0		2.0
511100 Permanent Salaries - Wages	5,360,429	5,491,944		80,000
511200 Temporary Salaries - Wages				
511600 Per Diem Payments				
511900 Supplemental (One-time payments)				
All Other Salaries				
Sub-Total Salaries	5,360,429	5,491,944	0	80,000
515100 Retirement Plans Expense	394,678	406,545		5,942
515200 OASDI Expense	396,433	407,226		5,970
515400 Life and Accident Insurance Expense	2,592	2,592		48
515500 Health Insurance Expense	854,101	854,101		27,320
All Other Personal Services	51,799	51,799		
Sub-Total Benefits	1,699,603	1,722,263	0	39,280
510000 Personal Services	7,060,032	7,214,207	0	119,280
520000 Operating Expenses	1,252,765	2,836,308		
570000 Travel Expenses	816,290	436,645		
580000 Capital Outlay	0	0		
590000 Government Aid	0	0		
Total Expense	9,129,087	10,487,160	0	119,280
Means of Financing				
General Fund				
Cash Fund	9,129,087	10,487,160		119,280
Federal Fund				
Revolving Fund				
Total Funding	9,129,087	10,487,160	0	119,280

Note: In the blank lines under Operating Expenses, itemize individual line items that comprise a significant portion of the Total Operating Expenses.

Program Adjustment Narrative

State of Nebraska – Administrative Services – Budget Division

	CODE	DESCRIPTION
AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	04	I/S Examiner - New

Provide the following information: A) Description of Request; B) Rationale for Request; C) Impact of Request; and, D) Statutory Change if Required.

As mentioned earlier, Nebraska domestic companies' total assets as of December 31, 2006 were \$309 billion, ranking Nebraska seventh for total insurance company assets. We recognize that as companies redomicile to Nebraska, we must maintain a staff of Examiners to insure our goal of examining each company once every three years is attainable. In addition to expanding our financial examination staff to meet the examination needs of larger companies in Nebraska, we also need to insure our Information Systems examination staff is sufficient for these new companies. The Department currently has one I/S Examiner in the field whose responsibilities include reviewing the internal controls and processes of the company's computer systems. Based on the findings of this I/S Examiner, the supervisor plans the examination based on the risk factors of the company's computer systems.

The Department is requesting an annualized increase in PSL of \$40,000 and an increase in appropriations of \$59,550 that includes \$19,550 for benefits, to hire an entry-level I/S Examiner.

All expenses associated with this position will be reimbursed by the insurance companies being examined.

Program Adjustment Request

State of Nebraska - Administrative Services - Budget Division

CODE & DESCRIPTION

AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	04	I/S Examiner - New

EXPENDITURE ACCOUNT	APPROPRIATIONS		ADJUSTMENTS	
	2007-2008	2008-2009	2007-2008	2008-2009
Permanent F.T.E. Positions	107.0	107.0		1.0
511100 Permanent Salaries - Wages	5,360,429	5,491,944		40,000
511200 Temporary Salaries - Wages				
511600 Per Diem Payments				
511900 Supplemental (One-time payments)				
All Other Salaries				
Sub-Total Salaries	5,360,429	5,491,944	0	40,000
515100 Retirement Plans Expense	394,678	406,545		2,906
515200 OASDI Expense	396,433	407,226		2,960
515400 Life and Accident Insurance Expense	2,592	2,592		24
515500 Health Insurance Expense	854,101	854,101		13,660
All Other Personal Services	51,799	51,799		
Sub-Total Benefits	1,699,603	1,722,263	0	19,550
510000 Personal Services	7,060,032	7,214,207	0	59,550
520000 Operating Expenses	1,252,765	2,836,308		
570000 Travel Expenses	816,290	436,645		
580000 Capital Outlay	0	0		
590000 Government Aid	0	0		
Total Expense	9,129,087	10,487,160	0	59,550
Means of Financing				
General Fund				
Cash Fund	9,129,087	10,487,160		59,550
Federal Fund				
Revolving Fund				
Total Funding	9,129,087	10,487,160	0	59,550

Note: In the blank lines under Operating Expenses, itemize individual line items that comprise a significant portion of the Total Operating Expenses.

