



ANALYSIS OF THE NEW JERSEY BUDGET

**DEPARTMENT OF
BANKING AND INSURANCE**

FISCAL YEAR

2017-2018

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF BANKING AND INSURANCE

Budget Pages..... C-3, C-9, C-16, D-23 to D-29

Fiscal Summary (\$000)

	Expended FY 2016	Adjusted Appropriation FY 2017	Recommended FY 2018	Percent Change 2017-18
State Budgeted	\$51,051	\$64,013	\$64,013	0.0%
Federal Funds	\$368	\$0	\$0	0.0%
<u>Other</u>	<u>\$1,266</u>	<u>\$445</u>	<u>\$448</u>	<u>0.7%</u>
Grand Total	\$52,685	\$64,458	\$64,461	0.0%

Personnel Summary - Positions By Funding Source

	Actual FY 2016	Revised FY 2017	Funded FY 2018	Percent Change 2017-18
State	0	0	0	0.0%
Federal	2	2	5	150.0%
<u>Other</u>	<u>453</u>	<u>451</u>	<u>510</u>	<u>13.1%</u>
Total Positions	455	453	515	13.7%

FY 2016 (as of December) and revised FY 2017 (as of January) personnel data reflect actual payroll counts. FY 2018 data reflect the number of positions funded.

Link to Website: <http://www.njleg.state.nj.us/legislativepub/finance.asp>

Highlights

- The Department of Banking and Insurance’s activities are entirely funded through revenue collected from fees and assessments imposed on the industries it regulates, and in certain years, federal funding.
- The Governor’s FY 2018 Budget recommends \$64.5 million in State and dedicated funds be appropriated for the department in FY 2018, which is a \$3,000 increase from the current year’s adjusted appropriations.
- The funding increase of \$3,000 reflects growth in dedicated Small Employer Health Insurance assessment revenue which can be attributed to an increase in operating costs by the Small Employer Health Program board of directors.
- The FY 2018 Budget Recommendation anticipates the department to collect a total of \$142.0 million in State and dedicated revenue in FY 2018 (pages C-3 and C-9), a net increase of \$803,000 (0.6%) from the FY 2017 estimate of \$141.2 million. Collections support the department’s operating expenditures and general State government purposes.
- The Executive anticipates an \$8.0 million increase in Insurance – Licenses and Other Fees revenue that is attributable to an anticipated \$8.0 million transfer in FY 2018 from the New Jersey Surplus Lines Insurance Guaranty Fund to the General Fund as State revenue. Unlike most FY 2018 revenue anticipations, this transfer is subject to legislative approval.
- The Executive anticipates a FY 2018 State revenue decrease of \$7.1 million (64.5%) in fees collected by the New Jersey Real Estate Commission. The decrease is attributable to FY 2018 not being a renewal year in the commission’s two-year licensing schedule.
- The FY 2018 Budget Recommendation funds 515 positions in the department in FY 2018, which is unchanged from the count of funded positions in FY 2017. Of the 515 funded FY 2017 positions, 453 were filled in January 2017. Of the 62-count difference between FY 2017 filled and funded positions, 52 unfilled but funded positions are located in the Consumer Protection Services and Solvency Regulation and the Bureau of Fraud Deterrence program classes.
- Although the department does not anticipate receiving any federal funds in FY 2018, it intends to fund five positions with unexpended federal grant moneys received prior to FY 2017 for activities related to the federal Patient Protection and Affordable Care Act.

