

Commissioner of Securities & Insurance

Office of the Montana State Auditor
2011 Legislative Budget Proposal

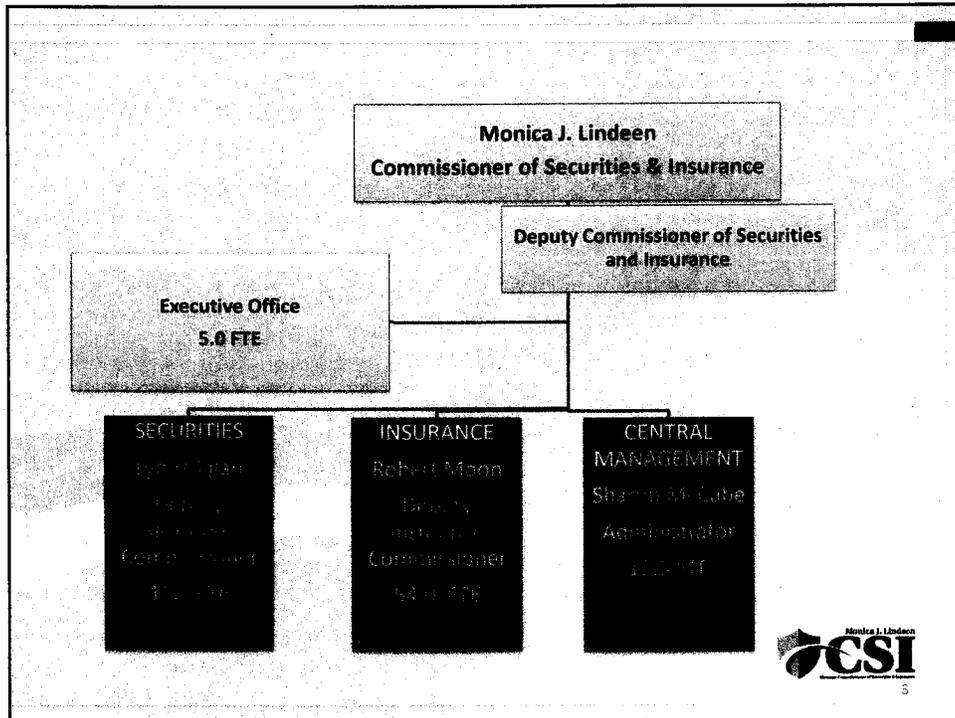


CSI Mission Statement

The Montana Commissioner of Securities and Insurance serves as the State Government watchdog for the citizens of Montana in the securities and insurance industries.

The Office of the Commissioner of Securities and Insurance is a criminal justice agency charged with protecting Montana's consumers through securities and insurance regulation and also through informing the public about securities and insurance issues.





Contacts

Main Number: 444-2040 or 800-332-6148

Monica J. Lindeen

Montana Commissioner of Securities and Insurance
444-2006

Deputy Commissioner of Securities and Insurance
444-2755



Contacts

- Jesse Laslovich, *Chief Legal*: 444-5789
- Lynne Egan, *Deputy Commissioner of Securities*:
444-4388
- Robert Moon, *Deputy Commissioner of Insurance*:
444-2041
- Jackie Boyle, *Government Relations*:
444-3152

www.CSI.mt.gov



Revenue for Montana

The Office of the Commissioner of Securities and Insurance is a major revenue generator for Montana.

- The general fund portion collected from premium taxes, insurance fines, and excess captive revenue in FY10 totaled \$54,715,604.
- Securities revenues deposited into the general fund totaled \$10,244,905 in FY10.



Central Management Bureau

Sharon McCabe, Bureau Chief
444-5438
smccabe@mt.gov



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Background

- Provides central services for the agency
 - Administrative Service
 - Human Resource Service
 - Budget and Finance
 - Information Technology
- Provides support to the commissioner in fulfilling the duties as a member of the State of Montana Land and Hail Insurance Boards



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Priorities

- Provide management, budgeting, accounting, and Information Technology service to the agency so the agency may carry out the mission of the agency.
- Provide Land Board and Hail Board services in order for the boards to carry out their missions.
- Increase efficiency for our customers to renew or initiate licenses online and pay fees via electronic transfers.



5% BUDGET REDUCTION

- Personal Services - Central Management \$10,778
- Reduction is a portion of a position.
- The elimination of a portion of this position will eliminate the flexibility of the agency to meet administrative demands.
- The highest impact will be on other staff and the possible increased workload.



Decision Package 301

Rent Increase

- Increase to cover the cost of the increase due to a five year lease for office space entered into in February 2010.

