



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #441

Nonresident Insurance Appointment Fee (Insurance)

[LFB 2019-21 Budget Summary: Page 234, #4]

CURRENT LAW

Insurers are required to appoint intermediaries (generally, licensed insurance agents) who solicit, negotiate, or place insurance or annuities on behalf of the insurer. Insurers are required to report to the Office of the Commissioner of Insurance (OCI) all appointments, including renewals of appointments, and all terminations of appointments of insurance agents that do business in Wisconsin, and pay a fee for each resident and nonresident appointment. The insurance appointment fee is \$16 for Wisconsin residents and \$30 for nonresidents.

Revenues collected from appointment and other insurance fees is credited to a program revenue appropriation to support the operations of the Office of the Commissioner of Insurance. Any amounts collected in excess of OCI expenditures and a reserve equal to 10% of expenditures, is deposited in the general fund, counted as GPR-earned.

The 2018-19 appropriation base for OCI's general program operations appropriation is \$19,646,600 PR.

GOVERNOR

Increase the annual fee for nonresident insurance appointments by \$10, from \$30 to \$40, effective January 1, 2020. Increase estimated PR revenue collected by OCI by \$2,050,000 in 2019-20 and \$4,100,000 in 2020-21 to reflect this increase.

DISCUSSION POINTS

1. OCI collects program revenue from insurance fees to support the functions of the Office, but the amount the agency collects each year is well in excess of its PR-funded expenditures. Since most of the excess revenue is lapsed to the general fund at the end of each year, the insurance fees support both OCI's regulatory functions and provide a minor source for the general fund. OCI estimates that the total amount of PR revenue available for 2018-19 (the estimated opening PR balance plus insurance revenues OCI collects this year) will be \$40.9 million, and of that amount, \$20.1 million -- roughly half -- will lapse to the general fund.

2. Because the proposed increase in the nonresident insurance appointment fee is not associated with any proposal to increase regulatory staff or to fund increases in nonstaff costs, it effectively functions as a general fund fee increase.

3. The 2017-19 budget act reduced the nonresident appointment fee by \$10, from \$40 to \$30, effective on January 1, 2019. The bill would restore the nonresident appointment fee to the amount levied prior to that reduction.

4. Prior to the fee reduction enacted with the 2017-19 budget, the nonresident fee was changed twice in the previous decade. The 2009-11 budget increased the fee from \$24 to \$50, effective January 1, 2010, while the 2013-15 budget decreased the fee from \$50 to \$40, effective July 1, 2014.

5. It is not uncommon for states, including Wisconsin, to charge higher fees or charges for nonresidents than to residents for the same service. State park fees and public university tuition are common examples. In some cases, this can be viewed as the state providing a benefit or advantage to state residents in comparison to nonresidents. On the other hand, it can also be seen as the state imposing costs on individuals (nonresidents) who have little or no ability to object to the fee as part of the political process.

6. There is considerable variation in how states collect insurance fees, making straight comparisons difficult. Some states do not have appointment fees, for instance, but may levy higher licensing fees. For the states that do charge an appointment fee, most do not charge a higher fee for nonresidents than for residents, although there are a few that do. Fees range widely, with most in the \$10 to \$40 range, but several states have fees over \$50.

7. There are currently just over 150,000 insurance agents licensed in Wisconsin, about three-fourths of which are nonresidents. The number of nonresident insurance appointments has been increasing in recent years. Although the reason for the increase is uncertain, OCI suggests that nonresident agents may be seeking to offer quotes from multiple issuers to customers in order to remain competitive in response to trends toward more online insurance marketing.

8. If the Committee approves the Governor's recommendation to increase the nonresident insurance appointment fee, estimates of PR and GPR-earned revenues should be adjusted to more accurately reflect current nonresident appointment volume, as well as the timing of appointment renewals. The total revenue that would be generated by a \$10 increase is estimated at \$5,180,000 in

2019-20 and \$6,200,000 in 2020-21, increases relative to the bill of \$3,130,000 and \$2,100,000, respectively (Alternative 1).

9. If the Committee decides that the fee should be maintained at the level established by the 2017-19 budget act, it could delete the Governor's recommendation. Relative to the bill, this would reduce PR and GPR-earned revenues by \$2,050,000 in 2019-20 and \$4,100,000 in 2020-21.

ALTERNATIVES

1. Approve the Governor's recommendation to increase the nonresident appointment fee by \$10, from \$30 to \$40, effective January 1, 2020. Increase estimates of program revenues and GPR-earned by \$3,130,000 in 2019-20 and by \$2,100,000 in 2020-21.

ALT 1	Change to	
	Base	Bill
PR -REV	\$11,380,000	\$5,230,000
GPR-REV	\$11,380,000	\$5,230,000

2. Take no action.

ALT 2	Change to	
	Base	Bill
PR -REV	\$0	-\$6,150,000
GPR-REV	\$0	-\$6,150,000

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