Background Paper:

- Overview of the Surplus Lines Insurance Guaranty Fund p.7

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS (\$000)

	Expended FY 2016	Adj. Approp. FY 2017	Recom. FY 2018	Percent Change	
				2016-18	2017-18
General Fund					
Direct State Services	\$51,051	\$64,013	\$64,013	25.4%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	0	0	0	0.0%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	\$51,051	\$64,013	\$64,013	25.4%	0.0%
Property Tax Relief Fund					
Direct State Services	\$0	\$0	\$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	\$0	\$0	\$0	0.0%	0.0%
Casino Revenue Fund	\$0	\$0	\$0	0.0%	0.0%
Casino Control Fund	\$0	\$0	\$0	0.0%	0.0%
State Total	\$51,051	\$64,013	\$64,013	25.4%	0.0%
Federal Funds	\$368	\$0	\$0	(100.0%)	0.0%
Other Funds	\$1,266	\$445	\$448	(64.6%)	0.7%
Grand Total	\$52,685	\$64,458	\$64,461	22.4%	0.0%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2016	Revised FY 2017	Funded FY 2018	Percent Change	
				2016-18	2017-18
State	0	0	0	0.0%	0.0%
Federal	2	2	5	150.0%	150.0%
All Other	453	451	510	12.6%	13.1%
Total Positions	455	453	515	13.2%	13.7%

FY 2016 (as of December) and revised FY 2017 (as of January) personnel data reflect actual payroll counts. FY 2018 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	32.7%	32.5%	N/A	---	---
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Significant Changes/New Programs (\$000)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2017</u>	<u>Recomm.</u> <u>FY 2018</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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STATE REVENUE**Insurance – Licenses
and Other Fees**

	\$43,961	\$51,961	\$8,000	18.2%	C-3
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The anticipated \$8.0 million revenue increase is attributable to an anticipated \$8.0 million transfer in FY 2018 from the New Jersey Surplus Lines Insurance Guaranty Fund to the General Fund as State revenue. Unlike most FY 2018 revenue anticipations, this transfer is subject to legislative approval.

The New Jersey Surplus Lines Insurance Guaranty Fund, P.L.1984, c.101 (N.J.S.A.17:22-6.70 et seq.), was created to pay the claims of insolvent surplus lines insurers that provided medical malpractice and homeowners coverage as eligible non-admitted insurers in New Jersey. All surplus lines insurance companies in New Jersey are required to be members of the fund and to contribute funds for its operation; however, the fund surcharge on any surplus lines coverage policy issued in New Jersey has not been collected since 1993 and the one-time initial \$25,000 payment has not been collected since July 2011. The fund is held and administered by the private, non-profit New Jersey Property-Liability Insurance Guaranty Association. According to the department, the fund was estimated to contain approximately \$12.2 million at the end of December 2016.

For more information on the Surplus Lines Insurance Guaranty Fund, please see the background paper starting on page 7.

**Real Estate
Commission**

	\$11,000	\$3,900	(\$7,100)	(64.5%)	C-3
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This State revenue line aggregates New Jersey Real Estate Commission receipts from licensing and various other fees. The \$7.1 million decrease can be attributed to FY 2018 not being a renewal year in the commission's two-year licensing schedule.

The New Jersey Real Estate Commission issues licenses to real estate brokers and salespersons, real estate schools, and course instructors, and establishes standards of practice for the real estate brokerage profession.

HMO Covered Lives	\$200	\$100	(\$100)	(50.0%)	C-3
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This State revenue line captures amounts the Department of Banking and Insurance collects from the HMO Covered Lives fee. The department attributes this \$100,000 decrease to a reduction in the number of Health Maintenance Organization (HMO) enrollees in the State.

Section 18 of P.L.2002, c.34 (N.J.S.A.26:2J-23) established a fee charged to HMOs in the amount of \$1.50 per covered life per year. The revenue from this fee is used to support the

Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2017</u>	<u>Recomm.</u> <u>FY 2018</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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Division of Insurance’s HMO regulation and oversight activities. In effect, fee collections also lower the special purpose assessment that is apportioned to insurers to recover the Division of Insurance’s operating expenses pursuant to P.L.1995, c.156 (N.J.S.A.17:1C-19 et seq.).

The division monitors the compliance of HMOs with New Jersey rules through in-depth reviews and targeted examinations. The division investigates consumer complaints concerning HMOs and other carriers offering managed care health benefits plans.