FY 2012 \$21,929

FY2013 \$21,929



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Legal Bureau

Jesse Laslovich, Chief Legal Counsel

444-5789

jaslovich2@mt.gov



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Background

- Serves consumers and advocates of Montana consumers by providing legal interpretation of the Securities Act and Insurance Code, as well as the applicable administrative rules.
- Monitors national securities and insurance related class actions for their potential impact and fairness to Montana consumers.



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Customers

- The public who benefits directly and indirectly from the legal staff bringing action and ensuring that all companies are operating under Montana law.
- The CSI agency by providing legal research, interpretation, guidance, and support to the agency staff as they fulfill their duties and responsibilities.



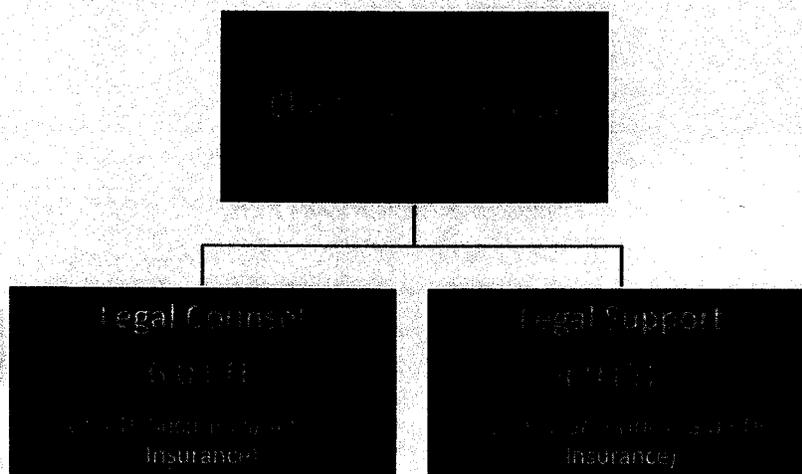
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Legal Authority

- The CSI Legal Bureau (Legal) is charged by the Montana Commissioner of Securities and Insurance with assisting her to enforce the Securities Act of Montana and the Insurance Code of Montana.
- The CSI legal staff prosecute persons and entities administratively and criminally.



STRUCTURE



Investigations Bureau

Mike Anderson, Bureau Chief
444-0172
mdanderson@mt.gov



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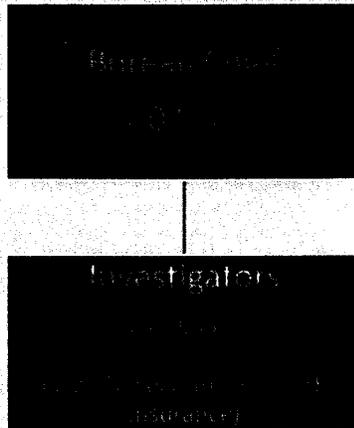
Background

- Investigates complaints and/or suspected violations of Montana's insurance code.
- Investigates theft, forgery, deceptive practices, common schemes, etc.
- Investigates fraudulent insurance claims.
- If settlement is not negotiated, cases are sent to legal and/or county attorney for prosecution.



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STRUCTURE



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SECURITIES DIVISION

Lynne Egan, Deputy Securities Commissioner
444-4388
legan@mt.gov



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Background

- Protects investors and persons involved in securities transactions.
- Promotes uniformity among the states in securities regulation.
- Encourages capital investment in Montana.



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Background

- In FY10, Securities Division brought in \$11,246,207 in revenue, a majority of which went directly to the general fund. Total expenditures for the year were \$893,923.
- For every \$1.00 spent in regulating the securities industry in Montana in the last fiscal year, the Division brought in over \$12.50 in revenue.



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Customers

- Serves every Montanan that has an investment account, retirement account, college savings plan, or other type of investment by ensuring the issuer, the firm and the firm's representatives meet the licensing standards set forth by the legislature to do business in this state.
- It is estimated that at least 60% of Montana households have at least one investment account.
- Helps businesses in Montana access capital to start or grow their business.



Priorities

- In the last two fiscal years, the Securities Division ordered issuers, broker-dealer firms, investment advisory firms, and their representatives who violated the Montana Securities Act to return over \$181 million to Montanans harmed by the wrongdoing. It also fined these wrongdoers over \$1.7 million.

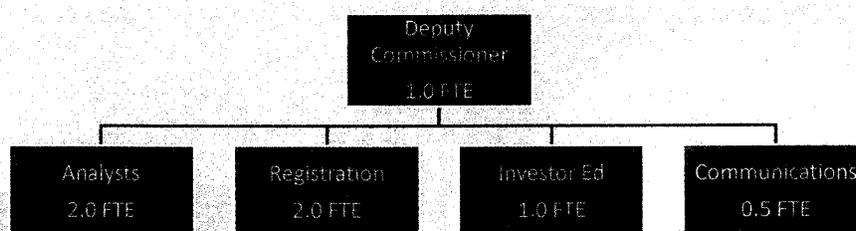


Priorities

- During the last two fiscal years, the Securities Division assisted dozens of small Montana businesses in obtaining millions of dollars in capital through equity and debt offerings. Without this assistance, many of these businesses may never have started up and many may now be out of business.
- During the last two fiscal years, the Securities Division provided investor education programs throughout the state, providing thousands of households with investor education. It also provided financial literacy education to hundreds of high school students.



