



## House Bill 453 Printer's Number 2410

### *Insurance*

*Updated 9/21/2017 4:25 PM*

*(Note: This document will be updated as more information becomes available)*

The House Republican budget proposal to take \$630.5 million from special funds to help balance the General Fund budget would target \$110 million in insurance-related funds that support the safety of Pennsylvania citizens and its environment, as well as the operation of the Insurance Department. The House Republican budget, as passed, would have a serious, detrimental impact on a fund that directly supports the regulatory and oversight operations of the commonwealth's Insurance Department, as well as one that provides insurance and loans related to the safety, repair and replacement of underground fuel storage tanks across the state.

The following analysis reflects the House Republican proposal as adopted by the House in HB453 PN2410. This proposal has changed since the Republican press conference on Sept. 5. Since then, Republicans have reduced the transfer from the Insurance Regulation and Oversight Fund but the consequences remain problematic.

### Underground Storage Tank Indemnification Fund (USTIF)

- Amount identified: \$100 million (identified as a loan to be repaid with interest through July 1, 2029).
- Non-recurring
- Description: The Storage Tank and Spill Prevention Act (Act 32 of 1989) established the Underground Storage Tank Indemnification Fund, or USTIF, to provide claim payments to owners and operators of underground storage tanks who incur liability for taking corrective actions or for bodily injury or property damage caused by a release from underground storage tanks. Act 13 of 1998 expanded USTIF's application to support a loan program to defray the costs of upgrading or removing storage tanks through the Tank Installers' Indemnification Program, as well as environmental clean-up efforts and spill prevention.
- Impact: USTIF is as important as it is unheralded. As with other insurance products, it plays a central role in protecting Pennsylvanians' finances, property, and livelihoods in the case of an accident related to underground fuel storage tanks. This program also encourages individuals and entities with these tanks to make necessary repairs and upgrades to protect the environment. The proposed loan transfer of \$100 million would have a lasting impact on the fund, particularly regarding long-term cash flow. USTIF holds a large amount of assets to ensure liquidity to cover projected loss obligations and payouts, and it is fundamentally incorrect to assume that this will not cause future liquidity problems on top of the outstanding balance of a former loan made to the General Fund from USTIF.

## Impact on the People

- The proposed raid of USTIF is not an original idea. As a “one-time” budgetary fix in 2002/03, the commonwealth loaned \$100 million from USTIF to the General Fund. While this loan originally had a 10-year payment schedule, only \$32.5 million of the original loan principal was repaid.
- Act 72 of 2013 extended the repayment timeline for the original loan to July 1, 2029. Despite a new memorandum of understanding’s call for annual transfers of \$7 million, no further repayments have been made on this loan.
- While the fund is expected to remain solvent in the near future, there are concerns about near-term negative cash flow as well as USTIF’s long-term stability.
- The chart below assumes the state will not make annual repayments from the General Fund for the original \$100 million loan. Even without the additional \$100 million raid, the fund is projected to experience a diminishing overall cash and asset balance within the next decade.

<b>Cash Flow Table 1.2</b>									
<b>GF Loan Scenario 2: No Payments on GF Loan</b>									
<b>Fee Structure : 0.0% Increase in Fees Effective 1/1/2017</b>									
<b>All Values in \$000's</b>									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Fiscal Year Beginning	Initial Cash & Invested Assets	Fee Revenue	Loss & ALAE Payments	Investment Income at 4.5% per annum	Other Cash Flows	Total Cash Flow	Ending Cash and Invested Assets	Undiscounted Year End Deficit	Discounted Year End Deficit
7/1/2016	224,762	58,950	(50,315)	9,993	(14,016)	4,612	229,374	(95,380)	(12,743)
7/1/2017	229,374	58,423	(52,465)	10,160	(13,166)	2,952	232,326	(88,009)	(6,182)
7/1/2018	232,326	57,901	(52,199)	10,288	(13,091)	2,900	235,226	(82,172)	(695)
7/1/2019	235,226	57,385	(53,410)	10,371	(13,500)	845	236,072	(78,584)	2,992
7/1/2020	236,072	56,873	(53,978)	10,375	(13,926)	(656)	235,415	(77,289)	4,846
7/1/2021	235,415	56,367	(53,619)	10,332	(14,369)	(1,289)	234,126	(78,374)	4,751
7/1/2022	234,126	55,866	(52,488)	10,278	(14,830)	(1,174)	232,952	(81,910)	2,568
7/1/2023	232,952	55,370	(52,411)	10,205	(15,309)	(2,146)	230,806	(88,042)	(1,914)
7/1/2024	230,806	54,879	(52,206)	10,092	(15,732)	(2,968)	227,838	(96,745)	(8,722)
7/1/2025	227,838	54,392	(52,318)	9,937	(16,128)	(4,117)	223,722	(108,091)	(17,977)
7/1/16 - 6/30/26	224,762	566,406	(525,410)	102,031	(144,068)	(1,041)	223,722	(108,091)	(17,977)

Source: June 30<sup>th</sup>, 2016 Actuarial Analysis of USTIF and TIIP provided to Pennsylvania Insurance Department by Aon Risk Solutions

- This loan transfer would exacerbate the pressure on this fund, and it would put further risk on claimants and those who rely on this program to ensure the safety of the public and environment.

## Balances

- The Insurance Department has indicated – as reflected in the auditor’s report – USTIF’s cash position is stable; however, a large loan transfer would place it in jeopardy.
- USTIF funding comes from investment income, and fees assessed on delivered and stored fuels in tanks. In recent years, annual revenue from fees has averaged \$58 million.
- In recent years, the fund has experienced negative cash flow because fee revenues have not kept pace with the lost investment revenue on the outstanding loan balance from the 2003 General Fund loan.
- The estimated outstanding unpaid loss, allocated loss adjustment expense, and other liabilities as of June 30, 2016, discounted at 4.5 percent for USTIF were \$325.7 million resulting in a deficit of \$18.8 million.

## Insurance Regulation and Oversight Fund

- Amount identified: \$10 million.
- Non-recurring
- Description: The Insurance Regulation and Oversight Fund, established by Act 46 of 2013, provides a dedicated funding source for the regulation, management, development and oversight of the commonwealth's insurance industry. The fund receives 50 percent of all licenses and fees collected by the Pennsylvania Insurance Department, and all augmentation and reimbursements made to the department by regulated entities. Since inception, this program has funded the Insurance Department's general government operations in lieu of revenue from the state's General Fund.
- Impact: The Insurance Regulation and Oversight Fund may only retain an amount equal to no more than the total expenditures and commitments by Insurance from the immediately preceding fiscal year, with any remaining balance returned to the state's General Fund. This proposal would essentially draw down the fund balance to zero.

### *Impact on the People*

- The Insurance Regulation and Oversight Fund aligns Pennsylvania's insurance regulator with those across the country through a dedicated, stable funding stream. The proposed House Republican raid would undermine that autonomy and ignore the mechanism already in place to transfer excess funds to the General Fund.
- The funds revenue is derived from 50 percent of all licenses and fees collected by Insurance, along with all augmentations and reimbursements made to Insurance by regulated entities. This is important to recognize, as the balance of all licenses and fees collected by Insurance are already deposited into Pennsylvania's General Fund.
- Between the 50/50 licensing and fee split as well as the excess balance transfer provision in statute, this is one of the most blatantly egregious proposed raids offered by House Republicans.

### *Balances*

- As of Sept. 1, the fund's balance is \$20.7 million.
- Since the fund balance is below last year's expenditure made to Insurance's GGO, there should be no transfer made from the fund.