

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1125-04
Bill No.: HCS for SB 325
Subject: Insurance - Life
Type: Original
Date: April 19, 2007

Bill Summary: Allows life insurance companies to exclude coverage for suicide deaths under certain circumstances.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	Unknown less than \$311,530	Unknown less than \$311,530	Unknown less than \$311,530
Total Estimated Net Effect on General Revenue Fund	Unknown less than \$311,530	Unknown less than \$311,530	Unknown less than \$311,530

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Insurance Dedicated	\$1,287,024	\$1,251,774	\$1,251,774
Insurance Examiners	(\$1,780,171)	(\$1,780,171)	(\$1,780,171)
County Foreign/County Stock	0*	0*	0*
Total Estimated Net Effect on <u>Other</u> State Funds	(\$493,147)	(\$528,397)	(\$528,397)

* Savings and transfer-out net to \$0.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	Up to \$311,530	Up to \$311,530	Up to \$311,530

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Public Safety (DPS) - Director's Office, DPS - Missouri State Highway Patrol, and Missouri Consolidated Health Care Plan** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of Administration - Administrative Hearing Commission** anticipate this legislation will not significantly alter its caseload. However, if other similar bills also pass, there are more cases, or more complex cases, there could be a fiscal impact.

Officials from the **Office of Attorney General** assume any potential costs arising from this proposal can be absorbed with existing resources.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal is less than \$2,500. The SOS does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the SOS can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the costs of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Office of Prosecution Services (OPS)** state the proposal includes provisions for new criminal acts and therefore, creates new obligations for prosecuting attorneys. Any increase in the number of cases referred for criminal prosecution will have an additional fiscal impact on County Prosecutors. However, the OPS is not able to establish an estimate of the number of additional criminal cases that would be referred to the County Prosecutors for charges because of this proposed legislation. It is therefore, not possible determine if the proposal would have a significant direct fiscal impact on county prosecutors of the OPS.

Officials from the **Department of Corrections (DOC)** state the DOC cannot predict the number of new commitments which may result from the creation of the offense(s) outlined in this proposal. An increase in commitments depends on the utilization by prosecutors and the actual sentences imposed by the court.

If additional persons are sentenced to the custody of the DOC due to the provisions of this legislation, the DOC will incur a corresponding increase in operational cost either through incarceration (FY 06 average of \$39.43 per inmate per day, or an annual cost of \$14,394 per

ASSUMPTION (continued)

inmate) or through supervision provided by the Board of Probation and Parole (FY 06 average of \$2.52 per offender per day, or an annual cost of \$920 per offender). Supervision by the DOC through probation or incarceration would result in additional unknown costs to the DOC. Seven (7) persons would have to be incarcerated per fiscal year to exceed \$100,000 annually. Due to the narrow scope of this new crime, it is assumed the impact would be less than \$100,000 per year for the DOC.

Officials from the **Department of Insurance, Financial and Professional Regulation (DIFP)** state the legislation would increase various fees charged by DIFP to health service corporations, health maintenance organizations and insurance companies. The total increase in revenue by the department from these changes are estimated to be \$1,054,600 deposited into the Insurance Dedicated Fund.

The legislation would require that the department only charge direct costs of examinations to insurance companies. The 15% administrative fee and any indirect labor charged for management staff and support to insurance companies as part of the exam assessment would now be funded through the Insurance Dedicated fund. The DIFP estimates that \$1,780,171 less would be billed and deposited into the Insurance Examiners Fund. The difference in Exam Fund revenue and Dedicated Fund revenue will be covered by existing revenue in the Insurance Dedicated Fund. This change would need to be reflected in the FY 08 budget should this piece of legislation be passed and signed.

Insurance companies can take a credit against premium taxes for the costs of examinations conducted by the department. The DIFP estimates that due to retaliatory taxes, only 35% of these credits will be redeemed in a given year. By moving \$1.8 million in expenditures from examination charges, premium tax collection would increase by approximately ($\$1,780,171 \times 35\%$) \$623,060. Premium tax is split 50/50 between General Revenue and the County School Funds.

The legislation would allow the DIFP to be reimbursed for administrative services provided by department employees to companies subject to an order of conservation, rehabilitation or liquidation. Currently there are approximately 15 companies subject to these orders and three (3) FTE in the department providing services to them. The DIFP estimates that potentially \$188,924 per year could be received into the Insurance Dedicated Fund if employees salaries, fringes and expenses were reimbursed.

The DIFP estimates at least 25 discount medical plans will register with the department (based upon other states currently regulating discount medical plans) and pay the \$250 registration/renewal fee annually. Therefore, it is estimated that \$6,250 ($25 \times \250) will be deposited into the Insurance Dedicated Fund annually.

ASSUMPTION (continued)

Discount medical plans are required to file forms with the department. Each form must be accompanied by a \$25 filing fee. The DIFP estimates that it will receive approximately \$5,000 from form filings in the first year and \$1,000 in subsequent years.

Implementation of the registration and form review, examination, investigation and enforcement provisions of this proposal can be handled with existing staff and resources.

The DIFP will require minimal contract computer programming to add discount medical plans to department databases and can do so under existing appropriations.

The DIFP estimates approximately 625 insurers would be required to submit amendments to their policies to comply with legislation (section 376.620). Policy amendments must be submitted to the department for review along with a \$50 filing fee. One-time additional revenues to the Insurance Dedicated Fund are estimated to be \$31,250.