STRUCTURE



5% BUDGET REDUCTIONS

- Total Securities \$40,917
 - Personal Services – \$20,580
0.5 FTE Crime Investigator
 - Travel – \$7,000 for investigations and examinations
 - Communications - \$737
 - Contracted Services - \$12,600
- The reductions could result in undetected securities fraud as a result of fewer investigations and fewer examinations of companies.



DECISION PACKAGES

- **DECISION PACKAGE 401-RENT INCREASE**
- **DECISION PACKAGE 403 – SECURITIES CONTRACT EXAMINATIONS-BIENNIAL**
- **DECISION PACKAGE 402 –CONTINUATION OF LEGAL FTE**



Decision Package 401
Rent Increase

- A present law request is for state special revenue to fund the rent Increase to cover the cost of the increase due to a five year lease for office space entered into in February 2010.

FY2012	\$31,348
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FY2013	\$31,348
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Decision Package 403
Securities Contract Examinations- Biennial

- Present law biennial request for state special revenue funds.
- Examinations are required by 30-10-304, MCA.
- Estimates the program will need to contract for at least 20 examinations of broker-dealer and investment advisory firms annually.
- Examination costs are reimbursed by companies being examined.

FY2012	\$41,392
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FY2013	\$41,392
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**Decision Package 402
Continuation of Legal FTE**

- A new proposal request of state special revenue funds
- Request for continuance of a legal FTE which was approved as an "OTO" in the last legislative session.
- This FTE is necessary due to the continued substantial demand for legal services by the Securities Division.

FY2012 \$92,042

FY2013 \$91,799



INSURANCE DIVISION

Robert Moon
Deputy Insurance Commissioner
444-2041
rmoon@mt.gov



INSURANCE DIVISION

- Policyholder Services Bureau
- Market Conduct Bureau
- Forms Bureau
- Licensing Bureau
- Rates Bureau
- Examinations Bureau
- Insure Montana Bureau



Decision Package 301 Rent Increase

A present law request for state special revenue to fund the rent increase to cover the cost of the increase due to a five year lease for office space entered into in February 2010.

FY 2012	\$86,593
FY2013	\$86,593



Decision Package 309**Establish Surplus Lines Regulation In-House**

- Surplus lines insurance is a line of insurance that allows consumers to buy property and casualty insurance through the state regulated insurance market, where policyholders, agents, brokers and insurance companies are able to design specific insurance coverage and negotiate pricing based on the risks to be secured. Surplus lines insurers are not required to be licensed in the state, but can do business in the state and do pay premium tax in the state. Examples include: log homes, concerts, rodeos, displays, pollution storage, etc.
- The Commissioner's Office decided in 2009 to end a contract with an outside entity to review submission forms for surplus lines insurance. Reasons for this include increasing costs to the agency and new federal regulations.

**Decision Package 309****Establish Surplus Lines Regulation In-House**

- Spending authority of state special revenue to continue surplus lines regulation by CSI.
- The previous contract cost about \$300,000 each fiscal year and had been increasing \$25,000 each year. As a result of moving surplus lines regulation in-house, a one-time reserve amount of \$309,000 was deposited into state special revenue and the state will save about \$266,000 each fiscal year. Additionally, the CSI reduced the fee by half if agents file electronically, which is a savings of \$300,000 per year to consumers.
- Form review is important to protect Montana consumers seeking insurance and to verify that surplus lines insurance is placed with reputable financially sound insurers.

FY2012	\$34,000
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FY2013	\$34,000
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Policyholder Services Bureau

Barb Van der mars, Bureau Chief

444-9768

bvandermars@mt.gov



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Background

- Investigates 1500-2000 consumer complaints against insurance entities for violations of Montana law under MCA Title 33.
- Handles 35,000-40,000 telephone inquiries per year and ensures that insurance claims and transactions are properly handled.
- Recovers between \$3-5 million for Montana consumers in the form of unpaid claims and premium refunds.



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Background

- Provides assistance to insurance producers and adjusters who call to make sure they are in compliance with insurance code.
- Conducts workshops and seminars to educate consumers about insurance products.
- Maintains database of complaints against companies and producers.



Customers

- Consumers who purchase all lines of insurance and have questions or concerns about their policy.
- Insurance producers and adjusters of all lines of insurance who call on behalf of themselves, their clients or their company.
- Other state and federal agencies who need assistance with consumer complaints or business activity in Montana.



