

Approved _____ February 23, 1988
Date

MINUTES OF THE _____ HOUSE COMMITTEE ON _____ INSURANCE

The meeting was called to order by _____ REPRESENTATIVE DALE SPRAGUE _____ at
Chairperson

3:30 XX a.m./p.m. on _____ FEBRUARY 17 _____, 19⁸⁸ in room _____ 531-N _____ of the Capitol.

All members were present except: Representative Cribbs, excused

Committee staff present:

Emaline Correll, Research Department
Chris Courtwright, Research Department
Bill Edds, Revisor of Statutes Office
Nancy Wolff, Secretary

Conferees appearing before the committee:

Dick Brock, Insurance Department

The meeting was called to order by the Chairman.

The minutes of the meeting of February 10, 1988, were approved as corrected.

Representative Elaine Wells presented information for a bill which would provide for a tax credit for certain long-term care insurance expenses. (Exhibit I and Exhibit II) Representative Gross made a motion that the committee introduce the bill and Representative Littlejohn seconded the motion. The motion carried.

The Chairman presented the committee with information on a possible committee bill, by request. C.J.S. Systems of Wichita requested the legislation which would allow a group of hospitals to pool resources to cover liability insurance. After considerable discussion by the committee, it was decided that the Sedgwick County Delegation should research this information and possibly ask another committee to introduce the bill. The information was given to Representative Schauf.

The Chairman reminded the committee that the subcommittee on House Bill 2633 would meet on adjournment of the committee.

Hearings were then opened on House Bill 2722 relative to independent audits of insurance companies. Dick Brock of the Insurance Department appeared as a proponent. He stated that all this legislation would do is to permit the insurance commissioner to require insurance companies, health maintenance organizations, and other insurance-type entities to subject themselves to an independent audit. Most companies already do this, but there are a few that that do not and this would help to regulate solvency. The fiscal note is attached as Exhibit III.

There were no opponents to House Bill 2722 and the hearings were closed.

Hearings were then held on House Bill 2723 which would allow the Insurance Department to bill back the cost of computer time to the insurance companies that are audited. The low side of these charges would be \$4.55 a day additional cost to as high as \$15.51 per day. The fiscal note on this bill is attached as Exhibit IV.

There were no opponents to House Bill 2723 and the hearings were closed.

The meeting was adjourned at 4:15 p.m.

HOUSE BILL NO. _____

By Representative Wells

AN ACT relating to the taxation of income; providing for a tax credit for certain long-term care insurance expenses; amending K.S.A. 79-32,120 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

New Section 1. (a) There shall be allowed as a credit against the tax liability imposed under the Kansas income tax act of any resident individual 50 years of age or older a portion of the premium amount paid in a tax year by such taxpayer for a single policy of long-term care insurance, as defined by K.S.A. 1987 Supp. 40-2227, and amendments thereto, covering such individual or for two such policies covering each individual in the case of a joint return. Such credit shall be available and may be claimed only for the tax year in which the taxpayer initially procured such policy or policies. The credit allowed by this section shall not be available to any taxpayer who has previously claimed such credit upon the discontinuation of one such policy and subscription to another such policy in any subsequent taxable year. The allowable amount of the credit shall be the applicable percentage of the total premium payments made by the taxpayer during the taxable year, the maximum amount of which payments shall be limited to \$1,200 in the case of one policy and \$2,400 in the case of two policies for the purposes of this section, as set forth in the following schedule:

Taxpayer's Kansas Adjusted

Gross Income	% of Premium Payments
\$0 to \$10,000	15
10,000.01 to 16,000	14
16,000.01 to 20,000	13
20,000.01 to 24,000	12
24,000.01 to 30,000	11
30,000.01 and over	10

(b) The credit allowed by subsection (a) shall not exceed the amount of the tax imposed under the Kansas income tax act reduced by the sum of any other credits allowable pursuant to law.

Sec. 2. K.S.A. 79-32,120 is hereby amended to read as follows: 79-32,120. (a) If federal taxable income of an individual is determined by itemizing deductions from such individual's federal adjusted gross income, such individual may elect to deduct the Kansas itemized deduction in lieu of the Kansas standard deduction. The Kansas itemized deduction of an individual means the total amount of deductions from federal adjusted gross income, other than federal deductions for personal exemptions, as provided in the internal revenue code of 1954, as amended, and in effect on December 31, 1977, with the modifications specified in this section.