DEDICATED REVENUE

Small Employer Health Benefits	\$445	448	\$3	0.7%	C-9
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ALL OTHER FUNDS APPROPRIATIONS

Consumer Protection Services and Solvency Regulation	\$445	\$448	\$3	0.7%	D-28
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According to the department, the \$3,000 increase in dedicated revenue collected from the Small Employer Health Insurance assessment can be attributed to an increase in operating costs by the Small Employer Health Benefits Program board of directors. The increase in revenue is matched by an equal increase in the anticipated appropriations for the Consumer Protection Services and Solvency Regulation program class under “All Other Funds.”

The Small Employer Health Benefits Program, enacted pursuant to P.L.1992, c.162 (N.J.S.A. 17B:27A-17 et seq.), was established to provide employers with two to 50 employees with the option to purchase standardized health benefits plans. Pursuant to section 16 of that law, the department charges an assessment on all Small Employer Health Insurance carriers for the reasonable and necessary organizational and operating expenses of the Small Employer Health Benefits Program board of directors.

Significant Language Changes

The FY 2018 Budget Recommendation for the Department of Banking and Insurance does not contain any changes in language provisions when compared to the FY 2017 Appropriations Act.

EXPLANATION: FY 2017 language not recommended for FY 2018 denoted by strikethrough.
Recommended FY 2018 language that did not appear in FY 2017 denoted by underlining.

Background Paper: Overview of the Surplus Lines Insurance Guaranty Fund

Budget Page C-3

The FY 2018 Budget Recommendation includes a proposed \$8.0 million transfer from the New Jersey Surplus Lines Insurance Guaranty Fund (SLIGF) to the General Fund as State revenue. Unlike most FY 2018 revenue anticipations, this transfer is subject to legislative approval.

The "New Jersey Surplus Lines Insurance Guaranty Fund Act," P.L.1984, c.101 (N.J.S.A.17:22-6.70 et seq.) established the SLIGF to administer the claims of insolvent surplus lines insurers. The fund provides a safety net for policyholders and claimants of insolvent surplus lines insurance companies by ensuring the payment of claims. Surplus lines insurance is insurance coverage that is not available from insurers licensed in New Jersey and which must be purchased from a carrier not licensed in the State.

Upon enactment of the "New Jersey Surplus Lines Insurance Guaranty Fund Act" in 1984, the SLIGF provided benefits to claimants of property and casualty lines of direct insurance in the event of a surplus lines insurer's insolvency. Certain property and casualty lines of insurance were not covered by the SLIGF: workers' compensation insurance, title insurance, surety bonds, credit insurance, mortgage guaranty insurance, municipal bond coverage, fidelity insurance, investment return assurance, and ocean marine insurance. P.L.2002, c.30 amended the law to limit the application of the fund to specific types of covered claims. Since June 25, 2002, the fund only provides benefits to claimants of medical malpractice liability insurance and property insurance covering owner occupied dwellings of fewer than four dwelling units.

The fund's maximum obligation for covered claims is \$300,000 per occurrence, subject to any applicable deductible and self-insured retention contained in the policy. Covered claims against an insolvent insurer must occur no later than 30 days after the determination of insolvency or before the policy expiration date, whichever is sooner.

All surplus lines companies in New Jersey are required to be members of the fund and to contribute funds for its operation. Each member insurer is responsible for making an initial one-time payment of \$25,000 into the fund. Additionally, a surcharge, in an amount determined by Department of Banking and Insurance (DOBI), is collected on any surplus lines coverage policy issued in New Jersey. The surcharge is collected by the surplus lines agent and forwarded to the fund on a quarterly basis. The amount may be adjusted annually to meet projected expenses of the fund, but it may not exceed four percent of the policy premium.

However, the surcharge has not been collected since 1993 and DOBI has not found reinstatement of the surcharge to be necessary to meet the current and projected obligations and expenses of the fund. Furthermore, according to FY 2016 OLS Discussion Point responses, DOBI ceased to collect the initial \$25,000 payment as of July 21, 2011 due to limits imposed by the federal "Dodd-Frank Wall Street Reform and Consumer Protection Act," Pub.L. 111-203 (15 U.S.C. 8201 et seq.).