Priorities

- Protecting Montana consumers from unlawful business practices.
- Educating Montana consumers about their rights and tips for purchasing insurance.



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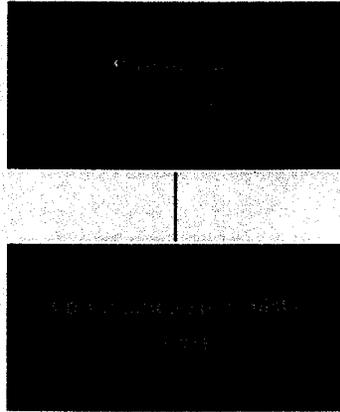
Legal Authority

- The Office of the Commissioner of Securities and Insurance has authority to regulate insurance under Title 33 of the Montana Code.



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Structure



Market Conduct Bureau

Carol Roy, Bureau Chief
444-3917
croy@mt.gov



Background

- Serves the public by ensuring that insurance company operations are performed in accordance with Montana statutes and the insurance contracts.
- Verifies that claims are paid correctly, coverage is issued timely and other company practices and procedures are in place.



Customers

- Insurance consumers
- Health care providers
- Financial institutions
- General public



Priorities

- Perform efficient and accurate market conduct examinations to protect Montana insurance consumers and Montana businesses.
- Continue to monitor data from insurance company complaints and other factors to identify claim payment problems early.

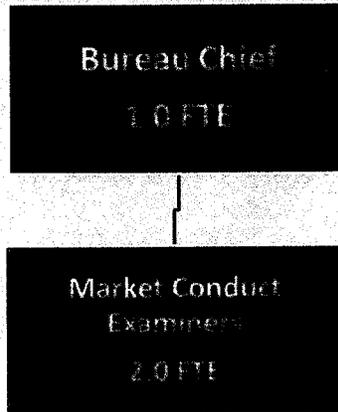


Legal Authority

- The Office of the Commissioner of Securities and Insurance has authority to regulate insurance under MCA 33-1-311.
- Domestic insurance companies are required to be examined at least one time every five years or more frequently as needed.



Structure



Licensing Bureau

Rosann Grandy, Bureau Chief
444-3443
rgrandy@mt.gov



Background

- Reviews for compliance with Montana law all insurance licensing and renewal applications for insurance producers, agencies, adjusters, motor club representatives, surplus lines producers, managing general producers, consultants, rental vehicle entities and viatical settlement brokers.



Background

- Licenses about 1,500 appointments and 200 applications per month.
- Reviews applications to ensure that the persons selling products are competent and knowledgeable.
- Works with investigators to detect agent activities that are incompetent, untrustworthy, financially irresponsible or a source of injury or loss to the public.



Continuing Education Program

- Serves the public by making sure insurance producers, consultants and adjusters are up-to-date with current industry information and standards.
- Serves licensed producers, consultants and adjusters by evaluating and approving courses offered through sponsoring organizations and ensuring availability of courses across the state.



Continuing Education Program

- Approximately 1600 courses were approved for credit in 2010 and approximately 2300 resident insurance licensees complied with biennial insurance continuing education requirements.
- Maintain accurate records of licensee course completion and the courses approved for credit.



Customers

- Insurance customers
- The 70,000 insurance producers, agencies, adjusters, consultants, brokers and entities.



Priorities

- A thorough and timely review and approval of license applications are the key priority.
- Educating insurance producers on Montana laws.
- Keeping accurate records of all the licensees, and any action taken against the licensees and a constant review of the NAIC Licensing Database.

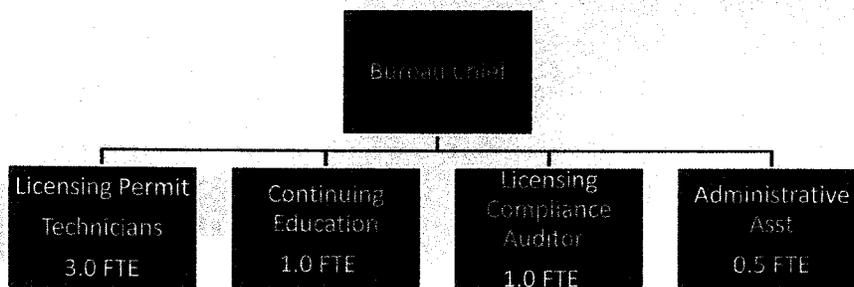


Legal Authority

- Authority to approve and disapprove insurance licenses is provided in 33-17-101 MCA
- Montana residents must take an exam and be fingerprinted prior to sending an application into our office.
- Non-residents need to send in an application and a licensing fee.



