



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #481

### Across-the-Board 1% Reduction (Insurance)

[LFB 2009-11 Budget Summary: Page 406, #2]

#### GOVERNOR

Delete \$161,600 PR and \$880,500 SEG, annually, as part of an across-the-board 1% reduction in most non-federal appropriations. The reductions, by appropriation, are shown below.

<u>Fund</u>	<u>Appropriation</u>	<u>Base</u>	<u>Annual Reduction</u>
PR	Agency General Program Operations	\$16,155,000	-\$161,600
<b>Injured Patients and Families Compensation Fund</b>			
SEG	Administration	1,193,000	-11,900
SEG	Peer Review Council	138,000	-1,400
SEG	Claims Payments	54,697,400	-547,000
<b>Local Government Property Insurance Fund</b>			
SEG	Administration	901,500	-9,000
SEG	Claims Payments	26,926,600	-269,300
<b>State Life Insurance Fund</b>			
SEG	Administration	\$628,300	-\$35,600
SEG	Claims Payments	<u>3,564,000</u>	<u>-6,300</u>
	Total	\$104,203,800	-\$1,042,100

#### DISCUSSION POINTS

1. The Governor intended to reduce each OCI appropriation by 1% of the appropriation's base funding level. However, the bill would reduce funding budgeted for the

administration of the state life insurance fund by \$35,600 PR annually (5.7% of the base), and reduce funding budgeted for claims payments from the state life insurance fund by \$6,300 PR annually (<0.2% of the base). The funding reductions for these two appropriations should be reversed to meet the Governor's intent. The administration has requested that the Committee make this change (Alternative 1).

2. Instead of making the correction requested by the administration, the Committee could instead decide to exempt the segregated insurance funds from the required 1% reduction. Several arguments could be made in support of this option.

First, under the bill, the funding made available by reducing these SEG appropriations would not be transferred to the general fund in the 2009-11 biennium. Instead, the Governor's proposed reductions to these appropriations would result in higher unallocated balances in each of the segregated insurance funds.

Second, OCI is authorized to expend all moneys necessary to pay claims from these funds. The amounts budgeted in AB 75 for claims payments are not limits, but rather estimates of expenditures that will be made from these appropriations. Consequently, changes to these appropriation amounts have no effect on the amount of benefits paid from these funds. However, OCI may not expend more than the amounts budgeted for the administration of the segregated funds.

**ALTERNATIVES**

1. Modify the bill to: (a) increase funding for administration of the state life insurance fund by \$29,300 SEG annually; and (b) decrease funding for benefits paid from the state life insurance fund by \$29,300 SEG annually.

2. Modify the bill to delete the 1% reductions to the OCI appropriations supported by SEG funding. Increase funding in the bill by \$880,500 SEG annually.

<b>ALT 2</b>	<b>Change to Bill Funding</b>
SEG	\$1,761,000

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