

Budget Hearing Statement

House Appropriations Committee

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Insurance Commissioner



Good morning, Chairman Harris, Chairman Grove, members of the House Appropriations Committee, and members of the House Insurance Committee. Thank you for the opportunity today to discuss the Pennsylvania Insurance Department's budget. My name is Michael Humphreys, and I serve as the Commonwealth's Insurance Commissioner, leading a talented and committed team whose top priority is consumer protection, a hallmark of the Shapiro Administration.

With me today are the Department's Chief of Staff, Jodi Frantz, as well as Bureau Director of Budget and Procurement, Anu Upadhyaya. The Department's Deputy Commissioners and the Communications and Policy Directors are also in attendance.

The Department's mission is to protect Pennsylvania's insurance consumers through fair and effective regulation of the marketplace. Our dedication to the effective regulation of the Commonwealth's insurance industry stretches across all lines of insurance, and we have a deep appreciation for the contribution that the sixth largest insurance market in the country, and fifteenth largest in the world, brings to our state. Pennsylvania's insurance market is home to insurance companies of all sizes. Some are locally established and historic companies like mutual insurance companies, and others are international leaders. Combined, they generated \$836 million in premium taxes to the Commonwealth in 2022. Additionally, our insurance industry provides over 125,000 jobs for Pennsylvanians, accounting for \$12.7 billion in compensation on an annual basis.

The Department's operating budget for Fiscal Year 2023-2024 was \$36.1 million. On a percentage basis, we have one of the lowest insurance department operating budgets in the country as indicated by Table 1. Yet, as stated earlier, we regulate some of the largest and most complex insurance companies in the world. Because the Department is accredited by the National Association of Insurance Commissioners' (NAIC), other states can rely upon our audit and analysis of domiciled insurers, which makes it possible for our domestic insurers to operate in other states without being subject to duplicative regulation.

The Department, like many insurance departments across the nation, is a self-funded government agency. It generates revenue from its operations and regularly deposits excess funds into the General Fund where they are subsequently appropriated to other agencies. Act 46 of 2013 established the Insurance Regulation and Oversight Fund (IROF) to provide for a methodology to distribute department generated revenue between the General Fund and IROF.

The revenues deposited into IROF come from the following sources:

- 50% of all licenses and fees collected.
- 100% of all fines and penalties collected.

At the end of each fiscal year, the Department returns to the General Fund any revenue retained in excess of the prior year's budget, per Act 46. The Department has contributed approximately \$50 million annually to the General Fund since Fiscal Year 2021-2022, inclusive of the excess funds return. More specifically, in Fiscal Year 2021-2022, the Department contributed over \$60 million in revenue to the General Fund.

The Department's team is well-regarded for its work at the state and national level. Its total authorized complement for 2023 is 283, a less than 1.5% increase over the prior year. For comparison purposes, the California Department of Insurance, the largest in the country, employs 1,398 people and has an operating budget of \$529 million. It regulates fewer domestic insurers (129) than Pennsylvania's 225. Table 1 provides further details on how the Department compares to its larger market peers.

PID vs. Other State Insurance Departments by Budget and Rank

	Budget & Rank	Domestic Insurers	Written Premium Volume	Total Staff
California	\$529m (1 st)	129	\$374b	1,398
New York	\$185m (2 nd)	546	\$265b	679
Texas	\$138m (3 rd)	421	\$242b	1,262
Illinois	\$87m (4 th)	339	\$108b	272
Florida	\$83m (5 th)	439	\$232b	774
New Jersey	\$76m (7 th)	122	\$94b	301
Ohio	\$43m (10 th)	259	\$142b	293
Virginia	\$36m (18 th)	67	\$70b	191
Pennsylvania	\$35m (19 th)	225	\$139b	288

Table 1

The Department's Bureau of Consumer Services, under the Office of Market Regulation, handles consumer complaints, some of which originate from your legislative offices. Last year, the Bureau of Consumer Services answered 35,574 phone calls and handled 13,629 complaints that resulted in \$10,456,607

in restitution for Pennsylvanians. Further, in 2023, the Department connected more than 6,400 Pennsylvanians with upwards of \$144 million in benefits last year by way of the NAIC's [Life Insurance Policy Locator Service](#).