STRUCTURE



Forms Bureau

Rosann Grandy, Bureau Chief
444-3443
rgrandy@mt.gov



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Background

- Reviews within 60 days of filing all policy and certificate forms for compliance with Montana law and some federal regulations. Approximately 35,000 forms were approved in FY10.
- The review of forms is important to make sure Montana consumers are provided the protection and insurance benefits required by law, are not unfairly discriminated against and are not offered false or deceptive information regarding insurance contracts.



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Customers

- Montana insurance consumers.
- The 1,620 insurance companies doing business in Montana that file forms with the Forms Bureau for review and approval in a professional and timely manner.



Priorities

- Efficiency and accuracy in form review and approval.
- Educating insurance companies on Montana law.
- Keeping accurate records of all approved forms and having the forms available to public.

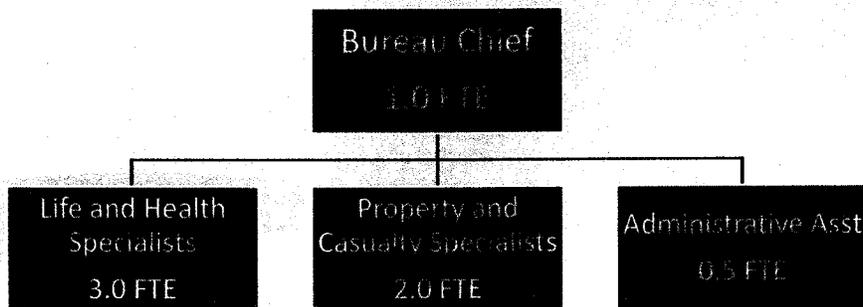


Legal Authority

- Authority to review and approve or disapprove insurance forms is provided in 33-1-501 MCA



STRUCTURE



Decision Package 304**Continuation of Forms Analyst**

- New Proposal request for state special revenue funding to continue the Forms Analyst which was approved in the last legislative session as an "OTO".
- Position reviews insurance forms for compliance with 33-1-501, MCA. Commissioner has 60 days from the date an insurance company files a draft form to approve or disapprove the proposed form. If the commissioner takes no action within the 60 day timeframe, the form will be deemed approved.
- In FY2009 the response time was approximately 84 days. With the hire of a Forms Analyst, in FY2010 the average total response time was 23 days.
- Without this position the 60 day time frame will not be met and the Bureau will be in violation of the code.

FY2012	\$45,789
FY2013	\$45,682

**Rates Bureau**

Mari Kindberg, Bureau Chief

444-5220

mkindberg@mt.gov



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Background

- Regulates certain premium rates charged by insurers to Montana citizens and assists consumers with premium related concerns with their insurers.
- Evaluates the adequacy of insurer's reserves held by insurers to pay claims.
- Provides technical expertise to the Commissioner in her capacity on the Montana State Board of Hail Insurance.
- Evaluates the private insurer workers' compensation insurance market.
- Ensures insurance company compliance with the small employer health insurance laws.



Background

- The Rates Bureau has authority to review lines of insurance that include property, casualty, workers compensation, title, Medicare Supplement, credit life and disability and long term care premium rates at varying levels.
- The Rates Bureau does not currently have rate review authority for group or individual major medical rates, group or individual hospital/surgical/medical expense premium rates, or any life or health insurance rates except for the aforementioned rates.



Background

- Montana Law requires that certain rates must not be inadequate, excessive or unfairly discriminatory. If the information supplied by insurers on regulated premium rates does not support proposed rate changes, the actuaries in the Rates Bureau limit or deny the rate changes.
- Annually, approximately 4,500 to 5,500 regulated rate submissions are reviewed for compliance by a staff of only two credentialed actuaries.



Customers

- The Rates Bureau serves every Montana citizen who pays premium on the regulated rates.
- The Rates Bureau serves every Montana citizen who relies on their insurer to pay their insurance claims.