(b) The total amount of deductions from federal adjusted gross income shall be reduced by the total amount of income taxes imposed by or paid to this state or any other taxing jurisdiction to the extent that the same are deducted in determining the federal itemized deductions, by the amount of medical and dental expenses claimed in determining such deductions, by the amount of any charitable contribution claimed for any contribution or gift to or for the use of any racially segregated educational institution and by the amount of all depreciation deductions claimed for any real or tangible personal property upon which the deduction allowed by K.S.A. 79-32,161, and amendments thereto, and by K.S.A. 79-32,168, and amendments thereto, is or has been claimed.

(c) The total amount of deductions from federal adjusted gross income shall be increased by the sum of:

(i) The federal income tax liability under chapter 1 of the internal revenue code for the same taxable year for which the Kansas return is being filed after reduction for all credits thereon, except credits for federal withholding and payments on

estimates of federal income tax, credits for gasoline and lubricating oil tax, and for foreign tax credits in an amount as hereinafter provided. If, in any year to which this act relates, the taxpayer pays federal income tax pertaining to a prior year's federal income tax liability, such taxpayer may deduct such payment in the year such payment is made if, on the Kansas income tax return for such prior year, such taxpayer computed the federal income tax deduction on the basis of federal income tax paid in such prior year, rather than as accrued. The deduction for federal income tax liability for any year shall be determined by multiplying the federal income tax liability for such year by a fraction the numerator of which is the Kansas adjusted gross income for such year and the denominator of which is the federal adjusted gross income for the same year. Notwithstanding--the foregoing,--for--all--taxable-years-commencing-after-December-31, 1982-and-prior-to-January-1,--1985,--the--deduction--for--federal income--liability--allowed--by--this-subsection,--as--limited--by--the preceding-sentence,--shall--not--exceed--whichever--of--the--following is--greater:--(A)--Five-thousand-dollars--in--the--case--of--a--taxpayer filing-a-return-as-a-single--individual,--head--of--household--or married--individual--filing-separately,--or--\$10,000--in--the--case--of taxpayers-filing-a-joint-return;--or--(B)--fifty--percent--of--the product--determined--by--multiplying--federal--income--tax--liability, after-reduction-for-credits-except-those-enumerated-by-the--first sentence-of-this-subsection,--by--the--fraction--determined--under--the preceding-sentence.

(ii) The amount of railroad retirement, social security or self-employment taxes payable under the internal revenue code for the same taxable year for which the Kansas return is being filed to the extent that the same are not deducted in computing federal taxable income. If in any year to which this act relates, the taxpayer pays railroad retirement, social security or self-employment taxes pertaining to a prior year's liability, such taxpayer may deduct such payment in the year in which such payment is made provided that such taxpayer has not deducted such

amount in a prior year.

(iii) Expenses in excess of \$50 paid during the taxable year not compensated for by insurance or otherwise, for medical or dental care for the taxpayer, the taxpayer's spouse, or a dependent. To the extent that any expense for long-term care insurance, as defined by K.S.A. 1987 Supp. 40-2227, and amendments thereto, qualifies for inclusion under this subsection, such expense shall be reduced by the same percentage of payment as allowed as a credit pursuant to subsection (a) of section 1 of this act.

(iv) An amount for amortization of the amortizable costs of a certified oil production process as computed under K.S.A. 79-32,161, and amendments thereto.

(v) An amount for the amortization deduction for a solar energy system allowed pursuant to K.S.A. 79-32,168, and amendments thereto.

(vi) The fair market value of a painting or other work of art contributed to any art gallery or museum which is operated on a not-for-profit basis and which is supported in whole or part by public funds, by any taxpayer whose personal efforts created such painting or work of art, less the amount deducted from federal adjusted gross income attributable to such contribution. The value of such painting or work of art shall be determined and certified to the department of revenue by such art gallery or museum.

Sec. 3. The provisions of this act shall be applicable to all taxable years commencing after December 31, 1987.

Sec. 4. K.S.A. 79-32,120 is hereby repealed.

Sec. 5. This act shall take effect and be in force from and after its publication in the statute book.

ISSUE II.

