

LEG REG REVIEW Budget Edition 2022, 3rd Issue February 16, 2022

LEG REG REVIEW is a periodic newsletter produced by Vince Phillips who retired from active lobbying after 31 years of advocacy in Harrisburg. It contains news on the legislative and regulatory scene in Pennsylvania that may be of interest to the Insurance and Business Communities. Subscriptions are \$100 and information may be obtained by contacting PHILLIPS ASSOCIATES at 717/728-1217 or e-mail to xenobun@aol.com.

GOVERNOR'S BUDGET PROPOSAL BEFORE GENERAL ASSEMBLY

On February 8, Governor Tom Wolf presented the final budget for his Administration to the General Assembly. In addressing the General Assembly, Governor Wolf called for a \$48.74 billion General Fund State Budget for the Fiscal Year beginning July 1, 2022. This represents a 16.62% increase over the current level. A big part of the increase is a \$2.2 billion increase in education, much of it coming from Federal COVID relief dollars. Education is the second largest part of the State Budget at 40.2%. Human Services is the largest at 43.0%.

Although the \$48.74 billion figure is commonly used when media talk about the State Budget, Pennsylvania's full operating budget is actually \$109.3 billion with \$43.7 billion from the General Fund, \$41.4 billion in Federal funds, \$3.0 from the Motor License Fund, \$2.0 million from the Lottery Fund, and the rest from other sources and dedicated Funds. PA State Debt for FY 2021-22 is \$10.1 billion and is projected to increase to \$11.1 billion in FY 2022-23.

Some Highlights (non-Insurance)

- Gov. Wolf is again calling for reducing the Corporate Net Income Tax from the current 9.99% to 4.99% by 2027. PA's corporate taxation is one of the highest in the Nation. The phased reduction means that PA would receive \$79.4 million less tax revenue in the new Fiscal Year.
- Although still not received enthusiastically by the General Assembly's Republican leaders, Governor Wolf is still seeking a phased-in increase in the minimum wage from the current \$7.25 per hour to an eventual \$15.00 per hour. The 2022-23 FY proposal calls for an increase to \$12.00 per hour. The proposed State Budget estimates that \$74.6 million in additional Sales Tax and Personal Income Tax revenue will come to the Commonwealth.
- The Governor is not seeking an increase in the rate of the Personal Income Tax (PIT) or the rate of the Sales Tax.

INSURANCE DEPARTMENT BUDGET

The general operating budget for the PA Insurance Department is not subject to Appropriations Committee hearings nor treated as a separate line item in the proposed State Budget. The reason for this is that the Department's revenue comes from producer licensing (\$38.97 million) and other various fees. This goes into the Insurance Regulation and Oversight Fund which provides for the Insurance Department's general operating budget.

For FY 2022-23, the Department’s general operating budget is \$34.2 million, up from \$31.6 million this year. There is also a continuing \$5.0 million Federal grant for FY 2022-23 to help fund the Department’s implementation of Affordable Care Act market reforms.

Another State Budget measure is number of staff persons (complement). The Insurance Department has 266 job slots of which 238 are filled. This compares with a complement of 252 for the Insurance Department for FY 2022-23 with 223 filled.

The Department’s goal for FY 2022-23 is to have three-fourth of all form and rate filings for life, accident, health, property and casualty lines of insurance reviewed and closed within 20 days of submission. Another goal is to increase the Department’s outreach efforts to improve consumer education regarding insurance products and services as well as aiding in protecting consumers from insurance-related financial loss. Its target is to reach 650,000 people in FY 2022-23.

INSURANCE PREMIUM REVENUE TO THE COMMONWEALTH

Explaining the Premium Tax

Insurer insurance premiums are taxed at 2%. Surplus & Excess Lines premium taxes are at 3%. The Surplus Lines premium tax is paid by the Surplus Lines Licensee (Broker). Monies received from the premium tax on foreign (non-PA) fire and casualty insurers go into the Fire Insurance Tax Fund (\$69.8 million) and the Municipal Pension Aid Fund (\$303.76 million). This money is used to subsidize municipal fire and police pensions although a minimal part (\$26,000) of the Fire Insurance Tax Fund goes to the State Insurance Fund which is explained below.

Tax	FY 2021-22 (Current)	Proposed FY 2022-23
Domestic (PA) Casualty	87.9 million	88.8 million
Domestic (PA) Fire	32.4 million	32.7 million
Domestic (PA) Life	13.5 million	7.5 million
Foreign (non-PA) Casualty	300.75 million	303.76 million
Foreign (non-PA) Fire	69.1 million	69.8 million
Surplus Lines	52.4 million	53.0 million
Foreign (non-PA) Life	251.9 million	276.8 million
Title	13.2 million	13.3 million
Other Insurance	2.2 million	2.2 million

INSURANCE FEE REVENUES

Fee	FY 2021-22 (Current)	Proposed FY 2022-23
Insurance Producer Licenses	65.0 million	65.5 million
Companies Certification Fees	1.9 million	same
Valuation of Policies Fees	10.0 million	same
Misc. Fees	550,000	same
‘CAT’ traffic ticket surcharge	4.5 million	same
Misc. Fines	1.0 million	same