Priorities

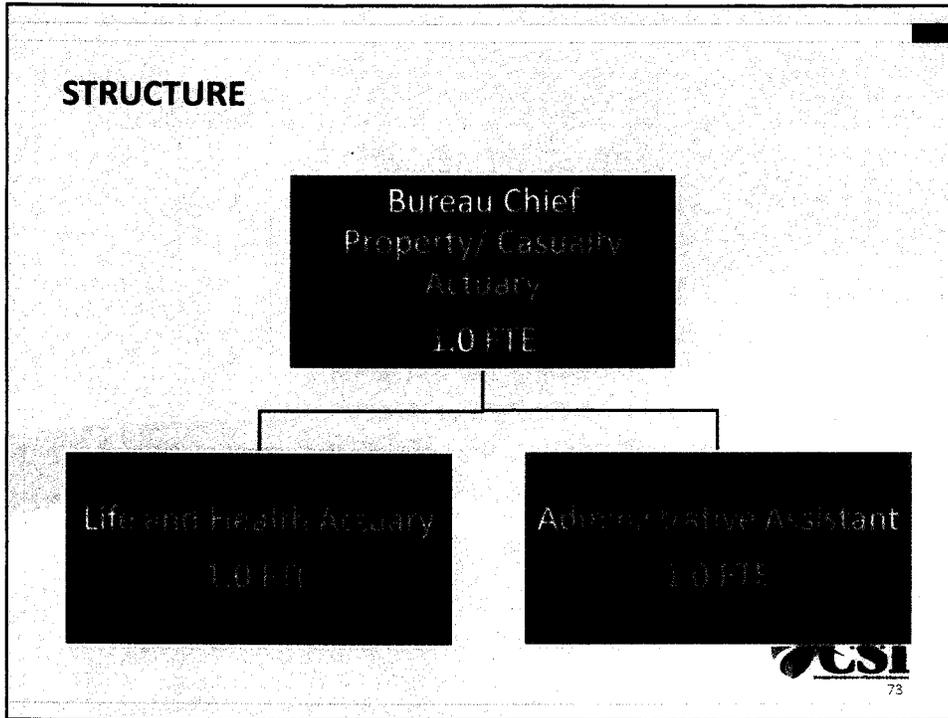
- Continue to ensure that Montana citizens are not paying excessive, inadequate or unfairly discriminatory premiums or left in a position of unpaid claims if an insurer's reserves are inadequate.
- Continued participation in financial examinations to prevent company insolvency. Annually, the two credentialed actuaries participate in financial examinations to evaluate the adequacy of reserves and the ability to pay claims.



Legal Authority

- The Rates Bureau in the Insurance Division is charged by the legislature in Title 33 of the Montana Code Annotated and Chapter 6 of the Montana Administrative Rules to review premium rates.





Examinations Bureau

Steve Matthews, Bureau Chief
444-4372
smatthews@mt.gov



Monica J. Lindeen
CSI
Montana Commissioner of Securities & Insurance

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Background

- Serves the public by evaluating and monitoring the solvency of insurance companies operating in Montana.
- Assists consumers by providing them financial information for insurance companies.
- Bureau also licenses medical discount card providers, third party administrators, and authorizes charitable gift annuity providers.



Captive Insurance Program

- Captive insurance companies are formed and wholly owned by the businesses, associations, and groups that they insure.
- 68 captive companies are currently domiciled in Montana. In 2011, Montana captive companies will pay approximately \$500,000 in premium tax.
- In addition, captive companies generate increased work for other professions and industries in Montana.



Customers

- Montana insurance consumers
- The 1620 insurance companies authorized to do business in Montana.

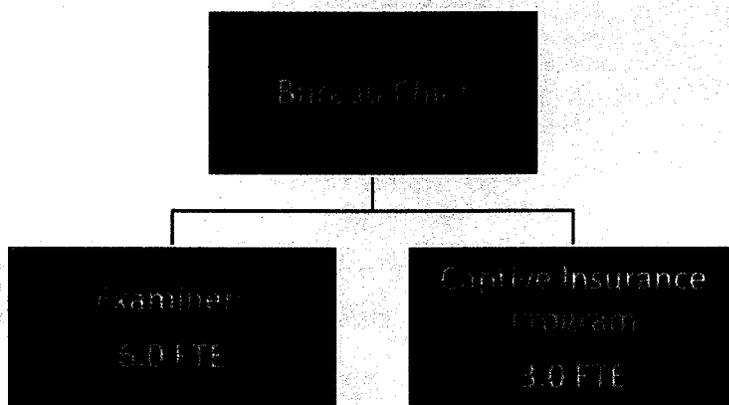


Priorities

- Conducting thorough financial exams and analysis along with company licensing are the key functions used to monitor insurance company solvency.



Structure



5% BUDGET REDUCTIONS

- Travel - Insurance – Captives \$1,029
- This function is being proposed since there are no other alternatives within the function.
- The impact will be the loss of education for one staff member or the possible loss of promotion activities of the program.
- The services are required in MCA 33-28-120(2) The purpose of the captive account is to provide the financial means for the commissioner to administer this chapter and for reimbursement of reasonable expenses incurred in promoting captive insurance in this state.



Decision Packages

- **DP305 – Contract Examinations – Biennial**
- **DP306 Financial Regulation – Captives Insurance Companies**
- **DP307 – Financial Regulation of Insurance Companies**
- **DP308 – Captives Insurance Regulatory and Supervision**



Decision Package 305 Contract Examinations- biennial

- State special revenue biennial present law request is to provide the contracting authority to examine insurers.
- Examinations are required by 33-1-401, MCA.
- Applicable to both the Examinations Bureau and the Market Conduct Bureau.
- This request is substantial this biennium because the largest health insurer, Blue Cross Blue Shield, will be examined.
- These expenditures are reimbursed to the agency according to 33-1-408, MCA.