The fund is held and administered by the New Jersey Property-Liability Insurance Guaranty Association (PLIGA). PLIGA is a "private, nonprofit, unincorporated, legal entity"

Background Paper: Overview of the Surplus Lines Insurance Guaranty Fund (Cont'd)

given certain statutory obligations to act as a safety net for policyholders and claimants in the property and casualty insurance marketplace pursuant to N.J.S.A.17:30A-1 et seq. As an independent entity, PLIGA's budget is not included in the State budget.

Fund Disbursements and Diversions

According to the PLIGA website, the SLIGF has paid benefits due to the insolvency of 14 surplus lines insurers since inception. Since CY 2000, three insolvencies of eligible surplus lines insurers have occurred: two in 2001 and one in 2003.

Since CY 2000 the SLIGF has consistently carried balances in excess of amounts needed to cover claim disbursements and administrative expenses. As a result, two laws diverted a total of \$100 million in resources from the fund since CY 2000. P.L.2002, c.30 transferred \$40 million from the fund to the General Fund in support of the FY 2003 State budget and P.L.2009, c.75 transferred \$60 million from the fund to the Health Care Subsidy Fund in support of the FY 2010 State budget. Moneys in the Health Care Subsidy Fund are used to enhance Statewide health care initiatives.

SLIGF Disbursements and Year-End Balances		
CY	Total Disbursements, Including Administrative Expenses	Year-End Fund Balance
2000	\$915,732	\$79,481,824
2001	\$1,072,002	\$83,506,435
2002	\$47,682,595*	\$38,339,118
2003	\$4,298,165	\$35,614,234
2004	\$3,117,750	\$37,783,977
2005	\$916,429	\$40,514,728
2006	\$768,630	\$42,673,743
2007	\$125,549	\$45,630,566
2008	\$113,852	\$48,849,080
2009	\$60,094,052*	\$13,317,585
2010	\$5,588,444**	\$10,484,881
2011	\$501,897	\$10,107,767
2012	\$101,432	\$10,081,593
2013	(\$45,803)	\$11,091,646
2014	(\$15,633)	\$11,161,625
2015	\$108,624	\$12,202,960
2016***	\$110,000	\$12,175,000
2017***	\$110,000	\$12,125,000
* Disbursements include diversions to other funds - See Discussion Above.		
** 2010 disbursements include a liquidator requested reclassification of claims paid by the PLIGA from the fund.		
*** DOBI estimate		
Source: FY 2011 and FY 2017 DOBI Discussion Point Responses, PLIGA website		

Background Paper: Overview of the Surplus Lines Insurance Guaranty Fund (Cont'd)

CY 2015 Data

According to the CY 2015 PLIGA Annual Report, the most recent report available, surplus lines insurance membership totaled 200 eligible insurers on December 31, 2015. The SLIGF continued a trend of experiencing minimal claim activity, with claims and claims expenses paid totaling approximately \$65,000. In addition, the fund incurred approximately \$43,000 in administrative expenses. In CY 2015, disbursements, including administrative expenditures, totaled \$108,624.

In CY 2015, the fund generated revenue through two sources: (1) Net investment and interest income contributed approximately \$71,000 to the fund and (2) distributions collected in connection with insolvency proceedings approximately \$1.1 million. In CY 2015, revenue totaled \$1.15 million with \$1.04 million in excess revenue over disbursements. On December 31, 2015, the fund carried a balance of \$12.2 million with a combined indemnity and loss adjustment expenses reserves of \$1.3 million.

The Executive's proposed \$8.0 million transfer in FY 2018 from the SLIGF to the General Fund would thus leave the SLIGF with a balance of approximately \$4.2 million.

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Individuals wishing information and committee schedules on the FY 2018 budget are encouraged to contact:

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