

LAO Analysis of the Department of Insurance's 2011-12 Budget Request for 54 Additional Positions

Governor's Budget Requests 54 Additional Positions. The Governor's January 2011-12 budget proposes expenditures of \$8 million dollars in the Department of Insurance to fund 54 positions. According to the department, these positions are being requested to address increased workload and meet statutory mandates. Some examples of specific requests for positions include staff to review insurance rate filings and to provide actuarial and legal support. The positions requested in various areas of the department are shown in Figure 1.

Some Requests Based on Restoring Staff Where Reductions Occurred in Prior Years. In the justification for some of its requests for additional staff, the department asserts that the requested staff would restore the department to the level of staff it had prior to budget reductions that resulted in a loss of staff. The reductions occurred in 2009-10 through a line-item veto and an internal staffing reduction. We note that in some instances, the request for additional staff would restore the department to prior staffing levels and that in those cases, generally, the loss of staff appears to have resulted in greater workload backlogs. However, some of the requests for additional staff are in program areas where staff was not reduced, or the request exceeds the number of positions eliminated in 2009. According to the department, in some of these instances the request for additional staff reflects the priorities of the new Commissioner who took office in January 2011. Specifically, the Commissioner has placed a high priority on eliminating all backlogs, particularly those related to consumer protection.

Analyst's Recommendations. Our analysis indicates that some of the proposed positions are unjustified at this time. As such, we recommend that the Legislature approve 37 of the 54 requested positions and reduce the Governor's request by 17 positions. Figure 1 summarizes the positions requested and our recommendations. Specific reasons for not approving various positions are discussed in the bullets below.

- ***Reduce Fraud Branch Proposed Positions by Three.*** We recommend that the Legislature reduce the Governor's proposal by three positions and approve 11 positions to allow the department to restore staffing to prior levels. Historical data on the number of suspected fraud claims received each year shows that the level of claims received can vary from year to year. For example, the level of claims received dropped by nearly 11 percent from 2005-06 to 2006-07. In contrast, the level of claims received increased by 12 percent from 2007-08 and 2008-09 and claims increased by an additional 3 percent in 2009-10. We think that the addition of 11 positions would greatly reduce the number of fraud cases that the department closes without an investigation. It would be appropriate to assess the impact of these additional staff on the number of fraud claims that the department can investigate and revisit the need for further staff resources in a year or two.

Figure 1**Summary of Requested and Recommended Positions**

	Positions Requested	LAO Recommendations		Totals
		Permanent	Limited-Term	
Ombudsman	1	1	—	1
CA Organized Investment Network	1	1	—	1
Fraud	14	11	—	11
Investigation	6	—	6	6
Rate Filing Bureau	2	2	—	2
Consumer Services Division	6	3	—	3
Market Conduct Division	4	4	—	4
Field Examination Division	1	1	—	1
Financial Analysis Division	3	3	—	3
Actuarial Office	1	1	—	1
Policy Approval Bureau	5	—	—	—
Corporate Affairs Bureau	2	—	—	—
Enforcement Bureau	4	—	—	—
Government Law Bureau	3	3	—	3
Information Technology Division	1	1	—	1
Totals	54	31	6	37

- **Approve Six Investigation Branch Positions on a Limited-Term Basis.** We recommend that the Legislature approve six positions for the investigations branch on a two-year limited-term basis. The department has had a consistent backlog in this area. Approving the positions on a limited-term basis would allow the department to assess the impact of six additional staff on reducing the backlog of complaints that need investigation. The department could reexamine the need for these six positions on a permanent basis in a couple of years.
- **Reduce Consumer Services Division Request by Three Positions.** We recommend that the Legislature reduce by three positions the request for six additional staff in the consumer services branch to process cases (four positions), provide supervision (1 position), and provide clerical support (1 position). This would restore the branch to the level of staff it had in 2008-09. The consumer services branch has experienced a significant increase in cases that have been open for longer than 120 days. However, it is unclear if more than three additional positions are needed to address this workload.
- **Reject Governor's Proposal for Positions in the Policy Approval Bureau.** We recommend that the Legislature reject the proposal to increase policy approval bureau staff (PAB) by five positions. The total number of policies the department receives each year for approval has not changed significantly since 2006. However, according to the department, workload has increased due to the increased complexity of policy submissions especially for health insurance and disability income products. We note that a different request from the department for 3.5 legal positions in PAB was approved by the Senate Subcommittee No. 4 on January 25, 2011 and approved by the Assembly Budget Subcommittee No. 4 on State Administration on January 31,

2011. These staff would be responsible for reviewing health insurance policy forms. We think, this increase in health-specific staff in PAB should help address the increasing health insurance related workload and backlog, therefore allowing the remaining workload and backlog to be addressed within existing resources.

- ***Reject Proposal for Two Positions in the Corporate Affairs Bureau.*** We recommend that the department reject the proposal for two positions in the corporate affairs bureau. Data from the department shows that the bureau is receiving less corporate filings than in the prior year. In addition, the backlog that appeared in previous years now is being addressed within existing resources. According to the department, this is because of efficiencies it has adopted in recent years, such as streamlining the processing of files. We urge the department to continue to achieve such types of efficiencies with existing resources.
- ***Reject Governor's Request for Four Positions in the Enforcement Bureau.*** We recommend that the Legislature reject the Governor's request for four positions in the Enforcement Bureau. Data provided by the department shows that in recent years the number of cases the bureau has received has decreased. The department asserts that this is because the fraud branch has been refraining from sending some less egregious cases of violations of law to the enforcement bureau due to the lack of capacity to handle additional cases. The department could not answer if this practice was good or bad, or if it had resulted in any specific negative outcomes. As a result, we do not believe that there is adequate justification for this request.