REGULATORY ENVIRONMENT

While insurance coverage of long term care is in its infancy and confronts a number of significant barriers to its widespread development, insurance appears to offer an opportunity for easing the burden of long term care expenses on individual recipients, their families, and the taxpayers. It is, therefore, recommended that:

- ①. The Kansas Department of Insurance encourage actuarial data-gathering efforts to facilitate development and fair pricing of any long term care insurance products.
- ②. The Legislature consider creating incentives, such as premium tax offsets, for insurers to offer long term care coverage, both as separate policies and as endorsements to Medicare Supplement insurance. Offsets are warranted by the potential of long term care insurance for slowing the growth of Medicaid payments for nursing home and health care services.
- ③. The Legislature pursue the possibility of adding long term care to health insurance benefits for both active and retired teachers and state employees as well as their dependent elderly parents. This would respond to a need of the teachers, state employees and retirees, provide an example to other employers and contribute to the base of actuarial data on long term care coverage.
- ④. The Legislature create a task force, including representatives of employers, labor, insurers, care providers and client groups to study the feasibility, ramifications, and alternative structures for high-risk, long term care health insurance pools.
- ⑤. State officials encourage congressional representatives to support appropriate national initiatives on tax treatment of long term care policies including personal and employer income taxes and insurance taxes.

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AHRH03

CHILD CARE
CREDIT

Maximum allowable
for expenses on
1 child of \$2,400
or over

LONG-TERM CARE INSURANCE CREDIT

Maximum allowable
for expenses on
1 policy of \$1,200
or over

KAGI	Current Law	Gov's Proposal	Option A (orig bill)	Option B		Option C	
				pcts	amt	pcts	amt
0-5	\$720	\$180	\$1,200	15%	\$180	40%	\$480
5-6	\$648	\$180	\$1,080	15%	\$180	40%	\$480
6-7	\$576	\$180	\$960	15%	\$180	40%	\$480
7-8	\$504	\$180	\$840	15%	\$180	40%	\$480
8-9	\$432	\$180	\$720	15%	\$180	40%	\$480
9-10	\$360	\$180	\$600	15%	\$180	40%	\$480
10-11	\$278	\$174	\$480	15%	\$174	20%	\$240
11-12	\$209	\$174	\$360	15%	\$174	20%	\$240
12-13	\$134	\$168	\$240	14%	\$168	20%	\$240
13-14	\$67	\$168	\$120	14%	\$168	20%	\$240
14-16	\$0	\$162	\$60	14%	\$162	10%	\$120
16-18	\$0	\$156	\$60	13%	\$156	10%	\$120
18-20	\$0	\$150	\$60	13%	\$150	10%	\$120
20-22	\$0	\$144	\$60	12%	\$144	10%	\$120
22-24	\$0	\$138	\$60	12%	\$138	10%	\$120
24-26	\$0	\$132	\$60	11%	\$132	10%	\$120
26-28	\$0	\$126	\$60	11%	\$126	10%	\$120
28-30	\$0	\$120	\$60	10%	\$120	10%	\$120
30-32	\$0	\$120	\$0	10%	\$120	0%	\$0
32-34	\$0	\$120	\$0	10%	\$120	0%	\$0
34-36	\$0	\$120	\$0	10%	\$120	0%	\$0
36-38	\$0	\$120	\$0	10%	\$120	0%	\$0
38-40	\$0	\$120	\$0	10%	\$120	0%	\$0
40-42	\$0	\$120	\$0	10%	\$120	0%	\$0

KAGI	Current Law TY1988		Gov's Plan TY1988	
	Returns	Avg Liab	Returns	Avg Liab
0-5	127,368	\$9.66	127,368	\$3.93
5-15	240,000	\$165.92	240,421	\$141.34
15-25	189,053	\$474.58	188,842	\$459.91
25-35	135,368	\$783.86	135,263	\$770.79
35-50	131,684	\$1,179.11	131,895	\$1,160.85

Source: Department of Revenue Simulation Model

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

Room 545-N – Statehouse

Phone 296-3181

February 16, 1988

TO: REPRESENTATIVE ELAINE WELLS

Office No. 272-W

RE: LONG-TERM CARE INSURANCE TAX CREDIT

This is in response to your request for information regarding a proposed long-term care insurance tax credit. As we have discussed, such a credit could be set up in a similar fashion to the child care credit.

Under current law, Kansas allows a certain percentage of the federal child care credit, based on Kansas Adjusted Gross Income (KAGI). The credit is totally phased out at KAGI of \$14,000. The federal credit allows a certain percentage of expenses up to \$2,400 per child to be taken as a credit. The Governor's proposal is to change the Kansas credit available to a constant 25 percent of the federal credit available. The attached table shows some example credits, under current law and under the Governor's proposal, that could be taken by taxpayers with expenses of \$2,400 or above for one child.