INSURANCE SPECIAL FUNDS

- **Catastrophic Loss Benefits Continuation Fund (auto CAT):** This Fund was established to cover catastrophic auto insurance medical claims over \$100,000 from October 1984 through 1989. Funding came from a portion of traffic ticket fines but they were redirected away from the CAT Fund to the General Fund in FY 2011-12. This means that the \$24.5 million generated in FY 2022-23 will not go to the CAT Fund. It is fully funded but expected claims will continue to be paid out of the remaining balance of \$64.85 million until 2096.
- **PA Health Insurance Exchange Fund** was established in 2019 to provide Affordable Care Act subsidized individual and small group coverage thanks to a Federal waiver which allowed Pennsylvania to have its own Exchange rather than one run by the Federal Government. It expects to receive \$75.1 million via a 3% surcharge on health insurance premiums in FY 2022-23 and anticipates \$57.2 million in claims. The Exchange pays \$20.3 million to the **Reinsurance Fund** which was established to provide back-up to that market. The Reinsurance Fund also receives \$120.2 million in Federal money.
- **Medical Care and Reduction of Errors Fund (MCARE)** is a middle tier of Medical Malpractice Insurance where health care entities pay a “premium” assessment into MCARE which then pays claims between certain levels. Health care entities also purchase a primary level of Medical Malpractice Insurance from a private sector insurer and coverage above the MCARE tier in the Surplus & Excess Lines market. In FY 2022-23, MCARE is expected to pay \$190.47 million in claims and receive \$190.5 million in assessments.
- **Reinsurance Fund:** See Health Insurance Claim Fund.
- **Underground Storage Tank Indemnification Fund (USTIF)** is a Fund dedicated to paying claims for oil and gas tank spills. Those having tanks pay a “premium” that goes into USTIF. There is an obscure part that responds to claims from residential oil heat spills. A \$100 million loan taken from USTIF in 2002 to help balance the Budget was finally repaid in 2021. Fund balance is \$457.3 million.

WORKERS COMPENSATION INSURANCE FUNDS

Appropriations Committee hearings on the Department of Labor & Industry will take on March 2 (House) and March 15 (Senate).

- **State Workers Insurance Fund (SWIF)** is the Workers Compensation insurer of last resort with premium income projected in FY 2022-23 to be \$90.0 million and claims at \$148.7 million. Although a state Fund administered by the Department of Labor & Industry (L&I), it pays annual premium taxes of \$1.9 million. Despite the unfavorable claim to premium ratio, it still will have \$1.4 billion in reserve.
- **Workers Compensation Security Fund** pays WC claims from persons whose Workers Compensation Insurance company has become insolvent. It is expected to generate \$48.14 million from assessments, interest, etc. and pay out \$34.9 million.

- **Workers Compensation Administration Fund** pays for the L&I Workers Compensation program and the Office of Small Business Advocate through the Department of Community & Economic Development. Those expenditures are expected to total \$76.45 million in FY 2022-23.
- **Workers Compensation Supersedeas Fund** reimburses WC insurers for claims paid by them that were later found to be ineligible. Disbursements are projected at \$27.25 million in FY 2022-23.
- **Uninsured Employers Guaranty Fund** pays WC claimants or dependents benefits when the employer is uninsured. Expected outlays for FY 2022-23 are \$8.175 million.
- **Self-Insurance Guaranty Fund** pays claims arising from defaulting self-insurance employers for WC-covered injuries sustained on or after October 30, 1993. FY 2022-23 disbursements are expected to be \$8.2 million.

In addition, there are several other lesser-known Funds with a bearing on Insurance:

- **Mine Subsidence Insurance Fund** is administered by the Department of Environment Protection (DEP) to pay property claims caused by former mines collapsing (mine subsidence). Premium income to the Fund is expected to be \$4.0 million with disbursements totaling \$5.75 million. It has reserves of \$134.3 million. A 2002 law allowed property-licensed insurance agents to sell Mine Subsidence Insurance and receive a one-time commission.
- **The State Insurance Fund** pays Commonwealth of PA property losses. Its' funding comes from the Fire Insurance Tax Fund and insurance company reimbursements. Administered by L&I, it has an estimated \$2.0 million of disbursements in FY 2022-23.
- There are two Trust Fund established that are sanctioned by the state and established by legislation but do not receive tax revenues. **The Insurance Fraud Prevention Trust Fund** (funds available in FY 2022-23 are \$22.9 million) makes grants to district attorneys and others to prosecute insurance fraud. **The Auto Theft Prevention Trust Fund** has a similar mission targeted to reduce automobile theft. Available funds in FY 2022-23 are \$8.24 million. Both are funded by assessments to insurance companies.

RESOURCES: The Budget Office has both the detailed proposed State Budget and State Budget summaries:

[https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23 Web%20Version.pdf](https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2022-23%20Proposed%20Budget/Budget%20Book%202022-23%20Web%20Version.pdf).

The Independent Fiscal Office (IFO) data may be found at <http://www.ifo.state.pa.us/>.