Program Adjustment Narrative

State of Nebraska – Administrative Services – Budget Division

	CODE	DESCRIPTION
AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	05	Examiner increases

Provide the following information: A) Description of Request; B) Rationale for Request; C) Impact of Request; and, D) Statutory Change if Required.

In conjunction with the increase in PSL and benefits from Request 01, our current budget includes the funding to hire a Property and Casualty Actuary at a salary of \$107,000 and funding to hire an Investment Analyst at a salary of \$107,000. We are requesting an annualized increase in PSL of \$13,000 and an increase in benefits of \$1,200 for both of these positions in order to attract qualified applicants and bring their salaries to a comparable level as our request for an additional Life and Health Actuary. The Department has been advertising a Property and Casualty Actuary position for the past few months with a top salary of \$87,000 but received no qualified applicants. This position was originally budget up to \$107,000 but we recognize that this salary will not be competitive with the market based on our desire to hire someone with 5-7 years experience with 10 years experience preferable. We also recognize that an Investment Analyst will require a similar salary to attract a qualified applicant.

Also in conjunction with the increase in PSL and benefits from Request 01, we are requesting an annualized increase in PSL of \$41,500 and benefits of \$4,700 to bring our current Life and Health Actuary’s salary to a comparable level. He has attained the designation of Associate of Society of Actuaries (ASA) with 30 years experience with the Department and could easily command a much larger salary in the private sector. We feel it is very important to retain highly specialized and qualified individuals, especially in light of the increasing complexities in reserving practices. As can be seen from the recent UNL graduate with a Masters in Actuarial Sciences receiving a starting salary of \$80,000, \$120,000 for 30 years of experience is not an unrealistic salary.

The Department is requesting an annualized increase in PSL of \$67,500 with no increase in appropriations. These costs will be paid for using our current appropriations.

All expenses associated with this position will be reimbursed by the insurance companies being examined.

Program Adjustment Request

State of Nebraska - Administrative Services - Budget Division

CODE & DESCRIPTION

AGENCY	22	Insurance
PROGRAM	069	Enforce. of Standards
REQUEST	05	Examiner increases

EXPENDITURE ACCOUNT	APPROPRIATIONS		ADJUSTMENTS	
	2007-2008	2008-2009	2007-2008	2008-2009
Permanent F.T.E. Positions	107.0	107.0	0.0	0.0
511100 Permanent Salaries - Wages	5,360,429	5,491,944		67,500
511200 Temporary Salaries - Wages				
511600 Per Diem Payments				
511900 Supplemental (One-time payments)				
All Other Salaries				
Sub-Total Salaries	5,360,429	5,491,944	0	67,500
515100 Retirement Plans Expense	394,678	406,545		
515200 OASDI Expense	396,433	407,226		
515400 Life and Accident Insurance Expense	2,592	2,592		
515500 Health Insurance Expense	854,101	854,101		
All Other Personal Services	51,799	51,799		
Sub-Total Benefits	1,699,603	1,722,263	0	0
510000 Personal Services	7,060,032	7,214,207	0	67,500
520000 Operating Expenses	1,252,765	2,836,308		
570000 Travel Expenses	816,290	436,645		
580000 Capital Outlay	0	0		
590000 Government Aid	0	0		
Total Expense	9,129,087	10,487,160	0	67,500
Means of Financing				
General Fund				
Cash Fund	9,129,087	10,487,160		67,500
Federal Fund				
Revolving Fund				
Total Funding	9,129,087	10,487,160	0	67,500

Note: In the blank lines under Operating Expenses, itemize individual line items that comprise a significant portion of the Total Operating Expenses.