Oversight notes the DIFP is unable to determine how the reduction in tax credits to the County School Fund will be split between the County Foreign and County Stock Funds as the distribution is determined by which insurance companies are examined each year. **Oversight** is showing the savings as County Foreign/County Stock Funds.

Officials from the **Office of State Public Defender (SPD)** did not respond to our request for a statement of fiscal impact. **Oversight** assumes since the proposal creates new crimes, there is the potential for new cases for the SPD. **Oversight** further assumes since the amount of impact is uncertain, SPD existing staff will probably be able to provide representation in these cases initially. However, once the true fiscal impact is determined, the SPD will need to reassess the impact of the legislation. Passage of more than one bill increasing existing penalties or creating new crimes could require increased appropriations for the SPD.

This proposal will result in an increase in total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Savings - DIFP</u>			
Reduction in tax credits available	<u>\$311,530</u>	<u>\$311,530</u>	<u>\$311,530</u>
<u>Costs - Department of Corrections</u>			
Increased parole and incarceration costs	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Unknown less than \$311,530</u>	<u>Unknown less than \$311,530</u>	<u>Unknown less than \$311,530</u>
INSURANCE DEDICATED FUND			
<u>Income - Department of Insurance, Financial and Professional Regulation</u>			
Registration fees	\$6,250	\$6,250	\$6,250
Form filing fees	\$36,250	\$1,000	\$1,000
Increase in various fees and receivership reimbursements	<u>\$1,244,524</u>	<u>\$1,244,524</u>	<u>\$1,244,524</u>
Total <u>Income</u> - DIFP	<u>\$1,287,024</u>	<u>\$1,251,774</u>	<u>\$1,251,774</u>
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>\$1,287,024</u>	<u>\$1,251,774</u>	<u>\$1,251,774</u>
INSURANCE EXAMINERS FUND			
<u>Loss - DIFP</u>			
Fees/expenses re-designated to the Insurance Dedicated Fund	<u>(\$1,780,171)</u>	<u>(\$1,780,171)</u>	<u>(\$1,780,171)</u>
ESTIMATED NET EFFECT ON INSURANCE EXAMINERS FUND	<u>(\$1,780,171)</u>	<u>(\$1,780,171)</u>	<u>(\$1,780,171)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
COUNTY FOREIGN/COUNTY STOCK FUNDS			
<u>Savings - DIFP</u>			
Reduction in tax credits	<u>\$311,530</u>	<u>\$311,530</u>	<u>\$311,530</u>
<u>Transfer-Out - Schools</u>			
Reduction in tax credits transferred to schools	<u>(\$311,530)</u>	<u>(\$311,530)</u>	<u>(\$311,530)</u>
ESTIMATED NET EFFECT ON COUNTY FOREIGN/COUNTY STOCK FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
* Savings and transfer-out net to \$0.			
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
LOCAL GOVERNMENTS - COUNTY PROSECUTORS			
<u>Costs - County Prosecutors</u>			
Increase in criminal prosecutions	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS - COUNTY PROSECUTORS	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
LOCAL GOVERNMENTS - SCHOOLS			
<u>Transfer-In - Schools</u>			
Reduction in tax credits transferred from County Foreign/County Stock Funds	<u>\$311,530</u>	<u>\$311,530</u>	<u>\$311,530</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS - SCHOOLS	<u>\$311,530</u>	<u>\$311,530</u>	<u>\$311,530</u>

FISCAL IMPACT - Small Business

The proposal may impact small businesses that purchase life insurance policies for employees. There may be a fiscal impact to small business physicians offices if they accept the discount medical plans. The proposal may also impact small business bail bond agents.

FISCAL DESCRIPTION

This proposal allows life insurance companies to exclude coverage for suicide for one year after the issuance of the policy. If the insured dies as a result of suicide within the one year period, the insurer must refund all premiums paid.

This proposal revises the fee schedules for health services corporations, health maintenance organizations, and insurance companies and for certain document filing fees paid by these organizations. Assessments made against insurance companies for examination purposes will include: (1) The cost of compensation, including benefits, for the examiners, analysts, actuaries, and attorneys contributing to the examination of the company; (2) Reasonable travel, lodging, and meal expenses for an on-site examination; and (3) Other expenses of the examination.

The Director of the Department of Insurance, Financial Institutions, and Professional Registration must pay these expenses from the Insurance Examiners Fund, and the Insurance Dedicated Fund may be used for the regulation of the business of insurance and the operation of the Division of Consumer Affairs.

All domestic insurance companies subject to orders of conservation, rehabilitation, or liquidation must reimburse the Insurance Dedicated Fund for administrative services rendered by state employees to the company.

Any person who knowingly engages in an act, practice, omission or course of action that violates section 375.720, is guilty of a Class C felony.

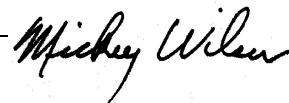
The proposal delineates the requirements for registering as a discount medical plan organization. The applicant must pay the director an application fee of \$250. The registration is valid for one year. The fee for renewing a discount plan organization registration is also \$250. Providers who provide discounts to their own patients are not required to register as discount medical plan organizations under the proposal.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Attorney General
Office of Administration -
 Administrative Hearing Commission
Department of Insurance, Financial and Professional Regulation
Department of Corrections
Department of Public Safety -
 Director's Office
 Missouri State Highway Patrol
Missouri Consolidated Health Care Plan
Office of Prosecution Services
Office of Secretary of State

NOT RESPONDING: Office of State Public Defender



Mickey Wilson, CPA
Director
April 19, 2007