The Department decisively carries forth its statutory obligations to regulate the industry effectively and objectively, focusing on our priorities:

- Ensuring the financial solvency of insurance companies,
- Effectively administering the licensure of regulated entities including insurers and producers,
- Reviewing and approving insurance policy language and rates,
- Enforcing compliance with insurance laws and regulations,
- Operating special funds, and
- Coordinating the rehabilitation and liquidation of insolvent insurance companies.

Last month, under Governor Shapiro's leadership and commitment to better serve Pennsylvanians, the Department announced the removal of certain fees associated with licensing forms to provide a less burdensome experience to licensees. Additionally, the Department has reduced the review time for pending applications to an average of less than eight days from the previous average of 20 days. Again, under Governor Shapiro's leadership, in November of last year, the Department directed insurers to meet obligations for autism coverage benefits under our mental health parity laws, removing barriers to care and delivering more services to Pennsylvanians.

This year, the Governor's 2024-2025 Executive Budget proposes funding to support Act 146 implementation and technology needs, enforcement complement, and the Pennsylvania Reinsurance (Pa-Re) program. These three proposed initiatives would provide help to consumers by improving customer service experiences, increasing bandwidth to handle investigations, and helping Pennsylvanians afford insurance coverage they may need.

The budget proposes funding for Act 146 implementation. As part of Act 146 of 2022, sponsored by Senator Kristin Hill-Phillips, the Department launched a state-administered (rather than federally-administered) independent appeal process that allows a Pennsylvanian to request an Independent External Review if they believe their insurer has wrongly denied a claim for a medical service, device, or treatment. This funding would be utilized to hire four additional staff members and to procure a new online platform designed for documentation, case assignment, and workflow tracking. The Bureau of Health Care Access, Administration, and Appeals (formerly known as the Bureau of Managed Care) anticipates the volume of new Act 146 external appeals to be in the range of 2,000-5,000 cases annually. The proposed funding would support a consumer-friendly process to request an independent external review, ensure PID is adequately staffed to handle the volume of appeals, and provide an efficient way for the Department to assign and facilitate external review cases.

The Governor's budget also proposes to fund four additional staff members in the Market Regulation Deputate to support current enforcement case volumes. Because of the increase in the number of insurance agents (producers) in the Commonwealth, the Department has experienced a corresponding increase in the volume of consumer complaints received. The Department investigates potential misconduct including misappropriation of premiums; fraudulent, coercive, and dishonest practices; misrepresentations; theft; and forgery. These four new positions would allow the Department to conduct thorough and timely investigations, to recover more restitution for consumers, and remove bad actors faster, preventing additional harm to the industry and our constituents. The positions are necessary to keep pace with a growing insurance market and ensure a safe insurance environment that prioritizes consumer protection.

Finally, this budget proposal allocates money to fund our health reinsurance program (PA-Re). The PA-Re program provides annual payments to insurers to lower health insurance premiums for individual market enrollees. Last year, through Pennsylvania's reinsurance program, we reduced health insurance premiums for all individuals purchasing individual market coverage by 4.6% from what the premiums would have been without the program. The funding provided by this proposed initiative would be the largest investment in the reinsurance program to date. This proposal for reinsurance funding would enable our state-based marketplace, Pennie® to fund other initiatives aimed at reducing premiums or out-of-pocket costs for hundreds of thousands of Pennsylvanians.

This year, enrollment in Pennie has reached an unprecedented milestone with a record-breaking 436,000 Pennsylvanians enrolled in comprehensive and affordable health coverage. With this new budget reinsurance program proposal for an enhanced affordability program, we estimate that at least 250,000 Pennsylvanians will benefit from enhanced savings, allowing them to keep their current health insurance, or potentially purchase better coverage. Between reinsurance and an affordability program, it's estimated that at least 500,000 Pennsylvanians will benefit from enhanced assistance, as ALL individual market policyholders will benefit from the strengthened reinsurance program, regardless of whether they purchase coverage through Pennie or seek comprehensive health insurance opportunities off the marketplace.

While making sure the Commonwealth's insurance markets operate effectively for consumers is always the Department's top priority, we have found that, in most cases, the best way to make the insurance market work for consumers is to make it work for the insurers that serve them. We want options for consumers, and we want those options to be robust and affordable, providing a meaningful choice for Pennsylvanians. The best way to achieve all those goals is to ensure our markets are competitive by fostering a collaborative and responsive regulatory environment.

With that, I hope that I have given you a brief overview of the Department's budget. I look forward to continuing to work with all of you as we continuously seek to achieve our mission. Thank you again for having me, and I am happy to answer any questions you might have.