If you want to allow all long-term care insurance premiums up to \$1,200 per policy to be eligible for a credit, a percentage plan like Option B from the attached table would allow taxpayers with one policy similar amounts of credits to child care credits available under the Governor's proposal.

The fiscal note for allowing such a long-term care insurance credit, of course, depends largely on the premium volume. As you know, the Insurance Department has been unable to supply aggregate information to date. However, we have calculated that if the Governor's tax reform plan (S.B. 490) were to pass, given the current distribution of taxpayers age 65 and above, assuming the credit is nonrefundable, assuming that \$1,200 is paid for each policy, assuming that exactly 10 percent of all taxpayers age 65 and above take the credit available under Option B and are distributed among income brackets in the same manner as all such taxpayers, and assuming that all joint filers purchase two such policies, the fiscal impact of allowing such a credit would be about \$2.0 million. Of course, these assumptions ignore the fact that a number of policies are purchased by persons under age 65. On the other hand, very few such policies cost as much as \$1,200 unless written for an unusually high level of care or for persons far older than age 65.

I also have enclosed some background information on long-term care insurance policies provided by the Insurance Department. I hope this information is useful to you. If I can be of further assistance, please let me know.



Chris Courtwright
Research Assistant

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Enclosures

Insurance/Financing

- AZ 1986 Ariz. Sess. Laws, Chap. 363 (SB 1343) establishes a County Long-Term Care Fund to assist counties in providing institutional and alternative long-term care services to eligible persons, and appropriates \$5.5 million to the fund. A county may not spend more than a specified percentage of the new monies it receives on institutional LTC services and must spend at least a certain percentage of the new monies on alternative services.
- CA 1986 Cal. Stats., Chap. 1333 (SB 2498) requires the Department of Insurance to conduct a study of the feasibility of insurance policies offering coverage for home health services, regardless of a patient's prior confinement in a hospital or nursing facility. The study is to include other long-term care insurance alternatives and is to consider how public and private sector cooperative efforts can help combat the high costs of long-term care. The report is to be submitted to the legislature by December 1, 1987.
- CA 1986 Cal. Stats., Chap. 236 (AB 2583) requires the Department of Insurance to study the feasibility of public or private insurance policies offering coverage for home health agency and in-home supportive services, regardless of prior confinement in a hospital or nursing facility and to report its findings to the legislature by June 30, 1987.
- CO 1986 Colo. Sess. Laws, Chap. 76 (HB 1158) provides that insurance policies for long-term care that are certified by the commissioner of insurance as complying with specified provisions shall qualify issuing insurance companies for a reduced tax on premiums for such policies and shall qualify persons paying premiums for such policies for an income tax deduction based on such payments. An insurance policy will be in compliance if the commissioner certifies it as providing benefits for a period of not less than 12 months for each person covered under the policy, for necessary diagnostic, preventive, therapeutic, rehabilitative, or custodial services by a licensed home health agency, intermediate nursing facility, or nursing care facility.
- CO 1986 Colo. Sess. Laws, Chap. 246 (HB 1102) allows an individual to deposit contributions to an individual medical account (IMA) to be used to pay the medical expenses of the individual and his family and specifies the amount that may be deposited per taxable year. The account must be managed as a trust, and interest earned on an IMA is exempt from taxation as Colorado adjusted gross income. An employee may, upon agreement with his employer, have the employer either contribute to the employee's IMA or continue making contributions under the employer's existing health insurance policy or program. An account holder is allowed to withdraw money after reaching the age of 59 1/2, for medical, dental, or long-term care purposes, or be subject to penalties.
- CT 1986 Conn. Acts, P.A. 86-49 (HB 5321) defines long-term care (LTC) insurance policies and exempts them from the definition of Medicare supplement policies. It also sets minimum loss ratio requirements for LTC policies (a loss ratio is the relationship between claims paid and premiums collected); establishes LTC policy disclosure requirements; and imposes existing loss ratios for individual and group Medicare supplement policies on policies renewed on or after July 1, 1986.