FY2012 \$747,605

FY2013 \$435,605



Decision Package 306**Financial Regulation – Captive Insurance Companies**

- This present law request is for state special revenue authority to examine Captive Insurance Companies.
- Exam travel costs are reimbursed by the companies being examined.

FY2012	\$32,630
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FY2013	\$28,830
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Decision Package 307**Financial Regulation of Insurance Companies**

- Present law request for state special revenue to cover the estimated increased cost of exams of insurance companies for solvency and claims payment ability.
- The examinations are performed by employees.
- Exam travel is charged to the companies being examined.

FY2012	\$10,713
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FY2013	\$10,713
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Decision Package 308

Captives Insurance Regulatory and Supervision

- Present Law request for additional spending authority for state special revenue as a result of an increase in premium tax collected.
- Required to administer the requirements of 33-28-120, MCA, which established a captive insurance regulatory and supervision account.
- The program is funded with 5% of the captive premium tax.

FY2012 \$32,423

FY2013 \$40,423



Insure Montana Bureau

Jill Sark, Bureau Chief

444-2406

jsark@mt.gov



Background

- Assists small businesses with the cost of health insurance through tax credits and premium subsidies.
- The program is funded by tobacco tax revenue.



Customers

- The program currently serves over 1,600 small businesses and 9,100 lives who were uninsured or at risk of losing health insurance coverage.



Customers

Tax Credit Statistics

Number of Participating Businesses:	802
Annual Average Cost per Business:	\$5,297
Total Program Annual Cost:	\$4,248,194
Number of Covered Employees:	2,687
Number of Covered Spouses:	585
Number of Covered Dependents:	1,155
Total Covered Lives:	4,700
Number of Businesses Pending Enrollment:	19
Number of Businesses on Waiting List:	33



Customers

Purchasing Pool Statistics

Number of Participating Businesses:	872
Number of Covered Employees:	2,415
Number of Covered Dependents:	2,053
Total Covered Lives:	4,468
Average Annual Cost per Business:	\$3,496
Average Annual Cost per Employee:	\$1,890
Number of Businesses on Waiting List:	125
(approximately)	

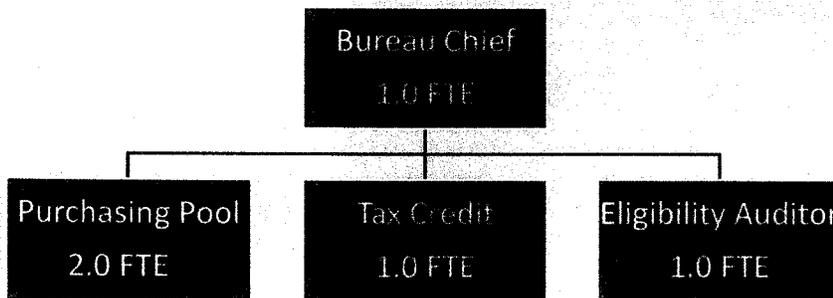


Priorities

- Maintain high-level of service to participants. Insure Montana has the highest favorability rating of any program polled by the National Federation of Independent Businesses in Montana (81%). Insure Montana is also an award winning, nationally-recognized model for providing affordable health care coverage.
- Continue to keep administrative expenses low. Currently, administrative costs make up 5% of the program budget.



Structure



Decision Package 302**Insure Montana Present Law Request**

- Insure Montana present law request will restore the funding level to approximately the FY2010 original appropriation.
- The program is funded with tobacco tax state special revenue.
- Each year the program is restricted to spending 95% of the appropriated base budget. In FY2010 the program expended approximately 91% and anticipates expending 95% of the budget in FY2011. Without this request the program continues to lose money because the base budget is calculated at 95%.

FY2012	\$956,596
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FY2013	\$956,596
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**ELECTED OFFICIAL PROPOSAL**

- Request is for funding to continue the \$6 million in funding for Insure Montana appropriated by the 2009 Legislature.
- Insure MT added 308 businesses to the purchasing pool program and 357 businesses to the tax credit program since July 1, 2009 with the additional funding.
- If the \$6 million is not continued, then 216 businesses have to be removed from the purchasing pool program and 110 businesses removed from the tax credit program. Not all of the businesses added will have to be removed because the program realized savings from an increase in eligibility for Healthy Montana Kids. Also, last session the legislature funded a full time eligibility auditor to better screen applications and participants.
- According to the LFD Analysis there is sufficient balance to fund this proposal.