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- NY 1986 N.Y. Laws, Chap. 245 (S 8341) authorizes the superintendent of insurance to approve various types of long-term care insurance policies which may be offered by health insurers and health maintenance organizations. The benefits and limits of each plan must be clearly stated and the plan's benefit structure must provide options covering various long-term care services.
- NY 1986 N.Y. Laws, Chap. 629 (S 8375) allows the current Nursing Home Without Walls (NHWW) per-patient cost cap of 75 percent of the local nursing home rate to be raised to 100 percent for certain "special needs" patients, such as those with AIDS, mental disabilities, and dementia, such as Alzheimer's disease. Local social services districts are authorized to approve patients on a case-by-case basis. No more than 25 percent of a district's total NHWW allotment of patients may be considered "special needs" patients.
- SC 1986 S.C. Acts, Act 472 (S 778) allows a nonrefundable state income tax credit of twenty percent, not to exceed three hundred dollars, for expenses paid by the taxpayer to an institution providing skilled or intermediate care.
- UT 1986 Utah Laws, Chap. 4 (S 11) provides for issuance of bonds for facilities to provide health care services, including hospital, nursing home, extended care, handicapped, and administrative and support facilities pursuant to interlocal agreements on behalf of municipalities, counties, and special service districts. The act also provides for covenants and pledges of revenues for such projects under the Industrial Facilities Development Act.
- VA 1986 Va. Acts, H.J. Res. 87 requests the Bureau of Insurance, with the Department of Medical Assistance Services, to conduct a study concerning changes needed in order to implement private insurance coverage for patients residing in nursing homes.
- VA 1986 Va. Acts, H.J. Res. 111 continues the Joint Subcommittee Monitoring Long-Term Care and requests that the group consider the feasibility, availability, and affordability of insurance coverage for long-term care services.
- WA 1986 Wash. Laws, Chap. 170 (HB 1462) directs the insurance commissioner to adopt rules regulating long-term care policies. The rules are to require disclosure on benefits, limitations, exclusions, and exceptions, as well as any consumer cost for services. The act also prohibits certain provisions in long-term care insurance policies and specifies other requirements.
- WI 1986 Wis. Laws, S.J. Res. 56 requests the Legislative Council to study the need for long-term health insurance and the means for encouraging the sale and purchase of such insurance, and to submit recommendations for legislation by December 31, 1986.
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The Honorable Dale Sprague, Chairperson
Committee on Insurance
House Chamber
Third Floor, Statehouse


Dear Representative Sprague:

SUBJECT: Fiscal Note for House Bill No. 2722 by Committee on Insurance

In accordance with K.S.A. 75-3715a, the following fiscal note concerning House Bill No. 2722 is respectfully submitted to your committee.

House Bill No. 2722 would amend K.S.A. 40-225 to authorize the Insurance Commissioner to require, through rule and regulation, any insurer, fraternal benefit society, mutual nonprofit hospital and medical service corporation, health maintenance organization or any prepaid service plan to have an annual audit by an independent certified public accountant and file an audited financial report.

Additional expenditures which may be required of the Insurance Department in developing rules and regulations and in analyzing audited reports can be absorbed within the Department's current expenditure and staffing limitations.


Michael F. O'Keefe
Director of the Budget

MFO:WD:pks

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February 12, 1988

The Honorable Dale Sprague, Chairperson
Committee on Insurance
House Chamber
Third Floor, Statehouse

Dear Representative Sprague:

SUBJECT: Fiscal Note for House Bill No. 2723 by Committee on Insurance

In accordance with K.S.A. 75-3715a, the following fiscal note concerning House Bill No. 2723 is respectfully submitted to your committee.

House Bill No. 2723 amends K.S.A. 40-223 by including charges for outside data processing and consulting fees and, a sum equal to the amount charged for annual leave, to those charges which the Insurance Commissioner is authorized to make related to the examination of insurance companies. The amount which may be charged by the Insurance Commissioner for these two new fees would be limited to a total of \$25,000 at any one company examination. As with existing charges, these new charges would be required only on demand of the Commissioner.

While this act does not require any changes to revenues or expenditures, the Insurance Department indicates that increased revenues would be anticipated upon passage of this measure from increased examination charges. The Department also anticipates increased expenditures from such revenues for the purposes of obtaining consulting services and for the purchase, maintenance and enhancement of examination equipment and software. However, the Department is unable to estimate the charges which would be demanded annually by the Insurance Commissioner, or the likely amount of expenditures from such charges. Although the agency indicates that the National Association of Insurance Commissioners may be adding fees for the use of its data base and software, the amount of the fees has not yet been set by the Association. Further, the need for consulting services varies significantly from insurance company to insurance company making it impossible to accurately estimate the level of expenditures which would be required on an annual basis.

Any increased revenues and expenditures to the Insurance Commissioner's Examination Fund resulting from passage of this act are not reflected within the FY 1989 Governor's Report on the Budget.

Michael F. O'Keefe
Director of the Budget

MFO:WD:pks

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