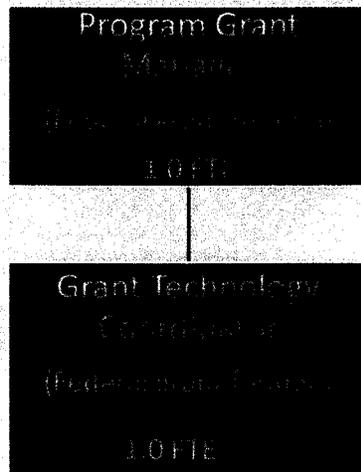


Montana Health Care Reform



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STRUCTURE



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Create a Temporary High-Risk Pool:**Montana Affordable Care Plan**

- CSI chose to run the new *federal* high-risk pool along side the existing Montana Comprehensive Care Association (MCHA) pool. In the summer, the Commissioner approved a single application for both programs and began accepting applicants to the MAC Plan on July 1, 2010. For those who applied before July 15th, coverage started on August 1st.
- As of 1/28/11, there are 203 enrollees. Many enrollees have major illnesses that were not being treated before getting on the MAC Plan.
- The new program is funded with enrollees' premiums and federal funds.
- The program is a bridge to January 1, 2014 when insurance companies must offer coverage to everyone and high-risk pools will no longer be needed.

**Comprehensive health insurance market reforms on all policies after issuance or renewal following September 23, 2010**

Insurance companies should have already implemented the immediate market reforms on applicable policies. CSI approved amended policy forms and consumers are experiencing these new benefits, especially the large number who have policies that renew after January 1, 2011.

Immediate market reforms include:

- **No Cost-sharing for Preventive Care and Wellness** (except grandfathered plans)
- **No Pre-existing Condition Exclusions for kids** under age 19 (except grandfathered individual plans)
- **Prohibition on Lifetime Limits**
- **Restricted Annual Limits for Essential Benefits** (except grandfathered individual plans)
- **Rescissions are limited to cases of fraud or misrepresentation of material fact**
- **Extends coverage to adult dependents to age 26**



Comprehensive health insurance market reforms on all policies after issuance or renewal following September 23, 2010

- The Commissioner's Office has worked with the insurance industry and various stakeholders to draft two pieces of related legislation to maintain state regulatory authority:
 - 1) HB 128 to implement the market reforms into state law so that the CSI can help consumers when their insurance company is not correctly applying the new federal laws. Without this law, consumers will have to rely on a federal office, that may or may not be in Montana, to handle their complaints.
 - 2) HB 129 to update the current grievance and appeals process for individuals who were denied payment for treatment by their health plan. This law streamlines the process for appeals and implements firm deadlines on both insurance companies and consumers to make decisions and submit information.



Expand consumer ombudsman services to help with insurance claim disputes

- The Commissioner's Office received a federal grant to increase existing CSI Policyholder Services Division resources. Each year, Policyholder Services collects \$3-5 million in claims for consumers.
- The primary purpose of the federal grant is to develop consumer education resources and to enable Policyholder Services to reach out to consumers around the state and assist with insurance-related issues.
- Under the grant, PHS can also assist all consumers, regardless of their health plan, with internal and external appeals.



Review premium rate increases of insurance companies:

- As of January 1, 2011 minimum loss ratio is mandated on all health plans:
80% MLR for individual and small group markets
85% MLR for large group market

Minimum Loss Ratio: percentage of premium paid for medical claims

Companies may have to refund policyholders on a pro-rata basis if MLR is not met for the year. Insurance companies must file MLR documentation to the HHS Secretary.

- CSI received a \$1 million rate review grant to begin collecting insurance companies' rating data. Insurance companies have never been required to file health insurance rates with the CSI. Both current rates and premium trends must be sent to the HHS Secretary.



Review premium rate increases of insurance companies:

- Because the Montana Insurance Commissioner does not have rate review authority on most health insurance rates, HHS will review premium rate increases. Proposed HHS regulations state that any increase over 10% will trigger review by HHS if the state does not have effective review authority. The Commissioner's Office will still be responsible for collecting data, but without authority may be ineligible for grants from HHS to cover the costs.
- The Commissioner's Office has met with industry numerous times and researched other states' laws to draft HB 105 and its amendments to give the Commissioner the minimum amount of rate review authority necessary to be considered effective by the HHS Secretary and to maintain state regulatory authority.



Establish a state-run Health Insurance Exchange for individuals and small businesses.

To achieve establishing the Montana Exchange, the CSI has:

- 1) Received a \$1 million federal grant to begin planning Montana Health Insurance Exchange.
- 2) Used grant money to contract with entities to research how to best design an Exchange for Montana's consumers and insurance industry.
- 3) Selected consumers, insurance industry representatives, healthcare providers, and small business advocates to sit on an Exchange Stakeholder Involvement Council. Four meetings have been held in Helena, Missoula, and Billings since October 2010.
- 4) Based on comments by the Council, CSI drafted HB 124. A bill must be passed in 2011 to maintain state control over the exchange. Otherwise, a federal exchange will be established in Montana.
- 5) Requested members of other state agencies to sit on an inter-agency working group to analyze how to integrate existing programs into the Montana Exchange.

